Treasury yields were at 12-month lows as of press time. This was occurring despite widespread expectations that the Federal Reserve will raise rates at some point in the future.

Obviously, if you are an investor who depends on income from your portfolio, this is a problem. Yields are terrible right now and given the prospects for higher interest rates in the future, it seems counterintuitive to buy long-term debt.

So, what is an income-seeking investor to do? Joseph Davis, the chief economist at Vanguard, suggests broadening the diversity of your bond holdings instead of narrowing them. He explains why and shows the potential impact of various interest rate scenarios starting on page 6.

Complementing Joseph’s article is a brief primer on bond terminology. I cover some of the basic, but common terms that help evaluate bonds in this month’s Investor Professor. You can see the definitions on page 10.

Another way to generate income from your portfolio is to invest in dividend-paying stocks. For this month’s First Cut, John Bajkowski sought stocks with high dividend yields. He found 30 that also have a history of increasing their dividend payments. You can see the list on page 11.

Though both bonds and dividend-yielding stocks are viewed as more “conservative” investments, they are not the only way to reduce overall portfolio risk. In fact, it is possible to both lower your portfolio’s risk profile and increase your return by adding riskier securities to your portfolio. Though this may sound counterintuitive, I discuss why it actually works in the Beginning Investor column on page 12.

Equity-indexed annuities are being actively promoted by financial advisors. These financial products offer a rate of return that is linked to the performance of an underlying stock market index. Though they do provide some advantages, their disadvantages may make them unsuitable for some portfolios. Cara Scatizzi explains on page 16.

One of things that I did not anticipate when I joined AAII last November was just how many investment books would appear on my desk. Barely a week goes by that a publisher does not send me at least one book to review.

Unfortunately, I often have to skim rather than read the books. However, there are some books that I do truly read. Two articles in this issue are based on such books.

The first is an excerpt from Bonnie Kirchner’s “Who Can You Trust With Your Money” (FT Press, 2010). She devoted a chapter to explaining what records and reports you need to hold onto and which can be run through the shredder. If you feel like your mailbox is inundated with envelopes about your investments, you will want to read her article on page 13.

The second is an interview with Axel Merk. What attracted to me his book, “Sustainable Wealth” (John Wiley & Sons, 2010), was its broad focus on how not to lose money, a topic often overlooked by investment writers. As a result, I asked Axel how AAII members could apply some of his broad concepts to the current market and economic environment. A transcript of our conversation appears on page 23.

Another often overlooked part of wealth management is selling. Yet, determining when a security should be sold has a significant impact on the level of return you will realize. As such, I think it is important to cover this issue. I tapped Kate Stalter at Investor’s Business Daily (IBD) specifically for an article on this subject for two reasons. One, O’Neil’s CAN SLIM system is one of the most popular screens on AAII.com. (William O’Neil started IBD.) Secondly, many of you have asked for more information on technical analysis. Kate explains how technical analysis can help signal adverse changes in a stock’s fundamental characteristics on page 17.

This month’s featured stock strategy highlights O’Shaughnessy’s Tiny Titans. This is a screen that looks for micro-cap stocks trading at low valuations, but exhibiting positive relative momentum. Cara Scatizzi explains the philosophy behind the screen on page 27.

Finally, at press time, our IT staff was working on the final phase of a complete redesign of AAII.com. Find out more about the new AAII.com, plus other member benefits we’ve recently introduced, in Member News on page 30.

Wishing you prosperity,
Charles

Charles Rotblut, CFA
Editor, AAII Journal
twitter.com/charlesrotblut