What Should You Do With Funds That Are Available For Investment Right Now?

By Earl Holtzman, CPA, RIA
Managing Partner, Michael Silver & Company CPAs

With the possibility of future reduction in quantitative easing in the forecast, the market has been experiencing significant volatility. In addition, interest rates will eventually rise, though no one knows how much.

Currently, ten-year treasuries yield about 2.6% and CDs yield nearly nothing. Unless you are willing to hold on for ten years, my recommendation would be to avoid buying treasury bonds.

There is still only one place to obtain a decent return on your money—the stock market.

Depending upon your age and your specific comfort level with risk, it still may be better to buy higher dividend paying stocks incrementally, on days when the market is down. This strategy takes discipline and is typically not within the nature of most investors.

Another strategy to consider is to capture the dividend: purchase a stock that is going ex-dividend a few weeks in advance, then hold it for a few days after it goes ex-dividend, then sell it and buy another stock in the same sector that is also going ex-dividend. For example, buy Pfizer stock, before it goes ex-dividend, wait for it to come back after the ex-dividend date, and then buy Eli Lilly stock. Stocks typically go down by the dividend on the ex-dividend date, but often rebound a few days later. Additionally, stocks in the same category generally trade in the same pattern.

The bottom line: with qualified dividends being taxed at a lower rate than interest income, the after tax return on dividends is greater than an equivalent yield in corporate bonds or treasuries.

If you have any questions or would like more information, please do not hesitate to contact me.

Direct: 847-213-2100
Email: earlh@msco.net
LinkedIn: http://www.linkedin.com/in/earlholtzman