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Warren Fund Hedges Bets on Dividends, MLPs

By **MICHAEL ANEIRO**

Randy Warren is chief investment officer of investment advisory firm **Warren Financial Service**, and manages **WFS Funds**, the firm's investment division, with roughly \$75 million in assets under management in hedge funds, mostly for high net worth individuals. "Dividends were a good place to be last year, and they seem to be a good place to be this year," Warren says. Still, he worries about whether dividend stocks are becoming too popular, and adds that "definitely you want to have something allocated toward growth" in your portfolio.

The firm has a dividend strategy that buys dividend stocks as well as buying call options on the VIX volatility index that are "deep out of the money." If the market goes down, the VIX goes up, providing a bit of a hedge, and "if the market really goes down, those VIX options will explode in value."

In addition to dividend stocks, the firm invests in master limited partnerships, or MLPs. Among the most common types of MLPs are energy infrastructure MLPs, which own pipelines and other forms of infrastructure, gathering, storing and transporting crude oil and natural gas. They trade on public exchanges and generate free cash flow that is distributed quarterly to investors.

Warren currently sees value in MLPs servicing natural gas extraction from the Marcellus Shale in the northeastern U.S., and he sees MLPs as a good hedge against inflation. "If we had a little more inflation, that would probably help MLPs," he says.

The firm also buys mortgage bonds, Ginnie Mae bonds, corporate bonds and high-yield exchange traded funds, but Warren is cautious about safe-haven investments. "If the market gets any whiff of growth, Treasuries could start to lose," he says, although "it has really paid to be conservative the past few years."

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