The Ultimate Investor Guide to Steady, Consistent Growth
Looking for Some Stable Investment Ideas in an Unstable Market?

With the lack of central bank stimulus and the collapse of oil prices, a number of analysts see the shaky start to 2015 as the mirror image of the start of 2014. And, while many investors agree that 2014 was positive overall, with the Dow finishing the year, up 7.5%; the S&P 500, up 11.4%, and the Nasdaq, up 13.4%, it wasn’t as strong as the outsized gains of the prior year.

Given the fits and starts and the volatility we’ve already seen in the market, many investors are no longer making the high-risk, high-reward bets, but rather seeking the safety and security of high-quality, low-risk growth stocks, ETFs, and funds.

In these tumultuous times, it is important to concentrate your efforts on some conservative choices, which could reward you with significant gains over the long-term. To this end, we’ve asked 25 of the nation’s most respected and well-known newsletter advisors for their favorite conservative picks for the year.

As always, we caution you to use these ideas only as a starting place for your own research and only buy stocks that meet your own personal investing criteria, your risk parameters, and your time horizon.

More importantly, these stocks represent each advisor’s current outlook. As fundamentals change during the year, a favorite “buy” can become a “sell.” As such, it is up to each investor to monitor future developments at the underlying companies to be sure that the reasons behind buying a stock remain in place.

We would also emphasize the importance of diversification. No one advisor is always right and there is no guarantee that any individual recommendation will succeed; you can minimize your risks by considering a diversified package of stocks from among those featured in this report.

We also encourage you to visit MoneyShow.com on a regular basis. Everyday, we feature new investment ideas from the top advisors. There’s no better way to follow the ongoing advice and favorite stocks from the very best investment newsletter advisors.

We wish you the very best for your investing in 2015.

Steven Halpern
Editor, Top Pros’ Top Picks
# Contents

Click on page numbers to go directly to each article

<table>
<thead>
<tr>
<th>Article</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Stocks with Strong Moats</td>
<td>4</td>
</tr>
<tr>
<td>By: Marshall Hargrave</td>
<td></td>
</tr>
<tr>
<td>Low-Risk Dividend Trio</td>
<td>5</td>
</tr>
<tr>
<td>By: Chloe Jensen</td>
<td></td>
</tr>
<tr>
<td>Farmland: An Overlooked Opportunity</td>
<td>6</td>
</tr>
<tr>
<td>By: Jason Simpkins</td>
<td></td>
</tr>
<tr>
<td>Royal Dutch: Conservative Play on Energy</td>
<td>7</td>
</tr>
<tr>
<td>By: George Putnam</td>
<td></td>
</tr>
<tr>
<td>Income from Government Properties</td>
<td>8</td>
</tr>
<tr>
<td>By: Ian Wyatt</td>
<td></td>
</tr>
<tr>
<td>Blue Chip Expert's Lucky 13</td>
<td>9</td>
</tr>
<tr>
<td>By: Kelley Wright</td>
<td></td>
</tr>
<tr>
<td>Partnership Duo for Tortoise Investors</td>
<td>11</td>
</tr>
<tr>
<td>By: Matthew Coffina</td>
<td></td>
</tr>
<tr>
<td>Global Powerhouses</td>
<td>12</td>
</tr>
<tr>
<td>By: John Buckingham</td>
<td></td>
</tr>
<tr>
<td>Cohen &amp; Steers: The Right REITs</td>
<td>13</td>
</tr>
<tr>
<td>By: Robert Carlson</td>
<td></td>
</tr>
<tr>
<td>New Alternatives in Energy</td>
<td>14</td>
</tr>
<tr>
<td>By: Stephen Leeb</td>
<td></td>
</tr>
<tr>
<td>Consistency Counts</td>
<td>15</td>
</tr>
<tr>
<td>By: Richard Moroney</td>
<td></td>
</tr>
<tr>
<td>‘Noble’ Returns from Aristocrats</td>
<td>16</td>
</tr>
<tr>
<td>By: Nicholas Vardy</td>
<td></td>
</tr>
<tr>
<td>Aqua America: For Steady Income</td>
<td>17</td>
</tr>
<tr>
<td>By: Jimmy Mengel</td>
<td></td>
</tr>
<tr>
<td>Validea’s Guru Spotlight: Peter Lynch</td>
<td>18</td>
</tr>
<tr>
<td>By: John Reese</td>
<td></td>
</tr>
<tr>
<td>Bet on Bonds</td>
<td>19</td>
</tr>
<tr>
<td>By: Mary Anne &amp; Pamela Aden</td>
<td></td>
</tr>
<tr>
<td>Kellogg</td>
<td>20</td>
</tr>
<tr>
<td>By: John Reese</td>
<td></td>
</tr>
<tr>
<td>Preferred Apartment Communities</td>
<td>21</td>
</tr>
<tr>
<td>By: Brad Thomas</td>
<td></td>
</tr>
<tr>
<td>NextEra Energy</td>
<td>22</td>
</tr>
<tr>
<td>By: David Dittman</td>
<td></td>
</tr>
<tr>
<td>Deere &amp; Company</td>
<td>23</td>
</tr>
<tr>
<td>By: Stephen Leeb</td>
<td></td>
</tr>
<tr>
<td>Exxon-Mobil</td>
<td>24</td>
</tr>
<tr>
<td>By: Russ Kaplan</td>
<td></td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>25</td>
</tr>
<tr>
<td>By: Roger Conrad</td>
<td></td>
</tr>
<tr>
<td>Vanguard Dividend: A Core Fund</td>
<td>26</td>
</tr>
<tr>
<td>By: Genia Turanova</td>
<td></td>
</tr>
<tr>
<td>DRIPs: A 5-Stock Starter Package</td>
<td>27</td>
</tr>
<tr>
<td>By: Charles Carlson</td>
<td></td>
</tr>
<tr>
<td>Contrarian Calls on Cash-Heavy Funds</td>
<td>29</td>
</tr>
<tr>
<td>By: Russel Kinnel</td>
<td></td>
</tr>
<tr>
<td>Fidelity Balanced</td>
<td>30</td>
</tr>
<tr>
<td>By: Jack Bowers</td>
<td></td>
</tr>
</tbody>
</table>
3 Stocks with Strong Moats

The three stocks below have maintained their solid returns on invested capital and should continue to dominate their respective markets in 2015.

Google (GOOG)
Google has one of the best moats in the technology space. The name alone now has a loyal following; “Googling” has become synonymous with Internet searching.

While Google isn’t the only search game in town, cost is a moat for Google. Search is free and Google is the market share leader so there’s little benefit to consumers for using another player.

Google is also great at tapping adjacent markets. It started its move to mobile long ago with its Android mobile operating system. That enabled it to lock up market share in the mobile search market.

Google can retain its moats going forward too; it has a focus on innovation, where it continues to launch new products and services in an effort to broaden its reach. And the tech giant has the cash hoard to keep this up.

MasterCard (MA)
MasterCard has been one of the biggest benefactors of the shift away from cash and checks and toward card payments.

Its moat lies in its network effect, in which it has built a network that’s widely accepted by merchants across the world.

Beyond just processing card payments, MasterCard has been actively growing its presence in emerging markets and tapping the exciting mobile payment market.

The other beauty to MasterCard is that it's generating a very impressive 40% plus return on invested capital and has been for a number of years.

Union Pacific (UNP)
This 150-year-old railroad has one of the best moats around. Its network of rail track can’t be replicated.

What’s more is that railroad operators are major players in the economic cycle. Union Pacific is benefiting from a rebound in the housing recovery and imported beer delivery, among other things.

Overall, railroad operators have vast infrastructure and network scale that adds to cost advantages. UNP has seen its margins expand nicely over the last decade and its return on invested capital has also steadily risen.

If you’re a true long-term investor, one of the best things you can do is focus on companies with a moat. A wide moat greatly reduces the chance that a new technology will make your company obsolete overnight.

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Low-Risk Dividend Trio

The Safe Income tier of our model portfolio holds long-term positions in high quality stocks and other investments that generate steady income with minimal volatility and low risk.

These positions are appropriate for all investors, but are meant to be held for the long-term, primarily for income; don’t buy these thinking you’ll double your money in a year.

Aflac (AFL)

I am putting Aflac back on a Buy rating. The insurer is still facing significant challenges—lower sales and the yen’s weakness—but the stock is starting to show impressive strength.

Some investors may be attracted by the stock's valuation, while others may be anticipating stronger growth down the line; we always say that the market looks six to nine months ahead.

Whatever the reason, the strength is enough reason for me to change my rating today. Aflac is a Buy here for investors looking for safe income and long-term capital appreciation.

Consolidated Edison (ED)

Utility stocks have roared ahead, thanks to falling fuel prices and the Fed’s promise to be patient about raising interest rates.

ED could probably stand to do some cooling off in early 2015, but I’ll keep it on Buy for long-term investors. The utility is a reliable dividend payer that delivers consistent moderate earnings growth.

Management recently raised its earnings guidance for 2014, citing improved operational efficiency. And interest rates are likely to remain supportive for some time. ED is a Buy for long-term investors looking for safe income with moderate upside.

PowerShares Preferred Portfolio (PGX)

This preferred shares ETF plunged with other interest rate-sensitive investments ahead of the Fed’s December meeting. However, assurances that they will be patient in raising rates assuaged investors’ concerns.

PGX may see more gyrations as investors anticipate a mid-2015 interest rate increase, but since we’re not looking for upside here, PGX is still a decent buy for income.

PGX is appropriate for investors who want monthly income, without upside potential. Note that the dividend payments are only partially qualified for the lower dividend tax rate and the fund has an expense ratio of 0.50%.

Subscribe to Cabot Dividend Investor here...
Farmland: An Overlooked Opportunity

Over the past decade, US farmland has outpaced every other major asset class; indeed, farmland investments have returned about 12% annually, topping gold, property, stocks, bonds, and commodities.

It’s not hard to understand why, either. There are about 7 billion people on the planet right now. And in just 35 more years, there will be nearly 2.5 billion more mouths to feed.

Yet, in that time, the amount of available farmland will be cut nearly in half. Furthermore, no matter how bad things get, people still need to eat. So if the stock market or the economy crashes, farmland holds its value.

Still, for some strange reason, farmland is often overlooked as an investment. There are just 36 agricultural investment funds, with $15 billion under management, compared to 144 funds focused on infrastructure (with $89 billion in assets) and 473 targeting real estate (with $163 billion).

As a result, the entire sector is underinvested. That’s certainly not something you can say about stocks or even property right now. So how can you take advantage?

One way to go would be a public fund, such as Gladstone Land Corp. (LAND) or Farmland Partners Inc. (FPI).

These are real estate investment trusts that invest in real estate directly, through property or mortgages. They also receive special tax considerations and tend to deliver higher yields.

LAND owns $113 million worth of farmland in Arizona, California, Florida, Oregon, and Michigan, which it rents to farmers and corporations.

As the cost of food and the value of farmland rise, so too does the amount of rent LAND charges. That means higher payouts for investors. The stock currently yields 3.4%.

FPI is focused on row crops—like corn and soybeans—in Illinois, Nebraska, and Colorado. It also acquires properties related to farming, such as grain storage facilities, grain elevators, feedlots, processing plants, and distribution centers, as well as livestock farms or ranches.

You might also consider Alico Inc. (ALCO) and Limoneira Co. (LMNR). These are land management companies.

Alico operates 130,000 acres of land in Central and Southwest Florida, where it produces citrus and sugarcane and provides land to cattle ranchers. And Limoneira is a California-based company that produces lemons and avocados.

Despite their outsized importance as food producers, these are relatively small companies with a lot of room to grow.
The bottom line is this: The population is growing. The demand for food is rising. And there's only so much land available. Regardless of what happens in the short-, or even medium-term, these stocks are going to go up. Because by 2050, we're going to have to feed two billion more people.

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Royal Dutch: Conservative Play on Energy

We are pretty certain that the price of oil will rebound from its current low levels, but we have no idea when; this leads us to believe that this is a good time to invest in an oil stock, but to do so in a conservative way.

Royal Dutch Shell plc (RDS-B)—which traces its roots back to the 1830s—fits the bill perfectly. The company boasts a rock-solid balance sheet and pays a generous dividend.

Royal Dutch’s business is well diversified in several different ways, which helps to reduce the risk in the stock. On the production side, the company has good assets in most of the major oil producing regions around the globe.

On the revenue side, the business is well diversified geographically, with 39% of 2013 sales in Europe, 35% in Asia, Africa, and Oceania, and 26% in the Americas.

Moreover, the company makes money from a number of different lines of business beyond exploration and production, including oil transportation and refining, retail gasoline distribution, and chemical production.

The company embarked on a restructuring program a couple of years ago that is focused on improving operational efficiency to squeeze more out of its existing assets, improving organizational efficiency to reduce costs and divesting underperforming assets.

Because this restructuring program is well underway, Royal Dutch is now in a better position than many of its competitors to deal with low oil prices.

The company’s balance sheet and cash flow are both very strong. Royal Dutch recently had $19 billion in cash and a relatively low level of debt.

It appears to be committed to returning cash to shareholders, mainly through dividends but also through stock buybacks. As a result, the stock carries a generous dividend providing a decent return even if oil prices stay low for some time.

Interestingly, the CEO, who took the helm early in 2014, underscored the shareholder focus by requiring top management to own significant multiples of their salaries in company stock.
We believe that the decline in Royal Dutch’s stock price over the last six months provides a great opportunity to add a first class company in an important sector to your portfolio.

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Income from Government Properties

We’ve found a REIT that meets our criteria for income and safety; it yields over 7% and just might offer the safest, most secure yield in the REIT market.

We say that because this REIT focuses on what could be considered the safest, most secure market niche; government. The REIT is Government Properties Income Trust (GOV).

GOV is unique. It focuses almost exclusively on government. It owns 71 properties located in 31 states—and Washington DC—containing approximately 11 million square feet.

Tenants comprise 37 US government agencies, 29 state government agencies, and the United Nations. Ninety-three % of GOV’s $245 million in annual rental income is paid by government.

The business is simple enough. GOV scours the market for properties best suited for government use. It then rents them to various government agencies. Best of all, it pays no income tax on the rent it receives.

Such is the benefit of being organized as a REIT. No income tax paid on the front end means more dividends paid to investors on the back end. GOV’s dividend yields 7.4% as we write.

The cash flow that maintains that high yield is here to stay. Federal and state governments are the most credit-worthy entities.

GOV has a strong history of growing its portfolio through intelligent acquisitions. Since its initial public offering in 2009, GOV has more than doubled its building count to 71 from 33.

Rent space has also more than doubled, increasing to nine million square feet from four million square feet. The key, though, is that efficiency and return have not been sacrificed for growth.

Ultra-safe tenants, high occupancy rates, and respectable yields are obvious positives. But cash is what matters, and over the years, GOV has persistently maintained a plush cushion between funds from operations (FFO) and dividends.

Dividends have been well-covered, even as the portfolio has expanded. FFO easily covers the high payout over more shares to this day. If you’re seeking a safe investment to earn a 7.4% yield, GOV is that investment.

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By: Ian Wyatt
Publisher & Chief
Investment Strategist, Wyatt Investment Research
Blue Chip Expert’s Lucky 13

When it comes to blue chips, these stocks are selected because they exhibit high-quality, offer good value, and have attractive dividend yields.

We remind investors that each year in the markets is an adventure. There will be ups and there will be downs, and there will be something(s) that no one could predict.

The good news is that predictive powers are not a requirement to be a successful investor. What is required though is the ability to recognize and acquire good value, which, over the long-term, will reward you with rising dividends and capital growth to meet your needs.

Below we present our new Lucky 13 portfolio for 2015. Hopefully, these stocks will provide both safe and excellent returns over the coming year and years to follow.

Abbott Laboratories (ABT):
Healthcare is in a multi-year uptrend, and with a good chance that the Medical Device Tax is abolished, ABT will be a beneficiary. This long-time Dividend Aristocrat is a solid “anchor” position.

AT&T (T):
Telecom isn’t just about talking anymore. Today, we also get TV, email, text, and Internet from various mobile devices and laptops. With AT&T you get one of the major players in this area, a very attractive dividend yield and solid long-term upside price potential.

Baxter International (BAX):
Another holdover from 2014 and solid anchor position, Baxter has an S&P “A” Quality Ranking and growth designation for outstanding annual dividend growth.

CVS Health (CVS):
The third of our holdovers from 2014, CVS is without peer in this space. An “A+” S&P Quality Ranking and an outstanding annual dividend growth, CVS just produces year in and year out.

Chevron (CVX):
No question about it; a tough year in the oil patch. Be that as it may, we still love the $4.28 per share dividend, the designation for outstanding dividend growth and the S&P “A” Quality Ranking. This is a great core position and long-term hold.

Coca-Cola (KO):
Coca-Cola isn’t flashy, but it generates profits year in and year out, consistently increases its dividend, and remains one of the iconic brands known the world over. While not a growth-stock anymore, the company produces a consistent return on equity and maintains its S&P Quality Ranking of “A+.”

Hasbro (HAS):
Oh, sure, HAS still sells lots of toys and games, but its move into licensing, film, and television distribution has turned the company into a totally different animal. We like the dividend yield and outstanding annual dividend growth, where the annual increases have come at a nice clip.
International Business Machines (IBM)
IBM re-invented itself this year, again. This isn’t the first time and won’t be the last. Of course, when you change your product line there is a lag in earnings, which infuriates. An A+ and outstanding annual dividend, this is a no-brainer. A great long-term hold.

McDonald's (MCD):
Even Mickey D’s can have a so-so year every now and then. We think that 2015 will be a back-on-track year for the Golden Arches. In the meantime, you get a solid $3.40 dividend, outstanding annual dividend growth, and an S&P “A” Quality Ranking.

Philip Morris International (PM)
Defensive plays weren’t in vogue in 2014 but we have a suspicion that a $4.00 dividend, a growth designation, and a little QE by the ECB might just be the ticket in 2015. PM is a monster and when it catches fire it can take off in a hurry. Another great yield play and a solid long-term hold.

Suncor Energy (SU)
Like other energy companies, SU had a rough 2014. Nevertheless, this company is far from down and out. First off, you get a nice dividend and a growth stock with a long-term history for dividend increases. With its S&P “A” Quality Ranking, we also believe the dividend is secure. Lastly, if this one gets bought, we wouldn’t be surprised.

Texas Instruments (TXN)
In the high-tech space, you need some low-tech stuff to make it all work. As long as smartphones, tablets, and hi-def big-screens are all the rage, TXN will be in the tall grass with the big dogs. The tech space should do well in 2015.

ExxonMobil (XOM)
ExxonMobil is still the oil & gas giant. With its latest dividend increase, XOM has attained tour growth designation, which fits quite nicely with its designation as a Dividend Aristocrat and its S&P “A” Quality Ranking. Definitely a long-term core holding.

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Partnership Duo for Tortoise Investors

Our Tortoise Portfolio aims to outperform the S&P 500 Index over a full market cycle; companies in this portfolio tend to be mature, relatively slow-growing, and have moderate to low risk.

New purchases must have an economic moat, preferably wide. I attempt to tilt the portfolio toward companies with, at least, stable competitive advantages (stable moat trends). Here’s a look at a pair of current favorites:

Magellan Midstream Partners (MMP)
I consider Magellan the gold standard among master limited partnerships. It offers minimal commodity price sensitivity, enough cash flow to cover the distribution 1.45 times, and a track record of rapid distribution growth.

The partnership also offers moderate financial leverage, no need to issue new equity to fund capital projects, and a highly conservative management team.

We project 12% annual distribution growth over the next five years, which makes Magellan worthwhile even though the distribution yield of 3.2% is low by historical and competitive standards.

Note that—as a master limited partnership—Magellan involves certain personal tax complications and isn’t suited to tax-deferred accounts such as IRAs. I suggest Spectra Energy as an alternative for tax-deferred accounts.

Enterprise Products Partners (EPD)
Enterprise is a bit riskier than Magellan because of its greater direct and indirect exposure to commodity prices and North American drilling activity.

However, management is similarly conservative, and the combination of a diverse asset base and distribution coverage around 1.4 times provides an ample margin of safety. Investors are also compensated for Enterprise’s greater risk through a materially higher distribution yield of 4.0%.

The company has raised its distribution every quarter for more than ten years, including throughout the financial crisis. Note that Enterprise is also organized as a master limited partnership.

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Global Powerhouses

With interest rates again heading south, we continue to think that equities remain very attractive relative to income that can be generated from competing asset classes.

In addition, corporate balance sheets and income statements generally are in terrific shape, with solid overall earnings growth projected in 2015. US economic data generally has been upbeat and global central bankers continue to support growth initiatives over inflation-fighting measures.

Though we are braced for an increase in near-term volatility, we are optimistic that US stocks will post solid gains during this favorable third year of the Presidential Cycle.

Caterpillar (CAT)

Caterpillar is a global powerhouse in mining, construction, and power systems equipment.

Its extensive dealer network and reputation for quality products provide key competitive advantages over rivals.

While near-term operating headwinds are brisk, we remain long-term fans of CAT and its solid free cash flow generation, which supports capital allocation strategies that start with maintaining its ‘A’ credit rating.

The company also focuses on investing in growth, steadily boosting the dividend, repurchasing shares, and funding the long-term pension plan.

CAT shares are trading at 14 times consensus earnings estimates and offer a 3.1% dividend yield.

Johnson & Johnson (JNJ)

This leading global healthcare company maintains a broad revenue stream and a robust research pipeline.

JNJ seemingly faces relatively few major patent losses over the next few years and the majority of its pharmaceutical offerings are specialty drugs, which frequently carry stronger pricing power.

Further, we see long-term attractive potential for the company’s orthopedics business as positive market demographics continue to build, as well as opportunistic expansion in emerging markets.

JNJ has a strong balance sheet and we view positively the number of compounds it currently has in later-phase clinical trials, along with recent product line extensions. The dividend yield for this high-quality name is 2.7%.

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Cohen & Steers: The Right REITs

Holding up through much of the market’s recent volatility has been real estate investment trusts.

We own the REIT sector through Cohen & Steers Realty Shares (CSRSX). We first bought REITs in early 2014 when the fund’s share price was less than $68 and there have been distributions along the way.

We were interested in REITs because they had a rough 2013, barely registering a positive total return, while the stock indexes were soaring. At the time, REITs looked like a bargain.

Plus, we’ve been in an ideal economic environment for REITs. Low interest rates allow REITs to purchase other REITs or additional properties. Low rates also make the dividends on REITs more attractive.

Modest economic growth avoids overbuilding, allowing property owners to steadily reduce vacancies and increase rents. Even as the Fed gradually increases rates, REITs should do well.

I like the Cohen & Steers fund. It’s probably the oldest fund dedicated to REITs and consistently is among the top-rated real estate stock funds. The fund rose 27% in 2014. The fund first establishes an economic forecast. Then, it looks at the sectors and REITs most likely to benefit from that type of economy.

It buys quality companies selling at reasonable prices. Unlike many REITs and the REIT indexes, the fund won’t buy a low-quality or even mediocre company for short-term gains.

Our portfolio also owns REITs through a closed-end fund, Cohen & Steers REITs & Preferred Income (RNP). This leveraged fund is split about evenly between REITs and preferred shares.

The fund recently had about 25% leverage, which is down from about 50% a few years ago. Its discount to net asset value recently dipped below 12% and is slowly working its way back to the long-term average of just over 10%.

The fund is up 27% for the past year and the yield is 6.9%. Lately, about 65% of the distributions have been from income and 35% from capital gains.

Subscribe to Bob Carlson’s Retirement Watch here…
New Alternatives in Energy

Suppose you don’t want to bet on the timing of an upturn in oil prices?

Indeed, suppose you want nothing to do with oil or with stocks directly leveraged to oil. However, suppose you’re very confident—as we are—that an upturn in oil is in the cards. Are there any ways to participate?

One easy-to-understand investment fitting the bill would be a diversified collection of companies that derive a great deal of their earnings from alternative energies. And that’s exactly what you get with the mutual fund New Alternatives Fund (NALFX).

Under its charter, the fund must devote just 25% of its assets to alternative energies and/or energy efficiencies. But the managers have gone well beyond that and the vast majority of stocks—85 to 90%—are in companies reducing our dependency on finite sources of energy.

The three largest positions, comprising around 14% of the fund’s equity holdings, are companies that generate electricity from renewable sources.

Canada's Brookfield Renewable Energy Partners (BEP) produces electricity from hydropower, NextEra Energy (NEE) relies on a variety of renewables including solar, and Spain-based EDP Renováveis (EDRV) focuses on wind power.

Another large position is in Pattern Energy (PEGI), the fund’s highest-yielding holding. Abengoa Yield (ABY) also gets a large weighting: it has a product line and financial structure similar to Pattern’s and yields 4%.

Many stocks outside the energy industry have stakes in other critical resource areas. We’ve recently recommended water stocks, one of which, Xylem (XYL), is a prominent holding in New Alternatives Fund.

Also highly weighted is Hannon Armstrong Sustainable Infrastructure (HASI), which provides financing infrastructure for renewable projects. Johnson Control (JCI), a longtime favorite, is one of the world’s leaders in producing products for energy efficiency in commercial buildings.

New Alternatives Fund has a strong long-term record. Over the past one-, three-, and five-year periods, its performance has been well above the mean for similar funds. Moreover, the fund does tend to correlate with oil prices but—especially during the recent oil rout—with a strong upside bias.

Our one qualm is the relatively high front-load of 4.75%. But management fees are low—below 0.6%—and there are no 12b-1 (annual marketing) fees.

Given the high front-load, the fund is best suited for long-term investors, which is fine, since a long-term bet on new energies should prove a very rewarding strategy.

Subscribe to The Complete Investor here…
Consistency Counts

In the 16 years we’ve been publishing fund ranks, our basic strategy—limiting new picks to funds with high scores and emphasizing those with modest expense ratios—has uncovered winners.

Still, we’re always looking for ways to narrow our universe of roughly 5,000 funds to find the best of the best. To that end, we focused on funds with a history of high and steady scores over the last three years.

Our ranks are computed monthly by evaluating tax efficiency and total returns covering four holding periods. We also consider risk-adjusted performance metrics and two expense ratios.

It stands to reason that funds with persistently high scores should offer potentially better returns and a smoother ride than peers with lower and more volatile scores.

In addition, funds that routinely score well tend to earn steady scores going forward. That can reduce the risk of buying just before a rank stumbles and should result in lower portfolio turnover.

Two funds in particular caught our eye.

**T. Rowe Price Diversified Small-Cap Growth (PRDSX)**, with a rank of 99, has outperformed its category in eight consecutive years.

**Vanguard Wellesley Income (VWINX)**, which holds a blend of stocks and bonds, also earns a score of 99. Both funds have scored above 90 in each of the last 36 months.

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‘Noble’ Returns from Aristocrats

Although my London office is across the park from Buckingham Palace, when it comes to investing, I prefer another kind of ‘aristocrat’—the kind you’ll find in the S&P Dividend Aristocrats Index.

Launched in 2005, the Dividend Aristocrat’s strategy is unabashedly elitist. It invests only in dividend stocks with the most noble and unblemished bloodline of ever-increasing dividends.

Specifically, to be a Dividend Aristocrat, a stock must be a member of the S&P 500 and have a history of at least 25 years of increasing annual dividends. The current tally of companies meeting both requirements is 54.

The performance gap between common stocks in the S&P 500 and the noble stocks in S&P 500 Dividend Aristocrat Index actually is both lengthy and consistent.

Over the past five years, and ten years, and the difference is pronounced. The stocks of the S&P 500 have a five-year average total annual return of 14.8% and a ten-year total return of 7.36%.

In contrast, the Aristocrats have a five-year total average annual return of 17.4% and a ten-year total return of 10.3%.

Given the consistent, impressive outperformance of the Dividend Aristocrats, the next question for the individual investor is: How can I buy that index?

While there are a couple of ways to do this, I personally invest in this set of stocks through the ProShares S&P 500 Dividend Aristocrats ETF (NOBL), the only ETF that invests exclusively in the companies that constitute this index.

The 54 companies in this ETF are equally weighted. They are also diversified across a variety of sectors such as consumer staples, consumer discretionary, industrials, materials, and many others.

Unlike many dividend-oriented ETFs, NOBL does not have the majority of its exposure in financial, telecom, or utility stocks. In fact, the fund’s charter prohibits any single sector from making up more than 30% of its holdings.

With an expense ratio of just 0.78%, the cost to own the Aristocrats Index is like a glass of fine wine; expensive, but worth it. And it’s also well within the reach of a pedestrian investor.

For income-oriented investors, the fund’s 2.3% yield (as of Sept. 30) bests both the 10-year Treasury note’s current yield of 2.1% and the S&P Index’s yield of 1.8%.

The bottom line? If you want to put the investment power of the Dividend Aristocrats to work in your investment portfolio, then ProShares S&P 500 Dividend Aristocrats ETF is a fantastic way to guarantee yourself noble returns.

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Aqua America: For Steady Income

Utilities, by and large, are profitable in good times and bad; even in a recession, people are going to pay their water bills before buying pretty much anything else.

Add to that the regulated nature of utilities—where the government basically lets them act as monopolies—and you have a steady place to generate income rather safely.

The utilities sector quietly returned one of the best performances of the past year, returning 30% as the S&P (SPX) returned a measly 8% or so.

All the while, the utilities sector didn't whipsaw around, it steadily kept sending money to investors. But in the face of market volatility, that's a good thing.

That's why we have Aqua America (WTR) in our portfolio. It is one of the largest publicly traded water utilities in the United States. It serves over three million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, and Georgia.

Combine that immediate 2.5% yield with the safety of a utility stock, and the consistent dividend payments, and I call Aqua America a no-brainer for a long-term retirement account or simply a safe place to collect steady income checks.

Aqua America also holds a track record of consistently sharing profits with its shareholders through dividend payments. In the first nine months of 2014, Aqua America paid dividends worth $83 million compared with $76 million in the year-ago period.

We think it makes a great addition to a long-term diversified portfolio. What I really like about it is the fact that it offers a 5% discount if you buy its stock through its dividend reinvestment program.

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Validea’s Guru Spotlight: Peter Lynch

Choosing the greatest fund manager of all-time is a tough task. But if you were to rank Peter Lynch at the top of the list, you’d probably find few would disagree.

During his 13-year tenure as the head of Fidelity Magellan, Lynch produced a 29.2% average annual return, nearly twice the 15.8% return that the S&P 500 posted during the same period.

If you’d invested $10,000 in Magellan the day Lynch took the helm, you would have had $280,000 when he retired 13 years later.

Interestingly, a big part of his approach involved something that is not at all exclusive to being a renowned professional fund manager: He invested in what he knew.

Lynch believed that if you personally know something positive about a stock—you buy the company’s products, like its marketing, etc.—you can get a beat on successful businesses before professional investors get around to them.

The most important fundamental he looked at was one whose use he pioneered: the PEG ratio, which divides a stock’s price/earnings ratio by its historical growth rate.

He also looked at the inventory/sales ratio, which my Lynch-based model wants to be declining and the debt/equity ratio.

The final part of the Lynch strategy includes two bonus categories: free cash flow/price ratio and net cash/price ratio. Lynch loved it when a stock had a free cash flow/price ratio greater than 35% or a net cash/price ratio over 30%.

Over the long-term, my Lynch-inspired model has had its ups and downs, but if you’ve stuck with it, it’s paid off.

Overall, since I started tracking it in July 2003, the portfolio has averaged annualized returns of 10.9%, easily beating the 6.6% annualized return for the S&P 500.

Here’s a look at the stocks that recently made up my Lynch-based portfolio:

- Silicon Motion Technology Corporation (SIMO)
- IDT Corporation (IDT)
- FutureFuel (FF)
- HCI Group (HCI)
- WSFS Financial Corporation (WSFS)
- New Oriental Education & Technology Group (EDU)
- TriCo Bancshares (TCBK)
- SLM Corporation (SLM)
- Regional Management Corp. (RM)
- Amtrust Financial Services (AFSI)

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Bet on Bonds

The bond market is super strong. It's again hitting new bull market highs. Long-term US government bonds were the big investment winners in 2014, gaining 46%. And it looks like that's going to continue, very possibly throughout 2015.

We know that may seem strange, especially considering the big rise bonds have already had, but it's really not. Here's why...

1. There's a huge demand for US bonds from all over the world. Even though US interest rates are very low, US bonds are still paying a higher interest rate than rates in most other countries. That makes them more attractive and the world's favorite safe haven.

2. The US dollar is also super strong. That too enhances the appeal for US government bonds, especially for foreign investors.

3. The same is true of the US economy. It grew 5% in the third quarter, its biggest gain in a decade. That's in sharp contrast to the sluggish growth or recessions in other countries. And again, this makes bonds very attractive.

4. Deflation has the upper hand on the world stage and inflation is low. It's probably going to stay low for quite a while, considering the plunge in the oil price. This environment is also ideal for rising bond prices.

5. With the rest of the world on thin ice, it would be too risky for the Fed to raise rates prematurely. This means bonds will probably keep rising for most of this year.

Plus, US government bonds are super safe. And if deflationary pressure persists, as we suspect, there's a good chance the 30-year yield could decline lower than the previous bottoms. In other words, bond prices would rise a lot further.

The 30-year bond has been dropping since 1981. Since then, it's gone from 15% to 2.45%. The lows in 2008 and 2012 were at the 2.50% level, so this provides a strong support area.

But if this level is clearly broken, the 30-year yield will likely drop down to retest the lows of 1940 and 1950, near 2%. At this point, we don't know if that's going to happen, but we wouldn't be surprised if it does.

Why? Mainly because of the deflationary pressures. Also, our technical indicators are showing there's still some room on the downside for interest rates to fall further, both in the medium-term and the long-term, before they're oversold or too low.

So the bottom line is...until we see otherwise, we're going to continue to buy and hold long-term US government bonds. The major trend is solid and it remains up, telling us to stay with bonds. As such, we continue to recommend these bond ETFs:

- Proshares Ultra 20+ Treasury (UBT)
- iShares Barclays 20+ Year Treasury Bond (TLT)
- SPDR Long-Term Treasury (TLO)
- iShares Lehman 10-20 Year Treasury Bond (TLH)
This market is strong and bullish and government bonds continue to be the best overall investment in today’s environment.

Even though these markets could decline a bit in the weeks ahead, stay with them. And if they do stall, that'll provide an even better buying opportunity. Either way, though, buy some bonds if you haven’t bought yet.

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**Kellogg**

In our newsletter, we analyze the investment strategies of the stock market’s most legendary investors. Our top conservative pick for the coming year scores highly on our Warren Buffett-based screen.

**Kellogg (K)** is a Michigan-based food giant which counts among its well-known brands and products the likes of Rice Krispies, Cheez-It, Keebler, Eggo, and Pringles.

Those brands give the company the sort of durable competitive advantage—evidenced by its exceptional 43.2% return on equity over the past decade—that my Warren Buffett-inspired model loves to see.

The strategy also likes that Kellogg has upped earnings per share in all but one year of the past decade and has a reasonable level of debt—$6 billion versus $1.7 billion in annual earnings.

My Joel Greenblatt-based model also likes Kellogg. Greenblatt's remarkably simple approach looks at just two variables: earnings yield (EBIT/enterprise value) and return on capital (EBIT/tangible capital employed).

In addition, Kellogg has a stellar 75% return on capital and a very reasonable 9% earnings yield.

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Preferred Apartment Communities

I rarely buy REIT IPOs unless I’m strongly convinced that the shares are undervalued on day one. The problem is, most REIT IPOs aren’t priced at a discount and I’m a bargain shopper.

One bargain I’m chasing now is Preferred Apartment Communities (APTS). The Atlanta-based REIT was listed in 2011, and since that time, the shares have traded down by around 13%.

I try picking stocks like Ben Graham and that means that I pay close attention to fundamentals and I look for hiccups that could cause shares to collapse.

Accordingly, as any value investor would believe, a company must demonstrate a track record in order to see the value.

The small-cap REIT (market capitalization of just under $175 million) has total assets of $688 million.

For the third quarter, APTS paid $0.16 per share in dividends to all common stockholders of record as of September 15, 2014.

This represents a 28% overall growth rate from the initial common stock dividend of $0.125 per share. Recently, the REIT approved another increase to the quarterly dividend for the fourth quarter 2014, from $0.16 per share to $0.175 per share or 9.4%.

Given the high-paying dividend offered today (8.1%), I believe APTS is worth a closer look. Based upon the current P/FFO multiple, the company looks cheap (9x P/FFO).

It seems apparent that APTS stock value has considerably more intrinsic value than its current price of $8.65.

In addition, I have confidence in APTS management team and its strategy of investing a modest portion of assets in the grocery anchored (high-yielding) asset category.

Subscribe to Forbes Real Estate Investor here…
NextEra Energy

Our Top Pick for 2015 features a compelling combination of attractive investment opportunities and strong cash flow from existing assets. Among the assets owned and operated by NextEra Energy (NEE) are its Florida Power & Light regulated utility.

In addition, its NextEra Energy Resources unit is on track to meet or exceed wind and solar contracted capacity targets for 2013 to 2015 and 2013 to 2016, respectively.

And it plans to accelerate drop-downs to its NextEra Energy Partners LP (NEP) affiliate to maximize its incentive distribution rights (IDR) by late 2015.

It's likely that the outcome of the recent mid-term Congressional elections will lead to a slowdown in the wind market in 2016-17 due to tax credit expirations and the pulling forward of projects.

However, the industry’s long-term fundamentals are intact, along with improving technology. And NextEra Energy Resources has other infrastructure investment opportunities that should bridge a potential gap.

Management affirmed 2014 adjusted EPS guidance of $5.15 to $5.35 and established a preliminary 2015 forecast of $5.40 to $5.70. And it expects to see 5% to 7% annual adjusted EPS growth from a 2014 base through 2018.

Its ownership stake in NextEra Energy Partners is a key growth driver. Its leading position in the renewable energy space is another positive.

And its FPL unit is a strong franchise, benefitting from a favorable regulatory climate, strong demographics, and solid economic fundamentals. For these reasons, we’re raising our buy-under target on the stock. NextEra Energy is a buy under $108.
Deere & Company

One of the most serious challenges facing the world is a lack of sufficient food for much of the global population. Some peer-reviewed studies estimate that crop yields will need to double in the next 30 years to feed a growing global population.

One US company with the most to offer in this area is **Deere & Company (DE)**, the world’s leading farm equipment company and our top conservative idea for 2015.

Deere produces a line that ranges from sprayers to heavy tractors. We think it should be a core holding in virtually every investor’s portfolio.

The market values the shares as if Deere were a heavy construction company, not a growth stock. But since the beginning of this century, there has been only one year in which Deere’s earnings declined.

And while full-year 2014 earnings are down, growth over the next five years should average around 15% a year.

Deere’s growth bona fides come both from its balance sheet metrics—which include return on equity consistently above 20% plus high and rising operating margins—and from its focus on research and technology.

With a P/E of about 11 and a case for strong growth that could easily last more than a generation, Deere is compellingly valued and we recommend buying it aggressively.

Subscribe to *The Complete Investor* here…
Exxon-Mobil

In my many years of investing, this year has been about the most schizophrenic market I have ever seen. Many stocks are quite undervalued, including those connected with oil.

Personally, I think the market's reaction to the fall in oil prices is exaggerated. And, at the present time, one of the worst performing stocks is Exxon-Mobil (XOM).

Oil is trading at its lowest level in five years and all oil stocks have been battered down due to OPEC's (the oil producing countries in the Middle East) high oil production levels.

I think the market's reaction to the plunge in oil prices is exaggerated. Exxon-Mobil is one of the best of the blue-chip stocks in the energy sector and it should easily withstand a lower oil price.

In fact, I bought my first shares of Exxon in 1981, when the price of oil was considerably less than it is today.

Exxon has been in business since 1870 when it only consisted of Rockefeller's Standard Oil. It has adapted to fluctuating oil prices and all other changes in the industry since then.

They are now a diversified company producing oil, natural gas and, with their eyes on the future, are currently involved in the development of alternative energy.

In addition to being a solid company, Exxon-Mobil pays a dividend of over 3%, which has been raised six times since 2010.

Subscribe to Heartland Advisor here...
Verizon Communications

In the American communication sector, capital spending is the key to keeping up with the ever-increasing consumer and business demands on capacity, reliability, and quality.

Verizon Communications (VZ) outspends almost everyone, quarter after quarter, year after year, while maintaining a pristine balance sheet and paying a rising stream of dividends.

Third-quarter free cash flow covered the dividend by a 1.84-to-1 margin. That’s after $4.1 billion in capital expenditures.

A consensus of Wall Street analysts obsesses every quarter—and often in between—about the potential impact of rivals’ price cutting on Verizon’s profits. And still others seem to second-guess their every strategic move.

Through it all, however, Verizon has continued to excel where it counts; its operating numbers show a company becoming increasingly profitable, dominant, and virtually unassailable in US communications markets.

Third-quarter earnings per share of 89 cents were up 15.6%. Revenue increased 4.3%, topping management’s target (4%), and including gains in both wireless (up 4.6%) and consumer wireline (up 4.5%) operations.

Verizon added 1.53 million retail wireless connections, more than 99% of which were post-paid contract users. Post-paid churn was—as usual—as among the lowest in the industry at 1%.

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Vanguard Dividend: A Core Fund

If you’re a mutual fund investor, it’s sensible to build your portfolio around a core fund offering good overall exposure to the market (whether stocks or bonds).

A core fund anchors your portfolio, leaving you free to add on more specialized funds. A typical candidate for a core equity fund is a large-cap blend fund.

The blend aspect means you get both growth and value. And the large-cap part ensures broad market exposure, since S&P 500 stocks account for about 80% of overall US market capitalization.

Our fund portfolio’s large-blend Vanguard Dividend Growth Fund (VDIGX), which we first recommended more than four years ago, makes an ideal core fund.

Its positive attributes include its ultra-low 0.31% expense ratio, below-average 18% turnover, and 1.8% yield. Morningstar assesses its risk level as low for the category and gives the fund strong four-star and gold ratings.

The fund’s strategy of buying reasonably valued companies that are able and willing to implement dividend increases has paid off over time.

While its total returns put it right in the middle of its category both for 2013 (top 55%) and so far in 2014 (top 50%), its long-term performance is very strong.

The fund's annualized returns of 14.4% over the past five years place Vanguard Dividend in the top 39% of its peers; over the past 10-year period, with annualized gains of 9.2%, the fund ranks in the top 5%.

And relative performance has picked up over the past six months: in the summer, the fund was in the top 45% for the past five-year stretch and top 7% over the past 10-year period.

The fund's portfolio consists of 50 stocks, most of them US companies. This makes it concentrated, but not overly so, with the top 10 holdings accounting for under 27% of total assets.

A few sectors stand out: compared to its peers, the fund is significantly underweighted in technology and financials but overweighted in healthcare and industrials.

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DRIPs: A 5-Stock Starter Package

I’ve always maintained that DRIPs provide an excellent opportunity to participate in the stock market. Anyone can buy DRIPs—rich or not so rich, college educated or high school dropout.

There are no restrictions or guidelines or prerequisites for buying DRIPs. If you can pony up $50 or $100, you can be an owner in some of America’s finest companies. That’s a powerful thing.

A common question I receive from readers, especially new readers who may be investing for the first time, is what stocks should I buy to start a portfolio?

Any investor, regardless of income levels, should be able to buy at least one of these quality stocks. And for $1,850, any investor may take positions in all five stocks.

And for just $275 per month, you can make optional purchases in all five. And remember, you are also buying more stock via reinvested dividends.

CVS Health (CVS)

CVS is getting more involved in providing healthcare services via its Minute Clinics. Its Caremark unit is a leading pharmacy benefits manager.

CVS has put up impressive growth numbers over the last several quarters and growth should continue.

Indeed, the firm is in the sweet spot in terms of benefiting from aging demographics in this country and the increasing numbers of people with healthcare coverage. The stock trades around its all-time high, but I expect these shares to outperform the broad market over the next several years.

Disney (DIS)

Disney is one of my favorite long-term investments. The firm has strong market positions in a host of attractive markets; theme parks, entertainment, movies, and broadcasting.

Movie operations should get a lift in 2015 with the next installment of the now Disney-owned Star Wars franchise. Lower gas prices are good news for the company’s theme-park business.

And while broadcasting and cable companies are grappling with disruptive technologies in their markets, Disney still owns strong brands, including ABC network and ESPN cable sports programming.

Exxon Mobil (XOM)

Exxon Mobil has been under a bit of pressure as a result of the recent decline in oil prices. The good news is that Exxon stock is not as sensitive to oil pricing as other energy stocks, so I would expect these shares to be among the more resilient stocks in the group.

By: Charles Carlson
Editor, DRIP Investor
Exxon represents an excellent choice for a starter portfolio; it is the type of solid blue chip that provides ballast for a portfolio. Dividends should continue to grow, and the stock price should maintain its upward trend.

**UGI (UGI)**

**UGI** gives this starter portfolio exposure to the utility sector. Through its subsidiaries, **UGI** distributes propane, liquid petroleum gas (LPG), and natural gas. The firm is one of the better growth utilities in the market. These shares yield 2.3% and dividend growth should be well above the industry average.

**Union Pacific (UNP)**

All portfolios should have some exposure to the transportation sector, and Union Pacific offers an excellent play in the group. Union Pacific connects 23 states in the western two-thirds of the country by rail.

Union Pacific is the only railroad serving all six major Mexico gateways. If you believe the US economy will continue to grow, railroad stocks should do well. These shares represent a blue chip play for buy-and-hold DRIP investors.

[Subscribe to DRIP Investor here...]
Contrarian Calls on Cash-Heavy Funds

Funds with big cash stakes can lag in rallies, but I wouldn’t pull the trigger on a good fund just for a bit of a slump.

Indeed, funds with big cash stakes can do wonders in a downturn. It goes beyond the cash stake itself.

Cash holders have a certain extra level of choosiness about their stocks and a wariness of losses that is reflected in the way the rest of the portfolio is run.

It also is something that can be put to use in selloffs, though I wouldn’t go so far as to expect these managers to time their purchases perfectly.

FPA Crescent (FPACX) is a prime example. Steve Romick has an awesome track record with great returns despite copious amounts of caution.

The fund has 43% of assets in cash today. With 21 years at the helm, you can trust that Romick knows what he’s doing. Romick’s a careful stock-picker who will make some unusual investments if he sees an opportunity.

The fund has invested in a California mall and even container ships—not companies that own a mall and container ships but the actual things.

Those are small parts of the fund that will have only a tiny impact on performance, but it shows how creatively he approaches investing.

Wally Weitz lives in Omaha, Nebraska, and he tries to invest like fellow Omaha native Warren Buffett. So, it’s no surprise that Weitz Partners Value (WPVLX) and Weitz Hickory (WEHIX) are sporting cash positions of 25% and 20%, respectively.

Wally Weitz and co-managers Brad Hinton and Andrew Weitz sold into the market rally in the first half of 2014, giving the funds a big pile-o-cash.

But they’ll reinvest only where they see stocks trading at sizable discounts to their estimates of intrinsic value. They put cash to use wisely after the market dip in 2011 and the market free-fall in 2008.

Third Avenue Real Estate Value (TAREX) managers Michael Winer and Jason Wolf hold cash in a category where nearly every fund is fully invested in an attempt to maximize yield.

Specifically, cash has risen to 20% recently. They emphasize capital appreciation and preservation over income, however. They are very stingy about spending money on stocks that look pricey, so they let cash build.

They also tend to invest in real estate operating companies rather than REITs, because such companies can reinvest in property and they also tend to trade at more-modest valuations than REITs. We give the fund a Morningstar Analyst Rating of Gold.

Subscribe to Morningstar FundInvestor here...
Fidelity Balanced

Unlike pure stock funds that emphasize capital appreciation and pay no attention to income, dividend income is a far more important component of a growth and income fund’s total return stream.

Another hallmark of a growth and income fund: its yield must typically exceed the S&P 500. These funds are better sleep-at-night alternatives; risk is reduced because they hold lots of investment grade bonds.

My conservative pick for 2015 is Fidelity Balanced (FBALX), a 60/40 fund. This fund has an unusually good track record among its peers and is a shining example of a disciplined multi-manager approach that is working well.

The secret is diversification; the team avoids making any big bets on a single stock or a single industry group.

And, when appropriate, Balanced also holds higher-yielding junk bonds, typically in the single digits.

While junk helps to increase yield, it adds risk relative to the fund’s more plain vanilla bonds, though even they are significantly less risky than the fund’s equity holdings which, by-the-way, skew towards the large-cap value camp.

With its neutral asset allocations to stocks and bonds of about 60%/40%, volatility (risk) at Balanced is nearly 30% lower than the S&P 500.

This contrasts with Fidelity’s equity-only growth and income funds whose average volatilities are 4% higher than the market. In a nutshell, bonds are why they’re less risky.

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