THE WALL STREET JOURNAL.
WSJ.com

September 19, 2013, 5:30 AM ET

# Wealth Adviser: Missing Out on Dividend Stocks

*A morning briefing on coverage of special interest to wealth managers, financial planners and other advisers. Please send tips and comments to kevin.noblet@wsj.com or patrick.graham@wsj.com.*

By Kevin Noblet

When interest rates fell to rock-bottom, lots of income-starved investors turned to dividend-paying stocks. Naturally, many focused on the highest yielding stocks, but David Trainer sees that as a dangerous bet. The president of  Nashville-based New Constructs, a research consultant to other advisers and institutional money managers, believes it's better to pick stocks of companies generating strong cash flow. According to Wealth Adviser at WSJ.com, these names include PepsiCo, Wal-Mart and Abbott Labs, which are prominent in funds like the $17.4 billion Vanguard Dividend Appreciation ETF. It screens for companies with histories of increasing dividends, but also considers measures of earnings quality.

**MANAGING THE MONEY:**

**Advisers don't fully grasp risk.** Training for financial planners doesn't go deep enough into the subject of risk metrics, New Jersey-based wealth manager Stephen Craffen contends. Writing on Wealth Adviser at WSJ.com, he says the training covers standard deviation, but not the metric known as conditional value at risk. Too many advisers simply rely on software, and that software doesn't go deep enough, either, he says.

**Betting on market volatility.** If your clients ask about taking advantage of short bursts in stock market volatility, you might want to fill them in on the dangers. Although hedging a portfolio against such swings can be effective for a while, exchange-traded funds that focus on playing one side against the other can take spectacular dives, points out Brendan Conway at Barrons.com. He observes that the volatility trade "is a reenactment of the old Wall Street line about picking up pennies in front of a steamroller." It works–"until you get crushed."