Wenzel Analytics Inc

Wenzel Analytics Overall

Performance Summary for 2023

Introduction

I have decided to experiment with a new format for reporting performance. This is prompted by clients telling me they don't understand my reports. Clients vary considerably in the extent they choose to dig in to understanding investments and how they decide to trust me with their funds. It recently caught my attention when a client left after having given up on understanding my reports. My challenge is as much in communications as in managing the investments. I'm becoming aware that I don't need to report everything I know, do, and oversee in the management process. If you want more detail, I'm happy to delve into that with you. I welcome your feedback on the format and content of this experiment.

All investments, and combinations of investments, are selected using a combination of four goals:

1. Current cash flow.
2. Cash returned when the investment is closed, whether now or at some future date.
3. Certainty of the above factors.
4. Possibly, consideration of underlying values and goals the investments achieve in addition to or altering the financial returns. This has come to be known as ESG. For example, I don't invest in tobacco companies and personally invest in advanced nuclear power.

I am increasingly investing in preferred stocks because of:

1. High current and certain cash flow in the 9% range, depending some on how it is calculated and variances in purchase prices.
2. The defined selling price of $25 at call against current buying in the $20 range ensures significant future gain.

Because of this specialization, some clients are coming with just their fixed income allocation. This increases the fixed income and high-dividend proportion of what I manage beyond what I might recommend for a client's total allocation. In spite of their high dividends, preferred stocks are not appropriate if a significant near-term withdrawal is anticipated beyond what the dividends produce, as their prices follow market volatility.

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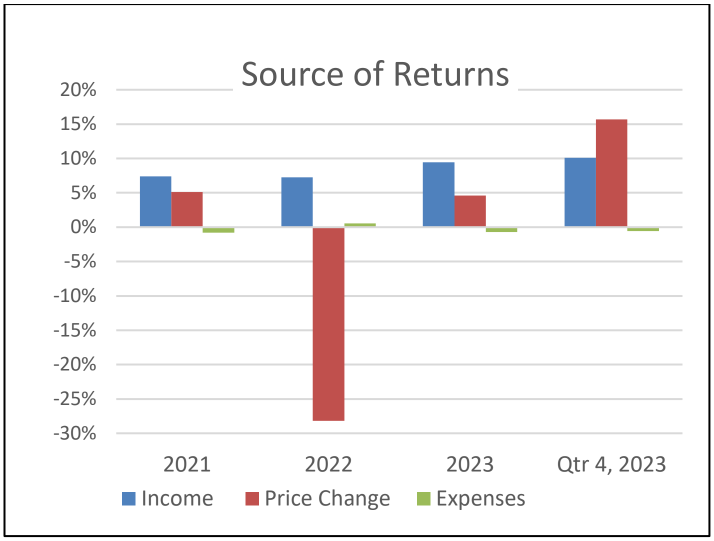
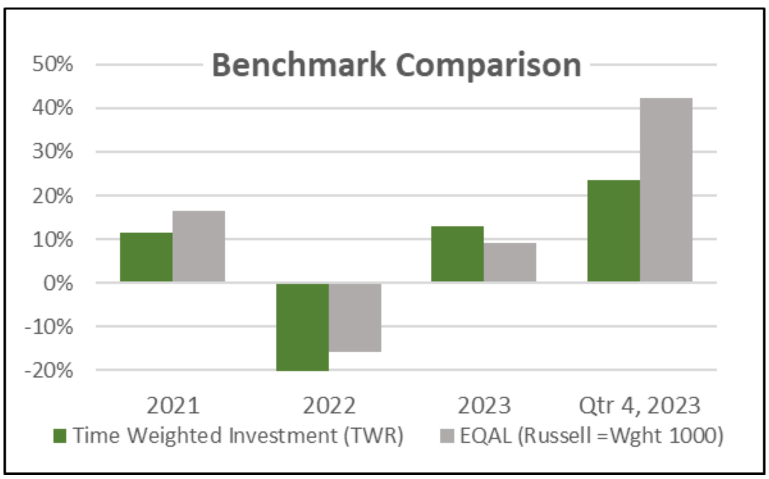
Returns



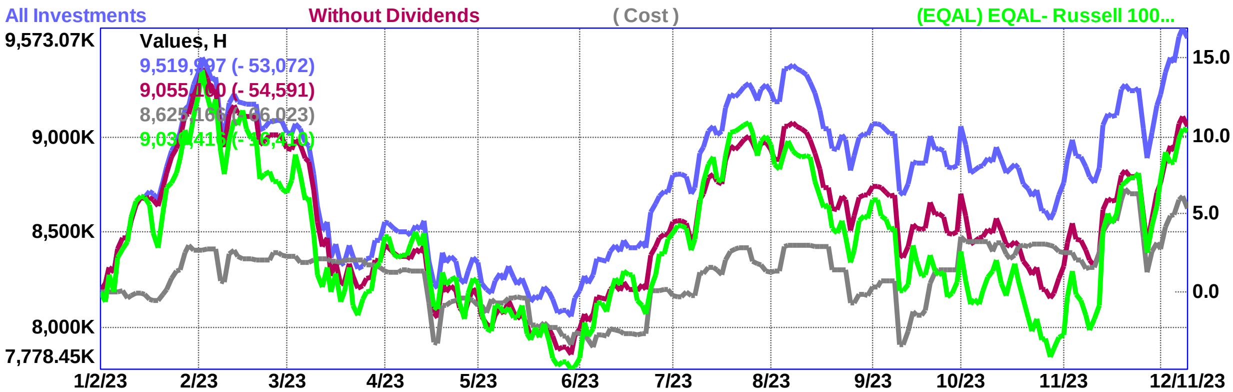
Source as % of Starting Value	2021	2022	2023	Qtr 4, 2023
Income	7.4%	7.3%	9.4%	10.1%
Price Change	5.1%	-28.2%	4.6%	15.7%
Expenses	-0.8%	0.6%	-0.7%	-0.6%
Combined Gain or Loss	12.5%	-20.9%	14.1%	25.7%



Other Return Calculations	2021	2022	2023	Qtr 4, 2023	Quarter 4 is percent change times 4.
Time Weighted Investment (TWR)	11.4%	-20.5%	12.9%	23.6%	Ignores timing of deposits and withdrawals. Industry standard for funds.
EQAL (Russell =Wght 1000)	16.6%	-15.9%	9.2%	42.4%	Average of price changes for 1,000 largest stocks. Size doesn't matter.

The price valuations were way down in 2022, but it didn't matter as we weren't selling, and the dividend income shown in blue on the top chart carried us through just fine. For the last quarter total returns didn't match the benchmark. The annual TWR rate (quarter times four) of over 20% and with fixed dividends being more consistent than the volatile market, returns are still strong. This is shown in the next (rather complex) chart.

2023 Returns



The chart for 2023 is of investment dollars, excluding cash accounts. Cash accounts carry a balance to cover regular withdrawals, cash accumulation between dividend receipts and additional purchases, transfers, and my management fees.

Gray Line at the bottom is the total amount invested. It goes up and down with purchases, sales and funds transferred in and out. All the other lines move up or down relative to the cost or basis.

Top Blue Line is the daily valuation based on dividend receipts, price changes, and changes in the gray line of cost.

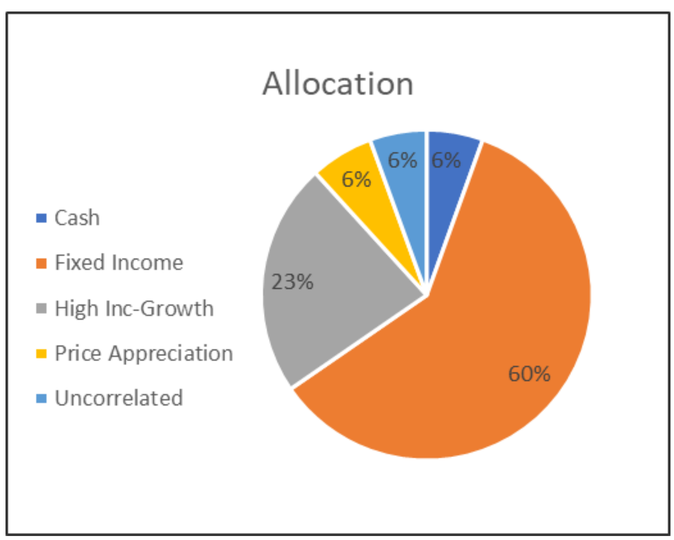
Red Line (Second down) is the valuation excluding dividends. The spread between the top two lines is the dividend advantage.

Green Line: is the benchmark if the same amount of money every day were invested in the average price of the largest 1,000 stocks (Equal-weighted rather than cap-weighted).

Conclusion: Based on only price and not dividends, returns closely matched the market. Beyond that, dividends added significantly, accounting for two-thirds of the 14% annual gain (see first table).

Allocation

Goal	Percent
Cash	6%
Fixed Income	60%
High Inc-Growth	23%
Price Appreciation	6%
Uncorrelated	6%
Total	100%



Dividends coming in at the very end of the quarter create a higher than usual cash balance.

Fixed Income [1] See last page

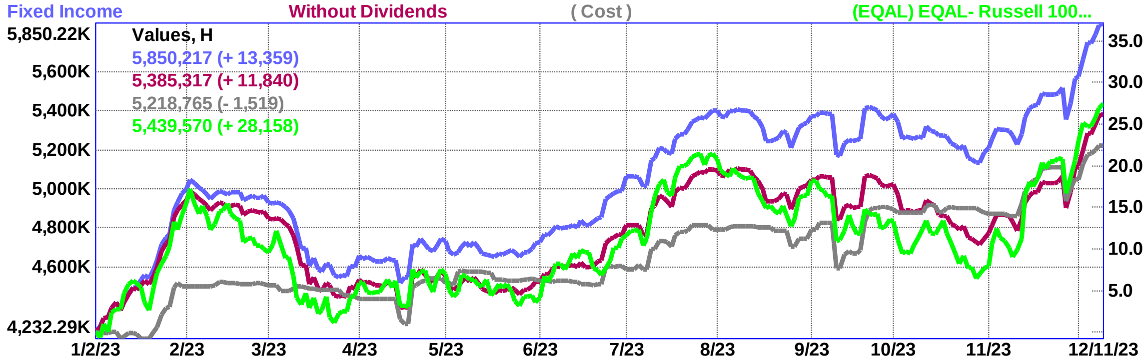
If you are familiar with how preferred stocks work, the following table of stats will be of interest. If preferred stocks are relatively new to you, see the documentation at the end of this report or go to my website. Preferred stocks are like the "ugly duckling" comprising only 1% of the market. They are called stocks (for tax reasons, I presume), while in reality they are a debt instrument and more like bonds.

Fixed Income Stats			
Yields (Forward Looking)			
Average Yield on Cost	10.2%	Current yield divided by original cost	
Average Current Yield	11.3%	Yield divided by current price	
Median Yield to Call	22.7%	Annual yield if called when callable	
Average CAGR	12.8%	Compound Annual Growth Rate	
Median CAGE	10.1	Compound Annual Growth Rate	
CDx3 Average Yield	6.2%	The database of 1,500 preferred stocks from which I select and look up information	
Gain to Call	67%	Current value divided by call at $25 x shares held. Could wait many years.	
Returns (History)			
Time Weighted Return, 2023	18.4%		
Dividends/Avg Value	10.2%	Dividends paid divided by average of beginning and ending valuations.	
Gains	8.2%		
Prices	**Average**	**Median**	
Average Purchase Price	20.61	22.01	
Average Current Price	17.55	20.72	
Positions			
Client Positions	1,017		
Average Positions per Client	35		
Median of Days Held	522		
Unique Positions	134		
Current Deferred Dividends	5	Sometimes dividends resume, sometimes not. All are cumulative, meaning lapsed dividends are paid before dividends can resume on underlying common stock. Yield calculation includes cost even if no dividends. Current low prices skew averages. Holding is high risk and possibly high gains. With high dividends we can afford a few losers and still come out with 10.2%.	

Our preferred stock strategy provides an annual dividend income approximately equal to the annual Compound Annual Growth Rate (CAGR) of the overall stock market, but without the annual uncertainty and with the bonus of additional capital gains. A detailed paper reviewing the various ways and merits to calculate yield is available on the website under Preferred stocks, or at the link: Comparing Yields and Gains.pdf.

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 with low trading volume. A fund or institutional investor could not buy or sell these in the volume they need without dramatically moving the price. Preferred ETFs have lower returns because their primary criterion is trading volume. They boost that with leverage, which brings volatility.

Chart of Fixed Income Returns



Here comes more details for those of you wanting to see patterns over time. The format of the chart is the same as the one above for the whole of Wenzel Analytics. The numbers on the right are percent change, which includes money added or withdrawn. I will repeat the line documentation:

Gray Line at the bottom: is the total amount invested. It goes up and down with purchases, sales and funds transferred in and out. All the other lines move up or down relative to the cost or basis.

Top Blue Line: is the daily valuation based on dividend receipts, price changes, and changes in the gray line of cost.

Red Line (Second down): is the valuation excluding dividends. The spread between the top two lines is the dividend advantage.

Green Line: is the benchmark if the same amount of money every day were invested in the average price of the largest 1,000 stocks (Equal-weighted rather than cap-weighted).

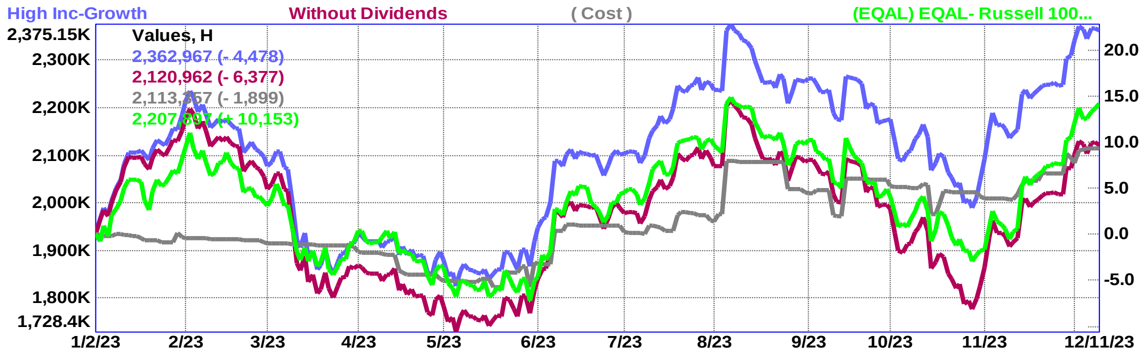
Conclusion: As we saw for all of Wenzel Analytics, price movement closely tracked the market benchmark. I think the price of preferred stocks is most impacted by the trading price of the underlying common stocks and the stock market. Since they are debt, some think that price correlates with bond interest rates. It is hard to sort out since all three in recent times tend to move together. If we are buying long-term for the income, price changes don't matter except for the cost of reinvesting dividends in new positions.

Variable High Income

2 See last page

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. For those wanting income, a typical allocation I suggest is 75% Fixed Income, 20% High Dividend-Growth and 5% or less in working cash.

Chart of High Dividend & Growth, 2023

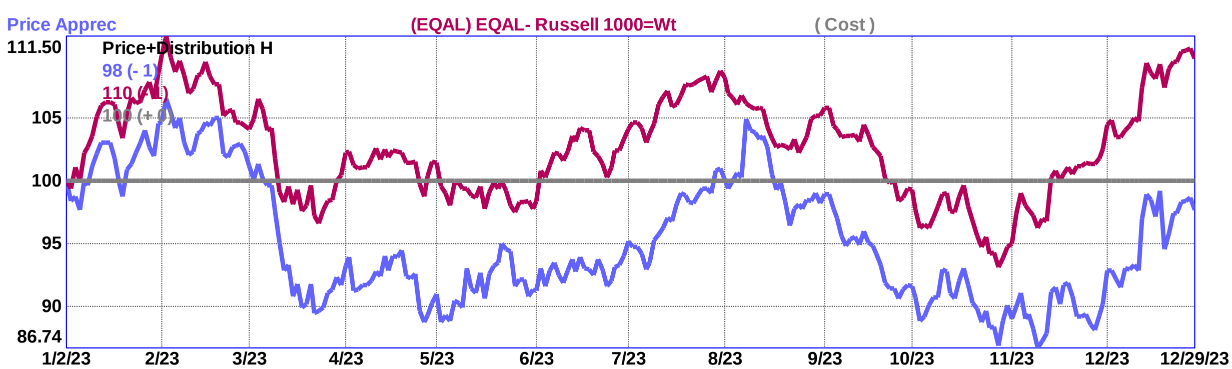


High Dividend - Growth Stats	
Returns	
Quarter % Change (TWR)	8.4%
Quarter x 4	33.6%
Time-Weighted Return (TWR), 2023	16.5%
Dividends / Avg Value *	15.6%
Gains	0.9%
* Dividends paid divided by average of beginning and ending valuations.	
Positions	
Client Positions	377
Average Positions per Client	13
Median of Days Held	608
Unique Positions	45

Here price is more volatile than with Fixed Income as we don't have the final end price being $25 as with preferred stocks. While prices tracked the benchmark as above, price alone ended the year below the benchmark and the dividend contribution was even more significant. 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. Prices may go down, but dividends are not clawed back.

Price Appreciation.

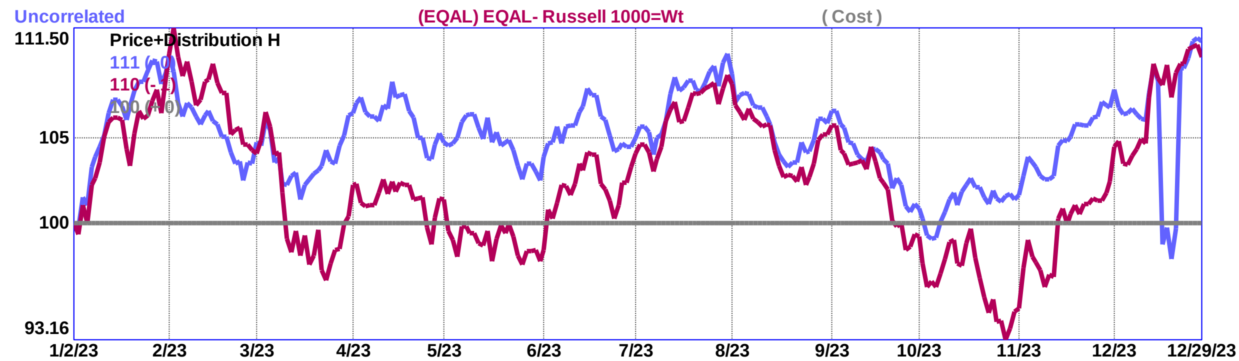
TWR 12 Months: -2.2%. Percent Chg 3 Months: 6.7%.



Our allocation to price appreciation has continued to drop to now only 6%. It is possible to find a few positions which will sometimes beat the market, but with algorithmic trading and A.I., it is very difficult to do consistently with a diversified portfolio. I keep exploring micro-caps in my personal porfolio and have some extraordinary gains, but haven't settled on a secret sauce. Except for March, returns here were pretty close to the benchmark. In general, price gains for the past year were primarily from the seven stocks with the largest market capitalization. Meanwhile, small-cap stocks have half the price to earnings ratios, and of recent have been gaining on the super-caps as attitudes towards risk improve.

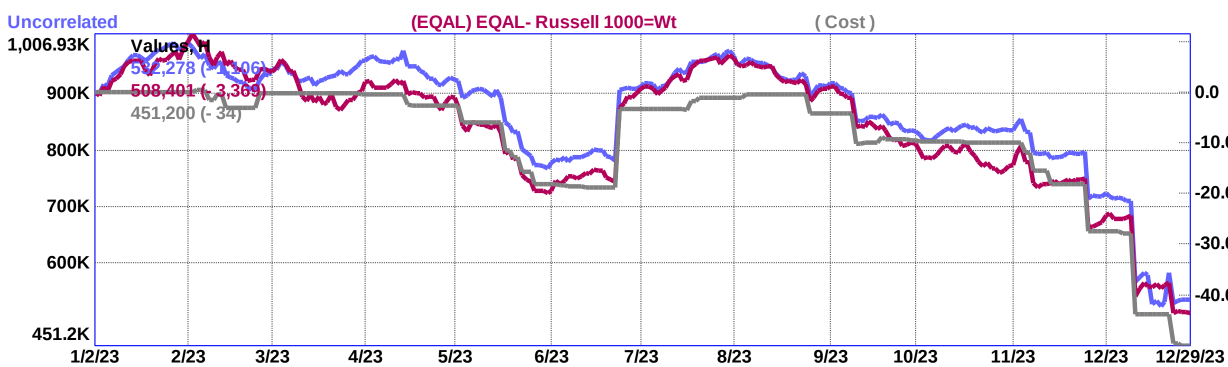
Uncorrelated.

TWR 12 Months: 9.6%. Percent Chg 3 Months: 9.7%.



I'm not sure what the blip on the right is about. I couldn't find it on the underlying sub-porfolios.

The chart below shows how I've been exiting from commodities and international funds. I see them as long-term investments, and look to get back into them at a later more opportune time.



Summary

Each client has distinct goals in my mind and in their mind relative to income and possible gains with accompanying price volatility. Client preferences affect overall returns.

Categories

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. Charts showing price variations in this report have the risk of distracting from the goal which is locked-in income.

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.

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.

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.

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.

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.

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.

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. 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.