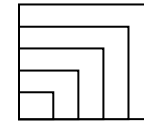


CORRECTED (*Italics*)

January 2, 2023



Wenzel
Analytics
Inc

Dear clients,

The future of the stock market for the next year presents uncertainty but within a presumed range. From the credibility I assign to various sources, I would expect that in the first half of 2023 we will see the S&P 500 dip to the lows of last October (3,500), if not to 3,200. The last half of 2023 looks more promising, but probably not exceeding the high of a year ago. In other words, volatility but overall going sideways within a limited range.

My response is to continue to shift to income rather than gains or losses the market might deliver. The price of income stocks has dropped even more than the stock market, yielding little consequence except for cheap buying opportunities as we continue to hold and collect the constant dividends. After completing (and printing) your reports and the overall Performance Summary, I did some further calculations on dividends paid and found the annual yield for the quarter on REITs to be 13.1% and on other High Dividend stocks to be 15.0% for a combined rate of 14.3% for the quarter. As primarily an income investor, it has been a very good year.

I continue to be impressed with the relative advantages of investing for income rather than gains. A dividend paid is not going to disappear (except for being taxed) like an investment designed for gains will show ups and downs. The dividend income is available to reinvest and compound or to spend. Unrealized gains in a stock's price are not available to be reinvested. When a stock portfolio shows gains, the only thing it is really good for is some satisfaction in looking at it, possibly increased value as collateral against borrowing, and to worry that it might go down. *Doing a more accurate Yield-on-Cost than I've been showing would calculate the increased yield because of the reduced basis or cost after each dividend. It is a ratchet we don't necessarily get with unrealized gains.*

To give an example of quarterly compounding since dividends are paid quarterly, if we take a rate of 8% compounded quarterly for ten years, I calculated \$220,804. *(I originally calculated ten years as 120 months instead of 40 quarters.)* If we take 8% each year times the original cost of a long-term investment without dividends, the result is a valuation of \$180,000. Correct me if I'm wrong. *(Someone did.)*

The strong dividend income often preempts the need for sales because of withdrawal needs.

I'm not worried by a general price decline in preferred stocks, as well as the common stocks of the issuing companies, as long as they are in sync with the general market. If so, I don't see the particular position as vulnerable to deferred dividends or bankruptcy. I do continue to watch for where a common stock underlying a preferred is falling precipitously and not relative to the market, raising the specter of a bankruptcy. Often the corresponding preferred has yet to follow suit, and selling is called for.

Inflation and recession threats have more to do with lifestyle costs than with investment returns, although inflation obviously diminishes the real returns relative to the nominal returns.

I'm spending more of my time implementing additions to existing income portfolios, and less of my time exploring and then switching to new strategies and portfolios.

I value the trust you have placed in me and our opportunities to interact and work together.

Warmly,

Lee

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