Performance Summary

Wenzel Analytics Inc

Third Quarter, 2022.

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, bonds or "baby bonds". Beyond the fixed income, 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. Showing a price chart in this report would distract 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 securities 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 report of performance. For these reasons we don't report capital gains or losses.

D. **Price Appreciation.** Some portfolios are designed for price appreciation with dividends being incidental (usually under 4%). 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

Inv Type	Goal	Portfolio	Allocation
Cash	Status Quo	Cash	-0.2%
Realized	Locked Income	Pref REIT	25.4%
		Preferred	26.2%
	Locked Income		51.7%
Realized			51.7%
Unrealized	High Inc-Growth	High Div	14.9%
		REIT	8.7%
	High Inc-Growth		23.6%
	Price Appreciation	Alt Energy	1.0%
		IAS SCI	5.3%
		Nate's Notes	1.5%
		Navellier	3.4%
		Passive	2.2%
		Singles	1.2%
	Price Appreciation		14.7%
	Uncorrelated	Commodities	1.3%
		Gold Silver	3.5%
		Intl	4.2%
		Original	1.3%
	Uncorrelated		10.3%
Unrealized			48.5%
Grand			100.0%

Interactive Brokers margin rate has gone up recently to 4.58%. A couple accounts are using margin in a limited way.

IAS SCI is a portfolio from the newsletters Investor Advisory Services and Small Cap Informer, published by iClub and edited by Doug Gerlach.

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.

A. Fixed Income Returns Going Forward of 9.7% Yield-on-Cost.

The best way to show fixed or locked-in income from the 51.7% of our allocation invested in preferred stocks is to show Yield-on-Cost. Yield-on-Cost is the annual yield going forward based on the cost of the preferred stock or note, which does not change, and the dividend income, which also does not change until the stock is called or sold. The average Yield-on-Cost for the 110 different preferred stocks or notes held by one or more of the 26 households is **9.7%.** If these positions would be called when they become callable, the yield would be much higher (Yield-to-Call) since the call price is $25 and the current average price is $16.63. The yield-to-call number is distorted by a few outlier high risk positions trading at low prices. Yield-to-Call is not fixed with regular payments to the account as are dividends. Many will not be called when callable and will continue to pay the Yield-on-Cost.

The price of preferred stocks is down significantly, as is most everything. The S&P 500 was down -5.5% for the quarter but 20.6% from the quarter's high. If the preferred stocks currently held were purchased at prices as of the end of the quarter, the Yield-on-Cost would be 22.5%.

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. Two have deferred dividend payments. Actual dividends received during the last quarter divided by the average of the beginning and ending valuations is **10.4%** annually.

For preferred stocks, price increases above par are evaluated negatively in that if they were called, we would only receive par ($25) instead of a price above par. The price above par needs to be weighed against time to call and intervening dividends. Stocks are sold for a gain when the price rises high enough to make the Yield-to-Call less than 4% or 5%.

Returns on fixed income are achieved by using other than Moody's ratings to evaluate credit risk. Our competitive advantage in buying preferred stocks is the limited liquidity of preferred stocks allows us to buy relatively small positions that a fund or institutional investor couldn't buy in enough volume 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.

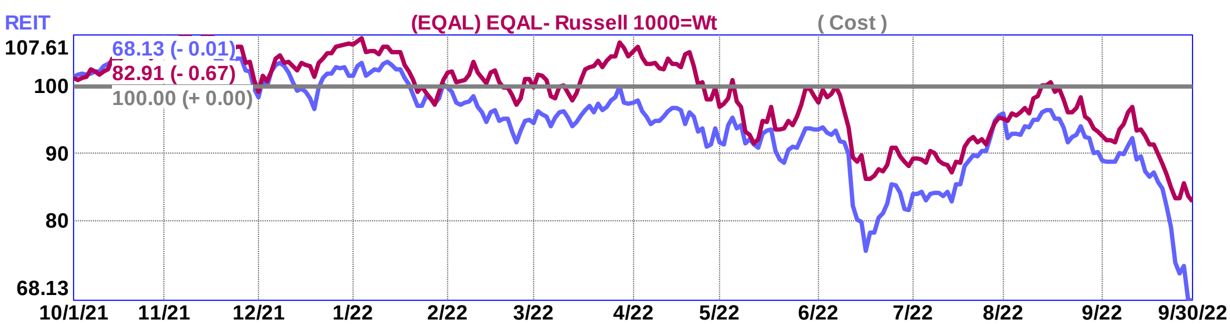
The charts of price change plus dividends give an average independent of position size. A $3,000 position will affect the average as much as a $15,000 position. The numbers in parenthesis in the upper left corner of the charts are for the last day of the chart.

B. Variable High Income.

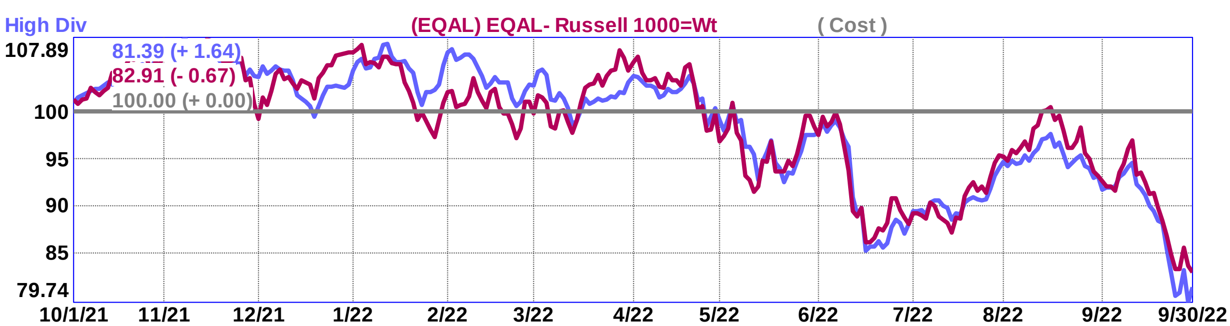
TWR 12 Months: -23.8%. Percent Chg 3 Months: -11.0%.

These are Real Estate Investment Trusts (REITs), Business Development Corporations (BDCs) and Closed End Funds (CEFs) with dividends comparable to the preferred stocks. The goal is to have greater price appreciation and eventual gains to offset the risk accompanying dividends that can be changed any quarter. 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: TWR 12 Months: -32.6%. Percent Chg 3 Months: -16.5%.



Other High Dividend: TWR 12 Months: -17.7%. Percent Chg 3 Months: -7.5%.



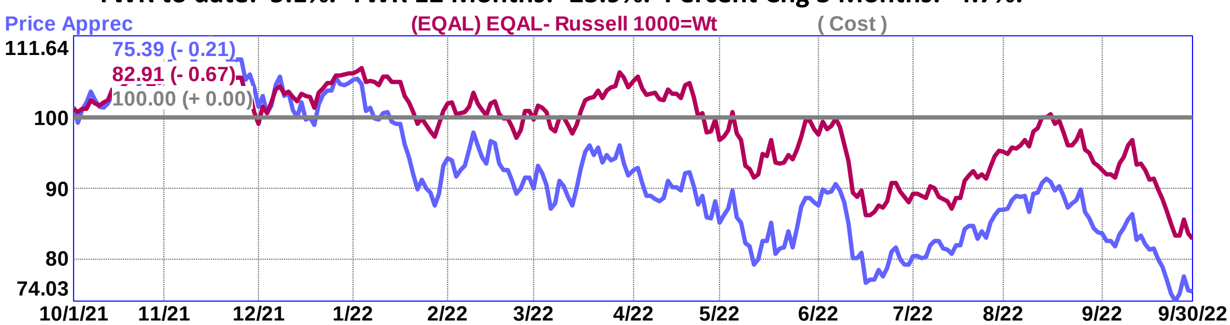
The REITs' decline over the last couple weeks is precipitous, presumably due to the changes in the interest rate environment. Such a dramatic price drop is usually followed by a dramatic recovery.

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 in order to meet lifestyle or other needs for cash.

The total return for REITs and other High Dividend stocks over the last year was -11.0% and is shown by the blue lines on the charts. To get a rough figure of the dividend contribution, dividing the dividends received over the last year by the average of the beginning and ending valuations gives a dividend return of 12.1% offsetting price decline. The dividend income now allows us to be less concerned with changes in price as it is not the time to sell.

C. Price Appreciation.

TWR to date: 5.1%. TWR 12 Months: -23.9%. Percent Chg 3 Months: -4.7%.

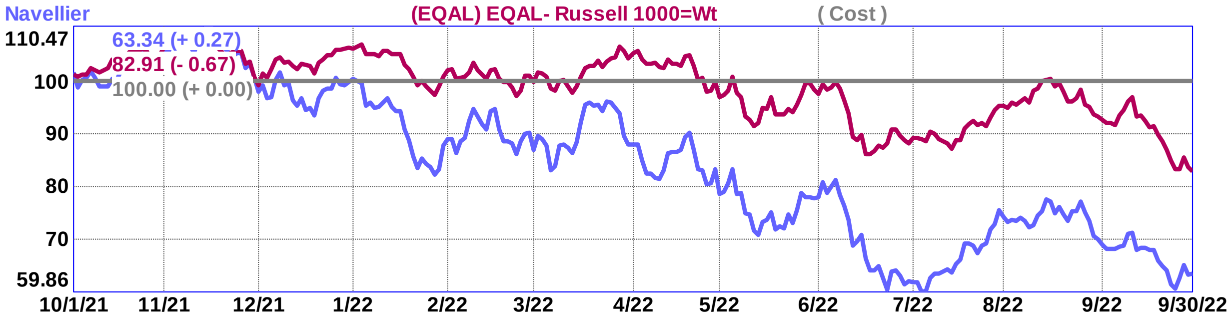


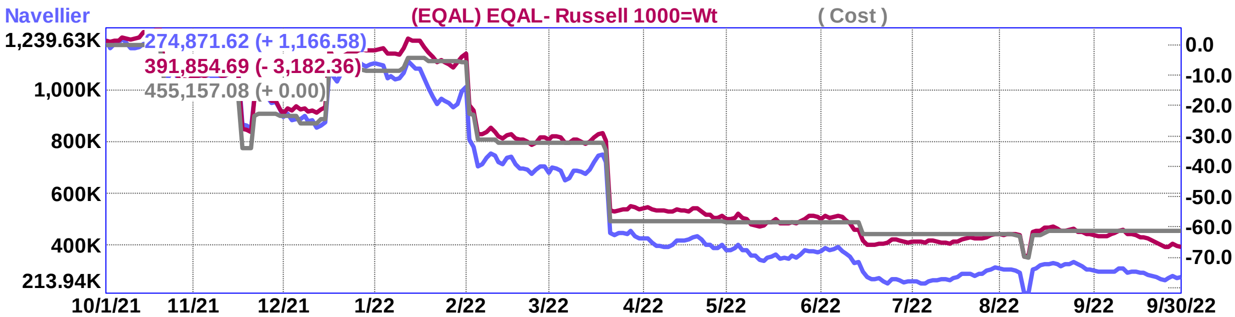
The Price Appreciation category includes several portfolios. The portfolios not shown below are in transition, very small or experimental. The returns are included in the price appreciation returns. The overall pattern is more relevant than reporting on individual stocks or small portfolios.

As you can see in the Allocation table above, the two main portfolios for price appreciation are the one drawn from the Louis Navellier Grades (growth) and the Investor Adisory Services /Small Cap Informer (fundamentals). Louis Navellier is a large institutional investor who edits several newsletters. On his website is a free stock grading application which I find more convenient (and cheaper) than his newsletters. I see him as principally a growth stock investor, drawing heavily on large money flows into promising stocks. The Investor Adivsory Services / Small Cap Informer (IAS/SCI) portfolios is based strictly on fundamentals. The IAS/SCI porfolio is based on two newsletters edited by Doug Gerlach of iClub. I pick and choose from their ratings using other criteria. Both the Navellier and the IAS/SCI sources have historically had superb track records according to the Mark Hulbert independent tracking over short and long-term periods, and have performed well for me over several years until this year. The Navellier portfolio has been trailing the overall market as shown below because of its heavy weighting to overvalued growth stocks. I sold many positions in the first quarter, as shown in the second chart below which gives the portfolio values.

The best part of the Price Appreciation Goal category is that it is only 15% of our allocation. The Alterative Energy and Singles portfolios are more aggressive and in only my personal accounts.

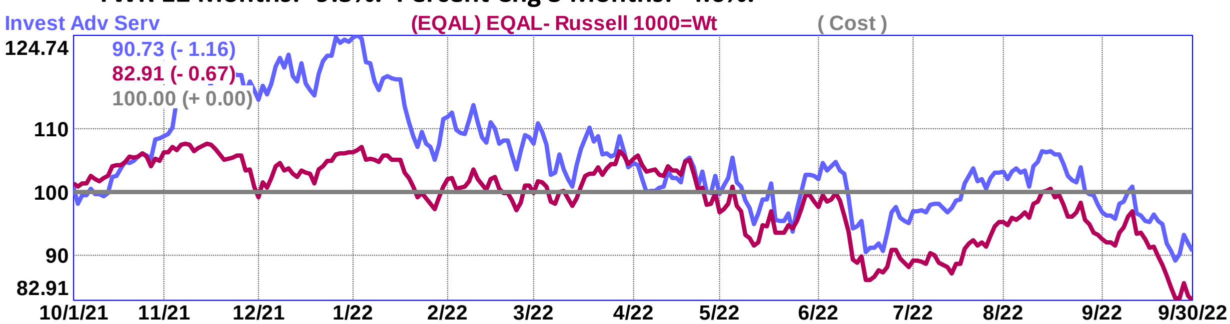
Navellier: TWR 12 Months: -34.3%. Percent Chg 3 Months: 2.4%.





Investor Advisory Services/Small Cap Informer:

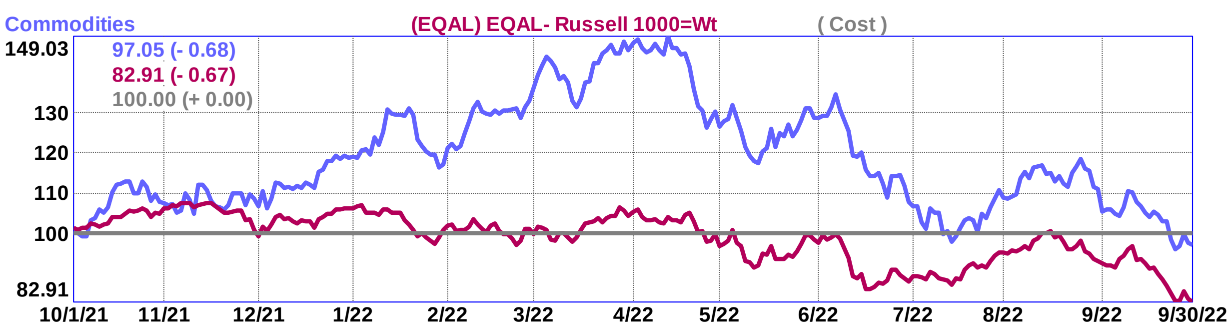
TWR 12 Months: -9.3%. Percent Chg 3 Months: -4.6%.

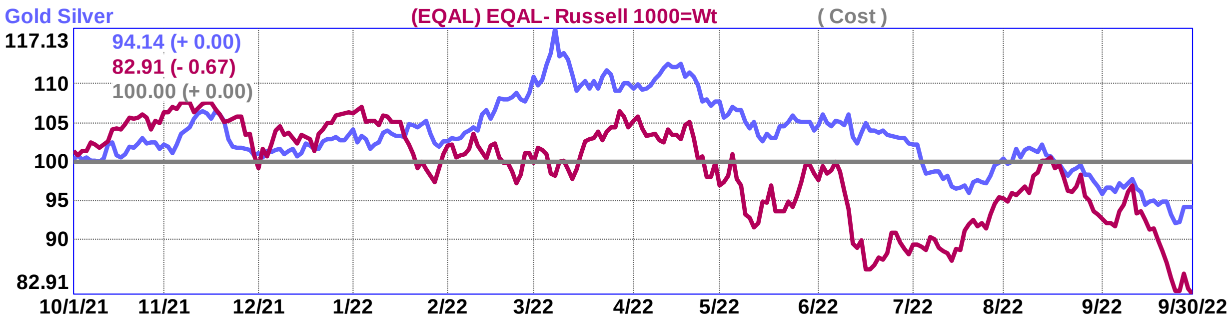


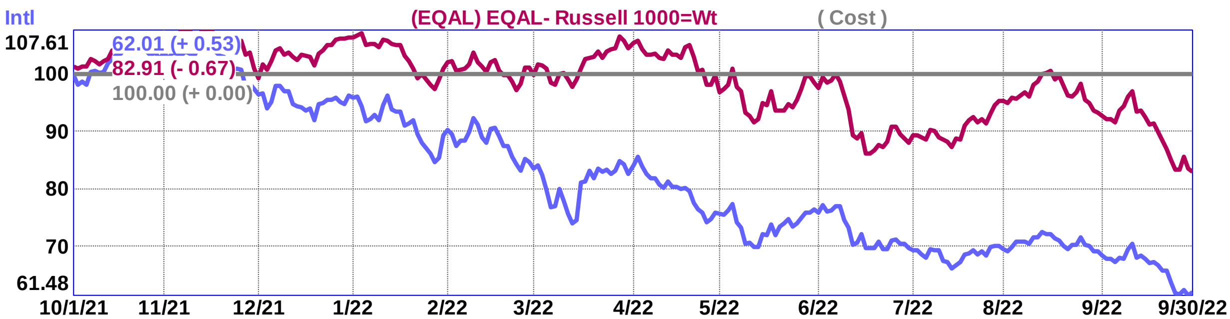
D. Uncorrelated.

TWR to date: 7.5%. TWR 12 Months: -22.2%. Percent Chg 3 Months: -8.7%.

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 (4.2% allocation) is positioning for longer-term returns.

Summary

While valuations were down again sharply at the end of the last quarter with a down market, I don't see anything in terms of promise or peril to prompt a dramatic change in basic allocation or strategy. We are generally moving towards high dividends, from growth to value in the price appreciation category, and more into commodity stocks.

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 51% of our allocation is conservative based on dividends received independent of market volatility. The 12% dividends from the High Dividend and Growth category allows us to be less concerned with price volatility. The 15% allocation to Price Appreciation portfolios is 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.

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.