

# Go With the Cash Flow



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We live in interesting times and nowadays it seems almost daily we are confronted with choices to make in our financial lives. We took for granted for years the ability to get a “decent” rate of interest on a savings account or the availability of bank CDs that would pay a rate that one considers “fair”. The past five years have changed how we view many things and how they impact our lives.

Real estate is one of those areas that has experienced many changes in these five years. Most people used to look at their home as an investment until the recent housing meltdown. Now there are thousands of empty rental homes on the market which have driven down the rent that is obtainable in many markets. Even with deductions, it seems difficult to create a positive cash flow from rental real estate of late. The taxes, maintenance, and property taxes leave the investor with little positive cash flow. Many who were forced to give up their homes due to their personal circumstances now are happy to rent and not be exposed to any more of the housing market risk.

The bond market has been the recipient of billions of dollars of cash that exited the stock market, real estate, savings accounts, and CDs that no longer satisfy the investor. The demand for these investments has driven up the prices and so the current yields are much lower than they have been for most of our history. But they still provide cash flow for investors that depend on a regular stream of income. It is also easy to diversify these fixed income investments by including foreign bonds, high yield bonds, tax exempt municipal bonds, emerging market bonds, short term bonds, and treasury inflation protected securities as well to spread out the risk in the bond portfolio.

Dividend paying stocks are another way to add some cash flow with the intention of trying to keep up with inflation. We recently have seen a run up in prices at: the grocery store, the gas pump, our utility bills, water bills, medical bills and college tuition. These companies that pay a dividend must have a good cash flow to support that dividend that comes to

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investors every quarter. Unlike a company that does not have to pay their shareholders every quarter, the focus is on sustaining and raising the dividend for these companies. This gives these companies a greater commitment to fiscal responsibility for their shareholders by having to maintain and increase that dividend. Many of these companies are in mature industries that focus on consumer staples such as food items, and detergents. Another feature that is positive about these stocks is that the price of the stock generally is more defensive in nature. As the price of the stock drops, the dividend yield of the stock helps increase the demand to purchase the stock. Many companies have historical high levels of cash on their balance sheet as a result of the 2008 debt crisis and that makes these companies even more attractive.

Cash flow planning for individual families is an important part of a comprehensive financial plan. When the future expenses are forecasted, adjusted for inflation factors, there is a better chance of structuring a portfolio for those liquidity events and not necessarily having to sell investments at the last minute to raise cash for a family financial need. I have found also that it generally gives client's a better insight as to how we construct their portfolios and plan ahead for their retirement and other financial goals. This gives people a thicker skin to deal with the daily fluctuation in the stock market.

So we live in interesting times. I believe the companies that can provide cash flow for their investors and can grow their dividends will be a big help in keeping up with the cost of living in the future. I also believe that a thoroughly diversified and actively managed bond portfolio will spread the risk out while helping provide regular cash flow needs for investors. It appears that interest rates will be staying low for the next couple of years according to the Federal Reserve. That savings account and bank CD will stay pretty close in yield to where it is today if this is true. There is no substitute for liquid assets that must be available for emergencies. So my advice for you to deal with this investment environment is the ***Go with the Cash Flow.***

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