An income strategy in difficult times

After a number of years of seemingly endless financial crises, be they currency, sovereign debt, banking or economic recessions there may just be the glimmer of light at the end of the tunnel. It's faint and intermittent but nevertheless it's there and provides us all with some comfort as we continue down the path of austerity and weak economic growth.

We need to thank Mario Dragi of the European Central Bank for his commitment to "doing whatever is necessary" to support the Euro and Ben Bernanke of the Federal Reserve, for his pledge to provide "limitless" liquidity to promote both the US housing and labour markets.

However, if we are pragmatic and accept that there is still some way to go in the deleveraging process that has followed the end of the credit bubble, there are still decisions to be taken to protect capital and enhance returns from investments whilst we wait for the recovery.

Too often investors have become so nervous of markets that they often cannot concentrate or focus on the key strategies and asset allocation within their portfolios.

By Stuart Cowan

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One of the key drivers of my investment policy is the likelihood that interest rates will remain relatively low for some time to come, and with bond yields at historically low levels, generating yield or income from equities can provide investors with regular dividend payments.

However, it is not just about the shares that provide the highest income return, or yield, since a high dividend yield can often be a signal that a businessis in trouble or unlikely to grow. It needs to be both consistent and sustainable, a strategy that I would describe as a "secure income at a reasonable price"

Quite often this can be found in large "blue chip" stocks, often with a global franchise so that earnings are generated from many markets therefore providing the diversity and stability to enable the company to follow a sustainable dividend distribution policy. There are many examples of these companies to be found within the FTSE100 index of leading UK companies and not all of them are drawn from what are regarded as the traditional "defensive" sectors of Pharmaceuticals, Utilities and Oil & Gas. There are companies in perhaps more cyclical sectors that have the disciplined management that will generate reliable growth.

However, it is not necessary to limit your search to just the UK as there are a growing number of European and US companies which have now embraced a more generous dividend policy. It can be useful to broaden one's search for equity income as it adds diversity to portfolios where the lions share of UK dividends are paid by just a handful of large companies.

Potential investors should be aware that the price of securities and income from them can go down as well as up and the amount originally invested may not be received back in full. The past performance of a security or market is not necessarily indicative of future trends. Statements made herein represent the views of the writer and are given in good faith but without legal responsibility and are subject to change without notice.

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