Take More Interest in Your Income

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When developing your long-term investment strategy, you need to consider your income needs. But it's important to understand that all income is not created equally.

Three Types of Income: Variable, Reliable and Rising

To build a comprehensive income strategy, all three types of income potentially play an important role in your investment portfolio. Each type has benefits and trade-offs, but when used together, they can help you better achieve your income needs. Your situation, including your income needs and risk preferences, will determine what balance of variable, reliable and rising income investments is most appropriate for you.

	Benefit	Trade-off
Variable Income	Typically either preservation of principal or portfolio diversification	Unpredictable long-term rate of income
Reliable Income	More predictable long-term income	Longer maturity, more price fluctuation and more risk to return of initial investment
Rising Income	Combat inflation, liquidity	More price fluctuation and more risk to return of initial investment; dividend income may be decreased or eliminated at any time

Balance Is Key

We believe that variable, reliable and rising income all have places in a well-diversified investment portfolio. However, it's important to maintain an appropriate balance. For instance, too much in variable income investments can be detrimental to the stability and predictability of your portfolio income. Putting too much of your investment in long-term bonds, though they provide reliable income, can expose you to greater price volatility. Too much in rising income could add too much market volatility to your portfolio.

While short-term income needs may be covered by CDs and short-term investments, the bulk of your income needs can be best satisfied with some combination of reliable and rising income investments. Your individual situation will determine the balance that's appropriate for you. Work with your Edward Jones financial advisor to determine how best to fulfill your income needs for today and tomorrow.

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Variable Income

The primary benefit of investments that provide variable income is to help preserve your principal and/or provide for your current short-term income needs. In addition, these investments are often quite liquid, meaning they can be easily bought or sold in the market.

However, there are some trade-offs with these investments as well. As the name implies, they provide income that is typically variable and, therefore, less predictable. While they may provide current or short-term income, they do a poor job of providing consistent income over the long term. When looking at income from a long-term perspective, short-maturity investments must be replaced when they expire to keep a continuous stream of income. When they mature, you must decide whether to reinvest at the current market rate, which can be higher or lower. Because interest rates often change, we believe it's unwise to rely on variable income investments alone to provide reliable long-term income.

Interest Rates Are Hard to Predict

Even seasoned professionals can't consistently predict how interest rates might change. As a result, the amount of income these investments provide over time can be erratic and ever-changing, as shown in the chart below.

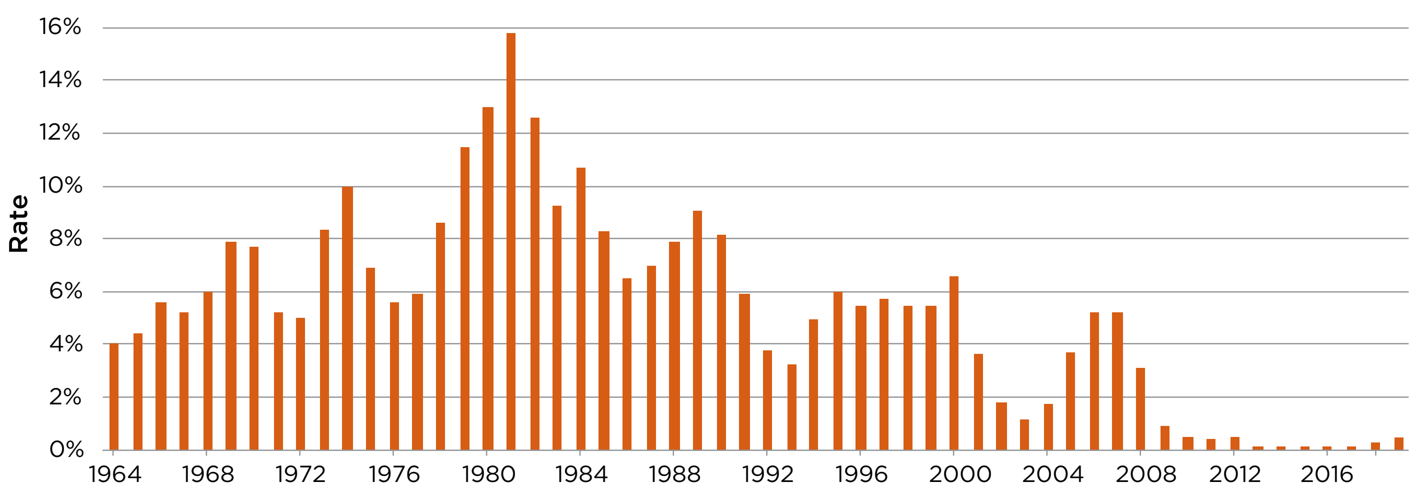
While investments that provide variable income can help augment your income, it's risky to assume that the majority of your income needs can be met with this type of investment in the long run. Because of the more unpredictable and variable nature of their income, owning too much can be detrimental to the stability and predictability of your portfolio's income. Instead, we recommend a more balanced approach that also includes reliable and rising income investments.

Investment Options

Certificates of deposit (CDs) are FDIC-insured up to applicable limits and provide a fixed rate but are typically short-term investments. When they mature, you must decide whether to reinvest at the current market rate, which can be higher or lower. Similarly, short-term bonds (less than five-year maturities), money market investments and Treasury bills can also provide you with variable income.

Another investment providing variable income is bond funds. Since they don't have fixed interest rates, their income streams are variable and can be affected by interest rate changes and economic cycles. Unlike CDs, bond funds do not have a maturity date and do not offer principal protection. Therefore, there is no promise that their principal will be returned at any time in the future. However, key benefits of bond funds are that they offer broader bond diversification and professional management for investors who may not have the assets to build a laddered portfolio with individual bonds.

Historical Six-month CD Rates (1964–2019)



Source: Federal Reserve and FDIC data.

Reliable Income

A primary benefit of investments that provide reliable income is they can add more predictability to your long-term income stream. Because your income can fluctuate with variable-rate investments, it's difficult to predict your rate of income over the long term. By adding investments with more reliable income payments, you can help offset some of the fluctuations in your variable income investments. For example, bonds with intermediate- and long-term maturities can help reduce the risk that your income will fluctuate. This is because you lock in your interest rate for a longer time. This gives you the potential for more stable income over time. But with this predictability comes more risk to principal (the value of the investment) prior to maturity.

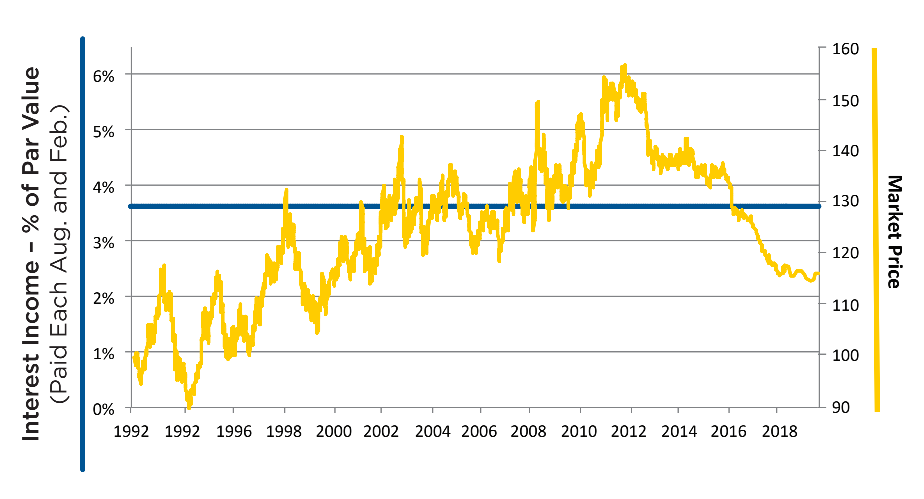
The Long and the Short of It

Prices of longer-term bonds can change more than those of short-term investments because you have to wait longer until your initial investment is repaid at maturity. This greater potential price volatility could result in loss of principal value if you need to sell the bonds prior to maturity. As the chart below illustrates, your income payments from those bonds aren't impacted when interest rates change, but principal value could fluctuate.

Intermediate-term bonds lie between the extremes of short-term and long-term bonds. Their prices don't fluctuate as much as longer-term bonds, and their interest payments offer better income stability compared to short-term fixed-income investments.

Laddering, or owning a number of bonds with different maturities, can help make your income more reliable. A bond ladder can help add reliability because only a portion of the income needs to be replaced in any year. By owning short-, intermediate- and long-term fixed-income investments, you can better balance the risks of price changes and income fluctuation. Laddering also can help insulate your portfolio from interest rate changes because it doesn't depend on rates rising or falling for success.

U.S. Treasury 7.25% Bond Due Aug. 15, 2022 (Issued Aug. 1992)



Source: Bloomberg and Edward Jones.

Investment Options

As noted earlier, intermediate- and long-term bonds add reliable income to your investment strategy. You may also want to consider fixed-income unit investment trusts (UITs), immediate fixed annuities or variable and fixed annuities with a guaranteed lifetime withdrawal benefit (GLWB) to gain reliable income. Of course, depending on the option you choose, there are always trade-offs you must accept to get more reliable income. This may come in the form of greater price volatility, poorer liquidity (harder to sell in the market) or the loss of your principal.

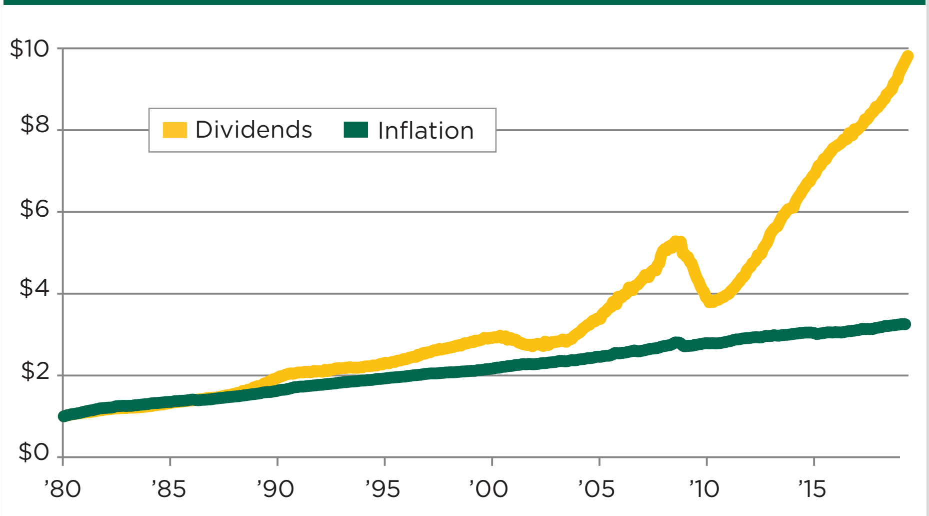
Watch the Call

It's important to consider a bond's call protection. If the bond issuer decides to redeem your bonds prior to their maturity, the income you receive could be cut off. Some bonds may be called at any time, while others can't be redeemed prior to the maturity date. Most bonds have a call protection period during which they cannot be redeemed by the issuer. Be sure to guard against having too little call protection in your bonds, which may cause your income to fluctuate suddenly.

Rising Income

When considering your long-term income strategy, inflation is a key concern. Investments that provide rising income potential are one way to help fight the risk of inflation. Because you could spend 25 years or more in retirement, it's important to have investments that can provide higher income in the future to help keep pace with inflation and complement the reliable and variable income investments in your portfolio.

S&P 500 Dividends vs. Inflation (Indexed to $1 in 1980)



Source: Bureau of Labor Statistics, Standard and Poor's and Bloomberg. Inflation measured by the Consumer Price Index. The S&P 500 is an unmanaged index and cannot be invested in directly. Assumes dividend reinvestment.

Investment Options

Investments with potential for rising income consist of stocks from quality companies with a track record of paying and increasing their dividends. Rising income can be obtained from individual stocks or through equity mutual funds that own these stocks. Stocks have historically done a better job of keeping up with inflation over the long run. As a result, investments with the potential for rising income can become an important part of your total income over time.

The trade-off for the benefits of equity investments is they tend to fluctuate in value more than fixed-income investments and may return less than your original investment. It's possible for a stock's dividend income to decrease or be eliminated at any time. In addition, too much portfolio concentration in rising income investments may cause your portfolio to experience significant price volatility.

		How to Use	Return of Principal at Maturity?	Flexibility	Fees/ Commissions
Rising Income	Dividend-paying Stocks	Dividends can be used for current income or reinvested for growth potential to provide for future income and a hedge against inflation Capital appreciation most often used for growth to provide for future income needs Diversify by issuer and sector	No; do not mature nor offer any return of principal	Can sell at any time Price may be more or less than purchase price	Commission to buy or sell in a traditional brokerage account
Rising Income	Equity Mutual Funds and Exchange-traded Funds (ETFs)	Dividends can be used for current income or reinvested for growth potential to provide for future income and a hedge against inflation Capital appreciation most often used for growth to provide for future income needs	No; do not mature nor offer any return of principal	Can sell at any time Price may be more or less than purchase price	Commission to buy or in some cases sell (depending on share class) in a traditional brokerage account Operating expenses and management fees

		How to Use	Return of Principal at Maturity?	Flexibility	Fees/ Commissions
Variable Income	**CDs**	Interest can help meet current income needs Laddering with long-term bonds can improve reliability of the income stream Keep holdings below FDIC insurance limits	Yes; holdings above FDIC insurance limits are subject to paying ability of issuing bank	Can sell brokered CDs at any time Price may be more or less than purchase price, depending primarily on changes in interest rates May pay a penalty if bank CDs are redeemed prior to maturity	Commission to buy or sell in a traditional brokerage account
	Bond Funds and ETFs	Distributions can be used for current income or reinvested for future income	No; bond funds do not mature	Can sell at any time Price may be more or less than purchase price, depending primarily on changes in interest rates and credit quality	Commission to buy or in some cases sell (depending on share class) in a traditional brokerage account Operating expenses and management fees
Reliable Income	**Individual Bonds**	Interest can help provide for income needs Stick with invest-ment-grade bonds Diversify by issuer, sector and maturity	Yes; subject to the paying ability of the issuer	Can sell at any time Price may be more or less than purchasing price, depending primarily on changes in interest rates and credit quality	Commission to buy or sell in a traditional brokerage account
	Fixed-income Unit Investment Trusts (UITs)	Distributions can be used for current income	Yes; subject to paying ability of the underly-ing issuers	Can sell at any time Price may be more or less than purchase price, depending primarily on changes in interest rates and credit quality	Commission to buy or sell in a traditional brokerage account Operating expenses Origination cost
	Immediate Fixed Annuities	A lump sum is paid to an insurance company in exchange for a stream of payments for life or for a set period of time, regardless of market performance Payments begin within one year of purchase Payments can remain level or increase over time to help offset inflation	No	Cannot be sold If elected at time of purchase, some contracts allow for installment or lump-sum refund based on remaining income payments	Insurance fees and commission

		How to Use	Return of Principal at Maturity?	Flexibility	Fees/ Commissions
Reliable Income	Variable Annuities with Guaranteed Lifetime Withdrawal Benefits (GLWBs)	Can withdraw a certain percentage of initial investment annually, even if account value drops to zero. Insurance company may offer a crediting rate, which increases the withdrawal amount each year you defer taking withdrawals up to a limit Principal is invested in professionally managed subaccounts. Account value fluctuates based on the performance of these investments Can be annuitized, which converts the contract to a stream of payments	No	Cannot be sold; can start and stop withdrawals at any time Withdrawals above guaranteed withdrawal benefit amount may reduce or eliminate guaranteed withdrawal benefits	Commissions, insurance fees and investment management fees Additional fee for GLWB rider

