Performance Summary

Third 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. Charts showing price variations in this report have the risk of distracting 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%). 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.

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Allocation, Composite of all Accounts

Inv Type	Goal	Portfolio	Percent
Cash	Status Quo	Cash	4.2%
Realized	Locked Income	Note	9.0%
		Pref REIT	24.7%
		Preferred	24.4%
	Locked Income		58.1%
Unrealized	High Inc-Growth	High Div	15.1%
		REIT	8.4%
	High Inc-Growth		23.5%
	Price Appreciation	Alt Energy	0.6%
		Nate's Notes	0.5%
		Passive	2.2%
		Singles	1.7%
	Price Apprec		5.1%
	Uncorrelated	Commodities	0.6%
		Gold Silver	2.7%
		International	3.5%
		Original	2.2%
	Uncorrelated		9.0%
Unrealized			37.6%
TOTAL			100.0%

Normally there is less than 1% in cash – less than enough to cover the normal size of another position. High dividend inflow comes at the very end of a quarter, and cash is needed to cover management fees. Most of the 4.2% in cash is in money markets or T Bills in anticipation of clients withdrawing significant funds for a lake home or a major charitable contribution.

The Price Appreciation strategy dependent upon market gyrations has diminished significantly. Alternative Energy is a long-term play in things like hydrogen, lithium and fuel plus other supplies for advanced nuclear reactors. Nates Notes is an investment in Mannkind, a bio-tech primarily marketing an insulin inhaler. Singles are in my personal account where I occasionally buy an individual stock with promise rather than my usual pattern of only buying a portfolio of stocks that fit a screen or criteria.

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 8.2% Yield-on-Cost.

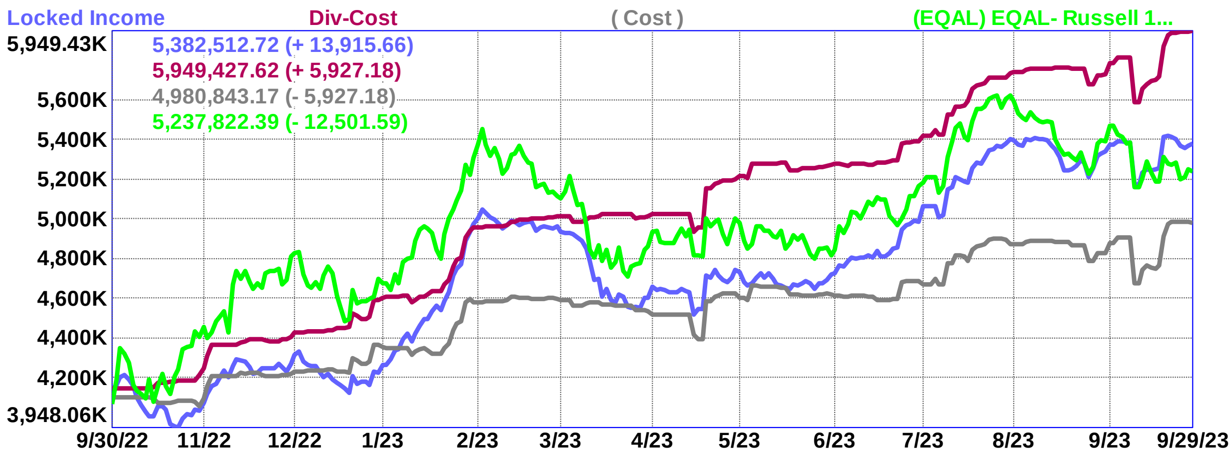
One way to show fixed or locked-in income from the 58% of our allocation invested in preferred stocks and notes is to show Yield-on-Cost. Yield-on-Cost is the annual yield going forward based on the original cost to us of the preferred stock or note, which does not change, and the dividend income, which also does not change until the stock is called, sold (or could go bankrupt). The aggregate Yield-on-Cost for the 134 different preferred stocks or notes held by one or more of the 25 households is **8.2%** (total dividends divided by cost)**.** This excludes dividends currently deferred, which may begin payment and pay retroactive dividends.

If these positions would be called when callable, the return would be much higher (Yield-to-Call). The call price is $25, the current average price is $18.79, and the current median price is $19.01. Significant gains are at some unknown future date. Hersha Hospitality, held in seventeen accounts, is being acquired and will be called fourth quarter for 30% above our cost. 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, 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 chart below compares preferred stock performance over the past year to their respective costs and to the Equal Weighted Russell 1000 as a general market benchmark.

Cost plus Dividends without Price Changes



The bottom gray line is the cost. The upward trajectory is because of new clients and shifting allocation away from price appreciation strategies. The abrupt drop is when positions are sold for other purposes. Regular withdrawal of dividend income for living expenses limits the upward trajectory of what otherwise would be invested in additional positions. Dividends also reduce the cost or basis.

The red line ending on top is cost plus dividends, while the gray line is minus dividends. Both lines are referenced to the market price. The two lines would be symmetrical if not for intervening buying and selling. Think of it as Yield-on-Cost expressed as a cumulative chart line rather than a percentage.

The blue line is the common valuation metric of all preferred positions. The other three lines all peg or reference off the blue line, and thus they all relate to price. In a way, dividends cannot be separated from price dynamics because price in part reflects dividends. The red line still reflects income received above or below valuation. The green, more volatile line is the EQAL market benchmark.

Note how the market declined during August and September (green line) but preferred stocks (red line) went up significantly. For reference, EQAL went up 8.0% for the year covered by the chart. The distance of the red line above the blue line is the amount the accumulated dividends add above the stock price. The green line was above in February, about a third of the year, but trailed for most of the year. Ignoring price and including paid dividends (red line) is a better metric for comparison to a price-dependent market benchmark (green line). Which line would you rather ride with your important investments?

Rather complex I know. I hope I have it figured out correctly.

Our preferred stock strategy provides an annual dividend income approximately equal to the annual compound annual growth rate 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 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.

Variable High Income.

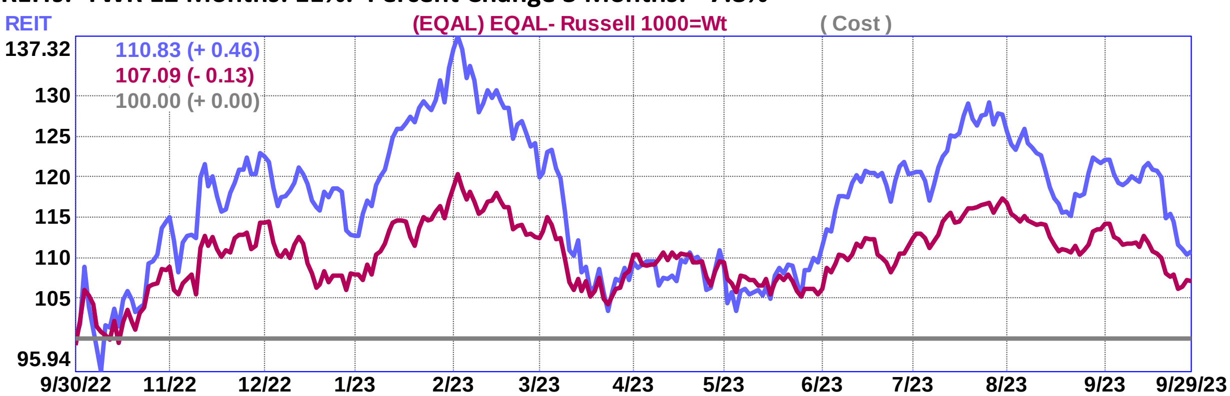
High Dividend & Growth: TWR 12 Months: 18.8%. Percent Chg 3 Months: -1.0%.

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.

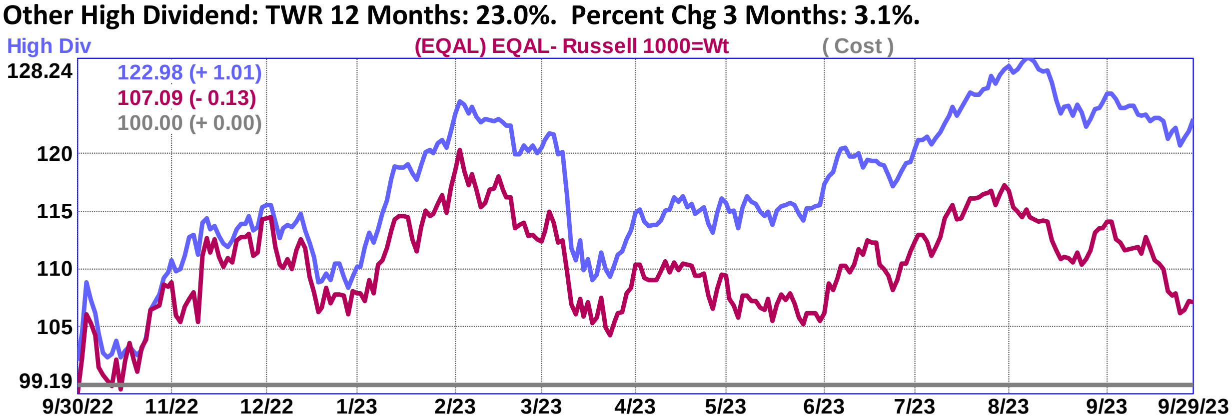
As with the preferred stocks, the price declines are deceptive since we are reaping the high dividends as current cash and not selling at low prices.

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: TWR 12 Months: 11%. Percent Change 3 Months: -7.8%



Other High Dividend: TWR 12 Months: 23.0%. Percent Chg 3 Months: 3.1%.

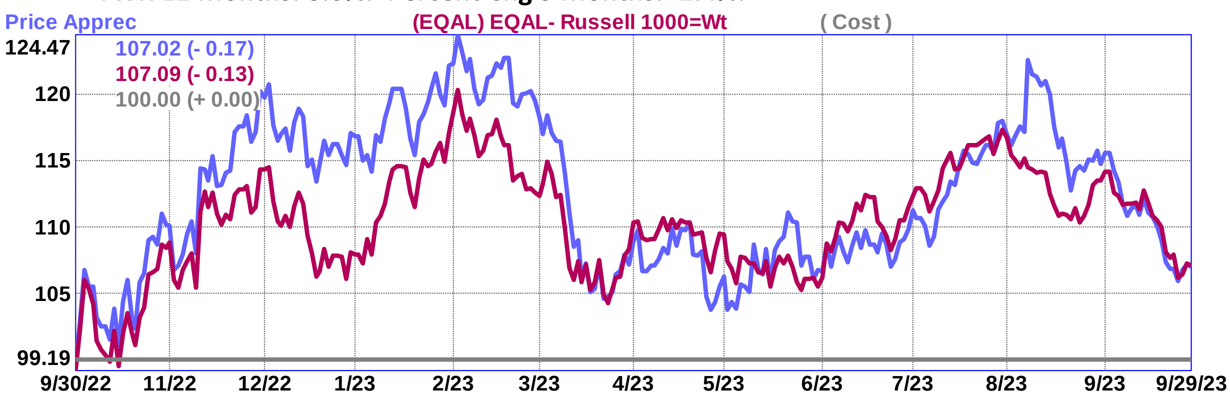


The thing about unrealized returns based on current prices is that they are merely hypothetical. The returns are what we would have if we sold the last day of the quarter – which we didn't do. Next week or next month the figures will be history rather than cash in an account. Changes in valuation are 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 18.8% TWR. 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 **13.2%,** leaving **5.6%** of the total 18.8% as price gain**.** The 13.2% 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 price changes if it is not the time to sell. The market might go down, but the dividends paid will not be clawed back.

Price Appreciation.

TWR 12 Months: 8.0%. Percent Chg 3 Months: -2.4%.

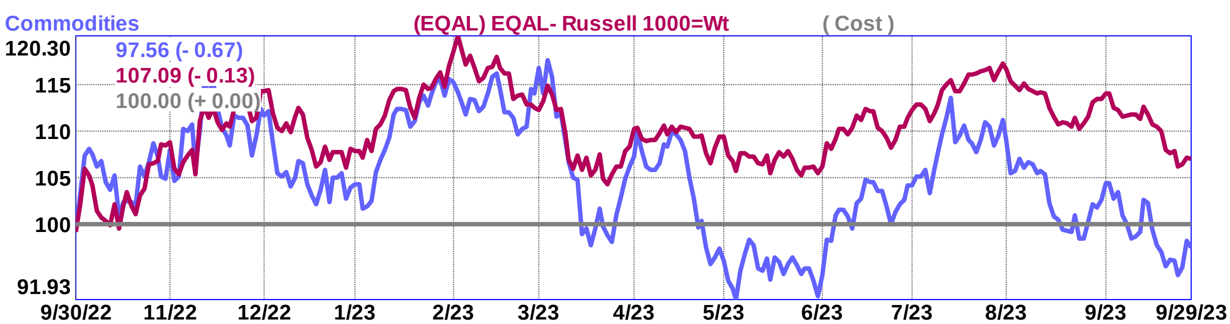


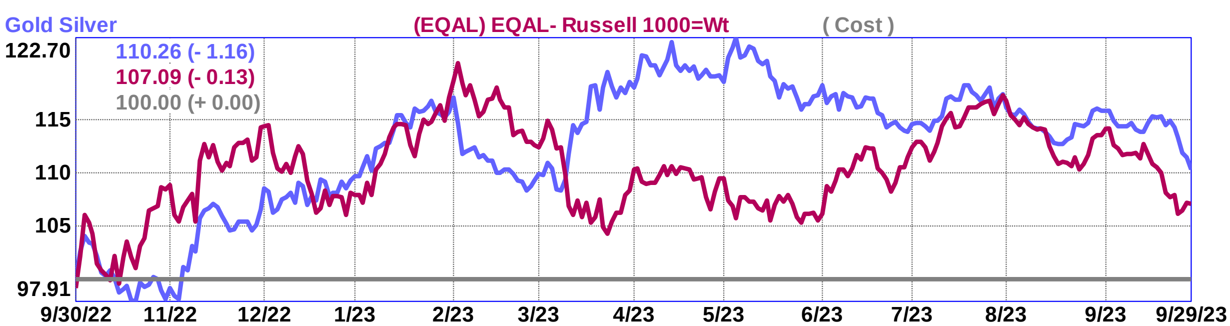
Our allocation to price appreciation has dropped from to **5.1%.** The 8% return exactly matches the market. It is possible to find a few positions which will sometimes beat the market, but with algorithmic trading and A.I., it is very difficult to do consistently with a diversified portfolio.

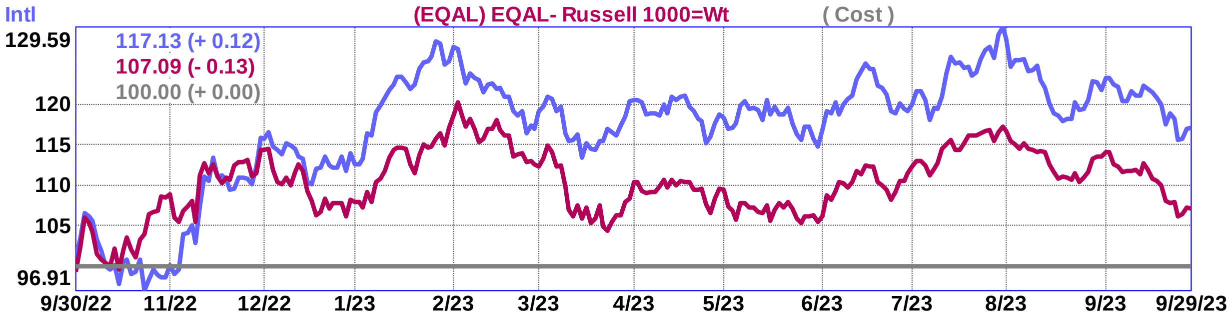
Uncorrelated.

TWR 12 Months: 8.3%. Percent Chg 3 Months: -3.5%.

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 (3.5% allocation) is positioned for longer-term returns stimulated in emerging markets by mobile phones, fintech and accelerated online economic transactions.

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.

Our annual Time-Weighted-Returns (TWR) since 1/1/2002 are 5.3%. Over the past year the annual TWR was 11.9%. The percent change over just the past quarter was 0.5%.

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.
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.

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. 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.