One of the most dependable places for investors to find income has traditionally been investment-grade corporate bonds-think the bonds of such blue-chip companies as AT\&T, Kellogg or Eli Lilly.

But investment-grade corporates, particularly short-term notes, are paying historically low interest rates. Investing in longer-term corporate bonds will give you a little more income, but with a lot more risk. If interest rates rise-which many experts expect will happen in the next few years-your bonds will plunge in value.

And that's put many retirees and others who need income in a bind. One solution worth considering is to pass over those bonds completely, and buy stock shares in the same company. The current environment is one of those rare times when this can make sense.

Current dividend yields of blue-chip companies are now out-yielding their investment-grade bond counterparts-the first time since 1950 that this has been the case.

Which is a better investment? There's a good argument to be made that stocks are the better value. I believe that investment-grade bonds are in a bubble. Investors have flocked to them as a safe haven against the market's volatility in the past few years, inflating their prices in the process.

With the economy and the stock market recovering, investors are now starting to move back into equities, and that means a lot of money could soon be flowing out of bonds, including investment-grade corporates. That would drive their price down, and a spike in interest rates would crush those bonds even more.

By buying certain blue-chip stocks, you can get better yields. Stocks are inherently riskier than bonds, because their value can go to zero. But in the current market, I believe stocks are no riskier than their equivalent bonds. And while you collect dividends, your stock shares may potentially appreciate in value as well.

## Should You Turn to Stocks for Income?

Written by Rob Copeland
Friday, 12 April 2013 11:22
Here are some examples of how stock yields are stacking up against the same companies' dividends yields these days. Note that the dividend yields below are the "yield to worst," meaning the minimum potential yields that bondholders would earn, even if the issuer used a provision such as prepayment:

AT\&T (T)
Bond yield: (due 2/15/22) 2.58\%
Stock yield: 4.70\%

Kellogg (K)
Bond yield: (due 5/17/22) 2.59\%
Stock yield: 2.80\%

Eli Lilly (LLY)
Bond yield: (due 3/15/17) 1.0\%
Stock yield: 3.50\%

Microsoft (MSFT)
Bond yield: (due 2/8/21) 1.78\%
Stock yield: 3.20\%

ConocoPhillips (COP)
Bond yield: (due 2/1/19) 1.57\%
Stock yield: 4.50\%

Aflac (AFL)
Bond yield: (due 2/15/22) 2.84\%
Stock yield: 2.80\%

Johnson \& Johnson (JNJ)
Bond yield: (due 9/1/20) 1.80\%
Stock yield: 3.00\%

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Stocks are not right for every investor. If you are interested in changing your portfolio risk tolerances and objectives, please feel free to get in touch with me.

