

Pairs of A Kind

50/50 Split-Ticket Ideas (7/31/12-7/31/13)

All Returns are Price-Only

Senior Loans/High Yield Corporate Bonds		
S&P/LSTA U.S. Leveraged Loan 100 Index 4.01%	BofA Merrill Lynch U.S. High Yield Index 1.81%	Average Return 2.91%
Energy MLPs/Energy Stocks		
Alerian MLP Index 14.51%	S&P 500 Energy Index 15.99%	Average Return 15.25%
Equity REITs/Homebuilders		
FTSE NAREIT Equity REITs Index 5.06%	S&P Homebuilding Select Index 43.25%	Average Return 24.16%
Cloud Computing/Biotechnology		
ISE Cloud Computing Index 30.80%	NYSE Arca Biotechnology Index 47.16%	Average Return 38.98%

Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. On page two of our Quarterly Newsletter from July 2012 (click here to view), we featured four 50/50 split-ticket investment ideas for investors to ponder. They are featured in the chart.
2. Our goal was to show how investors can combine two investment vehicles targeting the same theme or sector in an effort to diversify risk, increase the potential for capturing appreciation, or both.
3. Pairing senior loans (floating rate/low duration securities) with high yield corporate bonds (fixed rate securities), both of which are speculative-grade debt securities, proved fairly effective in the face of rising interest rates.
4. Pairing energy MLPs, which focus primarily on distribution and storage businesses, with traditional production-oriented energy companies produced similar returns, but we still favor this split moving forward.
5. Pairing equity REITs, which had enjoyed eye-popping returns since the end of the last bear market (3/9/09), with homebuilding stocks, which remained weak until 10/12, exemplifies how this approach can add value.
6. Pairing the stocks of cloud computing companies with biotechnology companies is a theme play on cutting-edge, high-tech products and services. Both posted strong returns and we favor this split moving forward.
7. The purpose of today's blog post isn't just to show that our investment ideas can work, it is to provide investors with a framework to utilize on their own.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P/LSTA U.S. Leveraged Loan 100 Index tracks the weighted average bid price of constituents based upon dollar outstanding amounts. The BofA Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The Alerian MLP Index is a capitalization-weighted composite of 50 energy Master Limited Partnerships. The S&P 500 Energy Index is capitalization-weighted and tracks the 43 energy-related constituents in the S&P 500. The FTSE NAREIT Equity REITs Index is a free float adjusted market capitalization-weighted index that includes all tax qualified REITs listed on the major U.S. exchanges. The S&P Homebuilding Select Industry Index provides investors with an equity benchmark for U.S. traded Homebuilding-related securities. The ISE Cloud Computing Index tracks the performance of 40 cloud computing technology companies. The NYSE Arca Biotechnology Index is an equal-dollar weighted index designed to track a cross section of companies in the biotechnology industry either developing products or providing services.

