

How to Build a Robust, Growing Income Stream

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At Orion Capital, we help our clients to simplify, streamline and gain control of their financial lives. We believe that you ought to know exactly where your money is, how it is invested, and why it is invested the way it is.

It is no secret that these are extraordinarily difficult times for Americans trying to save for retirement. With interest rates at generational lows and inflation beginning to heat up, investors with their money in savings accounts or money market funds have virtually no chance of earning a good return.

While Mr. Bernanke and his fellow governors at the Federal Reserve have kept short-term interest rates at zero to stimulate the economy, in doing so they are severely punishing America's savers.

While the income options are poor at the bank and with money market funds, investing in dividend-paying stocks remains far and away our favorite way of building a robust income stream for two reasons:

1. **You Get More Income:** The dividend yields of many stocks are significantly higher than the interest rates of savings accounts or money market funds.
2. **It Grows:** An income stream based on dividends has a very good chance of growing over time as companies sweeten their dividend payouts.

Right now there are many, many blue-chip U.S. and international stocks that have dividend yields of 3%-6%--yields that on average handily beat the rate on the 10-year Treasury note (which at this writing was 3.14%).

Putting money into the stock market has its risks as well and is not appropriate for every investor, but over an extended period a well-diversified portfolio of high-quality companies that are committed to their dividend payments should serve an investor well.

There is a notion with many investors that money market and bank savings accounts are "safe." Well, that all depends on how you define "safe." They are generally safe in that the number of dollars that you put into them will not decline—but the value of those dollars could drop (and has dropped) dramatically.

There's no use sugar-coating it: Over the past decade the U.S. dollar has been crushed. As measured by the U.S. Dollar Index, our dollar has lost more than half of its value against a basket of other currencies. As measured against oil, gold, food and other commodities it has also lost an absolutely shocking amount of purchasing power. This means that if you have had \$10,000 sitting in an FDIC-insured bank savings account since 2001, it has lost roughly half of its purchasing power. Not very safe.

The lesson here for investors is that they should strive to preserve and to increase the purchasing power of their nest egg, not just the dollar value. Dividend-paying stocks allow investors some shelter from inflation as companies operate in the real economy and can raise their prices over time to combat the effects of inflation. When you are invested in "safe" fixed income instruments such as savings accounts and money market funds, however, you are consigned to bear the full negative brunt of inflation.

Securities laws prohibit me from recommending particular investments in this forum, so if you would like to find out more about how Orion's dividend strategy can be put to work for you please give us a call to set up a complimentary appointment.

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