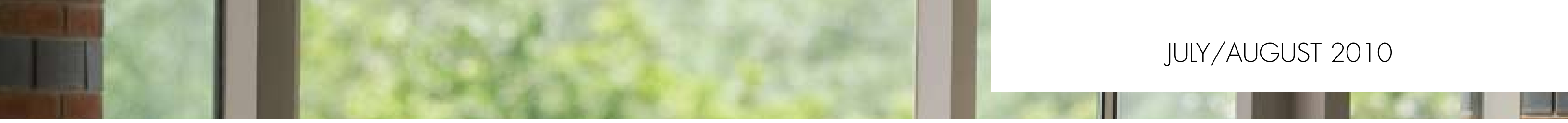

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WEALTH MANAGEMENT ADVISOR

REGULAR INCOME CAN PAY DIVIDENDS

A NEEDLE IN A HAYSTACK
Among all of the choices, how do you find the right mutual funds?

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CLAIM A TAX BREAK WITHOUT LEAVING THE HOUSE
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Regular income can pay dividends

While bonds are favored by many investors in need of income, dividend-paying stocks are often overlooked. Although the stock market as a whole frequently offers a relatively modest dividend yield, certain types of stock provide yields that are more competitive with those of bonds.

Dividend vs. interest income

It's true that, in the aggregate, dividend yields typically have had trouble keeping up with the income provided by bonds. For example, the dividend yield of the widely followed S&P 500 index at the end of 2009 was just 1.94%, about half of the 3.85% yield of the bellwether 10-year U.S. Treasury bond, according to Barron's and the U.S. Treasury. And bond investors willing to take on more risk might realize even higher yields from corporate bonds.

But a disadvantage of bonds is that they offer a fixed level of income. This can be a problem over the longer term because inflation eats away at the purchasing power of fixed incomes. Keeping up with inflation requires an even higher level of income — which, in turn, carries more risk.

In contrast, dividend-paying stocks can offer a level of income that may increase.

A potent combination

Although there are no guarantees where dividends are concerned, some companies are remarkably consistent about paying and even boosting their dividends. This can make their stock particularly attractive. (See "The 'magic' of rising dividends" on page 3.)

Although there are no guarantees where dividends are concerned, some companies are remarkably consistent about paying and even boosting their dividends.

Of course, a healthy dividend yield shouldn't be your sole reason for purchasing a stock. After all, a high dividend rate could result from a depressed stock price, potentially reflecting serious problems at the company. In that case, the dividend might be in jeopardy.

But other things being equal, any investment that generates a higher stream of income will be more attractive — and command a higher price — than one without that advantage. Consequently, if a company increases its dividend annually, that rising payout may push its stock price higher. This is a longer-term phenomenon, though not one you can count on year in and year out.

Dividend-paying stocks, then, offer the possibility of double-barreled benefits over time: 1) the dividends themselves can increase, and 2) the stock price might appreciate as well. Together, these two features give you a better chance of keeping up with inflation than investments with a fixed level of income and a fixed principal amount.

The "magic" of rising dividends

Consider a stock with a 4.5% current yield and projected dividend growth of 10%. For simplicity, let's assume that the stock is currently trading at $100 per share and the dividend is $4.50. If the company continues to boost its dividends at a 10% annual pace, the 10-year dividend growth of this stock will look like this:

Year	Annual dividend per share	Yield on original investment
1	$4.95	4.95%
2	$5.45	5.45%
3	$5.99	5.99%
4	$6.59	6.59%
5	$7.25	7.25%
6	$7.97	7.97%
7	$8.77	8.77%
8	$9.65	9.65%
9	$10.61	10.61%
10	$11.67	11.67%

As you can see, regardless of how this stock's price behaves in the meantime, investors are being paid well for their time, earning more than 11% annually from the dividend alone after 10 years.

Researching healthy dividends

In general, the best dividend payers are mature companies that, while financially healthy — especially from a cash flow standpoint — are no longer capable of rewarding shareholders with above-average growth. That's why the most promising areas to look for dividend-paying shares have traditionally included utilities, real estate investment trusts (REITs), banks, insurance carriers and large energy companies.

Keep in mind, though, that companies known for paying healthy dividends can run into financial trouble and reduce or even eliminate their dividend — think some of the troubled banks and insurance companies, for example. That's why it's important to select companies with strong fundamentals, including solid balance sheets and stable cash flows, that are capable of supporting those dividend payments.

Tax changes ahead?

Keep in mind these words of caution regarding potential changes in the tax treatment of dividends: Qualified dividend income currently is taxed at a maximum federal rate of 15%, but it will be taxed at ordinary income rates after 2010 unless Congress acts to change it. (Check with your financial advisor for the latest information.)

A higher tax rate could make dividend-paying stocks less attractive than they currently are. Still, the group is well worth considering for at least part of your portfolio because of its attractive total return potential.

Many possibilities

Investment possibilities include dividend-oriented mutual funds and exchange-traded funds, as well as individual stocks — both common and preferred. Your financial advisor can help you determine which among these possibilities is appropriate for your situation. ■

A needle in a haystack

Among all of the choices, how do you find the right mutual funds?

With thousands of mutual funds to choose from, it might be difficult to find those that best meet your needs. But selecting the right ones doesn't have to be an exercise in frustration.

Sharpen your focus

Here are some points to consider as you survey the mutual fund terrain:

Don't chase last year's performance champ. Fund advertisements tend to encourage this bad habit because, whenever a fund does really well, the tendency is to promote it heavily. Be warned, though: A fund can tear up the track one year, only to falter the next. The moral? One year's results don't mean a whole lot in predicting a fund's future performance.

So consider funds that are consistently near the head of the pack rather than one-year wonders. Funds typically list their performance for three-, five- and 10-year periods if they've been around for that long, so check those figures and compare them to relevant benchmarks, such as major stock and bond indexes or an appropriate peer group average.

Pay attention to management. Think back to when you were in college, trying to decide which courses to take. Simply reading the descriptions from the course catalog provided a certain amount of useful information, but you still didn't know crucial details about the professors who were scheduled to teach those courses. And, of course, those details made all the difference.

Similarly, reading mutual fund prospectuses can be helpful, but what really matters is how successfully a fund's manager implements the mandate described in the prospectus. So while you're checking longer-term performance, make sure that the manager who was responsible for that performance is still in charge. If not, past performance figures might be irrelevant.

On the other hand, some funds are managed by a team, in which case losing one individual manager might have a negligible impact. Either way, try to be clear about who's calling the shots before you make a purchase.

Look at performance in up and down markets. Some managers do well when the market is rising but get hammered during bear markets. Others do a better job of minimizing losses in unfavorable market conditions. One style isn't necessarily better than another, but you should be aware of how much volatility you can handle and try to select managers whose style matches your preferences.

Keep expenses in check. Every fund has an expense ratio, which consists of management fees and various other charges. Additionally, some funds carry loads (sales charges).

Generally speaking, the money you *don't* pay out in the form of expenses is some of the easiest money you'll ever make.

That said, some funds with higher expenses might be worth owning because of their unique management style or exceptional performance record, or because they cover a segment of the market that is more time intensive, such as smaller companies or international markets. Just make sure that, if you buy a fund with relatively high expenses, you're comfortable that they're justified by other factors.

Check the fund's turnover rate. This rate tells you what percentage of the fund's holdings changed over the past year and how long a manager tends to hold on to a stock. A turnover rate of 25%, for example, indicates that a manager holds a stock for four years, on average.

Turnover is important for two reasons. First, high turnover adds to a fund's transaction costs and can dampen returns. Second, buying and selling creates tax liabilities for shareholders — another drag on performance.

On the other hand, high turnover might be something you're willing to tolerate if there are sufficient offsetting benefits, such as a manager's knack for trading in and out of stocks at appropriate times.

Learn, simplify and seek advice

As in other areas of life, choosing among the vast number of mutual funds is greatly simplified by knowing in broad terms what you want. Your financial advisor can help you drill down further and ensure that your choices are tightly integrated with an asset allocation strategy that makes sense given your overall objectives. ■

Mutual funds are sold by prospectus. Investors should carefully read the prospectus before investing. They also should carefully consider information contained in the prospectus, including investment objectives, risks, and charges and expenses, before investing. For this and other information, request a prospectus from your financial professionals. Past performance does not guarantee future results. Investment return will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance data.

FIVE

Do you need directors and officers insurance?

To protect your assets, the answer may well be yes

In today's uncertain economy, protecting your assets is more important than ever. And if you serve as a director or officer of a company, your assets may be even more vulnerable. Why? Because of the current business environment post-Sarbanes-Oxley, directors' and officers' responsibilities have never been more demanding. In addition, investors expect greater transparency, and lawsuits are more common than ever.

In this light, not only can your company be held financially liable as a result of a lawsuit, but, as a director or officer, so can you. To protect your personal assets, consider obtaining a directors and officers (D&O) insurance policy.

What are your risks?

In essence, D&O insurance helps protect an organization's directors and officers from liability resulting from management decisions. There are

myriad ways in which directors or officers can put themselves at risk — committing a crime, failing to disclose a conflict of interest or otherwise breaching their fiduciary responsibilities.

But even if directors or officers do nothing wrong, they still can be held financially responsible for others' missteps if they're sued and the company lacks sufficient assets to protect them. Indeed, directors and officers are vulnerable to numerous types of company lawsuits.

Employment-related litigation — covering such claims as harassment, discrimination and wrongful termination — is particularly common, while legal action also may be brought by unhappy shareholders, lenders, customers, suppliers, competitors or government regulators.

What does the policy cover?

If you're considering a directorship or an officer position, or if you're a private equity investor planning to assume a board seat for an acquired firm, make sure D&O insurance is made available to you. If it isn't, consider whether taking the position is worth subjecting your assets to extensive financial risk.

When offered a D&O insurance policy, determine exactly what it covers. For example, some insurers won't cover fraud-related claims, while others specifically exclude employment-related litigation.

Private equity investors should note that some D&O policies may not provide coverage specialized enough for their needs. It's a good idea to run a prospective policy by a knowledgeable advisor to make sure you'll be adequately protected.

Next, weigh what's covered against the specific risks you're most likely to face. For example, if you're thinking about joining the board of a company with a history of rocky employee relations, determine whether you'll be protected from employee-related lawsuits. If you uncover potential gaps in the D&O policy, or if it includes provisions that could lead to your coverage being rescinded in certain situations, you may need to obtain additional protection through supplemental liability insurance.

How does it differ from E&O insurance?

Many people mistakenly view errors and omissions (E&O) insurance as an alternative to a

Can nonprofit executives and board members benefit from D&O insurance?

Directors and officers of nonprofit organizations might feel less vulnerable to lawsuits knowing they have no shareholders to appease. But they, too, can benefit from directors and officers (D&O) insurance.

Even though nonprofits lack shareholders, they do have stakeholders — financial contributors or other individuals with a personal interest in the organization's mission. Nonprofit directors and officers can find themselves at risk if these stakeholders decide to sue its leaders for mismanagement of the organization.

D&O policy. Don't be among them; the two types of policies cover different sets of risks.

E&O insurance covers the business itself against problems stemming from potential failures in the products and services a business offers its customers; D&O insurance protects individual officers and directors from financial risk stemming from management decisions — either yours or someone else's.

Don't operate without a safety net

Make no mistake, a D&O policy can be costly because of the high financial stakes involved. And because many companies have been operating in cost-cutting mode, they may or may not offer this coverage. Nonetheless, if you're a director or officer and want to protect your family's assets, owning a policy is a necessity.

Claim a tax break without leaving the house

If you work from home, you may qualify for a home-office deduction

Companies are increasingly asking employees to work from home, the logic being that fewer employees working in a centralized office means less square footage needed and lower office space costs. Whether you're self-employed or an employee who works from home, you may save tax by qualifying for a home-office deduction.

To determine whether your home office qualifies, answer these questions: 1) Do you maintain a specific area in your home that you use in connection with your trade or business? 2) Do you use that space for *only* trade or business purposes, not personal use? 3) Do you use the area regularly and on a continuous basis? 4) Is the area your principal place of business where you meet clients or handle management or administrative functions?

If your home office qualifies, you can deduct direct expenses plus a portion of indirect expenses based on the portion of your home used for the office. Measure square footage of the office space as a percentage of the total, or use a fraction based on the number of rooms. Direct expenses include business-only phone and fax lines, office supplies, and depreciation on office furniture. Indirect expenses include real estate taxes, mortgage interest, insurance premiums, condominium assessments, repairs, utilities, cleaning and maintenance.

If you're self-employed, you can use the deduction to offset your self-employment income. If that income is less than your home-office expenses, your deduction will be limited but the excess will carry over to future years.

If you're an employee, you can claim the deduction only if your use of the home office is for the convenience of your employer. You must claim it as a miscellaneous itemized deduction, which means you'll enjoy a tax benefit only if your home-office expenses plus your other miscellaneous itemized expenses exceed 2% of your adjusted gross income.

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