Capital Investment Advisors

Historical Performance in Rising Rate Periods

	12/29/1995 - 8/30/1996	9/30/1998 - 1/31/2000	2000 Crash	10/31/2001 - 3/29/2002	5/30/2003 - 5/31/2004	6/30/2005 - 6/30/2006	12/31/2008 - 3/31/2010	8/31/2010 - 3/31/2011
PFD*	*N/A*	*-0.51%*	*29.09%*	*1.16%*	*0.91%*	*0.45%*	*28.36%*	*4.85%*
MLP	*11.58%*	*-2.01%*	*81.67%*	*-2.52%*	*13.33%*	*3.28%*	*90.02%*	*22.89%*
REIT	*11.57%*	*-5.85%*	*41.56%*	*16.95%*	*26.32%*	*19.22%*	*41.19%*	*19.78%*
CEF (ALL)**	*N/A*	*3.72%*	*11.68%*	*5.15%*	*2.38%*	*5.94%*	*59.48%*	*8.45%*
CEF (FI)**	*N/A*	*-7.24%*	*25.12%*	*3.37%*	*-1.04%*	*2.15%*	*61.31%*	*-0.70%*
10 Year Yield Change (bps)	*137*	*225*	*-210*	*117*	*128*	*123*	*162*	*100*

Indices Used: Preferred - BofA Merrill Lynch Core Fixed Rate Preferred Securities Index, MLP - Alerian MLP Index (total return), REIT - Dow Jones Equity REIT Total Return Index, CEF (ALL) - Morningstar US All CEF, CEF (FI) - Morningstar US All Fixed Income CEF

All returns are based on total return and calculated internally

* PGX (the current ETF used by Wela) is now tracked by the BofA Merrill Lynch Core Plus Fixed Rate Preferred Securities Index, but this data only goes back to April 2012, before this PGX tracked the index that was used in this study and has more historical data

** The data used for these calculaltions was drawn from Morningstar Funddata

Commentary

History provides us a great deal of information on how traditional fixed income (Treasuries, corporate bonds, etc.) will react in a rising rate environment, but that's really where the predictability for income investments ends.

Theoretically, we can suggest how MLPs and REITs will react in a rising rate environment, but given the fact that these investments are relatively new (being used frequently) to the income environment, it makes it tougher to predict how this alternative income bucket will react. The Dow Jones REIT index only goes back to 1990, while one of the largest MLPs, Kinder Morgan, didn't IPO until July 1992.

But what we can do is look at times of rising rates during this past 30-year period to get some indication to how these react in rising rate environments.

We looked over seven different periods, going back to 1995, when the 10-year yield rose 100 basis points or more. The research helps drive parts of our research.

MLPs fell, on a total return basis, only twice over these periods. The steepest decline was only 2.52% from November 1, 2001 to March 29, 2002; over this same period, the yield on the 10-year rose 117 basis points.

REITs, on the other hand, only fell one time during the seven rising rate periods. The fall occurred in the period from October 1, 1998 to January 31, 2000, when yields rose 225 basis points.

Another asset class that we looked at was closed end funds (CEF). We looked at both the entire CEF universe along with just the fixed income portion of CEFs. The Morningstar index we used was not available during the first period we looked at in 1995, so we only had six periods to look at for this sample.

The CEF universe didn't decline in value, on a total return basis, in any of the periods of rising rates. The fixed income universe did see three periods of declines, but only one of them was of significance. From October 1998 to January 2000, the fixed income universe fell 7.24%, while rates rose 225 basis points.

The reason for us looking into this is to help position ourselves appropriately over time. It is to understand these periods of time and learn from them for our future allocations. This past month, investors started to fret as rates on the 10-year jumped nearly 50 basis points on the month. This is similar to a move we saw over July and August last year.

We are going to see times when sharp rate increases occur given the abnormal low rate environment we are in. But we continue to feel that the rise in rates will follow a similar trajectory to what we saw in falling rates, long and gradual. It took four years for rates to finally dip below 10% and then another 13 years for rates to move below 5%--thus a gradual fall, not quick and sharp.

What this means for investors is that the reaction by many of the alternative sources of income will likely be different in sharp rises, compared to their reaction over the longer term gradual increase we will likely see. Over gradual increases in rates, we continue to believe these alternative sources of income will bode well for investors.

We must be strategic in managing these assets over this rising rate period. These sharp jolts in rates aren't ideal for these investments, but we continue to believe they are just jolts, not trends.