

Fey Asset Management Free Newsletter

IN THIS ISSUE

The Market

High Income Investing

The Market

The stock market is currently in an uptrend. For the past 600 years, however, stock markets have fallen when economic and political turmoil raised its ugly head. From 1376, when Venetian bonds fell following the Genoese successful occupation of an important Venetian city, to the early 1970s when the stock market tumbled and the US entered a severe recession following the loss of the Vietnam war and the Nixon resignation, the market has consistently reacted negatively to significant political and economic instability.

Today we are again in period of economic and political turmoil. In the past, economic and political strife lead to declines in markets. Assuming that "this time it will be different" could turn out to be very expensive.

February Market Performance

Currencies: Sweden up 3%, Canada 3%, Britain 2%, India 2%, Brazil 2%, Euro 1%, Switzerland 1%, Mexico 1%, Japan 0%, China 0%, US Dollar down -1.1%.

Asset Classes: RAFI1500 up 6%, Small Growth 6%, Micro Cap 5%, Small Value 5%, Mid Growth 4%, Large Value 4%, Mid Value 4%, Large Growth 3%, RAFI 1000 3%.

Sectors: Silver up 21%, Gold 11%, Gasoline 10%, Multimedia Networks 10%, Oil Eqpm 9%, Energy 8%, Real Est 5%, Commodities 4%, Listed Private Equity 4%, Metals & Mining 4%, Base Mtrls 4%, Health Care 4%, NASDAQ 100 3%, Fin Srv 3%, Industrials 3%, Tech 2%, Intl Real Estate 2%, Steel 1%, Agribus 2%, Biotech 1%, Lumber 1%.

Foreign Investments: So Africa up 6%, Japan 6%, Indonesia 5%, Australia 5%, Russia 5%, Britain 5%, US 4%, World 3%, Pacific - J 2%, Latin Am 2%, Brazil 2%, Hong Kong -3%, Euro Union 3%, World - US 3%, EAFE Sml Cap 2%, BRIC 1%, Mexico 1%, China 1%, India -2%, Emerg Mkt Sm Cap Div -3.1%, S Korea -5%.

Fixed Income: Real Est 4.5%, Munis 2.3%, Intl Gvmt Infl Prot up 2.4%, 20+ Yr Treas 1.7%, Emrg Mkt Gvm 0.2%, Fin Pref 1.9%, Utilities 1.6%, Domestic Hi Yld 1.4%, Pref 1.2%, Inv Grd Corp 1.1%, US Buy Write 1.0%, Credit Bonds 0.9%, TIPS 0.7%, Floating Rate 0.6%, Aggr Bonds 0.3%, Mort Backed 0.0%, USD Emrg Mrk down 0.1%, GNMA down 0.0%.

High Income Investing

1. Introduction

This month, we discuss various ways to achieve a high income at a reasonable risk. Though some municipal bonds provide a high after-tax return, these returns can vary significantly among individuals depending upon each individual's tax situation. Default risk is also a serious concern for some municipalities.

With the current high price investors are willing to pay for safety and correspondingly low interest rates, bonds in general are expensive, and we won't cover them this month. Also, we do not discuss preferred stocks this month as they are difficult to evaluate and purchase by individuals (for more on preferred stocks see our September 2010 Newsletter).

Finally, as with all investment decisions, it is important to keep in mind that what matters ultimately is not yield but the *after-tax purchasing power of your total return*.

2. Types of High Income Securities

Aside from bonds and preferred stocks, there are six types of High Yield Securities:

- Equities
- Mutual Funds
- Limited Partnerships (LPs)
- Real Estate Investment Trusts (REITS)
- Utilities
- Venture Capital (VC)

The tables below show the ticker symbol of selected securities, the current yield, the maximum drawdown, the risk adjusted return, and the one month and one, three and five year total returns including dividends.

The maximum drawdown is the largest possible percentage loss that could have been incurred in the last ten years. For comparison, the maximum drawdown for the S&P was 51%. The risk adjusted return is the one year return adjusted for the maximum drawdown.

Generally we selected securities with at least an 8% current yield.

3. Equity

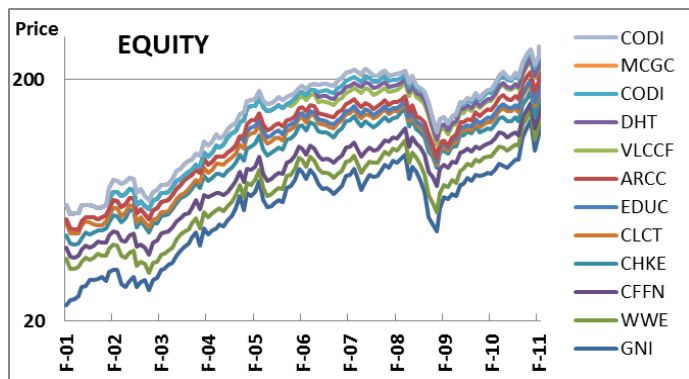
According to Ned Davis Research, between 1972 and 2006, publicly traded companies paying a dividend returned 10.1%

compared to just 4.1% for their non-dividend paying counterparts. What's more, during periods when the market declined between 1970 and 2000, dividend stocks outperformed non-dividend-paying stocks by a 1.5% margin every month.

Table 1 shows that high yield equities often have large drawdowns. Some of the one year returns were spectacular. Returns over the last five years were generally moderate.

TABLE 1

	YIELD	MAX DD	RTRN TO RISK	1MO	1 YR	3 YR	5 YR
PDLI	20.3%	82.9%		5.3%	-4.4%	5.8%	-9.5%
GNI	14.8%	51.8%	21.6%	16.4%	44.8%	9.2%	7.2%
WWE	11.9%	64.5%		0.3%	-17.2%	2.7%	4.5%
CFFN	11.6%	42.0%		0.3%	-17.2%	2.7%	4.5%
CHKE	9.5%	64.5%		0.5%	-8.2%	0.6%	3.2%
CLCT	9.3%	82.6%	2.8%	7.4%	16.1%	-12.2%	-8.0%
EDUC	8.8%	66.9%	21.8%	4.4%	65.9%	18.0%	6.3%
VLCCF	8.0%	59.6%	22.0%	3.0%	54.4%	26.7%	15.7%
DHT	7.9%	59.6%		3.9%	89.7%	5.8%	8.3%

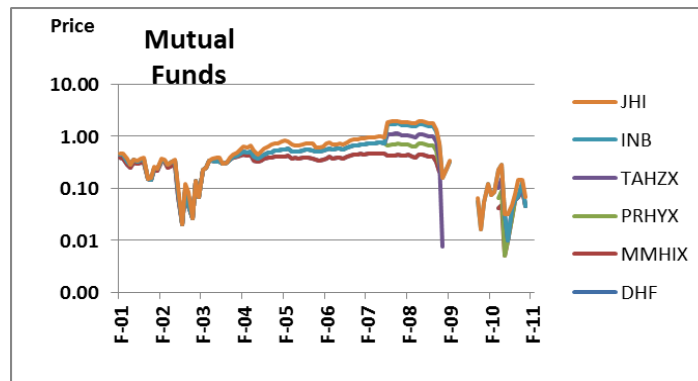


4. Mutual Funds

Mutual Funds consist of traditional funds, exchange traded funds, and closed end funds. For closed end funds, it is important to look at the source of the dividend. It can be return of capital. As shown in Table 2, the five year returns for funds were also generally modest. Funds performed better than individual securities, however, because they are more diversified.

TABLE 2

	YIELD	MAX DD	RTRN TO RISK	1MO	1 YR	3 YR	5 YE
DHF	11.2%	47.7%	20.6%	2.9%	39.5%	20.6%	14.3%
MMHIX	10.6%	7.3%		0.8%			
PRHYX	10.5%	28.5%	11.0%	0.7%	15.4%	10.5%	8.1%
TAHZX	9.9%	42.0%	13.8%	2.5%	23.7%	9.4%	
INB	9.7%	63.5%	7.3%	2.5%	19.9%	-1.1%	
JHI	9.6%	26.2%	21.4%	5.8%	29.0%	19.1%	12.4%
FYAIX	9.4%	20.9%	13.3%	-0.1%	16.8%	9.2%	7.7%
USHYX	9.2%	31.4%	11.6%	1.3%	16.9%	10.7%	8.0%
TYHRX	8.7%	39.0%	13.3%	2.4%	21.7%	8.6%	7.4%
DNP	8.2%	41.7%	9.6%	1.1%	16.5%	4.7%	5.5%
GLAD	8.0%	70.5%	19.7%	8.3%	66.6%	-1.3%	-1.6%
MMT	7.8%	18.9%	12.1%	-0.3%	14.9%	13.5%	9.9%
DHG	7.5%	77.3%	6.4%	2.1%	28.0%	-8.8%	
VNR	7.2%	64.0%	16.2%	2.2%	45.1%	41.6%	
SPY	2.0%	50.8%	12.9%	3.7%	26.2%	1.1%	2.8%



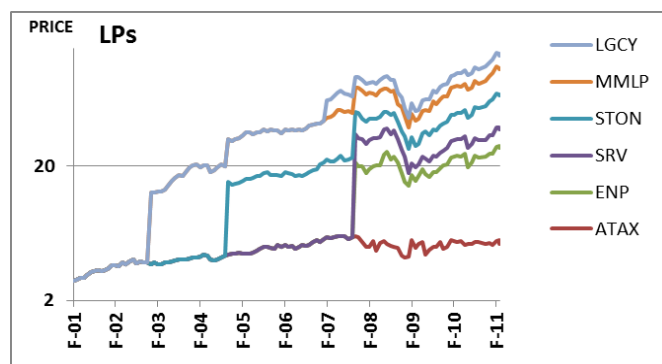
5. Limited Partnerships

In addition to the yields and returns presented in Table 3, limited partnerships have special tax effects. Some of the returns are not taxable income. However, in an IRA some of the returns could be considered unrelated business income (UBI) which is taxed if it exceeds \$1000/year. Generally UBI has not been a problem in recent times, though.

Limited partnerships provide good returns at considerable risk.

TABLE 3

	YIELD	MAX DD	RTRN TO RISK	1MO	1 YR	3 YR	5 YE
ATAX	9.0%	31.1%	0.7%	0.1%	1.0%	0.9%	0.9%
ENP	8.7%	30.6%	0.2%	0.9%	0.4%	3.7%	
SRV	8.4%	50.5%	13.0%	0.5%	26.3%	17.4%	
STON	7.9%	64.8%	24.1%	0.3%	68.4%	30.6%	
MMLP	7.4%	60.9%	12.8%	-5.0%	32.7%	15.0%	15.4%
LGCY	7.1%	52.1%	35.8%	-4.4%	74.8%	29.1%	

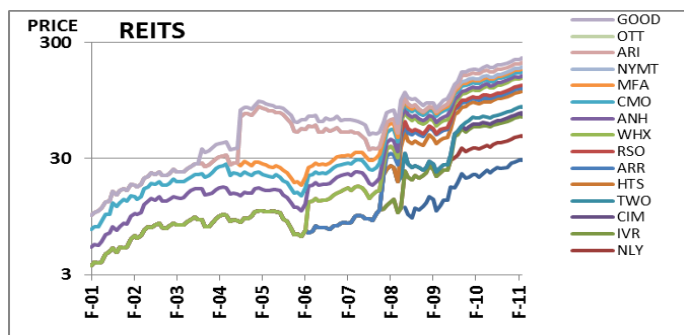
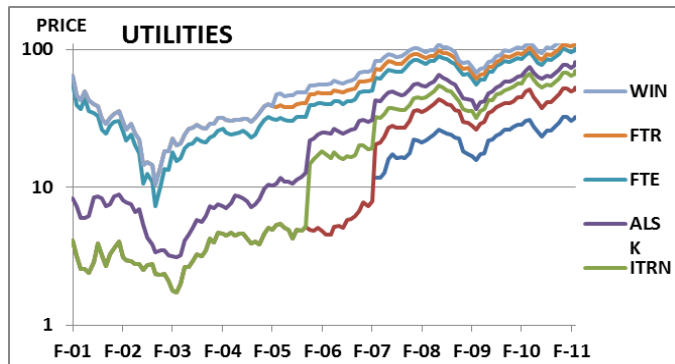


6. Real Estate

Real Estate investment characteristics are shown in Table 4. Real Estate Investments can provide excellent yields, good long term and short term returns, but at considerable risk. Most high yield real estate investments come from mortgage backed securities, but some own real estate. WHX is a royalty trust that receives natural gas royalties. It is a REIT operating as a subsidiary of Whiting Petroleum Corp. NLY has been providing consistently high income come of about 16% for about 20 years, though its price has fluctuated wildly. It is one of my favorite income stocks.

TABLE 4

	YIELD	MAX DD	RTRN TO RISK	1MO	1 YR	3 YR	5 YE
AGNC	25.3%	24.6%	26.4%	3.0%	35.1%		
NLY	17.1%	40.6%	11.8%	0.7%	19.9%	12.0%	20.0%
IVR	17.0%	10.5%	16.7%	1.5%	18.6%		
CIM	16.2%	83.8%	4.2%	-1.0%	26.1%	-32.0%	
TWO	15.9%	9.2%	28.7%	6.0%	31.6%		
HTS	13.9%	11.6%	21.7%	2.3%	24.6%		
ARR	13.8%	31.4%	25.4%	-2.3%	37.0%	0.9%	
RSO	13.6%	87.1%	7.7%	1.8%	59.6%	13.5%	
WHX	13.0%	43.9%	12.1%	2.4%	21.5%		
ANH	12.8%	56.5%	7.0%	1.7%	16.1%	7.6%	7.2%
CMO	12.3%	64.5%	4.1%	2.8%	11.6%	11.7%	23.8%
MFA	11.4%	40.2%	16.9%	2.8%	28.2%	7.1%	15.9%
NYMT	10.0%	97.4%	0.5%	-1.3%	18.9%	11.2%	-26.2%
ARI	9.8%	6.7%	3.3%	1.9%	3.6%		
GOOD	8.2%	59.9%	18.2%	0.8%	45.4%	15.5%	10.6%



7. Utilities

Contrary to general opinion, utilities do not necessarily provide a stable flow of dividends. Their dividends can vary considerably. The Utilities in Table 5 provide reasonable returns at considerable risk.

TABLE 5

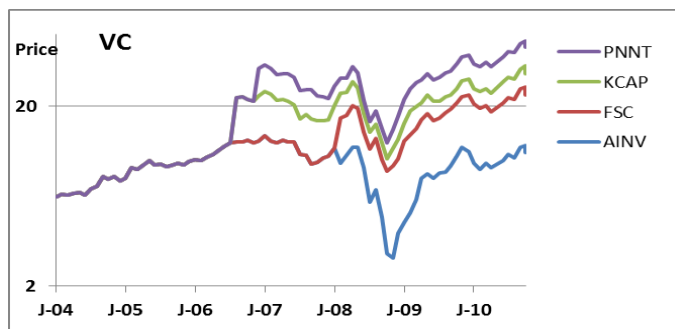
	YIELD	MAX DD	RTRN TO RISK	1MO	1 YR	3 YR	5 YE
CEL	14.7%	40.0%	7.1%	4.6%	11.9%	14.8%	
PTNR	11.3%	58.1%	6.7%	2.4%	16.1%	11.6%	32.2%
ITRN	9.5%	57.5%	15.8%	3.5%	37.1%	20.4%	3.5%
ALSK	9.3%	81.6%	5.5%	5.4%	30.0%	-3.2%	7.8%
FTE	8.2%	92.0%	0.5%	0.8%	5.6%	-6.4%	7.2%
FTR	8.2%	64.5%	13.9%	3.7%	39.2%	5.2%	4.7%
WIN	7.7%	43.8%	21.9%	3.0%	39.0%	14.5%	11.8%

8. Venture Capital

Venture capital firms provide equity and debt financing to businesses. Publicly traded venture capital firms became available relatively recently. Table 6 shows that some venture firms provide spectacular returns but at considerable risk.

TABLE 6

	YIELD	MAX DD	RTRN TO RISK	1MO	1 YR	3 YR
FSC	9.9%	79.0%	6.3%	2.5%	29.9%	
AINV	9.7%	37.3%	22.0%	1.8%	35.0%	
KCAP	8.8%	86.0%	15.1%	12.9%	107.6%	2.0%
PNNT	8.0%	77.6%	11.9%	4.0%	53.0%	18.6%
ARCC	8.5%	76.6%	0.0%	0.0%		
CODI	7.9%	43.6%	19.8%	-6.8%	35.2%	-17.0%
MCGC	7.8%	95.8%	2.8%	3.6%	66.2%	20.0%



9. Bottom Line

- What matters is total real return (purchasing power) after tax, not yield.
- Even the best high yield investments have drawdowns as high as the stock market or higher.
- All high yield investments had their drawdowns at the same time as the market. Most eventually recovered.

© Fey Asset Management 2011