Global Thematic

Elgin Income Builder

Fact: In a near-zero interest rate environment it is not an option to sit back and rely on safe bank deposits to provide an income. The main fears facing investors today are twofold - fear of a fall in the value of their capital, and fear of not having an income to live on.

Fact: You can not create income from investments without risk. It is how we minimise that risk to an acceptable level that make the Elgin Income Builder portfolio attractive to some investors, the most important point to remember when considering this type of portfolio is that the capital value of the assets will fluctuate in value so it should be considered a longer term investment to allow values to recover should they suffer market falls.

Major factors we consider:

- **Liquidity** One of the most important issues, which is why we avoid 'straight-line' funds that look great until it is time to sell
- **Price** We will always take focus on market values at the time of investment - the less you pay, the greater the yield
- **Diversification** No matter how good an asset looks we will never allocate an excessive percentage of the portfolio to it

The focus is on INCOME not CAPITAL APPRECIATION. Even when capital appreciation DOES occur, we generally will not liquidate the asset in question unless we feel we can buy a similar security for a lower price and consequently higher yield.

REITS

Securities that sell like stocks on the major exchanges and invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate.

2014 was a year of transition for the US housing market with construction and prices increasing through most of the year. This should indirectly benefit various types of REITs like shopping centres, warehouses, senior housing and self storage.

We seek REIT's with solid earnings growth that secures their payout.

Bonds

Have you ever heard your colleagues talking around the water cooler about a hot tip on a bond ? Didn't think so. Sometimes bonds are just the only decent option. The interest rates on bonds are typically greater than the rates paid by banks on savings accounts. As a result, if you are saving and you don't need the money in the short term, bonds will give you a relatively better return without posing too much risk.

The bond market is huge and about the size of the global equity markets. Sovereign, corporate, high yield and emerging markets all present opportunities to contribute to a well diversified income portfolio.

Dividend Yielding Stocks

Many investors today totally forget the reason why stock markets first came about - so that investors could participate in the profits a company makes. All too often they chase short-term capital gains generated by the next great winners and completely overlook boring 'big oil' or public utilities. Rest assured, there is nothing 'boring' with a 5% yield these days.

Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position - in other words, how much "bang for your buck" you are getting from dividends. Investors who require a minimum stream of cash from their investment portfolio can secure this by investing in stocks paying relatively high, stable (and rising) dividend yields.

MLP's (Master Limited Partnerships)

Master Limited Partnerships (MLPs) are energy-focused investments with juicy distributions hovering around 6%. Taxes on annual payouts are largely deferred.

Distributions are poised to increase as the boom in oil and gas infrastructure shows no sign of slowing despite the recent pull-back in oil prices. This is due to America's increasing production of both oil and gas.

While commodity prices will always fluctuate, companies that control the infrastructure (transportation, processing and storage) should continue to benefit.