Preferred Stocks

Wenzel Analytics Inc

Edited transcript of Twin Cities AAII Presentation, 2/18/2021

The edited, and in some places updated, transcript which follows is from a presentation on preferred stocks I gave to the Twin Cities AAII chapter on 2/18/2021. There were a number of snafus with the webinar platform provided by National AAII such that I couldn't get on until ten minutes after the time the program was to start, and then couldn't access my handouts to display them on the screen. My host ended up accessing and controlling the handout document, although the resolution was poor because of the picture of a picture. About half-way through the presentation, I couldn't hear the host, and so bulldozed ahead. As a result, the YouTube recording was not usable. I stripped off the audio and have had it posted these several months, but it too is not very user friendly.

Much of what I see written on preferred stocks appears to be written by academics for academics, lawyers or accountants. The material is foreboding with its enumerations of regulations and technical details. This presentation was intended to explain preferred stocks for the retail investor, focusing on how they work, what returns to expect, and details of how to implement and manage a preferred portfolio. The reformatted handouts used during the presentation are appendices at the end of this document.

"I have four different sections to my presentation.

1. **What are** preferred stocks?
2. What **returns** can one expect?
3. How does one **implement and manage** a preferred stock portfolio?
4. **Why** are these exceptional low risk returns not arbitraged away?

What are preferred stocks?

Write or circle your answers to these either/or questions:

1. Are preferred stocks more like stocks or more like bonds?
2. If you were doing a 60-40 allocation, or were on a foundation or association board, would you place preferred stocks in the stock allocation or the bond allocation?
3. Is a preferred stock equity or debt?
4. Would you consider a preferred stock to be fixed income?
5. Would you consider a bond fund to be fixed income?
6. Dividends on common stocks and REITS are usually declared quarterly. Would you consider that fixed income?

On the first question, preferred stocks are more like bonds than stocks. The dividend in contracted and fixed like bond interest and is not subject to quarterly declarations as it is for stocks. It is more like interest than a dividend.

On the second question of a 60/40 allocation, I would consider it in the bond allocation because it has the characteristics of a bond.

Lee Wenzel
(952) 944-2699
Lee@WenzelAnalytics.com
www.WenzelAnalytics.com

Wenzel Analytics, Inc.
Registered Investment Advisor
8666 Westwind Circle
Eden Prairie, MN 55344

Is the preferred stock equity or debt? This is what drives the first two questions. Preferred stock is debt. It is issued when a company needs capital and doesn't want the dilution of issuing common stock. With preferred stock the company avoids the dilution of issuing common stock. I believe they also avoid debt showing up on their balance sheet. If it is five years or more from the IPO (Initial Public Offering) and they no longer want to be paying the dividends, they can buy it back which is called a call. It is clearly a debt instrument.

The moral of the story is to look at what it is rather than how it's labeled. The term is a euphemism. A more accurate term would be "unpreferred bonds" in that the debt is like a bond but lower on the capital structure. There are also "baby bonds" which are grouped with preferreds and often have five years to call, with a par of $25 like preferred stocks, but also then have a maturity date when they must be called.

Would you consider preferred stocks to be fixed income? It is fixed in that the dividends are predetermined. An 8% dividend times $25 par pays the two dollar per share dividend as long as you own the preferred.

Would you consider a bond fund to be fixed income? While it is a bond fund, it is not fixed income. The fund is going to be taking on new bonds and getting rid of other bonds, so your income from a bond fund is going to vary and not be fixed.

And for the last question, dividends on common stocks and REITs are declared quarterly and therefore can change quarterly. The income is not fixed.

When you buy a preferred stock you do not have an ownership in the company. The company has an obligation to you as a creditor. You do not have an equity interest. One exception I have found is that I own private equity preferred shares in Terrestrial Energy. In that case it is a different use of the word "preferred" in that they have different classes of common stock. It is equity. There are no dividends and I have voting rights.

Getting this straight helps us to understand what we're dealing with. Thinking of it as fixed income and placing it there in your allocation works fine unless you are on your housing association board or on a foundation board and they get literal about the language in their allocation requirements. Then one gets stuck with treating preferreds as equity.

The euphemism of "preferred stock" makes it kind of a stranded asset because the bond people look at it and expect it to be like a bond, and there's a lot of ways it isn't like a bond, and so they say that's a strange animal. The equity people look at it and say the same thing. It doesn't look like a stock. It is kind of a stranded asset out there by itself. Unless you understand preferreds they are going to feel strange and it will be hard to develop an appropriate strategy.

So what is different about preferred stocks? The companies issuing preferred stocks do so because they need capital. These are not going to be your growth companies that make a lot of money and grow quickly from network effects. These are not going to be large-cap value stocks of mature companies that have more cash than they can profitably put to use. They will buy back their own stock.

When we analyze the fundamentals of the company issuing a preferred stock, it's going to be a very different picture from buying common stocks. Ordinarily we analyze fundamentals asking if this company has legs. Will it grow? With preferred stocks we don't care about growth and price appreciation or the preferred or the underlying common stock. In fact, price appreciation above par means we will take a loss at call from its current price. And price appreciation up to par isn't of significance because we know we will get par at call. We are buying for the income. Any gains are gravy. What we care most about in the selection process are dividends and whether the company is likely to go bankrupt. The fundamental analysis is essentially very different. Will this company survive?

Returns

This section will review how we lock in forward returns of 9% annually. How should one think about returns and what does one need to know to buy and sell preferred stocks?

The preferreds that pass my screens are issued at $25 par and then called back five or more years after the initial offering for $25. If we buy one three years after it was issued, we have two years that we know this is going to be paying us the dividend. After that they can call it back and the cash comes up in our brokerage account in the amount of $25 a share plus dividends to the date of call. We then need to go buy something else.

The dividend rate times $25 does not change, and what we paid for it does not change. Therefore, the Yield-on-Cost is constant, and we know what it will be going forward unless there is the rare event of bankruptcy or distress and a suspended dividend.

Contrast that picture of known income going forward with how we look at a chart or report of common stocks. Ordinarily when I send out quarterly reports to my clients, we look at how stock prices performed over the previous quarter. The report is hypothetical because all that it means is if we had sold it at the end of the quarter the current value is approximately what we would have gotten subject to the bid-ask spread and commissions. Reports on common stock performance are like driving while looking in the rear-view mirror. We can have goals, but there is a lot of uncertainty looking forward. We don't know where that stock price is going to go tomorrow or next month.

One of the things we should say about preferred stocks is that on the capital structure, meaning if the company goes bankrupt, preferred stockholders get paid before common stockholders, and after the bond holders. Theoretically all the common stockholders are going to lose their investment before the preferred stockholders take a loss. Then the bond holders would take a loss. The way this actually works is that a preferred stockholder rarely would lose it all. The bondholders negotiate bankruptcy terms. Most often the bankruptcy is a shifting around of the capital structure, sometimes with no impact for the preferred stockholder. For example, I hold preferreds from Pennsylvania Real Estate Trusts. They own a lot of malls. As you know, a lot of mall anchors are vacating. That has created a crisis for the real estate companies holding malls. Well, Pennsylvania Real Estate saw this coming. When Sears was departing they were bringing in entertainment-oriented tenants to fill that space, just like Shields came into Eden Prairie. Pennsylvania Real Estate did that a couple years ago and the couple years without rent make the cashflow record look bad, but now it's looking up. You can still buy these inexpensively. I bought these for $8 a share. If it's going to be called at $25 that means we have a 300% gain when called plus dividends. Now we don't know when that call will be. If there isn't a bankruptcy, we may choose to sell it at some point for either less than or more than $25, or the company will buy it for $25. Bottom line is that if you buy very low priced preferreds, I'd advise doing a thorough due diligence first. Why is it so cheap and what reason is there to think it will eventually recover?

To answer Linda's question about how this all works, I will give an example. Preferred XYZ stock issued its IPO three years ago. It pays a dividend of 8% so that means we've got two more years for dividends to run. It may or may not be called two years from now. If it is not called, and we do not choose to sell it, the dividends may continue for many years at the rate of 8% times $25 or $2 a year per share. That's a constant of dividend times par or $25. If we bought it for $20, what we paid for it does not change. The yield-on-cost is the $2 annual dividend we are collecting divided by the $20 we paid or a 10% return which continues until the stock is sold.

A second number for evaluating return is yield-to-call. Let's say in two years they call the XYZ preferred. That means it has gone up from the $20 we paid to the $25 we get when called or $5 a share. That comes to $2.50 a year. If we divide our $20 into the $2.50 that's 12.5% per year in gains. Adding the gains of 12.5% to the dividends of 10% we have a 22.5% annual return in this hypothetical example. The dividends are guaranteed, and the gains are bonus. If it is not called, we continue to get the 10% until it is called or until we choose to sell, which could be ten years. A summary or glossary of terms and calculations is Appendix A.

What if the price goes down? That could happen. The yield-to-call will vary as the current price of the preferred goes up or down. If it is going down, we need to look at what is happening to the common stock, research what is happening for the company, and decide whether to take a loss or collect our dividends and wait for the company to recover. In such situations it is particularly telling to compare the price pattern of the common stock to the preferred stock.

One should only buy preferred stocks which have cumulative dividends, meaning that if a company is in distress such as the hotel REITs when Covid came, they can suspend their dividends but then have to make it up when cashflows return. To suspend a dividend the company has to first cancel the dividends on their common stock, which is avoided because it is devastating to the price of the common stock. The cumulative designation is more important as a measure of the preferred's quality than as a cashflow protection.

What if our preferred stock is now selling at $27, as many are right now, and a call date is coming up? If I balance the dividend income against the $2 I would give up by not selling now, the Yield-to-Call may be negative. A database search will find many preferred stocks where that is the case. Many owners are not tending their garden and watching the prices. The more the price goes up, looking nice on the price appreciation charts, the more the Yield-to-Call is going down. Will the price continue to go up or will it gradually go down to $25 at the call date like an option approaching expiration? In our XYZ example, if the price has gone from $20 to $27, it may be time to take the gains. Personally, I sell when yield-to-call drops below 4% or 5%. I have formulas in a spreadsheet to monitor Yield-to-Call that highlights in yellow and red when Yield-to-Call is low or dangerously high. (Appendix B). As you can see in the table, the Yield-to-Call can become extreme when the price is low with an impending or already past call date.

The Ladenburg Thalman preferreds with the red very high current-yield-to-call on the second page of Appendix B illustrate an interesting dynamic. A recent Securities and Exchange Ruling restricts the trading of over-the-counter stocks with limited transparency. In this case the company that issued the preferreds was acquired by a large wealth management private company that appears to be doing very well. However, since it is not publicly traded the financial information is not public. The brokerages I know will allow sales but not purchases. Of course, if there are no buyers it is hard to sell. Therefore, we see the low prices with current yields in double digits. If one is willing to hold these until they are called, there are very good dividends with minimal risk. With outlier stocks it is important to know the underlying story. I find Rita Morwa's High Dividend Opportunities newsletter published by Seeking Alpha to be an indispensable resource.

To close this section on returns, the important number from all the numbers on the tables in Appendix B is the average Yield-on-Cost which is currently 9.2%.

More on Implementing and Managing a Preferred Portfolio

To continue on the sell decision, a company will often have several preferred stocks. If the company has other preferred stocks paying a higher dividend that have already gone beyond the call date, there is a better chance that a preferred we hold will not be called. Of course, they may call all the callable stocks at once if they find a cheaper source of capital, or no longer need the loan.

To review, we have the choice of selling a preferred stocks before or after a call date if it has not been called. I have a mix of preferreds that include both callable and not yet callable. I obviously avoid callable stocks priced over par because of the loss if called.

The price of preferreds as a group varies with the market. In April of 2020 most preferreds sold for less than $20. In November of 2021 only a small minority sell for less than par of $25. Variation of an individual preferred from the average is a way of evaluating risk. Any preferred selling for less than $10 is obviously very high risk. The higher the risk, the more important it becomes to diversify with several positions.

I do not require a Moody's or S&P industrial rating. Their history in foretelling financial collapse is not very dependable, either for individual positions or for a broad swath of stocks. The ratings cost the issuer a lot of money and an ongoing fee for each preferred issued by a company. I find that my other methods for evaluating quality are equally reliable and produce about twice the returns. The industrial ratings are important for large institutional investors. My competitive advantage is in being able to buy $10,000 positions which are not available to the institutional investor or fund wanting to buy a million dollar position. The limited liquidity is a competitive advantage for the investor taking a smaller position.

Most of us hate to have a loser. This is nicely documented in Daniel Kahneman's <u>Thinking Fast and Thinking Slow</u> which gave him as a psychologist a Nobel Award in economics. If most investors have a choice between a gain of $5,000 or a gain of $10,000 but a 50% chance of losing 10% of it, they will take the $5,000 rather than think it through and take either the $10,000 or $9,000 if it falls to losing 10%. The math makes our head spin. The point is we hate to lose and any potential loss throws up a red flag even if it can be overcompensated by higher returns on other positions. We are seduced by a story and emotions rather than the numbers.

There was a question of whether the Yield-to-Call is based on the cost or the current yield. I calculate it based on the current yield because I use the Yield-to-Call calculation to decide whether or not I should continue to hold the preferred. My perspective is that position returns either to date or from purchase to call are irrelevant to any decision I need to make now.

Top Down Allocation

Investment strategies should always start with goals and context, then a structure for overall allocation. We start from the top down and work out an allocation rather than go out and start buying individual stocks. A sample allocation reflecting the Wenzel Analytics book of investments is given at the beginning of Appendix C. Of the money I manage, 48% is in preferred stocks. This reflects some clients who have asked me to manage just their fixed income allocation. Clients in retirement with limited income wanting to avoid volatility may have most of their allocation in preferred stocks. My personal brokerage accounts are 34% in preferred stocks. That will probably increase when the current bull market appears to be ending. The 60/40 split between stocks and bonds is a pretty well-tested allocation. Overall that comes close to what I do with preferreds taking the bond portion as fixed income. I generally use a barbell approach, seeing the preferreds as more risk averse and then am aggressive with the common stock portfolios. I avoid any stock or portfolio that closely tracks the indexes. If clients wants market returns, they can buy a few ETFs and don't need to pay fees for a managed account.

The Real Estate Investment Trusts (REITs) are a big supplier of preferred stocks. I try to balance the preferreds from REITs and other preferreds. Obviously, REITs need cash to buy properties. It is more convenient and cheaper for REITs to get their cash from issuing preferreds than to get mortgages on each property with the attendant closing costs.

I use the labels of realized income and locked in income to refer to dividends that have been received and are cash in the account. They are not subject to market volatility.

CDx3 and Tools or Resources

For me selection begins by downloading all the preferred stocks scoring an 8 or better on the 10-point scoring system of CDx3. CDx3 is a subscription database of approximately 1,500 preferred stocks and notes. (https://www.cdx3investor.com/; $16.25/month). The CDx3 name comes from getting three times the returns of Certificates of Deposit. (See 2. Data Sources in Appendix C. I highly recommend the book by Doug K. LeDu who founded CDx3 and later sold the company for health reasons). The CDx3 website not only enables one to query and search for preferred stocks by multiple criteria, but monthly publishes data and charts on overall price trends for preferred stocks. (See sample in Section 2 of Appendix C.) The reference book by Doug K. LeDu is worth reading more than once. When CDx3 was being sold and its future uncertain, I researched other data sources. I did not find anything nearly as complete, convenient or accurate. In his book Doug K. LeDu explains his statistical validation of the scores on his point system in getting higher, low-risk returns.

Here is the CDx3 Ten-Point Compliance list:

1. Dividend Rate (At least 5%)
2. Call Period after IPO (5 years)
3. Dividend Period (Quarterly)
4. Moody's Rating (Investment Grade)
5. Dividend Status (Not Suspended)
6. Dividends (Cumulative)
7. Issuing Country (US)
8. Convertibility (Not Convertible)
9. Prospectus (Available)
10. Liquidation Price (par) ($25.00)

The process I use is to download to csv preferreds scoring 8 or better on CDx3. I do the same for those scoring 9 or 10. Since those scoring 9 or 10 also are on the list of those scoring 8 or better, I create a column on the csv file of preferreds scoring 8 and use Excel Lookup formulas to identify the preferreds scoring 9 or 10. The count of preferreds scoring 10 will vary dramatically depending on the market. Sometimes there are none, which doesn't matter much to me since the returns for preferreds scoring 10 are minimal, usually because of the Moody's industrial grade.

I then expand the Excel file adding columns as shown in the table in Appendix C under Creating a Buy List. I will spare you the detail of walking through each criterion. Contact me if you want elaboration.

I then screen the worksheet of maybe 600 positions down to maybe 40 of those most desired. I move the less desirable stocks to the bottom, labeling each grouping such as "Current Yield < 7%" or "Yield-to-Call < 7%. It is a process of repeated sorts and moving groupings to the bottom as listed in Appendix C, Section 2b. If a company has multiple preferreds offered, I pick the best one using the sort function and send the duplicates to the basement of my list.

The second resource I use is the newsletter High Dividend Opportunities written mostly by Rida Morwa and published by Seeking Alpha. It is a detailed newsletter that gives the fundamentals and story behind different preferred stocks. I find it particularly helpful when positions are vulnerable, such as reflected in sudden price drops. Very rarely do I find a preferred stock in their list that hasn't already come to my attention from CDx3. The newsletter is very valuable in listing and qualifying high-dividend stocks other than preferreds, such as Business Development Corporations (BDCs), REITs and particularly mortgage REITs. The newsletter is more pricey (over $500) and may not be justified for the retail investor with limited assets to invest.

The third resource I have listed is one that Alan gave me just today called <u>The Billionaire's Secret:</u> how the world's wealthiest people get rich and stay rich with preferred securities. I haven't had a chance to look at it.

Those are the primary outside resources I rely on as tools. One other I'll mention is XLQ. XLQ is an add-on to Excel. The formulas put current information from Yahoo, Google or a source you specify into Excel cells. It is indispensable for items like current prices and volume averages. I think it is about $50/year.

We have gone into a lot of detail. I have done so because if you manage your own investments, to decide on preferred stocks is of little value if you don't have a clear path forward as to how to implement a preferred strategy.

Why are these low-risk, high returns not arbitraged away?

Why do we have this investment opportunity? What is going on that gives us 9% returns when bonds are yielding 2%? Why is this not arbitraged away?

I will walk through the list from Appendix D.

The first thing I would emphasize is that there's not enough liquidity for institutions or funds to buy the higher yielding preferreds. For example, if you look at ETF's of preferred stocks there is not enough liquidity for a fund to buy the best preferred stocks. I looked at the holdings of one of the main preferred ETFs that had $200 million in 150 positions. A $200 million fund is very small; yet to invest an average of $1.25 million in a preferred stock would be prohibitive. It would drive the price way up and way down if you wanted to sell. My orders of $10,000 sometimes take a day or two to fill. I looked at data on the 150 positions and the only variable I found as a selection criterion was average daily volume which correlated with the size of the holdings. That is not going to give maximum returns. Liquidity has very different parameters for different asset classes. With large cap stocks we get used to instant fills. If you are selling your house and it sells immediately, you didn't get the price you should have. If you're buying a private equity, you may be committed for ten years. Liquidity depends on the type of asset. I think the primary reason we get these kinds of returns is that we are competing where the big fish can't go. We have a competitive advantage buying smaller positions.

The next reason is that preferreds are a stranded asset. The language is misleading for people. Buyers come at it with a perspective of stocks or bonds, a set of glasses and that doesn't see preferreds for what they are.

A third reason is that people have an irrational fear of loss not supported by statistics. They want the high industrial grade even if not-rated preferreds have a better return even after a possible loss or two. Requirements for institutional buyers or managers of private funds only augment this dynamic. For us, the fundamentals for a company issuing a preferred stock only have to look like they will survive. They don't have to look at all like a company that is expected to grow. The companies issuing preferreds are not story stocks. I don't spend a lot of time analyzing the fundamentals of the company if the numbers and criteria look good and the common stock price is not in decline.

The fourth reason for strong returns is that trading and management can be tedious. If I place an order for a preferred stock and half of it fills the first day and the other half of it fills the third day, it takes work to adjust the limit prices and do the record keeping. It's a tedious process to get this system set up, to monitor call dates and Yield-to-Call fluctuations that should prompt a sale. To set up the monitoring software requires being more systematic than what a lot of investors are inclined to do.

A fifth reason for what I see as unusually consistent and high returns is that it can be a long-term investment. There can be liquidity issues. A preferred may not get called and in a rising interest rate environment, the returns don't look as good. If this is money that you think you're going to need a year from now, I would not put it into preferred stocks unless the need is only for the dividend income.

The last point I would list is that it can be rather boring. There is very little reason to get excited about what the market is doing today. All I need to watch is variations in Yield-to-Call and the cash balances coming in from dividends, calls and sales when the Yield-to-Call is outside the appropriate range.

Q & A

Do you place limit or market orders?

> Market orders are to be avoided. Many of the preferreds I buy will go an hour or more without a single trade. I use midprice orders which are offered by Interactive Brokers. They have an algorithm that calculates from the bid, the ask, order sizes and price direction over varying time

periods. It usually works well for me. Occasionally if an order isn't filling, I will change it to a limit order in order to get a fill.

Are preferred stocks comparable to low-rated junk bonds?

I don't like the term "junk bonds" in that it is pejorative more than descriptive. Preferreds occupy a space similar to higher-risk bonds. They differ in that I don't believe the debt comes up as debt on the balance sheet. The designations as interest or dividends have different tax consequences. The basic difference is that preferreds do not have a maturity date. There are "baby bonds" or notes which inhabit the same space as preferreds, and are listed in CDx3, which do have maturity dates while having the same $25 par values.

Are dividends considered qualified for tax purposes?

Some of preferreds are qualified and some are not. Whether or not the dividends are qualified is specified in a column of the CDx3 data. Of course, it doesn't matter for the IRA accounts.

Why would a company not call a callable preferred paying say 8% when new current bonds would be much cheaper for them?

The company may not be able to sell bonds at a lower rate and pay off the preferred stock. Bonds are usually listed in larger amounts by larger companies. A lot of times a company could consider issuing another preferred at say 6% but the overhead cost of doing an IPO doesn't make it prudent for them. Or they may see cash coming in six months down the road and they don't want to spend all that money for an IPO for only six months. I think a bigger factor than dividend rates is whether they need cash or don't need cash, so it's more business issues related. Acquisitions actions often come into play.

I'm confused by your comment early on that the price of preferred stocks do not change.

The trading price of the preferred stock changes, but what we paid for it does not, nor does the amount of the dividend. The price of new purchases will vary from what we might have paid for what we already own.

I don't have the time or motivation to research individual preferreds. Why shouldn't I buy an ETF of preferreds rather than a whole portfolio of individual preferreds?

From what I've seen, dividends on ETFs run about 5% while I'm seeing average dividends of about 9%. I don't think there is anything extraordinary about my returns, other than that I'm diligent and not limited to buying more liquid preferreds. You might want to talk to me about a preferred portfolio for your fixed income.

What will you do if inflation increases?

Doug K. LeDu writes about when the prices of preferreds inflate above par, it becomes time to take the gains. When prices are below par it is a better time for dividend income. Of course, one can only sell for big gains if you bought earlier. The CDx3 monthly newsletter graphs the relative balance between gains and dividends over time.

I've been lightening up on preferreds and moving more into other high-dividend stocks such as Business Development Corporations and Real Estate Investment Trusts which have comparable dividends and rising prices without the threat of a call at a lower price. It is all a matter of balance and gradually shifting allocation.

Appendix A, Terms and Calculations

1. The **preferred XYZ** is issued (IPO) 2/18/2018 with a dividend of 8%.
2. **Call date**: Callable in 5 years or 2/18/2023. May or may not be called then.
3. **Dividend:** 8% x $25 (par) or $2.00 per year. This is a constant.
4. **Cost:** We pay $20 for the preferred. This doesn't change.
5. **Yield-on-Cost:** 10% ($2/$20) Later price changes have no impact.
6. **Cost Yield-to-Call:** (Bonus)
   a. **Gain** on price: $25 (par) minus $20 paid = $5 /2 years = $2.50/yr

      $2.50 / $20 cost = 12.5% per year (approximately)

   b. **Cost Yield-to-Call**: Yield-on-cost of 10% plus gain of 12.5% = 22.5% /yr

If not called when callable in two years, we continue at the Yield-on-Cost of 10% until it is called or we choose to sell.

If trading above par at $26 or $28, **Current Yield-to-Call** would go down and could go negative. Time to sell and take the price gains. Tend your garden.

Appendix B, Pivot Table for Monitoring

(Top & Bottom)

Symbol	Investment Name	Basis	Days Held	Call Date	Cur Price	Yld on Cost	Curr Yld	Curr YtoCall
939648AE1	WPG Corp 6.45 Aug 15'24 939648AE1	40,709	75	8/15/24	60.00	10.3%	10.8%	45.7%
AFFS	AmTrust Fin Serv Inc(7.25%Note)	50,980	904		20.55	8.8%	8.8%	30.5%
AFINP	American Fin Tr, 7.50% A	12,991	543	3/26/24	25.24	7.6%	7.4%	7.1%
AFSS	AmTrust Fin Serv Inc(7.25%Note)	5,270	807		20.99	10.3%	8.6%	27.7%
AGNCM	AGNC InvCorp 6.875% D Fix/Fl mREIT	7,481	170	4/15/24	24.90	7.2%	6.9%	7.0%
AGNCP	AGNC InvCorp 6.125% F mREIT	22,636	220	4/15/25	23.62	6.3%	6.5%	7.9%
ANH PRC	Anworth Mort Asset 7.625% C Cum	16,358	85		25.15	8.2%	7.6%	7.0%
BHR PRD	Braemar Hotel&Resorts 8.25% D Cum	91,791	59	11/20/23	21.81	9.7%	8.7%	16.7%
BPYUP	Brookfield Prop REIT 6.375% A CumRed	69,813	124		24.93	8.4%	6.4%	6.7%
CAI PRA	CAI Intl, 8.50% A Fix/Fl	81,618	189	4/15/23	27.12	8.8%	7.8%	4.2%
CDR PRC	Cedar Realty Tr 6.50% C Cum Red	65,294	113	8/24/22	22.40	8.0%	7.3%	14.9%
CHMI PRA	Cherry Hill Mort Inv Corp 8.20% A	24,877	193	8/17/22	25.39	8.5%	8.1%	7.0%
CHMI PRB	Cherry Hill Mtg Invest Corp 8.25% B Fix/Fl	43,358	169	4/15/24	24.92	9.6%	8.3%	8.4%
CIM PRA	Chimera Invest Corp 8.0% A Cum	55,257	385	10/30/21	24.94	8.4%	8.0%	8.4%
CIM PRD	Chimera Invst Corp. 8.00% D	37,374	133	3/30/24	23.00	8.5%	8.7%	11.5%
CLNY PRG	Colony Capital, 7.50% Series B	103,172	805		24.73	8.1%	7.6%	8.7%
CLNY PRH	Colony Capital, 7.125% C	97,841	673		24.00	8.3%	7.4%	11.6%
CLNY PRI	Colony Capital, 7.15% I	35,856	499	6/5/22	24.05	8.2%	7.4%	10.5%
CMO PRE	Capstead Mort Corp 7.5% E CumRed	32,658	1,086		24.90	7.8%	7.5%	7.9%
CMRE PRC	Costamare, Inc. 8.5% C Prf	65,745	1,738		25.69	8.5%	8.2%	5.5%
CODI PRC	Compass Diver Hldgs 7.875% C Cum Pref	57,917	208	1/30/25	25.15	8.1%	7.8%	7.7%
MDLQ	Medley LLC, 7.25% Sr Due 1/30/2024	8,113	14		7.47	22.3%	24.3%	258.9%
DSX PRB	Diana Shipping, 8.875% B Cum Red...	10,112	9		25.64	7.5%	7.4%	4.9%
ACR PRC	Exantas Capital 8.625% FixFloat Cum	40,978	85	7/30/24	24.28	9.8%	8.9%	9.7%
ACR+C	Exantas Capital 8.625% FixFloat Cum	9,995	2,448	7/30/24	24.28	8.6%	8.9%	9.7%
Grand Total		**3,201,662**	**322**	**9/17/23**	**24.32**	**9.3%**	**8.7%**	**20.0%**

A pivot table of preferred stocks managed by Wenzel Analytics as of 11/23/2021 is on next page.

I choose to separate the preferred REITs from other preferreds just to maintain a balance and track differences. I avoid the energy sector and apply several other criteria to selection. The suffix on the symbols will vary by broker and data source. The (space)PRx is for Interactive Brokers. Schwab uses /PRx. Yahoo Finance uses -px. TC2000 uses a period. The Basis is the aggregate of that position in all accounts I manage. The Days Held is an average for that preferred over each purchase currently held. The Current Yield is what the Yield-on-Cost would be if we bought it today. The Current-Yield-to Call factors in the current yield and the call date.

The important number is the 9.2% or 9.3% yield-on-cost.

Portfolio	Symbol	Investment Name	Basis	Days Held Avg	Call Date	Curr Price	Yld on Cost	Curr Yld	Curr Yld to Call
Pref REIT	AAIC PRC	Arlington Asset Inv, 8.25% C Libor+5.66%	15,064	55	3/30/24	25.93	8.2%	8.0%	6.4%
	ACR PRC	ACRES Com Realty Corp 8.625% Libor+5.93%	62,406	857	7/30/24	25.73	9.4%	8.4%	7.3%
	ACR PRD	Acres Com Realty Corp 7.875% D CumPref	16,873	176	5/21/26	25.20	7.9%	7.8%	7.6%
	AFINO	Amer Fin Tr, Inc 7 3/8% C Red Cum-pef	12,968	201	12/18/25	26.44	7.3%	7.0%	5.6%
	AGNCM	AGNC InvCorp 6.875% D Fix/Fl mREIT	7,481	451	4/15/24	25.34	7.2%	6.8%	6.2%
	AGNCP	AGNC InvCorp 6.125% F mREIT	22,636	501	4/15/25	25.02	6.3%	6.1%	6.1%
	BHR PRD	Braemar Hotel&Resorts 8.25% D Cum	127,351	310	11/17/23	25.79	10.1%	8.0%	6.4%
	CHMI PRB	Cherry Hill Mtg Invest Corp 8.25% B Fix/Fl	49,240	422	4/15/24	25.45	9.4%	8.1%	7.4%
	CIM PRD	Chimera Invst Corp. 8.00% D	37,374	414	3/30/24	25.88	8.5%	7.7%	6.3%
	DHCNL	Divers Healthcare Tr 6.25% SrNote	93,720	682	2/18/21	24.37	7.7%	6.4%	9.0%
	DX PRC	Dynex Cap 6.9% C Fix/Fl mREIT	84,245	450	4/15/25	26.05	7.6%	6.6%	5.4%
	HROWL	Harrow Health, Inc. 8.625% SR Due 2026	113,777	150	2/1/26	26.55	8.3%	8.1%	6.7%
	HT PRC	Hersha Hospitality Tr, 6.875% C Cum	101,250	253	3/6/18	24.26	7.4%	7.1%	10.1%
	HT PRE	Hersha Hospitality Tr, 6.50% E Cum...	28,311	136	11/7/21	23.95	6.8%	6.8%	11.2%
	HTIA	Healthcare Tr Inc 7.375% A Cum Red	26,993	284	12/11/24	25.10	7.8%	7.3%	7.2%
	HTIBP	Healthcare Tr Iinc 7.125% B	20,218	44	6/7/24	25.20	7.0%	7.1%	6.8%
	MDRRP	Medalist Diversified REIT, Inc. 8.0% Ser A Cum...	10,276	231	2/19/22	23.49	9.7%	8.5%	35.8%
	MDVA	MODIV Inc 7.375% A Cum Red Perp	10,873	44	9/17/26	25.80	7.2%	7.1%	6.5%
	MFA PRB	MFA Fin, 7.50% B Cum REIT	116,459	462	4/15/18	25.35	8.7%	7.4%	6.0%
	MITT PRA	AG Mort Inves Tr, 8.25% A Cum	40,378	176	8/3/17	25.35	8.2%	8.1%	6.8%
	MITT PRB	AG Mort Inves Tr, 8.00% B Cum.	10,075	295	9/27/17	25.08	9.9%	8.0%	7.7%
	MITT PRC	AG Mort Inves Tr, 8.0% C F/F	42,966	19	9/17/24	25.44	7.9%	7.9%	7.2%
	NRZ PRA	New Residen Invest Corp7.50% A	15,719	443	8/15/24	25.54	7.6%	7.3%	6.6%
	NRZ PRD	New Resid Inves Corp 7.0%	39,563	64	11/15/26	25.15	7.0%	7.0%	6.8%
	NYMTL	New York Mort Tr 6.875%F Fx/Fl	8,650	139	10/15/26	24.85	6.9%	6.9%	7.0%
	NYMTM	New York Mort Tr, 7.875% E F/F Cum	27,364	141	1/15/25	25.49	8.5%	8.4%	7.8%
	NYMTP	NY Mortgage Trust, 7.75% B	68,277	842	6/4/18	25.28	8.4%	7.7%	6.6%
	OTRKP	Ontrak Inc. 9.50% A Cum Perp-pef	4,983	141	8/25/25	12.05	9.5%	19.7%	48.4%
	PEI PRB	Pennsylvania RE Inv Tr, 6.875% Cum	10,235	2180	3/7/18	8.49	7.2%	21.7%	216.2%
	PEI PRD	Pennsylvania RE Inv Tr, 6.875% Cum	103,916	338	9/15/22	7.54	21.4%	23.2%	310.9%
	PMT PRB	PennyMac Mort InvTr 8.0%B CumRed	125,389	396	6/15/24	26.55	8.5%	7.5%	5.2%
	SACH PRA	Sachem Cap Corp7.75%A	19,364	112	6/29/26	25.82	7.7%	6.5%	5.8%
	SQFTP	Presidio Prop Tr 9.375% D Cum	123,130	97	6/15/26	24.30	9.4%	9.6%	10.3%
	SRG PRA	Seritage Growth Prop 7.00% A	35,668	178	3/22/24	23.86	7.4%	7.3%	10.7%
	TWO PRC	Two Harbors 7.25% C Libor+5%	15,159	186	1/27/25	25.10	7.2%	7.2%	7.1%
	PMT PRC	Pennymac Mort Inv Tr 6.75% C	6,793	99	8/24/26	25.35	6.8%	6.7%	6.4%
	FBRT PRE	Franklin BSP Realty Tr	32,658	1367	5/13/18	25.17	7.8%	7.4%	6.8%
	NXDT PRA	NexPoint Strat Opp Fd	66,540	105	12/14/23	21.60	6.1%	6.4%	14.0%
Pref REIT Total			1,754,341	362	1/21/23	23.83	9.1%	8.8%	30.0%
Preferred	AAIC PRB	Arlington Asset Inv Corp., 7.00% B Cum	19,107	227	5/12/22	24.96	7.3%	7.0%	7.4%
	AAIC PRC	Arlington Asset Inv, 8.25% C Libor+5.66%	29,835	144	3/30/24	25.93	8.8%	8.0%	6.4%
	AFFS	AmTrust Fin Serv Inc(7.25%Note)	112,071	662	6/18/20	20.00	8.6%	9.1%	34.1%
	AFFT	AmTrust Fin Services, 7.50% Sub Notes...	23,982	171	9/16/20	20.00	8.6%	9.4%	34.4%
	AIRTP	Air T Funding 8.00% Alpha IncTr Due 6/7/2049	56,441	25	6/30/22	24.20	8.1%	8.3%	13.8%
	ALTG PRA	Alta Equip Gr 10% A	15,730	309	12/22/25	27.59	9.5%	9.1%	6.8%
	ATLCP	Atlanticus Holdings Corp 7.625% B Cum	19,801	50	6/11/26	25.08	7.7%	7.6%	7.5%
	BW PRA	Babcock&Wilcox Enter 7.75% A Cum	43,406	156	5/7/26	25.22	7.8%	7.7%	7.5%
	CDZIP	Cadiz Inc 8.875% A Cum Pref	130,085	102	7/2/26	19.50	9.1%	11.4%	17.5%
	CHRB	Charah Solu Inc 8.50% Due 2026	82,491	9	8/31/23	24.47	8.7%	8.7%	9.9%
	CIM PRC	Chimera Invmt Corp 7.75% C Fixed/Fl Cum	12,351	187	9/30/25	25.77	7.7%	7.5%	6.7%
	CODI PRC	Compass Diver Hldgs 7.875% C Cum-pef	57,917	489	1/30/25	26.35	8.1%	7.5%	5.9%
	DS PRB	Drive Shack, 9.75% B Cumul Redeem	110,422	171	3/18/08	24.50	9.5%	9.9%	12.0%
	EFC PRA	Ellington Fin Inc 6.750% A Fix/Fl	34,733	488	10/30/24	26.39	7.4%	6.4%	4.6%
	FATBP	FAT Brands, Inc. 8.25% B Cum	78,421	236	7/16/21	20.72	9.8%	10.0%	30.6%
	FBIOP	Fortress Biotech, 9.375% A	174,831	445	2/6/23	26.00	11.8%	8.9%	5.4%
	FGFPP	FG Fin Gr, Inc. , 8.00% A Cum	11,525	55	2/28/23	25.11	8.0%	8.0%	7.6%
	FRGAP	Franchise Gr 7.5%Ser A	3,711	430	9/18/25	26.61	7.6%	7.0%	5.5%
	GLOG PRA	GasLog Ltd., 8.75% A Cum Red Perp	16,596	303	4/7/20	25.51	9.0%	8.6%	6.6%
	GLP PRA	Global Partners (LP) 9.75% A F/F Cum	32,290	442	8/15/23	26.05	9.3%	9.4%	7.0%
	GSL PRB	GlobalShipLease 8.75% Cum Perp	91,511	457	8/20/19	25.92	9.0%	8.4%	4.8%
	IMBIL	Media Brands Inc 8.5% Due 2026	26,108	37	9/17/24	24.15	8.7%	8.8%	10.1%
	LFMDP	LifeMD Inc 8.875% A Perp Pref	30,305	39	10/15/22	21.86	9.2%	10.1%	26.3%
	LFT PRA	Lument Fin Tr 7.875% A Cum	11,307	56	5/5/26	25.44	7.7%	7.7%	7.3%
	LTSA	Ladenburg Thalmann Fin Serv 8.00% A	140,437	212	5/24/18	13.40	11.2%	14.9%	101.5%
	LTSH	Ladenburg Thalmann FinServ 7.75% Sr.	9,001	332	3/30/22	17.65	10.8%	11.0%	132.7%
	LTSL	Ladenburg Thalmann Fin Serv 6.50%	3,141	597	11/30/20	17.50	10.4%	9.3%	52.1%
	MHLA	Maiden Hldgs, Ltd 6.625% Due 6/14/46	72,387	175	6/14/21	21.93	7.6%	7.6%	21.6%
	MHNC	Maiden Holdings NA Ltd, 7.75% Notes	113,334	188	1/31/19	23.15	8.2%	8.3%	16.3%
	MINDP	Mitcham Ind 9% A Cum-pef	125,311	644	6/8/21	19.77	10.2%	11.3%	37.8%
	MITT PRC	AG Mort Inves Tr, 8.0% C F/F	10,087	59	9/17/24	25.44	7.4%	7.4%	6.8%
	OTRKP	Ontrak Inc. 9.50% A Cum Perp-pef	197,005	346	8/25/25	12.05	10.0%	19.7%	48.4%
	OXLCP	Oxford Lane Cap Corp., 6.25% Cum	59,106	304	2/28/23	24.93	6.7%	6.3%	6.5%
	PFFA	Virtus InfaCap US Pref ETF	11,007	44		24.76			
	PYS	MerLyn Dep PPLUS Tr 6.30% Cert	61,375	120	4/15/11	23.42	6.9%	6.7%	13.5%
	SB PRC	Safe Bulkers, 8.00% C Cum Red	58,595	260	5/31/19	25.22	9.2%	8.4%	7.5%
	SB PRD	Safe Bulkers 8.0% D Cum	94,631	346	6/30/19	25.24	9.9%	7.9%	7.0%
	SCE PRL	SCE Trust VI, 5.00% Cum Tr-pef	14,476	247	6/26/22	24.90	5.2%	5.0%	5.7%
	SNCRL	Synocross Tech 8.375% Sr	31,935	100	6/20/22	24.11	8.4%	8.7%	15.2%
	SPLP PRA	Steel-Partner Hldgs LP 6.0% A Cum Pfd	14,778	242	5/13/21	24.02	7.1%	6.2%	10.3%
	TNP PRD	Tsakos Ener Naviga Ltd, 8.75% D Cum	23,051	246	4/29/20	23.98	9.2%	9.1%	13.4%
	SLNHP	Mechanical Tech Inc 9.0% A Pref	194,954	90	8/23/26	24.67	9.1%	9.1%	9.4%
	GREEL	Greenidge Gen Hlds Inc 8.5%Sr	9,377	3	10/31/23	24.90	8.5%	8.5%	8.7%
Preferred Total			2,468,967	289	8/13/21	21.99	9.3%	10.2%	23.5%
Grand Total			**4,223,308**	**320**	**3/25/22**	**22.78**	**9.2%**	**9.6%**	**26.3%**

Appendix C, Implementing

1. Start top down with allocation, not bottom-up with story stock selections.

Choose your own categories and respective allocation.
The Wenzel Analytics allocation reflects my perspectives and clients' choices.

Wenzel Analytics allocation, 11/24/2021.

Investment Type	Goal	Portfolio	Allocation
Cash	Status Quo	Cash	**1%**
Realized	Locked Income	Pref REIT	21%
		Preferred	27%
	Locked Income Total		**48%**
Realized & Unrealized	High Inc-Growth	High Div, i.e. BDC	13%
		REIT	10%
	High Inc-Growth Total		**23%**
	Price Appreciation	Alt Energy	0.5%
		Investor Advis Serv Small Cap Inform	4%
		Nate's Notes	2%
		Navellier	11%
		Passive	3%
		Singles	1%
	Price Apprec Total		**22%**
	Uncorrelated	Gold Silver	4%
		International	2%
	Uncorrelated Total		**7%**
Realized & Unrealized Total			**52%**
TOTAL			**100%**

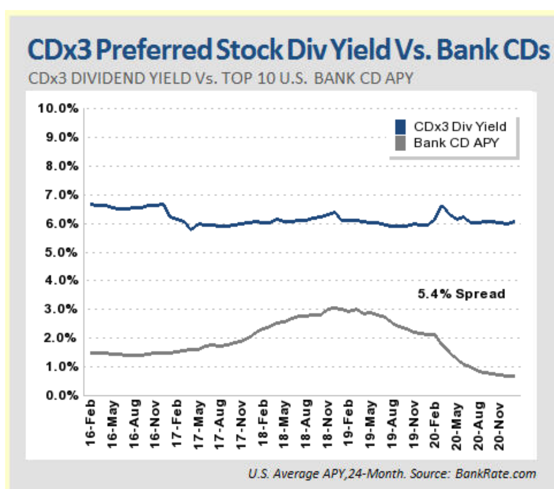
2. Data Sources

a. CDx3 Notification Service at cdx3investor.com.

i. \$16.25/month. Indispensable. Other sources incomplete.

ii. Preferred Stock Investing by Doug K. LeDu. 334 pages.
I believe the pdf is free. Paperback is on Amazon.

iii. Have three monthly charts of overall preferred pricing patterns and comparisons to interest rates. One is on the right:



iv. Download and aggregate csv files for Scores of 8, 9 & 10.

b. High Dividend Opportunities at 1hdo.com/about-us

i. CDx3 has a far more complete database and gives the numbers.

ii. HDO, Rida Morwa and his team give the stories and background with daily updates giving comfort in buying higher-yielding positions than I would otherwise buy.

iii. One year subscription in September from Seeking Alpha, \$408.

c. From Allen: Amazon.com: The Billionaires Secret: How the World's Wealthiest People Get Rich and Stay Rich with Preferred Securities (9781911249382): Tabin, Herbert, Tobin, Jacqueline: Books

3. Create a buy list.

a. Expand the fields (Columns) from CDx3, then distill the rows.

Snapshot from the top center of the worksheet

IB Symbol	Preferred Stock Name	Portfolio	Notes	Fund Pts	TA Com	TA Pref	Div Rate	Score	Last Price	Volume	Avg Volume	Yield-CY	Yield-YTC	Yield-EAR	Div + LIBOR	Call Date
LTSA	Ladenburg Thalmann Fin Serv 8.00%	Preferred			6	6	8.00%	8	17.50	2,674	9,924	11.4%	54.3%	0%		5/24/18
FBIOP	Fortress Biotech, 9.375% A Cum Perp	Preferred		6	6	6	9.38%	8	22.89	11,179	17,344	10.2%	15.3%	22.19%		12/15/22
SB PRD	Safe Bulkers, 8.00% D Cum Red	Preferred		5	6	6	8.00%	8	22.58	2,480	7,244	8.9%	19.6%	0%		6/30/19

Documentation to assist as you build a buying worksheet.

Column	Sample Row	From CDx3	Notes
IPO Date	6/23/14	X	Not often relevant.
Common Symbol	SB		Needed to look at charts of underlying company to make sure not heading down.
Yahoo Symbol	SB-pD		Needed for XLQ to put current data in fields such as price and volume.
Symbol TC 2000	SB.D		Used to look at preferred and common charts. Use Excel Replace to edit.
Symbol	SB-D	X	Format of symbol in CDx3
IB Symbol	SB PRD		Format I need for uploading trades to Interactive Brokers
Preferred Stock Name	Safe Bulkers, 8.00% D Cum Red	X	I shorten and abbreviate the names. Otherwise the column is too wide.
Portfolio	Preferred		I separate preferred of REITs from all others.
Already Own	Yes		To balance allocation. Entered manually or with Excel Lookup.
Notes	LP HDO		If limited partnership, I may not want the late K-1s. High Dividend Opportunities recommended?
Fund Pts	13		I evaluate the underlyiing common using the free Navellier Grades of A-F. B-B-C = 13 (A=5 etc.)
TA Common	6		My technical analysis rating of 1-10. 6 is a strong buy.
TA Preferred	6		My technical analysis rating of 1-10. 6 is a strong buy.
Div Rate	8%	X	Used to calculate yields.
Score	8	X	CDx3 has a 10 point system demonstrating superior results. Hover the cursor on the site to get the score or load separate csv files for each score and then aggregate.
Last Price	22.60	X	This imports static. I replace it with the XLQ to keep price and yields current.
Volume	2,480		This imports static. I replace it with the XLQ to keep current. Varies day by day dramatically.
Avg Volume	7,189		This 3-month average using XLQ gives a much more reliable picture of liquidity.
Yield-CY	8.8%	X	I replace with Excel formulas to keep current.
Yield-YTC	19.5%	X	I replace with Excel formulas to keep current.
Yield-EAR	0	X	Yield Effective Annual Return. More precise with compounding and ex-dividend dates. Blank because callable.
Div + LIBOR			If buying fixed/float preferreds with rates that float above Libor or similar metric after call date. Found in prospectus.
Call Date	6/30/19	X	Since call data has passed, these can be called at any time.
Ex-Div Date	1/21/21	X	Date ownership needed to qualify for quarterly dividend.
Maturity Date	Perpetual	X	This is date by which it must be called. Preferred notes will have shorter terms.
Liquid Price	25	X	Par value. I rarely buy other than $25. $25 is one of the ten scoring points.
Moody's	NF	X	NF means not rated. A rating dramatically reduces dividends. I use my own rating for quality.
S&P	NF	X	NF means not rated. A rating dramatically reduces dividends. I use my own rating for quality.
Exch	NYSE	X	Bargains can be had if buying Over-the-Counter before it gets the exchange listing and symbol. CDx3 sends notices.
Status	QDI	X	Qualified dividends are a plus for taxable accounts.
Prospectus	http://www.sec.gov/Archives/edgar/data/1…	X	For further due diligence.

b. I do a number of sorts, then move rejected preferreds to the bottom of the spreadsheet such as:

1. Low current-yield and low yield-to-call
2. Low dividend rates
3. Fail technical analysis judgement and quality indicators
4. Not QDI (Qualified dividends)
5. Limited partnerships (Late K-1s)
6. Sectors under stress long-term such as energy
7. Fixed/Float
8. Non-cumulative or suspended dividends
9. Already owned or a better preferred issued by same company

Appendix D

Why are these low-risk, high returns not arbitraged away?

1. Not enough liquidity for institutions and funds.
2. Stranded asset. Not understood by bond people or stock people. A misnomer.
3. Irrational fear of loss unsupported by statistics.
4. Trading and management can be tedious. (See buying worksheet above.)
5. Long-term investment, reliant on income more than gains.
6. Boring. Prices matter little once invested.