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Majority of advisers see equity income as a distinct class

By [David Hoffman](#)

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A majority of financial advisers view equity income as a distinct asset class, according to a survey of adviser attitudes released last week by Eaton Vance Corp.

It's a good sign that 63% of advisers distinguish equity income from other income, said Duncan W. Richardson, the Boston-based asset manager's chief equity investment officer.

Interest rates have re-mained low for several years, de-pressing U.S. Treasury yields. If advisers want to find good yields for their clients, they should be looking at equity "as a competitive source of in-come," Mr. Richardson said.

And the survey results suggest they are doing just that.

The poll of 375 advisers was conducted in July and August by Penn Schoen & Berland Associates, a marketing re-search firm in Washington.

It found that four out of five advisers recommend equity income products to their clients often. And 73% use stocks in their clients' portfolios for both long-term appreciation and as a source of current income.

Such an equity focus is preferable to reaching for yield via high-risk bonds, Mr. Richardson said. It is one of the reasons Eaton Vance has concentrated its efforts on equity income products, he said.

For example, in July, the company launched the Eaton Vance Risk-Managed Diversified Equity Income Fund. The closed-end fund's initial public offering raised \$1.3 billion. The fund's primary investment objective is to provide current income and gains, with a secondary objective of capital appreciation. It's one of many income-oriented products offered by Eaton Vance.

Because the firm offers such products, some advisers suggested, its study should be taken with a grain of salt.

It is hard to believe that a majority of advisers view equity income as a distinct asset class, they said.

"I assume when [Eaton Vance] says equity income, it means lower volatility equity funds which produce decent dividends. But I don't view that as separate asset class," said Richard Schroeder, executive vice president of Schroeder Braxton & Vogt Inc., a financial advisory firm in Amherst, N.Y.

Equity income products fall into the value category, he said.

After all, dividend-paying stocks, which Eaton Vance considers part of the equity income category, are generally believed to be value stocks, said Jeff Feldman, president of Rochester Financial Services in Pittsford, N.Y.

Even if all advisers don't recognize equity income as a separate asset class, however, Eaton Vance appears to have picked up on an attitude that is becoming more prevalent: more and more advisers are looking for income-oriented products, said Charles "Chip" Roame, managing principal of Tiburon (Calif.) Strategic Advisors LLC.

After all, they are faced with the challenge of dealing with clients whose income demands may exceed what they actually have coming in, according to a separate survey Penn Schoen & Berland created for Eaton Vance, of 402 U.S. residents 61 years or older with \$50,000 or more to invest. It was conducted during the same period as the adviser survey.

According to the investor survey, many respondents who were still working were confident that they wouldn't need more income in retirement, and most were unconcerned about outliving their assets. Two-thirds of those respondents who had retired said they had saved enough to fund their retirement.

That's worrisome, when combined with the fact that three in five advisers said that most clients hadn't saved enough for retirement.

But it is potentially more worrisome that two in five retired respondents reported that they already had made sacrifices in retirement due to a lack of income, and one quarter were concerned about outliving their savings.

Those findings make sense, said Nicholas Spagnoletti, a partner with MACRO Consulting Group LLC in Parsippany, N.J.

First-time clients often exhibit a lack of understanding about their portfolios, he said. They think that just because the average return is 8% a year, they should be OK taking out 6%, Mr. Spagnoletti said. What they don't understand is that not every year is average, he added.

Eaton Vance believes that there is opportunity in equity income. If interest rates stay low, investors will have to shift away from cash and bonds to equities, Mr. Richardson said.

Eaton Vance's study suggests that's already happening, he said.

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