Manulife Investment Management

How to boost your income with these options

The search for higher investment income has never been more dire than in recent years. Inflation is eroding people's purchasing power, investment returns and dividends. Meanwhile, bank deposit rates have not risen high enough to outpace the inflation rate, resulting in a low to negative real interest rate environment.

Cash may not be king after all

Parking your cash savings in a bank deposit may simply not be enough in today's investment environment. (See "Cash is king?")

We discuss why having higher income is critical in current times and explain how to increase your income with these options.

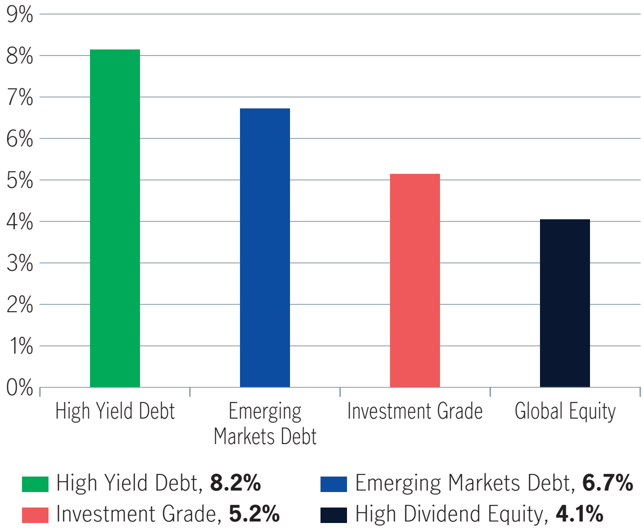
What are the sources of higher income? Let's explore the possibilities!

While bank deposit (cash) rates may not be high enough to beat inflation, these investment options might help raise the income of your portfolio:

Traditional income sources include:

- Corporate bonds (investment grade and high yield) which can add value in terms of yield and spread opportunities.[1]
- Emerging market debt can provide higher yield and diversification benefits across the globe and capital market spectrum.
- Higher dividend equities can provide stable dividend income to weather market downturns and may even have dividend growth rates that outpace the inflation rate.

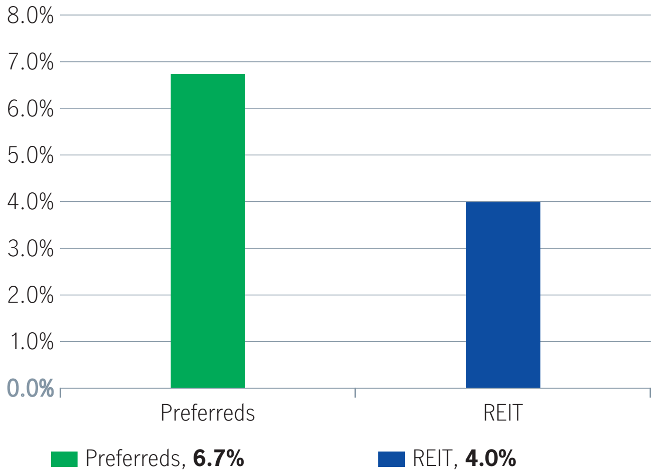
Effective yields of traditional income sources[2]



Non-traditional income sources include:

- Preferred securities which offer decent yield yet hold average credit ratings of investment grade bonds.
- Real Estate Investment Trusts ("REITs") provide reliable dividend income while providing an element of inflation protection.

Effective yields of non-traditional income sources[2]



1 Manulife Investment Management, Multi-Assets: Opportunities await as global rates take new turns, 17 January 2023.
2 Source: ICE Data Indices, LLC, Bloomberg as of April 28, 2023. Effective yield adjusts for call options as if exercised. High Yield Debt represented by ICE BofA US High Yield Index, Emerging Markets Debt represented by ICE BofA Emerging Markets Corporate Plus Index, Investment grade represented by ICE BofA US Corporate Index, Preferred Securities represented by ICE BofAML US All Capital Securities Index, High Dividend Equity represented by MSCI ACWI High Dividend Yield Index as of 31 March, 2023, REIT represented by MSCI ACWI REITs as of 31 March, 2023.

Options abound for higher income

Nowadays, there are non-traditional income sources that can provide dual functions of both downside protection and higher income.

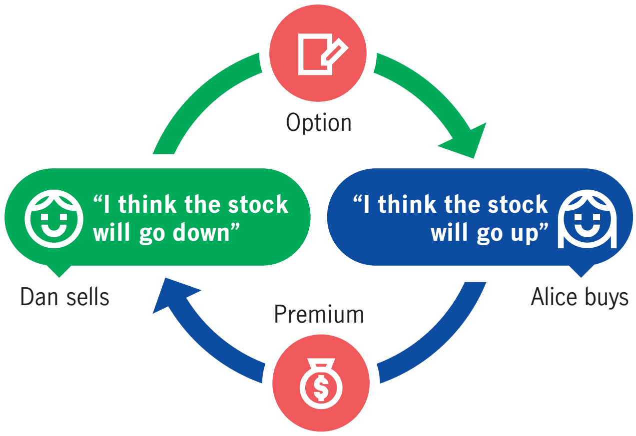
Have you heard of option strategies? Selling options (also known as option writing) is an investment strategy that can meet these two objectives. It includes using options (the right to buy or sell an asset) to help enhance a portfolio's yield. Not only can you earn dividends from the underlying asset but you can also receive premium payments from the options as income.[3] They can even lower downside risk too!

While option strategies are not without risk, the premiums collected can provide a buffer of protection against return drawdowns. In many ways, options have risk and income profiles akin to high-yield bonds while providing diversification benefits away from traditional income assets and reducing overall portfolio volatility. For experienced investment managers, they can have multiple combinations of both call and put option strategies at the same time.

How do options really work? Here are two people with opposite views of the market:

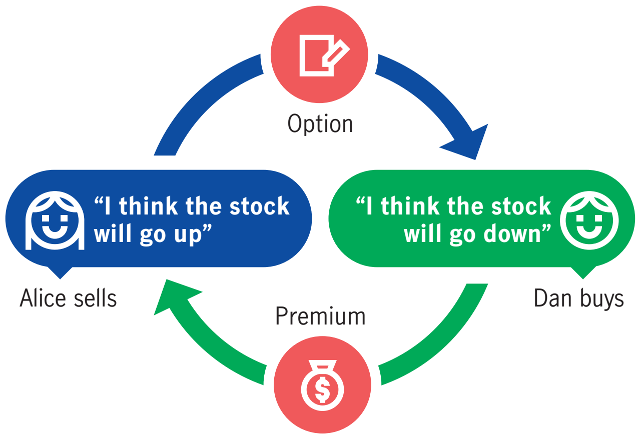
Seller's bearish stock view

Dan thinks the price of stock A (currently $8) will go down. He sells the "right to **buy**" stock A at $10 (**call options**) because he expects stock A will drop in the future. Alice thinks the opposite (stock A will rise to $15) so she buys the call options from Dan.



Seller's bullish stock view

Alice thinks the price of stock B (currently $10) will go up. She sells the "right to **sell**" stock B at $12 (**put options**) because she expects stock B will rise higher in the future. Dan thinks the opposite (stock B will decline to $8) so he buys the put options from Alice.



For illustrative purposes only.

3 The two commonly used strategies are "covered call" or "put writing": By selling (writing) a "covered call", you receive the call option premium while holding the stock at the same time. If the share price declines, the chances are that the call option won't be exercised. You get to keep the stock you're holding and the option premium as well. When writing a put, if the stock price rises, the chances are that the put option won't be exercised. You get to keep the option premium and cash you're holding as well.

Conclusion

In current times, stay invested in assets that can deliver higher income. Simply leaving your cash to earn bank deposit rates may not be enough. Inflation continues to persistently erode your purchasing power and may even devalue your retirement savings. Be proactive in exploring options to boost your income before it's too late!