Managing your risks through income diversification

The Intentional Investor
Building your financial future

Were you one of those who in the late 1990s thought, rightly, that the Internet would change the world? Those that invested in it too heavily, however, paid a steep price, while those that shied away also paid a price – they missed out on an historic market run.

Striking the right balance between your risk tolerance and your desired return can be key to a successful asset allocation. It can be especially true if you rely on your portfolio for day-to-day income.

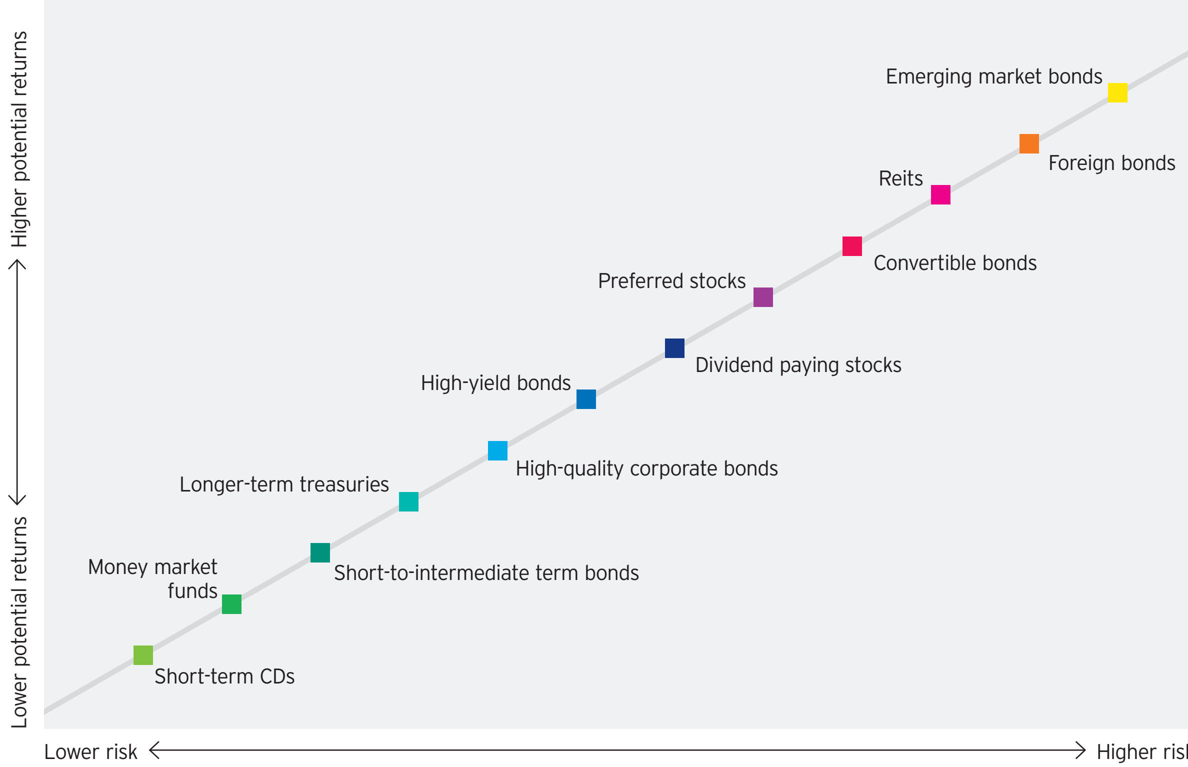
Balancing risk and reward

Your challenge as an income investor is to increase your chances for reward while keeping risk in check. Some of the ways you can accomplish this are by tapping into alternative income sources, such as dividends. You can also broaden your exposure to alternative sources of income through real estate investments, higher-yielding fixed income products and increased exposure to global and emerging markets.

Diversify to achieve balance

From low-risk/low-return to high-risk/high-return, there's a full spectrum of income investments to choose from to help you reach your optimum risk-reward balance. Today's income investors could reap the benefits of a portfolio that intentionally balances investments across the spectrum.

The spectrum of income-producing assets



For illustrative purposes only

Ideas to consider

Income investors have many opportunities available to help them prudently pursue higher returns. Here are some of the types of portfolio holdings you may wish to discuss with your financial advisor:

- **Core holdings** – anchor your portfolio with such investments as large-cap stocks and US government bonds
- **Complementary holdings** – add higher return potential and diversification with investments such as corporate and emerging market bonds
- **Opportunistic holdings** – respond to specific risks and opportunities with investments, such as real estate, bank loans and international stocks

Talk with your financial professional

Every income investor needs to strike the right balance of risk and reward. Your advisor can help you establish your personal income goals and develop a diversified strategy to help you achieve them.

About risk

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate.

Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Preferred securities may include provisions that permit the issuer to defer or omit distributions for a certain period of time, and reporting the distribution for tax purposes may be required, even though the income may not have been received. Further, preferred securities may lose substantial value due to the omission or deferment of dividend payments.

Securities that pay high dividends as a group can fall out of favor with the market, causing such companies to underperform companies that do not pay high dividends. Also changes in the dividend policies of the companies and the capital resources available for such companies' dividend payments may affect the fund.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Bank loans are privately arranged senior debt instruments that are structured with floating rates. The terms of the senior secured floating rate loans and debt securities in which a fund typically invests require that collateral be maintained to support payment of the obligations. However, the value of the collateral may decline after the fund invests, or the value of the collateral may not be sufficient to cover the amount owed to the fund.

Holding cash or cash equivalents may negatively affect performance.

Most senior loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, may be found invalid or may be used to pay other outstanding obligations of the borrower under applicable law. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid.