

MEMBERS™ CAPITAL ADVISORS

Relative Yield Approach: Back in Vogue

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An Effective Defense Is Critical

Despite significant changes in the investment environment over the past 40 years, one thing has certainly stayed the same; that is the importance of yield. The “Relative Yield” approach to investing – that is, investing for both income (through dividends and interest income) and growth, was first developed by the Bank of California during the tough market environment of 1973-74. As a reminder, during these years the S&P 500 Index fell more than 37%. Some money managers adopted this methodology as an effective way to not only participate in the rise in stock prices, but also provide another component of return that acted as a cushion during market declines. John Brown, CFA, Managing Director and Portfolio Manager, believes relative yield is a prescription for diversifying the source of investment returns and manages his portfolios utilizing this strategy.

History has shown that during both bull and bear markets, the Relative Yield approach has ‘played defense’ quite consistently. The market decline we are currently witnessing is no exception. Looking at a longer period of nine years back to when John started working here, these portfolios have enjoyed higher returns than the S&P 500 and lower volatility as measured by standard deviation. The current dividend yield on his portfolio is 5.0% versus 2.8% for the S&P 500 and while the absolute yields have changed over time, the relative yield relationship has stayed fairly stable with a 1.7x premium in yield over the S&P 500.

While dividends are being cut by many companies, it is not uncommon to find companies who are keeping their dividend payout the same. Utilities are normally the highest yielding stocks in the portfolio, but today they rank in the middle of the pack. The dividend paying ability of most financial stocks is under intense pressure today, so it is critical to find a new defensive line-up. Today, the MEMBERS® Diversified Income Fund* is emphasizing stocks of companies whose balance sheets are in good shape and are able to sustain dividends. Non-financial sectors such as consumer discretionary, industrials and technology stocks are providing opportunities to keep the defense strong.

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