



A multi-asset approach to generating income

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It is getting harder to generate income from just one asset class, such as bonds. But there are various ways of garnering income across the capital spectrum.

Investing for income should not be just in bonds or in stocks. There are multiple sources of income. A well-diversified portfolio should take advantage of all the possible ways in which an investor can get income.

If you are investing just in stocks, even if it's for income, volatility of stocks is considered fairly high. It's in the range of 15 to 16 percent. In other words, in a typical year, it's quite likely that you would see your stock investments go up and down by that amount.

If you invest in bonds, the volatility is not quite that high. It's somewhere around a third of the volatility of stocks, except that the interest that you may earn from bonds may be at risk at different points in time. For example, right now the bond environment is such that yields are very low, and investors are worried about bonds being overvalued.

So a combination of some low volatility investments, such as bonds, and a combination of higher-volatility investments such as stocks, could create a portfolio that may be appropriate for an investor.

A multi-asset approach for income would allow an investor to be tactical about their investments also. If you are just invested in bonds, it may provide a stable return stream of yield, but bonds may be overvalued at a point in time. And if that's your only source of income, you're sort of stuck in that investment stream.

Similarly, if stocks are your only source of income, then you're stuck in that investment stream. A multi-asset tactical approach allows you to have a diversified portfolio, and at the same time, tactically change the composition of that portfolio when there are better opportunities available in different parts of the capital structure.

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