Performance Summary

Second Quarter, 2023.

Wenzel Analytics Inc

This report gives specific returns on different strategies and portfolios arranged by categories for the aggregate of all accounts managed by Wenzel Analytics.

Categories

A. **Fixed Income**. These are returns locked by unchanging dividends based on unchanging par values. These would be from preferred stocks and sometimes notes, bills, bonds or "baby bonds". Beyond the fixed income, most of these investments have a predetermined sale price of $25/share, creating the opportunity for significant gains if purchased for less than the par value. While there will be changes in valuation based on current price, current prices are considered less relevant to the goal of fixed income and profit from the eventual call or sale. Showing a price chart in this report distracts from the goal which is locked-in income.

B. **Variable High Income.** These are dividend returns usually declared quarterly on Real Estate Investment Trusts (REITs) and other Regulated Investment Companies (RICs) such as Business Development Corporations (BDCs) or Closed End Funds (CEFs) with high dividends (almost always above 7%). Once the dividends are received, they are obviously locked in or realized, although the dividend for next quarter is not. Price appreciation may or may not be a part of the strategy in holding a position.

C. **Gains and Losses on Sales**. Performance based on sales is hard to meaningfully report since each sale extends over widely varying time frames. They are significant in that the returns are realized or locked in but derive from divergent goals. Some are from calls on preferred stocks which we can anticipate being at $25 but for which the timing is uncertain after a call date. The remainder are mostly to avoid future price declines, whether the price is falling or reaching ethereal highs. Sometimes a sale is made merely because another investment has more promise. Sometimes sales are made not because of the individual position but because of an overall threatening market, such as March of 2020. Schedule D on our income taxes is a very misleading performance report. For these reasons we don't report capital gains or losses although they are incorporated in the other categories.

D. **Price Appreciation.** Some portfolios are designed for price appreciation with dividends being incidental. (Usually under 4%, 1.3% of the market in 2021). Performance is based on the current price which in a way is meaningless or hypothetical since it is not captured with a current sale. It may go up or down prior to an eventual sale.

E. **Uncorrelated Returns.** Some portfolios are designed to be more or less independent of market trends. They may work that way or they may not. In comparing these returns to a market benchmark, the thing to look for is not to beat the benchmark except over very long timeframes, but to move opposite or independently of the market benchmark and limit overall volatility.

F. **Overall.** Overall performance encompasses all the above categories. It is a mix of realized and unrealized returns, actual income and hypothetical valuations if sold today – of apples and oranges. Each client may allocate differently to these different categories, impacting overall returns. For preferred stocks, price increases above par are evaluated negatively in that if they were called, the valuation would become par. The price above par needs to be weighed against time to call and intervening dividends. I have discontinued showing charts for overall valuation.

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Allocation, Composite of all Accounts

Investment Type	Goal	Portfolio	Alloca
Cash	Status Quo	Cash	1.8%
Realized	Locked Income	Note*	13.4%
		Pref REIT	24.4%
		Preferred	21.2%
	Total		59.0%
Unrealized	High Inc-Growth	High Dividend	14.6%
		REIT	8.2%
	Total		22.8%
	Price Appreciation	Nate's Notes	1.7%
		Navellier	2.1%
		Passive	2.4%
		Singles	0.8%
	Total		8.2%
	Uncorrelated	Commodities	0.7%
		Gold Silver	3.2%
		International	3.6%
		Original	0.8%
	Uncorrelated Total		8.2%
Total			39.2%
TOTAL			100.0%

*Of the 13.4% in notes or bills, 3.8% is in money markets or T-Bills in anticipation of necessary immanent withdrawals. The remaining 9.6% is in Baby Bonds, similar to preferred stocks except for the defined maturity date.

Interactive Brokers' margin rate has gone up recently to 6.57%. The margin is being reduced in the accounts using limited margin.

The Original portfolio under Uncorrelated is for new accounts in which I'm waiting for a better opportunity to sell some of the original holdings.

Fixed Income Yields Going Forward of 10.0% Yield-on-Cost, 12.1% CAGR.

One way to show fixed or locked-in income from the 59% of our allocation invested in preferred stocks and notes is to show Yield-on-Cost. Yield-on-Cost is the annual yield going forward based on the original cost to us of the preferred stock or note, which does not change, and the dividend income, which also does not change until the stock is called, sold (or could go bankrupt). The aggregate Yield-on-Cost for the 124 different preferred stocks or notes held by one or more of the 25 households is **10.0%** (total dividends divided by cost)**.**

If these positions would be called when they become callable, the return would be much higher (Yield-to-Call). The call price is $25, the current average price is $17.26, and the current median price is $20.07. There will be significant gains at some unknown future date. Most will not be called when callable and will continue to pay the specified dividend.

The Yield-on-Cost on a given position does not change with each year going forward giving an arithmetic increase. However, the reinvested dividends give a geometric increase or compound annual growth rate (CAGR). Since dividends are reinvested in new positions, each position maintains the arithmetic Yield on Cost, while the new positions result in a geometric increase for the portfolio. The current fixed income portfolio has a compound annual growth rate (CAGR) for the next year of **12.1%**.

A detailed paper reviewing the various ways to calculate yield, the advantages and disadvantages of each, as well as respective results for fixed income and price appreciation stocks is available on the website under Preferred stocks or at the link: Comparing Yields and Gains.pdf.

To report dividends over the past quarter or past year is less accurate since positions recently purchased may not have yet paid their quarterly dividends, and some that were sold still have dividends due.

Higher returns on fixed income are achieved by using other than Moody's ratings to evaluate credit risk. A primary measure of risk is the price stability of the issuing company's common stock relative to the overall market. Our competitive advantage in buying preferred stocks is the limited liquidity of preferred stocks that allows us to buy positions smaller than a fund or institutional investor could buy to satisfy their needs without dramatically driving up the price at purchase, and down when selling.

Return Calculations

Return on Investment (ROI) is most relevant for individual client reports. Time Weighted Returns (TWR) are how mutual fund returns are calculated. It gives a return calculation independent of when funds were added or withdrawn. If no funds were added or withdrawn, the two calculations are the same. It takes a long time for the computer to calculate the TWR.

The charts of price change plus dividends give an average independent of position size. A $3,000 position will affect the average as much as a $15,000 position. The numbers in parenthesis in the upper left corner of the charts are for the last day of the chart.

Variable High Income.

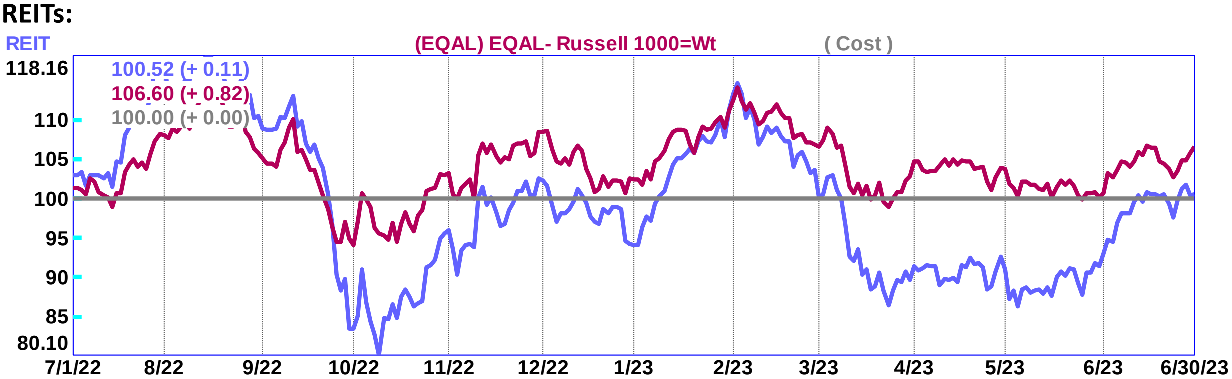
High Dividend & Growth: TWR 12 Months: 3.9%. Percent Chg 3 Months: 6.6%.

These are Real Estate Investment Trusts (REITs), Business Development Corporations (BDCs) and Closed End Funds (CEFs) and other Regulated Investment Companies (RICs) that are required to pay out most of their current earnings with dividends as an alternative to paying corporate taxes. The investor then pays the taxes, which is advantageous to most of us as our tax rates are less than the corporate and large institutional investor rates. The goal is to have greater price appreciation and eventual gains to offset the risk accompanying dividends that can change any quarter.

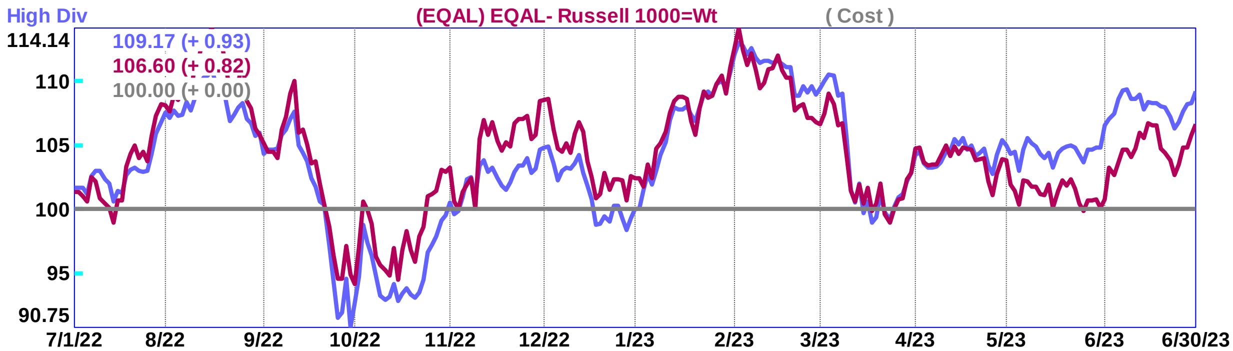
As with the preferred stocks, the price declines are deceptive since we are reaping the high dividends as current cash and not selling at low prices.

The returns above for overall Variable High Income can be divided into a REIT portfolio and a portfolio for other high dividend positions, as shown below.

REITs:



Other High Dividend: TWR 12 Months: 9.2%. Percent Chg 3 Months: 4.8%.

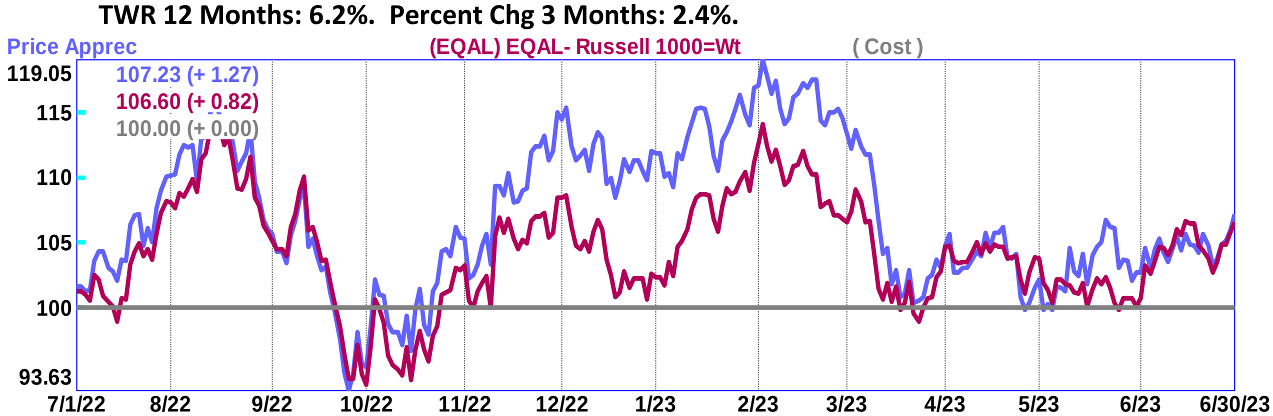


The thing about unrealized returns based on current prices is that they are merely hypothetical. The returns are what we would have if we sold the last day of the quarter – which we didn't do. Next week or next month the figures will be history rather than cash in an account. Changes in valuation are of concern if one needs to sell a position or chooses to sell, either for taking gains or out of fear of further declines prior to when a sale is required. A principal advantage of the significant dividend income from preferred stocks and other high dividend positions is that the income preempts the need to sell for most lifestyle or other cash needs.

The total return for REITs and other High Dividend stocks over the last year was 3.9%. To get a rough figure of the offsetting dividend contribution, dividing the dividends received over the last quarter by the average valuation gives a dividend return of **13.1%,** offsetting price declines. The 13.1% reflects current cash income, not something hypothetical if we had decided to sell at an inopportune time. The current dividend income allows us to be less concerned with changes in price as it is not the time to sell.

Price Appreciation.

TWR 12 Months: 6.2%. Percent Chg 3 Months: 2.4%.



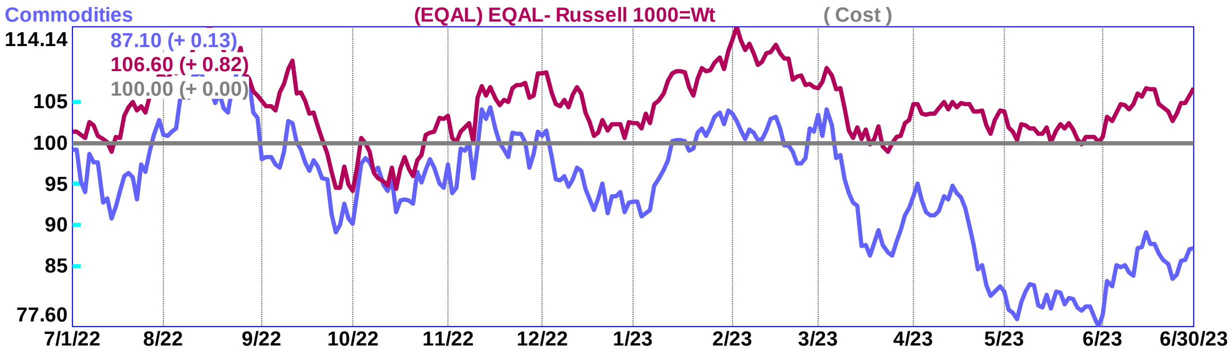
Our allocation to price appreciation over the past year has dropped from **16.2%** to **8.2%.** Our current assured dividends from preferred stocks exceed the compound annual growth rate of the market over the past one hundred years. In addition we have capital gains from preferred stocks and do not have the uncertainty and volitility of the overall market.

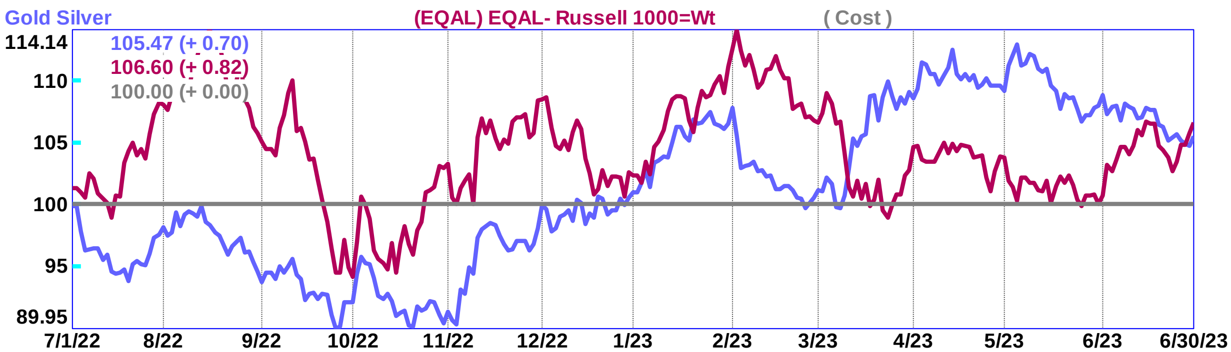
While the overall market is up 16% year-to-date, the equal-weighted 1000 is up less than 5%. Excluding the eight mega-cap stocks, the other 492 stocks in the S&P 500 are down about 1% year-to-date. The mega-cap stocks have high P/E ratios. Eventually the eight mega-cap stocks will come down. Like a game of musical chairs, buyers are ignoring earnings and riding the momentum up expecting to get out before a crash.

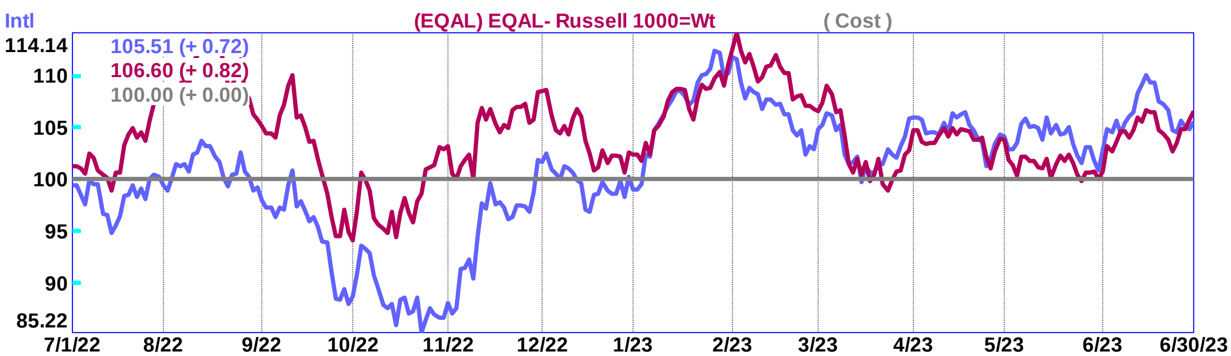
Uncorrelated.

TWR 12 Months: 2.9%. Percent Chg 3 Months: -1.6%.

Uncorrelated portfolios making up the composite return shown on the line above are shown in the charts below.







The Gold/Silver portfolio, other Commodities and the International portfolio are intended to be relatively uncorrelated or independent of the primary U.S. market – not that they always perform that way as one can best see in the charts. The International portfolio (3.6% allocation) is positioned for longer-term returns stimulated in emerging markets by mobile phones, fintech and accelerated online economic transactions.

Summary

I don't see anything in terms of promise or peril to prompt a dramatic change in our basic allocation or strategy. We are generally moving towards preferred stocks and other high dividend positions. We are exiting or moving from growth to value in the price appreciation category and holding the uncorrelated positions.

The underlying strategy is to avoid stocks or portfolios which are likely to match the market. To match the market can be achieved by buying ETFs without the expense of a money manager and incurs volatility beyond my comfort. The fixed-income preferred stocks portfolios representing 59% of our allocation is conservative based on dividends received independent of market volatility. The 13% dividends from the High Dividend and Growth category allows us to be less concerned with price volatility. The 8.2% allocation to Price Appreciation portfolios is more aggressive, balancing out what one may picture as a barbell strategy on the risk continuum.

Each client has distinct goals in my mind and in their mind relative to income and possible gains with accompanying price volatility. Client preferences between aggressive investing and conservative investing directly affects overall returns.

Our annual Time-Weighted-Returns (TWR) since 1/1/2002 are 6.3%. Over the past year the annual TWR was 3.1%. The percent change over just the past quarter was 4.4%.

Stocks overall have retraced about half the high of November, 2021, and the low of October, 2022.

Allocation Architecture

Our allocation architecture is distinctive to Wenzel Analytics as an active money manager. Our dominant approach is to buy stocks in portfolios consisting of seven to fifteen positions all conforming to common criteria. The portfolio criteria have priority before looking at selecting the individual stocks within a portfolio. Selling decisions are based mostly on the performance of individual positions except in the unusual case where a portfolio is being abandoned. Therefore, performance is reported here and on client reports by categories and portfolios rather than by individual positions. The stories that accompany individual stocks are generally avoided in favor of the numbers, technical patterns and newsletter or underlying rationale or research for a portfolio.

Net of Fees

This entire report is exclusive of management fees. The impact on returns varies by the size of account. Our personal accounts do not pay fees. While individual client reports are after fees, it is difficult to create meaningful charts or return calculations net of fees for the aggregate of all accounts.

Portfolio Construction

Each household's accounts are individually balanced by the categories identified above and then sub-set portfolio preferences, as well as individual stock selection. Some portfolios work better in different market periods. Individuals holding the same portfolio will each have different stocks because of starting or adding positions at different points in time. Even at the same purchasing date and for the same portfolios in different accounts, the number of stocks added to a portfolio is dependent upon cash available and allocation considerations between different portfolios.

Use of this Report

This report is intended for clients and prospective clients to evaluate their desired allocation in comparison to what is reported here. Because the composite of all accounts is more consistent than any given account, this report is more relevant to expected future performance or a category or portfolio than the single sample of a client's individual report.

Some readers struggle with understanding the charts. It's really quite simple. Lines going up are good. Lines going down are not so good. If you have trouble understanding this report, or sections of it, I would be happy to walk through it with you and elaborate or provide additional data if you have questions. Sometimes elaboration can also be found at the Client Letters found on the website.