

Fey Asset Management Free Newsletter

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The Market

The outlook for 2012 is positive. The November annual CPI increase [was 3.4%](#) but the threat of inflation is still lurking with all the spending, debt, and the growth of developing economies.

We always recommend a diversified portfolio. But with interest rates at historical lows and the economy gaining strength, dividend-paying stocks are attractive and should be a part of your domestic stock portfolio. Real Gross Domestic Product (GDP) increased at an annual rate of [1.8% in Q3](#). During the past year US nominal GDP [grew 3.9%](#); the publicly held US debt [grew 11.3%](#) in real terms, more than GDP growth which is bad.

December Market Performance

Currencies: New Zealand up 4.7%, Australia 2.4%, China 1.5%, Japan 1.5%, Canada 1.3%, Sweden 1.1%, US 1.1%, UK 0.1%, Switzerland down 1%, India -1%, Mexico -1.3%, Russia -1.4%, Euro -2.5%, Norway -2.6%.

Asset Classes: Large Value up 3%, Russell 1000 Value 2%, Small Growth 2%, RAFI 1000 2%, Micro 1%, Mid Value 1%, Large Cap 1%, RAFI 1500 1%, Small Value 1%, Small Cap 1%, Mid Cap down 0%, Mid Growth -1%, US Micro -5%.

Sectors: Regional Banks up 5%, Consumer Goods 5%, Gasoline 3%, Healthcare 3%, Finance 2%, Biotech 2%, Merger & Arbitr 2%, Trans 2%, Timber 0%, Telecom down 0%, QQQ -1%, US Oil Futures -1%, Energy -1%, Tech -1%, Utilities -1%, Oil -2%, Commodities -2%, Agriculture -4%, NA Natural Resources -4%, Basic Materials -5%, Real Estate -6%, Oil & Gas -6%, Metals & Mining -9%, Precious Metals -12%, Solar -13%, Private Eq -14%

Foreign Investments: Switzerland up 1%, US 1%, Britain down 0%, Latin America -1%, World, -1%, Taiwan -1%, Spain -1%, Sweden -1%, Mexico -2%, Canada -2%, Austria -2%, Brazil -2%, Belgium -2%, EAFE -2%, Japan -2%, China -4%, France -4%, Emerging Mkts -4%, BRIC -4%, Asia ex-J -4%, EU -4%, Italy -5%, Australia -5%, World ex-US -6%, Singapore -6%, Germany -7%, Emerging Europe -10%, India -11%, Russia -13%.

Fixed Income: Alerian up 4%, Corporate 3%, 20+yr Treasury 3%, High Yield 3%, Annaly 3%, BuyWrite 3%, Insured National Muni 2%, Muni 2%, Emerging Mkts Sovereign Debt 2%, US\$ Emerging Markets 2%, Floating Rate 1%, Build America 1%, Mortgage Backed 1%, International Treasury 1%, International Inflation Protected 1%, Bonds 0%, TIPS 0%, Absolute 0%, GNMA down 1%, Cushing -3%.

Investing for Income

1. Introduction

We discuss various ways to get high income at an acceptable risk.

2. Security Selection

We looked at securities in 4 categories:

- Private Equities
- Fixed Income
- Materials
- Services

We selected securities with at least an 8.5% current yield and a positive 3 year and 5 year return.

3. Tables

The tables below show the ticker symbol, the current yield, the 1 month, 1 year, and annualized 3 and 5 year total returns (including dividends), the 5 year maximum drawdown, a return to risk ratio (5yr Total Return/5yr Max DD), and correlation with the total US stock market. The [maximum drawdown](#) is the largest possible percentage loss that could have been incurred in the last 5 years. The loss is reduced by interest and dividends.

4. Publicly Traded Private Equity

We have only one fund in the Private Equity category, Compass Diversified Holdings (CODI).

[CODI](#) is a public investment firm specializing in acquiring controlling stakes in service firms, with market capitalization (shares outstanding times share price) of \$50-\$250 million.

For comparison we've also included the Vanguard Total US Stock Market ETF (VTI) in the table and chart.

	Yield	1 Mo	1 Yr	3yr Per yr	5yr Per yr	5yr Max DD	Return To Risk	Corr
CODI	11.6%	-3%	-23%	15%	6%	44%	0.45	57%
VTI	1.9%	1%	1%	15%	0%	51%	0.02	100%

Table 1 CODI and VTI 5yr Performance.

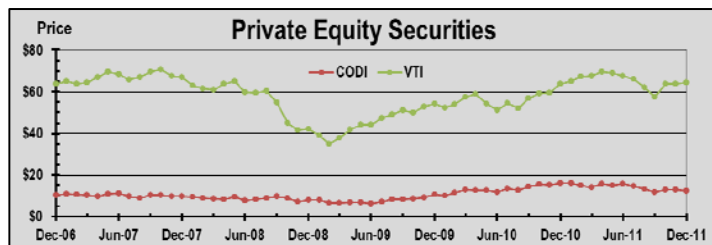


Figure 1 CODI and VTI 5yr Dividend Adjusted Price Changes.

5. Fixed Income

The following are high yield fixed income funds.

Annaly Capital Management	NLY
Western Asset High Yield	WAHYX
Dreyfus High Yield Strategies Fund	DHF
GMO Emerging Country Debt III	GMCDX

[NLY](#) is a mortgage backed security. For the last 20 years it has paid dividends of 14+%.

[WAHYX](#), an open end fund, invests in high yield equity.

[DHF](#) is a closed-end balanced fund that invests in the fixed income markets of the United States.

[GMCDX](#), an open end fund, invests primarily in US\$ denominated emerging country government debt.

	Yield	1 Mo	1 Yr	3yr Per yr	5yr Per yr	5yr Max DD	Return To Risk	Corr
NLY	14.3%	3%	2%	16%	30%	28%	4.19	15%
DHF	12.5%	1%	13%	42%	23%	48%	1.78	45%
GMCDX	10.0%	-7%	-2%	21%	9%	35%	0.82	64%
WAHYX	10.4%	0%	0%	22%	9%	35%	0.80	64%

Table 2 Fixed Income Securities 5yr Performance.

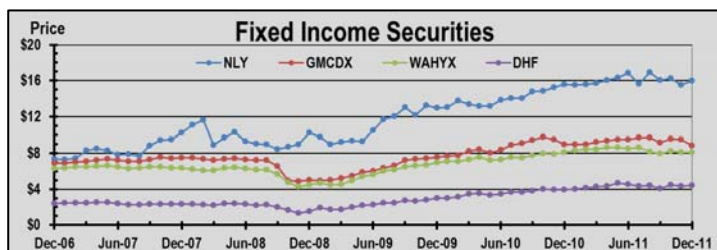


Figure 2 Fixed Income Securities 5yr Adjusted Price Changes.

6. Materials

The following funds deal with basic materials.

Great Northern Iron Ore Properties	GNI
Van Eck Intl Investors Gold	INIVX
Opeenheimer Gold & Special Minerals	OPGSX
Terra Nitrogen Company LP	TNH
Ferrell gas Partners LP	FGP
Martin Midstream Partners LP	MMLP

[GNI](#), a nonvoting trust, owns iron mining lands. The trust will dissolve in April 2015

[OPGSX](#) and [INIVX](#) are open-end funds that invest in common stocks of companies that are involved in mining, processing or dealing in gold or other metals.

[FGP](#) and [MMLP](#) are master limited partnerships that develop, distribute, service and sell coal, oil and gas.

[TNH](#) is a master limited partnership producing and selling nitrogen fertilizer.

	Yield	1 Mo	1 Yr	3yr Per yr	5yr Per yr	5yr Max DD	Return To Risk	Corr
TNH	9.4%	5%	71%	31%	97%	49%	13.58	4%
GNI	20.9%	7%	-12%	29%	16%	52%	1.11	55%
FGP	10.5%	-14%	-20%	19%	12%	36%	1.13	47%
INIVX	8.7%	-15%	-23%	24%	20%	62%	1.17	42%
MMLP	8.9%	7%	-5%	47%	18%	61%	1.05	72%
OPGSX	10.3%	-20%	-30%	24%	15%	64%	0.84	51%

Table 3 Materials Securities 5yr Performance.

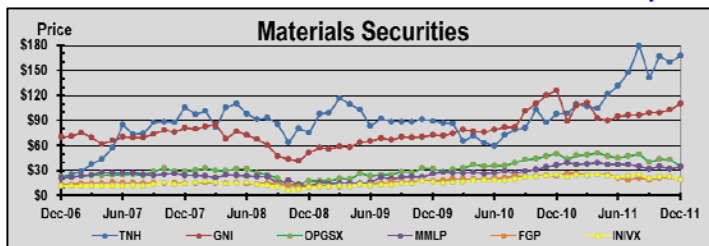


Figure 3 Materials Securities 5yr Dividend Adjusted Price Changes.

7. Services

These companies provide consumer and business services.

OTelco	OTT
Collectors Universe Inc.	CLCT
Inergy, L.P.	NRGY
Educational Development Corp.	EDUC
Windstream	WIN
Stonemor Partners LP	STON

[OTT](#) provides wireline telephone services in north eastern and central United States.

[CLCT](#) provides authentication and grading services to dealers and collectors of high-value memorabilia in the US.

[NRGY](#) markets, sells and distributes propane to residential, commercial, industrial, and agricultural customers in the US.

[EDUC](#) operates as a trade publisher of the line of children's books in the US.

[WIN](#) provides communications and data center solutions and services to businesses and government agencies in the US.

[STON](#), along with its subsidiaries, engages in the ownership and operation of cemeteries in the US.

	Yield	1 Mo	1 Yr	3yr Per yr	5yr Per yr	5yr Max DD	Return To Risk	Corr
STON	10.0%	-7%	-15%	40%	17%	52%	1.12	51%
CLCT	8.9%	4%	14%	83%	19%	78%	0.86	67%
WIN	8.5%	2%	-9%	19%	8%	44%	0.61	75%
NRGY	11.5%	1%	-32%	23%	8%	48%	0.51	37%
OTT	12.1%	-8%	-16%	37%	4%	60%	0.22	64%
EDUC	9.6%	-2%	-20%	21%	3%	51%	0.17	56%

Table 4 Services Securities 5yr Performance.

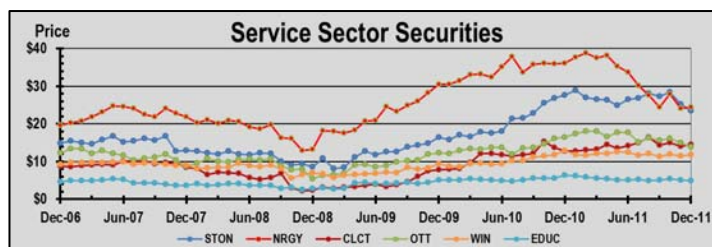


Figure 4 Services Securities 5yr Dividend Adjusted Price Changes.

8. Bottom Line

- Yields of 8%-21% (compared to 1.9% Vanguard Total Stock Market) are currently available.
- Even the best of our high yield investments have 5 year drawdowns of 28% (Total US Market 51%). Most high yield investments fully recovered from their drawdown.
- All high yield investments had their max drawdowns at about the same time as the market.

Contact me for a more detailed analysis.