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# Top Dividend ETF Buys The Rest Of The Year

By TRANG HO, INVESTOR'S BUSINESS DAILY
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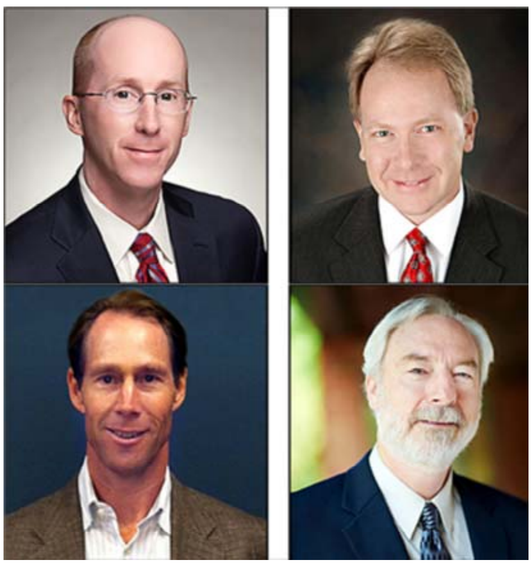

Asset managers (clockwise from upper left) Thomas Wilson, Andrew Hill, Roger Schreiner and Kim Arthur are having to cast their nets wide to find... View Enlarged Image

With low-risk income hard to come by these days, investment advisers are relying more on common stocks, preferred stocks and senior loans for cash flow.

Treasury yields are hobbling along at all-time lows as investors have flocked to them as a safe haven in the face of the European debt crisis and uncertainty in the U.S.

The benchmark 10-year Treasury note bond currently yields 1.64%, which would most likely turn into a loss in real terms considering inflation hovers at about 2%.

We asked some asset managers to share their top ETF pick for the rest of the year.

• **Thomas Wilson, managing director at Brinker Capital in Berwyn, Penn., with $11 billion in assets**.

**SPDR S&P Dividend** (SDY): The events in Europe have clearly created head winds for equities in the U.S. In addition, while economic data has been reasonable thus far in 2012, more recent data is depicting a slowing economy.

Equity valuations are reasonable and arguably cheap when compared to other investment choices. If you are an investment bull, a leveraged-equity ETF would be a great investment, while investment bears should consider a leveraged-inverse-equity ETF.

For those that are uncertain about the general direction of the market, an investment in SDY could be appropriate. This ETF is based on the Dividend Aristocrat index. The equal-weighted index consists of companies within the S&P 500 index that have increased their dividend every year at least the last 25 years. These companies have stable businesses and are increasing their cash flows each year, which allows them to increase their dividend payout. This ETF yields approximately 3.2%.

• **Andrew D.W. Hill, president and co-founder of Andrew Hill Investment Advisors, Naples, Fla., with $31 million in assets**.

**IShares Preferred Stock Index Fund** (PFF): While the stock market in its seasonal weak period and investment grade bonds offer yields barely covering projected inflation, preferred stocks present an opportunity to earn a reasonable return, with moderate risk.

While preferred stocks are not without risk, they have held up relatively well this spring, as many of the issuers have materially improved their financial strength. Preferred stocks are behind bond holders in the case of bankruptcy; however, the yields more than compensate for the risk with PFF yielding more than 6%.

• **Kim Arthur, president of Main Management in San Francisco, with $400 million in assets**.

**PowerShares Senior Loan Portfolio** (BKLN): BKLN is the world's first and only ETF that seeks investment results that generally correspond to the price and yield performance of the S&P/LSTA U.S. Leveraged Loan 100 Index.

This is a great diversification and hedge against rising rates, due to the interest-rate reset every 45 days and the negative correlation to U.S. Treasury and U.S. Aggregates. These loans are senior in the capital structure, only subordinated to the U.S. government claims and generally feature more restrictive covenants. They are first lien collateralized with accounts receivables, inventory, plant machinery and equipment. This has resulted in lower default rates and higher recovery rates than bonds historically.

Currently, the global macro environment is slowing due to continued global austerity and deleveraging, which is deflationary, and central bank printing, which is inflationary. BKLN is a good way to get a 5% yield, while participating in a pool of loans that are trading at a 5% discount to par, or face value. By contrast, high yield is trading at a premium to par.

High yield is yielding 200 basis points above BKLN but has credit and interest-rate risk. BKLN only has credit risk. In 2008, the senior loan market got hit hard as the first phase of deleveraging took place, including a lot of leverage in the funds that bought senior loans that had to be un-wound.

In a further economic slowdown, BKLN will go down, but high yield will probably go down further due to its subordinated position in the capital structure and lack of first-lien collateral. During May 2012, BKLN declined 1.5% vs. the S&P 500's decline of 6%.

**• Roger J. Schreiner, president and CIO of Schreiner Capital Management in Exton, Penn., with $75 million in assets.**

**IShares Barclays 1-3 Year Treasury Bond** (SHY), **3-7 Year Treasury Bond** (IEI), **7-10 Year Treasury Bond** (IEF), **20+ Year Treasury Bond** (TLT), **iShares Barclays MBS Bond** (MBB), **iShares iBoxx $ Investment Grade Corp Bond** (LQD), **PowerShares Emerging Markets Sovereign Debt** (PCY) and **SPDR Dow Jones REIT** (RWR):

For now the technicals are mixed, suggesting that we are entering a "risk-off" environment.

We have very low allocations to equities right. No one knows what the second half of 2012 will bring, but the probabilities suggest that the market will muddle through as the global economy struggles to work through all of the issues at hand.

Our core global macro strategy has its largest positions in domestic fixed-income funds like SHY, IEI, IEF, TLT, MBB and LQD. Interest rates may continue to fall as investors everywhere have shown no willingness to be anything but extremely risk averse. Capital will continue to flow away from the eurozone as the crisis there drags on and investors seek relative safety.

We also have positions in PCY and RWR. Both of these sectors have been trending higher since their bottom in 2009. These positions provide a degree of noncorrelation and diversification in our clients' portfolios.