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Attention Skittish Investors: How about a Bullet-Proof Income-Stream portfolio?

True, the stock market has been on fire, shooting up to new record levels and could even post higher highs over the next few months. The beauty of this market is that despite its current buoyancy, there are still a big number of skeptics who are convinced the raging bull "isn't for real." Why? They remember only too well what happened during the financial meltdown, which was exacerbated by a long recession. In a sense, they represent the army of still skittish investors who may yet join the parade, potentially a big upside plus.

But admittedly, it will take a lot of convincing for them to sally back into the market. Investors no longer have short memories about getting burned and crushed by the market. The damage wrought by the crisis was indiscriminate. Even so-called blue-chip companies that were supposedly travelling on the highway of super-growth and profitability got bushwhacked. So, portfolios bulging with stocks of such companies along with the more vulnerable that are highly dependent on the economy, were blown to smithereens.

A large number of people still worry about a slow-growth economy and are very suspicious of the market, even though equities have run up sharply since August 2009. So far, the Dow Jones industrial average has soared 93.84% from its closing low of 6,547.05 on Mar. 9, 2009. And on Wednesday, Apr. 27, 2011, the Dow jumped 95.59, to 12,690.96, its highest close since May 20, 2008.

Despite this huge advance, "it's been very difficult – almost impossible — to convince investors who were badly burned to restore their faith and confidence in the market," says John E. Maloney, CEO and Chief Investment Officer of M&R Capital Management. They have become very conservative in their approach and most of them have shifted their investment focus, from seeking super returns from high-charging stocks to safe and steady income-stream portfolios, says Maloney.

A BIG SHIFT IN INVESTOR FOCUS

"We found very high demand for investment vehicles that could consistently provide steady income with the least risk involved," says Maloney. The promise of high-performance returns from "super stocks" no longer count with these people. "What they want," notes Maloney, "is a portfolio generating a steady and decent flow of income that will weather a financial storm like the still-unforgotten financial crisis of 2008-2009."

So M&R Capital, which manages nearly $500 million, designed a portfolio with this in mind. "It's a more conservative portfolio that's sharply focused on income, yet still anchored to the principles of value investing," he says. The portfolio is packed with stocks enhanced by solid credentials, including high dividend yield, low price-earnings multiple, strong cash flow, and attractive valuation. The three other members of the M&R team are Saul Eisenberg, a former manager of Wachovia Securities Investment Supervisory Group; John Orsatti, formerly with Deutsche Bank; and Richard T. Diver, formerly with investment bank Gruntal and Prudential Securities, who co-founded M&R Capital with Maloney in 1993.

John E. Maloney of M&R Capital

M&R Capital's income-stream portfolio, described by Maloney as bullet-proof as they come, consists of 60% stocks, 30% long-term bonds, and 10% Trust Preferreds. Maloney says that overall, the portfolio carries an average yield of 6%, with a volatility for the stock portion that is half of a typical equity account. So if the portfolio's equity assets grow by about 5% to 6%, that's a big bonus to the attractive 6% yield – with good downside protection.

Here are seven of 24 stocks that Maloney has chosen for his "bullet-proof" income-stream portfolio:

1. Altria Group (MO) — formerly Phillip Morris — the largest U.S. cigarette producer, is trading at $26 a share with a p-e of 12.9, and has a dividend yield of 5.8%.

2. AT&T (T), the giant phone company currently trading at $30 with a price-earnings ratio of 12.9, provides a dividend yield of 5.6%.

3. Cellcom Israel (CEL), which provides cellular phone services in Israel, trades on the New York Stock Exchange (NYX) with ADRs, now selling at $31, with a trailing p-e of 9.5. The company pays an alluring dividend yield of 8.9%.

4. France Telecom (FTE), the giant French telephone, cable-TV and Internet company, whose ADRs sell on the New York Stock Exchange at $22, sports a relatively low p-e multiple of 9.5 for a telecom company. Its dividend yield is an attractive 6.6%.

5. National Grid (NGG), a London-based utility company that owns and operates regulated electricity and gas networks in the U.K. and U.S., trades on the New Stock Exchange with ADRs, now at $49, with a p-e of 11.4. Its dividend yield is a healthy 5.6%.

6. Plains All American Pipeline (PAA), a limited partnership engaged in interstate and intrastate crude oil transportation and provides terminal and storage services, is trading at $64 with a p-e of 20.7. The company pays a dividend yield of 5.8%.

7. Verizon Communications (VZ), which provides wireline, wireless, and broadband services primarily in northeastern U.S., trades at $36 with a p-e of 17, and provides a comfortable dividend yield of 5.2%.

This income-stream portfolio has resonated well with clients, says Maloney, in part because many companies cut back, if not eliminated, dividend payments during the financial crisis. It would be one answer, he adds, to any dizzying roller-coaster market.