Moving to Fixed Income, the search for yield has not gotten any easier in 2019. What concerns do you have for pension plans and retirees who require steady income?

Sam Stovall: I'm concerned that they will disregard risk and shop exclusively for yield. That would put their principal at risk. In addition, income investors who own stocks need to remind themselves that they should think like landlords, not traders. Focus on a stock's ability to consistently pay the dividend, and possibly even grow it, on an annual basis. They should then look to price weakness as opportunities to add to holdings, not run from them.

Clint Pekrul: I have many concerns. How are retirees supposed to fund their lives when yields are essentially zero? There may be smaller pockets of investment opportunities, but these in large measure are not available to the average pension investor. So, with bonds not being the "go-to" asset, pension fund trustees naturally extend their risk budgets into dividend-paying stocks (e.g. REITs, utilities, etc.), which under historical norms would never qualify as a suitable investment due to the volatility. Bottom line, these pension pools might be essentially over-leveraging, and ultimately that doesn't end well.

John DeTore: A lot of concern. Long-term rates in fact act like a negotiation between generations. Retirees, who need income, lend their life assets to young families, who borrow for home formation. As discussed earlier, long-term rates are too low. While "too-low" rates do in general stimulate the economy, they have lots of awkward or even negative side effects.

Not to sound all 50's about it, but the solution for income for retirees (that don't pursue active management) might be to seek out strong US public companies that have significant dividend yields. The S&P yield is now competitive with bonds. Remember also that we have gone through a multi-decade process of accepting that stock-buybacks are often preferred by investors to dividend yield. You don't just get the dividend payment, you get the buybacks in the form of capital appreciation.

Those who are interested in alpha should find approaches that will work in the new environment. The three major sources of return available to typical US investors are bond yields, stock market, and the return from active management.

There has been a mass exodus from active management into index funds and ETFs. So many people I talk to say they don't want to take the risk of active management. But an S&P index fund has more risk than most retirees should take with the core of their assets. Active management in general needs a careful new look by investors.

John, you are close to launching a fixed income strategy, what are your thoughts?

John Mauldin: Well, pension plans have the option of going after private income. But the problem is that they are so big, they can't deploy money into smaller, potentially higher-yielding funds. And retirees are too small to qualify into private funds, so they are forced into funds themselves. I think we are going to see a real resurgence in good yielding dividend stocks, closed-end funds that pay dividends. But I believe it is going to be a reach for yields, and I don't see how that changes.