

THINGS TO DO IN A LAZY SUMMER MARKET

Summer is fast upon us and if recent history is any indication, the stock market during this season is lazy, sullen and directionless. While you may not be able to do anything about your favorite teenager who acts the same way, there are ways to make your stock portfolio more productive in a lackluster market. Markets that are characterized by narrow trading ranges and low volume can surprise at any time and it pays to stay fully invested yet mindful of the risks. The following ideas may help you profit during such times.

Look to dividends- Improved corporate profits have resulted in healthy dividend growth for many companies. In fact, the current dividend on the S&P 500 index is some 13% higher than last year's. Identify and buy some stocks that demonstrate a history of dividend growth. Many investors equate dividends with 'boring'. Nothing could be further from the truth. There is nothing boring about owning stock in a company that pays you on a regular basis.

Sell covered call options- If you want to hold on to your stocks in a flat-to down market and get paid for waiting, try selling covered call options. Selling calls generates current income and can also be used to lock in profits on a stock that has already experienced a nice run. The premium received through the sale of the call can provide limited downside protection should the stock decline slightly.

A covered call is an option strategy with which you sell a call against shares that you already own. Simply stated, if you've got a stock in your portfolio that you wouldn't mind selling for a certain price, you could then write a call against it. For writing such a call, you would receive the amount of an option premium from the person who buys your options contract. Let's assume that a Company XYZ August \$15 Call has a premium of \$3.00. Say you had 100 shares of XYZ that you wouldn't mind selling at \$15/share. By writing a call you would then be paid \$3/share to sell the shares in August at \$15 per share.

Owning dividend-paying stocks does not protect against market declines nor does Covered call writing eliminate downside risk or otherwise hedge the risk of owning a given stock risk to any great degree. Proceeds of call sales are taxed as ordinary income, while dividends are currently taxed at 15%. There are many factors to consider before incorporating these strategies, including your own level of knowledge and your existing portfolio.

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