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Kiplinger's
Investing for Income
Strategies to Boost Your Cash Yield

Small, Creative and Successful Bond Funds

It has been a trying year for the mammoth, cookie-cutter funds that track a bond index or otherwise seek to emulate the taxable U.S. bond and mortgage universe. One example: the $198 billion Vanguard Total Bond Market Index (VBMFX). The fund, which yields 3% from a portfolio of more than 8,400 different bond issues, has 40% of its assets in Treasuries, with the rest concentrated in pools of government-guaranteed mortgages and investment-grade corporate debt.

This index fund's duration is six and the average maturity is eight years, so interest-rate risk is smack dab in the middle of the road. You get paid decently each month and without question, and the return is padded by Vanguard's legendary efficiency that limits the expenses to 0.15%. But despite this built-in advantage, VBMFX has a year-to-date total return of –1.14% through August 17 and a dreary three-year annualized gain of 1.5%. If Vanguard weren't so prominent in 401(k), 403(b) and other investment plans, and if its fees weren't nearly nil, we'd steer readers away from this fund. We certainly wouldn't tell current customers to add new money, unless all you're doing is making sure that some anodyne "bonds" are part of a simple asset allocation that you adjust constantly.

By contrast, there's the minnow—its assets are $78 million—called **PGIM Unconstrained Bond (PUCAX)**. The fund industry's favorite "u" word is no guarantee of greatness, but in the right hands, this freedom gives a bond fund's manager-and-trader team the chance to make a profit in years like 2018, when most bond prices decline. PGIM, the investment arm of Prudential Insurance, has been correct in assessing that U.S. intermediate-term and long-term interest rates would stay in a narrow range. Robert Tipp, PGIM's chief bond strategist, persistently points to opportunities in non-Treasury bonds and other income-paying securities whenever their yield spread (advantage) over the Treasury widens—a contrast to traders and managers who populate the herd that improperly tends to see spread widenings as the start of a bearish cycle. So far in 2018, PUCAX is up 2.24% and its three-year annualized return of 6.23% is spectacular. The yield is 4.2%, and the fund pays monthly.

> **From 1997 through 2017 unconstrained bond fund managers outperformed basic bond benchmarks.**

Another mighty mini is **ICON Flexible Bond (IOBAX)**. It's the only bond fund from ICON, a 30-year-old outfit from Colorado best known for managing focused stock funds that follow strict value parameters. In bonds, though, ICON Flexible's honcho, 40-year bond-industry veteran Donovan "Jerry" Paul, does it his way, which is to acquire "so many interesting things most of

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my competitors won't or can't get involved in." This includes buying cheap assets from closed-end funds that the funds have been forced to liquidate; picking up discounted high-yield debt close to the call date or maturity; and buying and holding BBB-rated bonds that strangely yield more than some junk-rated issues.

So far in 2018, ICON Flexible has a return of 0.92%; the three-year annualized gain of 3.41% is also attractive, as is its monthly distribution, which works out to an annualized 3%. Ignore the subpar 10-year and 15-year returns, because this is not the kind of fund to sleep on during a prolonged interest-rate decline. It's designed for challenging times. Plus, manager Paul only took the reins in 2013.

Also obscure but sweet is **Shelton Tactical Credit Fund (DEBTX)**, which launched in December 2014. It's up 4.60% so far this year, and it's up an annualized 5.75% for three years, a testament to hands-on managers John Harnisch and Chris Walsh, who say they've rotated the portfolio 12 to 15 times in three and a half years. Shelton is a small firm, also from Colorado, that started in 1985 with private municipal bond accounts and, contrary to the industry trend, created no-load stock and bond funds with a $1,000 minimum.

Harnisch targets low-duration, short-term, high-yield debt and trades in and out according to the spreads in relation to Treasuries. That means the fund was once half cash; currently, though, cash is down to 5%. DEBTX pays quarterly, and the past four distributions work out to a yield of 4.9%. There is a lot of unrated debt and debt rated single-B and CCC, so it's vulnerable to a near- or actual recession, though Harnisch and Walsh say they can scramble out of their riskiest stuff quickly.

These "unconstrained" or "strategic" funds are satellite, not core, holdings. We are not blind to the risk that a small active—or hyperactive—fund can overdo a category or sector at risk of collapse in an iffy economy. The hedge fund firm AQR Capital Management studied that topic last year and concluded two things: First, from 1997 through 2017, unconstrained bond fund managers truly and enormously outperformed the basic bond benchmarks, such as the one Vanguard Total tracks. Second, there's a high correlation between this strong active performance and how well junk bonds perform, even for funds that own little or no junk. If junk craters, AQR says, you'll want to rethink owning them.

There's also the risk that a fund that shows dramatic short-term outperformance will attract mountains of hot money. The managers of Shelton Tactical Credit say they could handle $1 billion in the same ways it currently does, up from the $37 million now in the fund. We, however, would say to wait and see.

The giant, classic, established actively managed broad-based bond funds—four we admire are **Dodge & Cox Income (DODIX)**, **Loomis Sayles Bond (LSBRX), Pimco Income (PONAX)** and **Putnam Diversified Income (PDINX)**—have proved that they can scale up in size, and so they are still essential core funds even if Dodge, Loomis and Pimco have lost a little money and luster in 2018. There's also nothing wrong with short-term, low-risk ideas like **FPA New Income (FPNIX)**, which yields 3% and has a duration of 1.6. FPA New Income is heavy on passing through mortgage, credit card and car-loan payments and is as sound as ever with a 1.37% year-to-date return for 2018.

There's also the issue of fees and expenses. Small funds often charge 1% or more, a hurdle that's not always easy to surmount. You should be able to avoid sales loads by dealing directly with a no-load sponsor or by trading cost-free at Schwab, Fidelity, E-Trade or the like. Fees are one reason we've written many times, and still believe, that a collection of individual bonds should beat most funds and ETFs during a sustained bond-price decline, because you can hold your own bonds to maturity and reinvest returned principal at a higher yield. But you can't do that with every kind of bond and profit from the market's quirkiness.

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How to Take a Knee

Last month we reiterated that if your savings and guaranteed income will let you live comfortably into your nineties or to 100, you can eliminate most or all portfolio risk. We call this "taking a knee," in the manner of the winning quarterback who kneels as time expires so there's no chance of a fumble.

The playbook concentrates on insured bank deposits, money market funds and ultra-short-term and inflation-protected government or municipal bonds. Best of all, you may have access to a stable-value account in your retirement plan. It's also wise to douse as much debt as possible. Then you need not fear that a recession, a 2008-style credit crisis, a grinding bear market, spiraling interest rates, serial bank failures or other calamities will negate your life of liberty and happiness. Nor will you have to apologize to heirs and charities you've promised to reward.

We know it's tough to quit if you've invested avidly for decades. The bull market is still going. Oil and commercial real estate are having a nice run. But with 2.6% two-year Treasury notes dwarfing the 1.9% dividend yield of Standard & Poor's 500-stock index—and given unsteady domestic and international political and economic scenes—we imagine you might crave less aggravation.

This segues to the timing and technique of de-risking. No financial adviser, and certainly not Kiplinger, says to arise one fine day, brew strong coffee, fire up the computer and in a trice convert all your stocks, bonds, real estate investment trusts, mutual funds and exchange-traded funds to cash and CDs. You'd run into tax issues, and you don't want to miss interest and dividends.

We asked financial planners and advisers for practical guidance and found there is much to ponder, including that advisers are often frosty about radical de-risking. Some say forswearing further growth punishes your progeny, though that depends on your family's personal relationships. Others object that it's far better, tax-wise, to donate appreciated assets rather than cash them in first. David Clarken, a financial adviser from Atlanta, emphasizes a thorough expense assessment. "Are you really sure you have a surplus? A gross number [even $2 million] can be misleading," he says.

But, in the main, if you have reached a "place of contentment," as John Bohnsack, a financial planner from College Station, Texas, calls having enough to last forever, don't manufacture trouble. Bohnsack says, "We have taken clients from 70% and 80% stock to 25%, and in many cases all the way to zero." If you fret that the Boeing shares you rode from $35 to $350 might crash, sell and don't complain about the cut due to Uncle Sam and the state treasurer.

Here are tips on how to de-risk smartly:

First, fix your appropriate new investment mix. Still want, say, 20% in stocks? That isn't as dangerous as you might imagine. And if you have a giant yield on your average cost in a long-held utility or REIT, you may deem it a low-risk permanent asset. With the majority, though, you need to decide whether to go virtually all-cash or redeploy money to bonds or bond funds, including tax-exempts, and possibly some inflation-protected repositories such as Series I savings bonds. The composite rate on new I-bonds is up to 2.52% and adjusts every six months.

Sell gradually. Market timing is as hazardous on the way out as it is on the way in. If you contributed regularly to retirement funds and reinvested cash distributions, you diffused the risks of emotion and momentum. The reverse is also true. There's no rule as to whether you should liquidate over several months or years, but we recommend at least six months.

Reallocate inside tax shelters first. If you sell stocks or funds inside an IRA, 401(k) or other tax-deferred wrapper and leave the proceeds inside, there's no immediate tax liability. (That comes later, as you know if you've already paid taxes on required minimum distributions.) To keep a residual stock portfolio, use a taxable brokerage account so that you'll benefit from the capital gains rate when you sell.

Establish a separate account for heirs. One of the richest tax benefits is "stepped-up basis" on inherited securities. Financial planner Rich Waechter, of Chapel Hill, N.C., suggests you keep a conservative cash-heavy account to spend and another account for stocks and other assets you intend to bequeath.

Tax-exempt investments are important. De-risking won't change your tax bracket, so if municipals pay you better after-tax income than the bank and Treasury, accumulate more. The chance of default is minuscule.

Keep it liquid and at home. Currency-exchange risk and troubles with foreign and emerging markets aren't worth the occasional rewards. Gold and collectibles and other illiquid fripperies are not savings.

Why MLPs Are on the Rebound

Six months ago, we sensed an end to the four-year dry spell in energy-related master limited partnerships. Recovery duly began in April and continues. The question is whether the rally is the start of a true upturn or only a reversion to fair value from an oversold state. (We're focusing here on the "midstream" categories of pipelines, storage facilities and other infrastructure, not crude oil and natural gas prices and production.)

Instead of keeping you in suspense, we'll just tell you: We think that we're in the early stage of a multiyear positive cycle. We gave MLPs one thumb up in January, waited through a bad winter, and now the sparks we told you about in March's letter are really sparkling. Domestic production—centered in the Permian Basin of Texas—and related sectors such as petrochemicals are humming. Pipelines and other shipping and processing facilities are busy handling capacity-straining volumes. The pipeline owners and refiners can raise fees and tolls and negotiate or renew richer contracts.

All this boosts unitholders' fortunes. In July and through mid-August, the Alerian total return index of 42 partnerships (AMZX) gained 14%, including six consecutive weeks in the green. That built on a robust April–June quarter, when AMZX advanced 13%, its best three-month run in ages. Of the 10 largest midstream MLPs by market value, nine are now up for the year through August 17 (six are up by 10% or more), with current yields of 4.5% to 8.5%. If you're angling for higher-yielding alternatives to interest-rate-sensitive options such as mortgage real estate investment trusts, MLPs fill the bill.

It helps that since MLP unit (share) prices rolled over in 2014, most partnerships have kept up their cash distributions. Although the erosion in principal values more than offset the dividends, the recurring cash flow that defines the energy business prevented an irreversible calamity. Still, the stinging losses surprised analysts and frustrated partnership executives, who were prone to grouse that financial markets misunderstood and disrespected the business, overreacted to low oil and gas prices, and conflated scattered cases of mismanagement into industrywide contagion. An unexpected adverse federal tax ruling ruined 2018's first quarter. Sentiment was sour. Red ink coagulated.

But the Federal Energy Regulatory Commission has since reversed that tax ruling, preserving a long-valued tax deferral for the enterprises, which thought they might be required to reimburse the government many millions of dollars. Meanwhile, more than a handful of chastened MLP managements had scaled back aggressive expansion plans. That, ironically, helps investors two ways: One, MLPs can stick to using internally generated earnings for capital improvements. Two, this conservativism coincides with raging demand. Adam Fackler, senior research analyst at Miller/Howard Investments, adds that the better-run partnerships have also trimmed planned distribution growth to 5% from the common 7% to 8% during flush times. All this serves to strengthen balance sheets and credit ratings. Adds Fackler: "There's been a pendulum shift because the partners are not being rewarded for 20% distribution growth now."

There are also more mergers and acquisitions. And, as we'll explain next month, the insiders' rake-off called incentive distribution rights—by which the general partner grabbed a chunk of MLP earnings before they could accrue to the regular limited partners—has been nearly completely eliminated. The rise of U.S. energy exports is a positive, too. The new tax law is neutral. More to come on MLPs in the next letter.

Timely Tactic of the Month

Bond yields are creeping up, so if you are rebuilding a ladder or have fresh cash to reinvest, scan the new corporate offerings. In August, such sound outfits as **BMW, Hyatt Hotels** and **Ford Motor Credit** issued 10-year bonds with coupons of 3.95% for BMW, 4.375% for Hyatt and 4.687% for Ford Credit. BMW is rated A+, while Ford and Hyatt are BBB. The spread, or yield advantage, for BBBs over Treasury bonds had been uncomfortably tight, but it has widened back to nearly one and a half percentage points, on average, a reminder that BBB usually stands for "buy, buy, buy." Since July 1, S&P's index of BBB-rated corporates shows a gain of 1.1%, compared with a 0.5% loss for intermediate-term Treasuries. For more ideas, screen broker bond listings.

Kiplinger's 25 for Income

It's another winning month. Long-term interest rates stopped rising and then receded in mid-August, while stock indexes rallied to close in on fresh records. In the 25, REITs led the way as Digital Realty and Realty Income rose 6.7% and Welltower gained 6.4%. Welltower, which owns assisted living and other senior-health properties, is now ahead 8.7% for the year to date and 25% for three months—a shining example of why it's silly to dump proven investments because their price drops over a short cycle for no structural or fundamental reason. AT&T rebounded 4.3%, and it appears that $30 is the floor and $35 to $38 a reasonable target. Our bond and bond-like funds were little changed. The trouble spot: Cedar Fair, the theme-park operator, frightened analysts and investors with weak attendance, and so its shares nose-dived 11.8% last month to $53, a low point after the stock held in the $60s from January through July. This looks to be Cedar Fair's first losing year since 2008, but that grand record tells us to give it the benefit of the doubt, just as we did with Welltower.

Utility stocks		**Price**	**Yield**	**Frequency**
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	$72.50	3.4%	quarterly
AT&T (T)	Wireless-service giant that grew out of the former SBC	33.03	6.1	quarterly
CenterPoint Energy (CNP)	A major U.S. gas utility and owner of Houston Electric	28.29	3.9	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York and New England	53.65	5.7	semiannually
High-yielding open-end bond funds				
Aberdeen Global High Income (BJBHX)	Intermediate-term corporate bonds from all over the world	$8.89	3.7%	monthly
DoubleLine Total Return (DLTNX)	Income fund that makes the most of mortgage securities	10.42	3.4	monthly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	10.04	3.8	monthly
Fidelity New Markets Income (FNMIX)	Impressive emerging-markets bond fund	14.74	4.7	monthly
Hotchkis & Wiley High Yield (HWHAX)	Excellent high-yield fund that concentrates on small companies	11.87	5.7	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund that is currently cautious	13.46	3.8	monthly
Closed-end mutual funds and ETFs				
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	$11.58	7.2%	monthly
Dreyfus Municipal Bond Infrastructure (DMB)	*A leveraged closed-end fund that likes transportation and hospital bonds*	*12.70*	*5.0*	*monthly*
iShares U.S. Preferred ETF (PFF)	This exchange-traded index fund spreads your money in more than 300 preferred stocks	37.56	6.3	monthly
Nuveen Municipal Value (NUV)	*This non-leveraged closed-end is an alternative to the Dreyfus Infrastructure fund*	*9.56*	*3.9*	*monthly*
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	18.35	7.4	monthly
Templeton Global Income Fund (GIM)	A combination of emerging markets and rich countries' government bonds	6.14	5.5	monthly
Real estate investment trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	$10.68	11.2%	quarterly
Digital Realty Trust (DLR)	Developer and operator of data centers in the U.S., Canada, Europe and Asia	124.03	3.3	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 577 straight monthly dividends	58.85	4.5	monthly
Welltower (WELL)	Develops and owns assisted-living facilities, hospitals and medical labs	66.70	5.2	quarterly
Energy investments and partnerships				
Brookfield Infrastructure Partners (BIP)*	Owns toll highways, ports and transmission lines	$40.07	4.7%	quarterly
Cedar Fair (FUN)*	Partnership that owns theme parks coast to coast	53.00	6.7	quarterly
Magellan Midstream Partners (MMP)*	One of the largest pipeline carriers of gasoline, diesel and chemicals	71.05	5.3	quarterly
Occidental Petroleum (OXY)	A mostly domestic oil and gas producer	78.55	4.0	quarterly
Suburban Propane Partners (SPH)*	Propane distributor yields about four percentage points more than junk bonds	24.33	9.9	quarterly

Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of August 17, 2018. SOURCES: Fund companies, Morningstar Inc., Yahoo.

Ask Jeff

Readers are invited to send questions about income investments to jkosnett@kiplinger.com. I'll answer you personally if there's no space here for a published reply.

Dear Jeff:
Because I can get exposure to discounted municipal bond closed-end funds, I'm trying to decide between your two recommendations—NUV, the Nuveen Municipal Value fund, and DMB, the Dreyfus Municipal Bond Infrastructure fund. DMB has a much higher expense ratio, but Morningstar gives it five stars and NUV only one. What of this is of concern?
Carter

Dear Carter:
Both funds are doing fine and, as you note, are still available for well below their net asset values. Ignore the Morningstar ratings; NUV is essentially unleveraged, and the one star is a punishment for underperforming leveraged CEFs during the recent bond-boom years. DMB's five stars reflect the strong returns of transportation and other infrastructure revenue bonds. As for expenses, CEF expense ratios include interest, so don't compare them with the more familiar ratios of ETFs and standard mutual funds. Over the past year, DMB paid $2.4 million in interest and related loan fees on $257 million of assets, which accounts for about half of its 2.02% expense ratio. The management fees are a reasonable 0.9%. NUV's fees are even less, at 0.52%. CEF investors can study the statement of operations to watch how and where the fund gets and spends money.

Dear Jeff:
I am three years from retiring, and so I'm already looking for safety and income. My 403(b) offers Fidelity funds, so what about pairing Fidelity Floating Rate High Income (FFRHX) and Fidelity Long-Term Treasury Bond Index (FLBIX) for the short and long term? When the floating-rate fund tanked in 2008, the long-term Treasury fund was a good hedge.
Curtis

Dear Curtis:
Yes, in 2008 everything but Treasuries tanked (or worse), and even bank loans lost 30% or more. But now there's a greater chance that whiffs of higher inflation will spook bond traders enough that long-term Treasuries—with their duration of 15 to 20—will suffer severe principal losses. The bank-loan fund then might benefit, because its duration is almost nil, and the yield is higher. It's a sound choice. As an accompaniment, however, I would opt for a managed (not indexed) fund with a shorter duration and a higher yield than the Treasury index fund. If your retirement plan offers either Fidelity Total Bond (FTBFX) or Fidelity Intermediate Bond (FTHRX), go there with confidence and alacrity.

Dear Jeff:
For asset-allocation purposes, is preferred stock considered equity or debt?
Lee

Dear Lee:
I would consider it debt, although the payouts are technically "dividends," the tax rate can be on a par with the rate for qualified stock dividends, and preferred shareholders are junior to the bondholders on the creditors' pecking order. But I'm swayed by the fixed payout and how the prices and yields of preferred shares (and ETFs) react in a bond-like way to interest-rate action and the issuers' credit ratings.

Dear Jeff:
What do you make of the sharp drop in the price of TBB, the 5.35% AT&T $25 exchange-traded bond units issued in November 2017?
Martin

Dear Martin:
Nothing to speak of. Most investment-grade bond snippets trade as high as $26 or $27 and as low as $23 or $24 during any given year, and this bond's pattern is no different. TBB surged from its opening $25 to $26.72 in December 2017, and it subsequently dropped as low as $24.13. It closed on August 17 at $24.88. TBB is not callable until 2022, so relax, enjoy the income, and if you like, grab a profit if by happenstance the price crowds $27 again. And keep looking for new $25 debt issues, because they are in great demand and should appreciate.

Lise Metzger

What's New in Cash

Floaters fly high. Our advice to own floating-rate securities directly, or to look inside mutual funds and finance companies to see if they have a bunch of adjustable-rate investments, remains timely. Standard & Poor's has two indexes of preferred stocks, one for fixed-rate issues and the other for floaters. Through August 17, the fixed-rate preferred group is off 1.99% for the year to date, but the index of preferreds whose rates float is up 2.51%. Leveraged loans, the floating-rate component in funds such as Fidelity Floating Rate High Income, are up 3.06%, and even two-year floating-rate Treasuries have a total return of 1.29%. The markets are willing to pay for this insurance, and we agree.

Ailing emerging markets are not contagious. The Turkish currency plunge and recession are horrible—horrible for Turks, that is, because their international purchasing power has been cut in half, and their dollar and euro debts have almost doubled. Americans who bemoan the state of our economy or think the dollar is "debased" do not live or do business in a land where the currency can turn to rubble. So don't conflate this tragedy as the first in a series of dominoes that will initially afflict all middle-income countries and then bleed into America, Europe and Asia. We used to go into investment-markets hysterics when a Greece, Russia, or Thailand had to be bailed out. Not any longer. Emerging-markets bonds are struggling on a total-return basis because the strong dollar can erode the principal value of those bonds. But EMB, the emerging-markets bond ETF from iShares, yields close to 5% and looks like it will lose about 5% all told this year. There are no Turkish bonds in its top 100 holdings, and if it were to finish 2018 in the red, that would only be the fund's second losing calendar year since 2008. The category will recover.

The Fed will be back in action. Pay little heed. Kiplinger predicts the Federal Reserve will bump up short-term interest rates another 0.25% this month and another 0.25% before the end of the year. That will feed into the yields of money market funds and some bank accounts, but there's still nothing to suggest the flat yield curve will steepen or that rates everywhere in the economy will keep pace. Don't react to the headlines when you see them. Carry on with what's been working.

RATES AND YIELDS

MONEY MARKET FUNDS

Taxable	Yield	Phone Number
Vanguard Prime MMF Inv. (VMMXX)	2.07%	800-662-7447
Invesco Premier Portfolio Instl. (IPPXX)*	2.06	800-525-8085
Category Average	**1.56%**	
Tax-Free	**Yield**	**Phone Number**
Vanguard Municipal MMF (VMSXX)	1.02%	800-662-7447
Fidelity Municipal MMF (FTEXX)	0.85	800-544-6666
Category Average	**0.64%**	

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to August 6.
SOURCE: *Money Fund Report*

BENCHMARKS

	Year Ago	3 Months Ago	This Month
Inflation rate*	1.70%	2.50%	2.90%
Six-month Treasury	1.11	2.10	2.24
One-year Treasury	1.24	2.32	2.44
10-year Treasury	2.19	3.11	2.83

*Year-to-year change in CPI as of July 2017, April 2018 and July 2018.
SOURCES: Bureau of Labor Statistics, U.S. Treasury.

CERTIFICATES OF DEPOSIT

Six Months	Yield	Phone Number
Limelight Bank (Utah)	2.11%	800-639-6015
Banesco Bank USA (Fla.)	2.10	888-228-1597
National Average	**0.37%**	
One Year	**Yield**	**Phone Number**
North American Savings Bank (Kan.)	2.63%	800-677-6272
Pure Point Financial (N.Y.)	2.60	855-488-7873
National Average	**0.72%**	
Five Years	**Yield**	**Phone Number**
Connexus Credit Union (Wis.)*	3.25%	800-845-5025
Home Savings Bank (Ohio)	3.20	888-822-4751
National Average	**1.30%**	

*Must be a member. Yields include compounding and are as of August 17. For information on deposit insurance, go to the website of the Federal Deposit Insurance Corp. (www.fdic.gov). SOURCE: Bankrate.com

FIXED ANNUITIES

Single-Premium Immediate-Annuity Monthly Payout Factor	Highest	Average
Male age 65	$546	$530
Female age 65	520	504
Male age 70	613	596
Female age 70	579	563

Payouts are guaranteed to the annuitant for life, with a minimum payout period of 10 years. Payout factors are per each $100,000. SOURCE: Comparative Annuity Reports (www.comparativeannuityreports.com). Annuity data are to August 2018.

Model Portfolio: Tax-Exempt Income

Municipals tend to return more, and yield as much or more after-tax income, than Treasury bonds and government-guaranteed mortgage securities. True to form, tax-exempts have been one of the best fixed-income sectors in 2018, and the past four months reinforced this reality. Our portfolio of nine muni funds, spanning the maturity and quality spectrum, duly returned to the green in the period from April 16 through August 17 after this same grouping suffered a rare loss in winter and early spring. We wrote in May's letter that we expected Tax-Exempt Income to at least break even this time around. It did—and then some:

Our hypothetical $100,000 closed out the most recent interval at $101,100—a four-month return of 1.1%, which works to 3.3% annualized. That reversed the 0.82% loss we detailed when we last examined this portfolio in May. All nine components contributed to the gain, as the group paid out $823 of income on top of $277 of capital gains. While the riskiest among the nine selections, Nuveen High Yield Municipals, did best with a 2.77% return (more than 8.3% annualized), the unsung heroes were the short-term troopers. VanEck Vectors AMT-Free Short Municipal ETF returned 1.14% as its share price soared from $17.20 to $17.31. T. Rowe Price Tax-Free Short-Intermediate posted an 0.83% gain that included a bump from $5.51 to $5.53. Both have been able to gently boost their distributions each month, and while you cannot count on short-term funds' share prices to move much, the VanEck ETF's net asset value is now up for the year, and the Price fund's shares are off just 3 cents in 2018.

The tax-exempt bond market continues to enjoy positive fundamentals. Ratings agencies are often upgrading ratings (or adding a positive outlook to current ratings) for essential-service revenue bonds, such those issued to pay for transportation and water and sewer systems. The agencies also appear to be taking a break from issuing dire warnings about the effect of pension fund shortfalls on state and local governments' creditworthiness; the prospect of mass downgrades and defaults is as remote as before. Also, the tight supply of new tax-free debt loosened up late last year—but now the scarcity premium may be back. Through July 31, U.S. tax-exempt issuance was 16% less than it was last year, whereas the Treasury's volume was 11% higher and destined to go higher still as the federal deficit blows past previous forecasts. It's a seller's market for tax-frees.

Once again, we have no reason to change the mix. As we've explained, we use mutual funds and ETFs for convenience because suggesting individual bonds might confuse or frustrate readers who are unable to locate those specific issues at a given date. We also think a relatively level allocation among short, intermediate and long bonds is still the way to go.

Short-term: 30%. These funds have durations of three, so there will be little if any bounce in net asset value. Their yields are generous for the category, thanks to good bond selection and low costs.

$15,000 T. Rowe Price Tax-Free Short-Intermediate (PRFSX). Yield, 1.5%. One-year total return: -0.6%.

$15,000 VanEck Vectors AMT-Free Short Municipal ETF (SMB). Yield, 1.4%. One-year total return: -0.2%.

Intermediate-term: 45%. Unlike Treasuries, where 10-year bonds are considered long-term, intermediate munis include maturities as long as 20 years. They provide good income with little interest-rate risk.

$15,000 Fidelity Intermediate Municipal Income (FLTMX). Yield, 2.1%. One-year total return: 0.6%.

$15,000 Schwab Tax-Free Bond (SWNTX). Yield, 2.4%. One-year total return: 0.2%.

$15,000 Baird Quality Intermediate Municipal Bond (BMBSX). Yield, 2.0%. One-year total return: -0.8%.

Long-term: 25% We steer clear of "junk" munis. The USAA fund reaches down to BBB more than the Vanguard fund, but it does not dip into unsafe territory.

$6,250 Vanguard California Long-Term Tax-Exempt (VCITX). Yield, 3.3%. One-year total return: 1.3%.

$6,250 USAA Tax-Exempt Long-Term (USTEX). Yield, 3.8%. One-year total return: 1.9%.

$6,250 Vanguard Long-Term Tax-Exempt (VWLTX). Yield, 3.4%. One-year total return: 1.3%.

$6,250 Nuveen High Yield Municipal Bond (NHMAX). Yield, 5.1%. One-year total return: 5.8%.