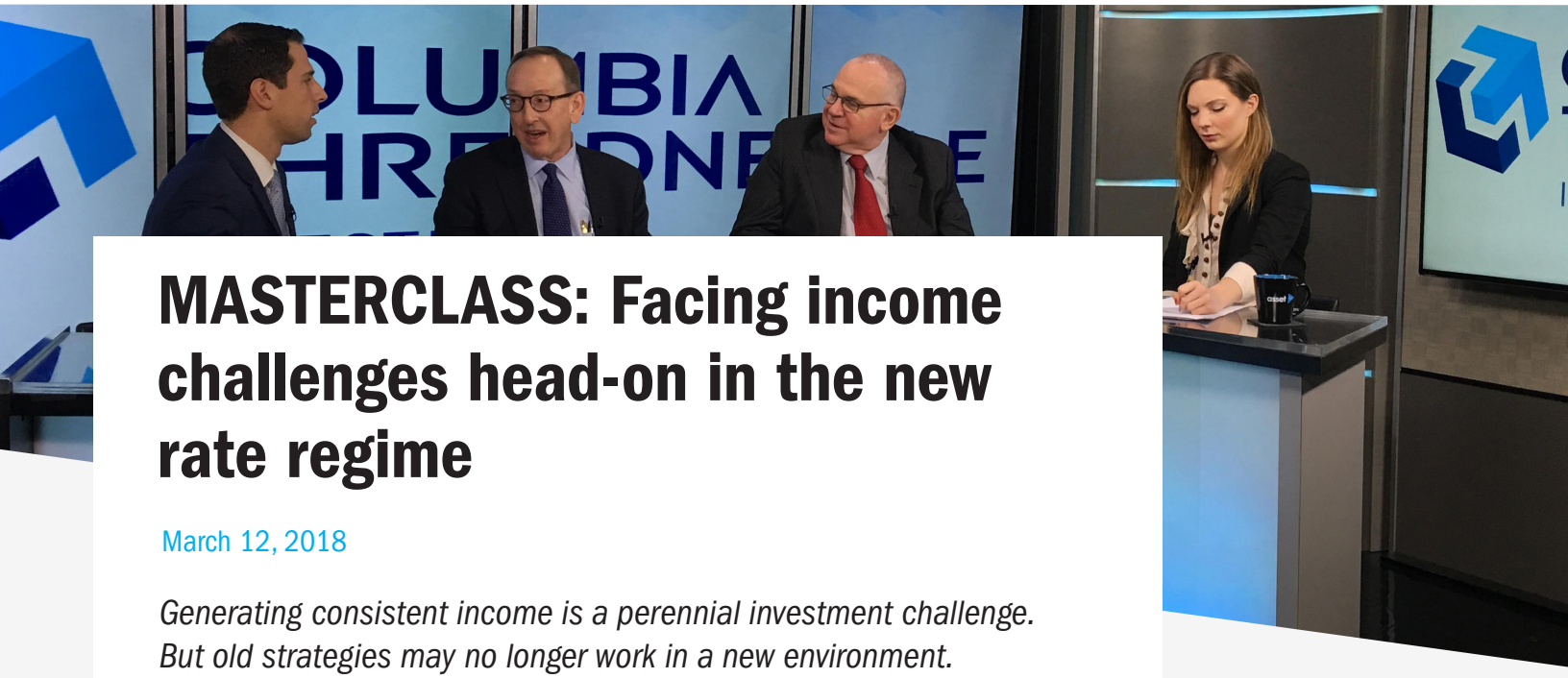
COLUMBIA THREADNEEDLE INVESTMENTS



MASTERCLASS: Facing income challenges head-on in the new rate regime

March 12, 2018

Generating consistent income is a perennial investment challenge. But old strategies may no longer work in a new environment.

Edward Kerschner
Chief Portfolio Strategist

I recently sat down with my colleagues **Scott Davis** and **Gene Tannuzzo** in an Asset TV MASTERCLASS for financial advisors to discuss the challenges — and strategies — for generating income today.

Financial advisors

Watch MASTERCLASS: Managing Income and Income Volatility on Asset TV (*free registration required*) to hear our panel of experts tackle the income challenge – and earn one hour of C.E. credit.

asset tv

One of the most common — and important — investor goals is to generate income, and it's usually done through a combination of fixed-income investments and dividend-paying stocks. But the investment environment is changing, and income strategies that worked in the past may not work in the future. We're entering a new rate regime, and with it comes new challenges for income investors.

For the past four decades, investors have benefited from falling interest rates. In fact, many financial advisors and investors today have never actually experienced a sustained period of increasing rates — and it made it relatively easy to make money in the bond market. While rates may not significantly rise from here, the decline in rates is probably over.

Fixed-income investors aren't the only ones affected by the new rate regime — equities are affected by interest rates as well. A lot of the stock market return

we've seen in the past few decades has been capital gains. The price you paid for earnings (the P/E ratio) went up, which happens when interest rates go down. If interest rates are stable, then P/E will probably remain relatively stable, which means that earnings are going to be more important to total return than P/E ratio increases. One way investors receive earnings is dividends; they've historically contributed about 40%–45% of stock market return. But in the past two decades, this number has only been about 15%.[1] In the new rate regime, we can reasonably expect that dividends will once again encompass a larger portion of return and require more of a focus from investors.

So what strategies can help generate income today? In our Asset TV MASTERCLASS discussion, some key themes emerged:

- Dividend investors are hungry for yield, but Scott Davis warns that chasing yield is a poor strategy if you ignore company fundamentals.
- On the fixed-income side, Gene Tannuzzo argues for balancing risks and remaining flexible in order to find opportunities in a difficult environment.

Bottom line

Today's interest rate environment is very different from what investors have grown accustomed to over the past four decades. Both fixed-income and equity investors face challenges in the new rate regime, and the old way of doing things may not work now and in the future. Investors can prepare by using dividend income strategies that focus on consistency and flexible fixed-income strategies rather than stretching for yield.

Get a glimpse of the MASTERCLASS: Managing Income and Income Volatility

Watch the video at:
https://blog.columbiathreadneedleus.com/masterclass-facing-income-challenges-head-on-in-the-new-rate-regime

COLUMBIA THREADNEEDLE INVESTMENTS

[1] Data for 1930-2016. Ned Davis Research.

Past performance is not a guarantee of future results.

Dividend payments are not guaranteed and the amount, if any, can vary over time.

Columbia Management Investment Advisers, LLC is not affiliated with Asset TV and has no responsibility for its operations or services.

To find out more, call 800.426.3750
or visit columbiathreadneedleus.com

Not FDIC insured • No bank guarantee • May lose value

Securities products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

CTBPB09X (3/18) 2052618