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Voices: Wes Moss, On Income Investing

Wes Moss is chief investment strategist at Atlanta-based Capital Investment Advisors. Say we know that a client needs to generate \$6,000 a month in retirement, and is going to receive \$2,000 a month from Social Security benefits and \$2,000 a month from a pension. We find a way to generate that extra \$2,000 from investments. We fill the gap between what clients have and what they need.

Greed is a killer when it comes to investing. If a client doesn't need to earn more than 5% a year in order to live comfortably and do a little traveling when they retire, why go for 9% to 10% and take on all that extra risk?

We focus on generating income in three ways: dividends from stocks, interest from different types of bonds and distributions from other sources like closed-end funds, master limited partnerships and royalty trusts. We don't believe that fixed or immediate annuities are a good way to guarantee future income for a few reasons, namely lack of diversification (you are betting on a single company), low yields and complex fee structures.

Our focus on those three income sources is based on the fact that they deliver income independent of the market price of the security. Despite movements in the price of a stock, bond or CEF, the dividends, interest and distributions should largely stay the same. For example, if a client has one million dollars worth of income producing securities paying a 4.5% yield that generates \$45,000 per year - regardless of what



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happens to the portfolio's underlying value. When we invest, we look at a stock's dividend sustainability, ability to grow the dividend, and then the potential for capital appreciation.

Some of the distribution instruments we use, such as royalty trusts, act as very effective hedges against inflation. For example, we own crude oil through many different royalty trusts, and because oil is priced in dollars, the trust has a tail wind in an inflationary environment. This is especially evident when we see a rise in the price of

the underlying commodity being extracted by the oil or gas royalty trust.

When the stock side of the market crashed in 2008, this strategy made a huge difference for our clients. They saw that they were still generating a steady income stream even though the value of their portfolio may have been down. They were freed from the psychological stress of riding the ups and downs of the stock market. As a result, they knew that, financially speaking, they were going to be okay.



CAPITAL
INVESTMENT
Advisors

Investing involves risk including the loss of the principal. There are no guarantees of investment success or that your income needs will always be met. There will be periods of fluctuation and there may be periods when your income needs will fall short and periods when more will be generated.

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