

Income Investing

May 2018

*"If I knew I'd live this long, I would
have taken better care of myself."*
Mickey Mantle



Andy Prophet
Income SIG Leader
AAII Portland Chapter

Disclaimer

- Opinions that may be expressed in this presentation are not necessarily those of AAll or the Portland Chapter.
- My intent is to provide a background for the understanding of income investing and share my own personal experiences
- Viewers should not consider my views as recommendations
- I do believe in the AAll mission: A grassroots organization led by volunteer members, and extend the mission of "person to person" to individual investors in our community
- I hope what's provided herein is unbiased investment education in a social context.

Agenda

- Income Goals
- Income vehicles
- Passive vs Active
- Dividend investing guidelines
- Sources and tools
- Portfolio performance
- Taxes
- Rate risk in today's market
- Preferreds
- Closing remarks
- References



Income Investing Goals

- Steady stream of income
- Grow income faster than inflation
- Preservation of capital
- Optimizing after-tax income
- 10% yield on original cost in 10 years



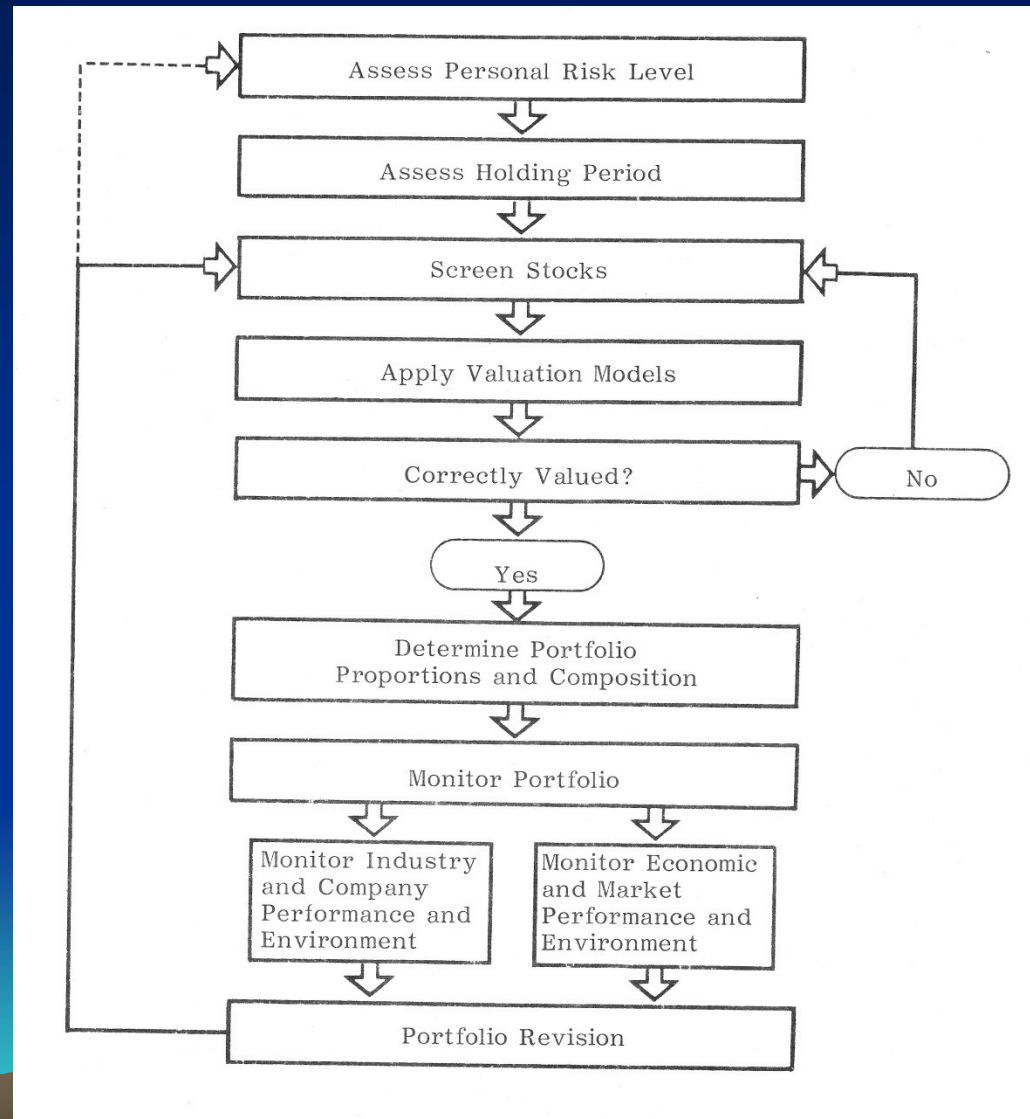
Common Income Investing Choices

If your over 40 you should be developing an income portfolio!

- Dividend Investing
- Preferred Stocks
 - Convertible Preferreds
- MLPs (Master Limited Partnerships)
- REITs (Real Estate Investment Trusts)
- Option-Income (covered calls etc.)
- Income-oriented mutual funds
- Income ETFs
- Bonds and bond ETFs
- Cash equivalent securities



A Systematic Approach for Constructing an Income Portfolio



Income Investing Styles

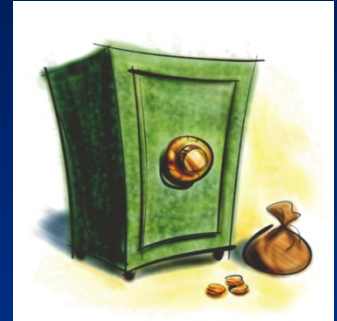
- Passive
 - Mutual funds, ETFs etc.
 - Okay but returns will be lower
- Semi-passive
 - Follow dividend newsletter recommendations
 - Returns better than passive style.
- Proactive
 - Select your own equities
- Keep accurate records
- Review 2-4 times/year



My Dividend Guidelines

(Modeled After David Van Knapp's Portfolio Guidelines)

- Current yield-on-cost: 8.3% on original investment
- Goal: 9% - 10% yield-on-cost (nearly there after 11 years)
- Dividend portfolio selection criteria
 - 3-4% yield and 6–8% yearly growth in dividends
 - Yield + growth = 9 to 12%
- Allocation: Each equity on cost basis is about 2.5% to 3.3% of the entire portfolio
 - Diversify across major industries and sectors.
 - 30 – 40 equities, mostly dividend stocks, a few MLPs, REITs, and preferreds



My Dividend Guidelines

- Dividend payments are received in cash
 - Past dividend growth often suggests future performance.
 - Portfolio growth can be accelerated by re-investing dividends
- Optimize after tax income
 - Best done in tax-differed accounts
 - Qualified dividends in non-differed accounts are taxed at:
 - 0% in 12% bracket or below (MFJ)
 - 15% in 22% or 24% brackets (MFJ)
 - 20% in 32% and above brackets (MFJ)**



My Dividend Guidelines

- Selling Criteria
 - Cuts, freezes or suspension of dividend
 - Bubbles: the stock becomes grossly overvalued
 - Major fundamental changes impacting the company
 - Announcements such as: splits into separate entities or spin-offs
 - Current yield drops below 2.5% or above 9%
 - Current value exceeds about 10% of portfolio
- No, margin, no shorting, no options, no futures etc.
- Review portfolio 4 times a year.



Where Do I Find Good Dividend Equities?

• Newsletters

- Morningstar Dividend Investor
- AAI Dividend Investing
- Utility Forecaster
- Kiplinger's Investing for Income
- CDx3 Research Notes
- Value Line
- David Van Knapp's DG Portfolio

• David Fish's CCC List

- Champions, Contenders and Challengers



A		B		C		D		E		F		G		H		I		J		K		L		M		N		O		P	
U.S. Dividend Champions		End-of-month update at		http://logosinvesting.org/Tools/Tools.htm		Dividend Champions (selected) indicate income (D, E, F, G, H, I, J, K, L, M, N, O, P) based on the highest dividend yield and dividend growth rate over the past year (see page 10 of this report).		Most Recent Dividend Increase Information		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates		Dividend Dates	
Company		Symbol		Industry		No.		CCC		DRP		Fee		Div		Rate		Yield		Div		Rate		Yield		Div		Rate		Yield	
1st Source Corp.		SRCE		Banking		104		N		21		1.38		2.17		0.1600		0.1700		0.25		8/2/12		8/15/12		B15		B15		B15	
3M Company		MMM		Conglomerate		9		N		125		85		2.02		0.5800		0.6350		7.63/21313		2/15/13		3/12/13		C12		C12		C12	
Aflac Inc.		AFL		Insurance		46		Y		21		1.51		2.58		0.1450		0.1500		3.45		1/18/12		1/20/12		B06		B06		B06	
Aflac Inc.		AFL		Insurance		31		N		84		N		64.98		2.28		0.3500		5.71/11/1813		11/20/13		12/2/13		C02		C02		C02	
Air Products & Chem.		APD		Chemical Specialty		91		Y		199		1.51		2.61		0.0400		0.1700		10.94/22713		4/1/13		5/1/13		B13		B13		B13	
Altria Group Inc.		MO		Tobacco		29		Y		37		2.33		5.56		0.4400		0.4800		0.09/91013		9/12/13		10/10/13		A10		A10		A10	
American States Water		AWR		Utility Water		2		N		28		48		2.84		0.1775		0.2025		14.08/1313		9/15/13		9/30/13		C01		C01		C01	
Anchor Capital Midland		ACM		Agriculture		59		N		59		N		40.90		1.80		0.1750		0.1800		9/27/12/13		2/20/13		C13		C13		C13	
AT&T Inc.		T		Telecommunications		90		Y		30		20		4.97		0.4400		0.4500		2.27/1/13		1/19/13		2/1/13		B01		B01		B01	
AT&T Inc.		T		Telecommunications		68		N		42		27		3.35		0.3450		0.3500		1.46/12/13		11/26/13		12/10/13		C10		C10		C10	
AT&T Inc.		T		Telecommunications		58		N		75		0.33		2.32		0.3550		0.4350		0.13/12/12		12/14/12		1/1/13		A01		A01		A01	
Becton Dickinson & Co.		BDX		Medical Instruments		41		N		105		13		1.81		0.4500		0.4950		10.00/12/12		12/10/12		12/10/12		C01		C01		C01	
Becton Dickinson & Co.		BDX		Medical Instruments		35		N		136		22		0.82		0.2000		0.2100		5.00/7/1813		7/22/13		8/2/13		B02		B02		B02	
Black Hills Corp.		BHI		Utility Electric		33		N		50		72		3.00		0.3700		0.3800		2.70/21313		2/15/13		3/1/13		C01		C01		C01	
Black Hills Corp.		BHI		Utility Electric		41		N		143		8		4.58		0.1650		0.1650		3.13/10/12/13		10/24/12		11/14/12/13		B14		B14		B14	
Brady Corp.		BRG		Business Services		62		N		29		19		2.67		0.1800		0.1950		2.83/19/13		10/10/13		10/10/13		A01		A01		A01	
Brown-Forman Class B		BF-B		Beverages-Alcoholic		89		Y		72		98		1.40		0.2333		0.2500		9.29/12/12		12/10/12		12/10/12		C02		C02		C02	
C.R. Bard Inc.		BCR		Medical Instruments		42		N		35		N		136		22		0.82		5.00/7/1813		7/22/13		8/2/13		B02		B02		B02	
California Water Service		CWT		Utility Water		22		N		21		80		2.84		0.1575		0.1600		1.60/2713		2/11/13		2/22/13		B22		B22		B22	
Cardinal Chemicals Inc.		CCS		Chemical Specialty		37		N		67		N		72		68		1.21		0.2000		0.2000		10/30/13/13		B13		B13		B13	
Chevron Corp.		CVX		Oil & Gas		102		Y		119		96		3.33		0.3000		1.0000		11.11/15/13		5/17/13		6/10/13		C10		C10		C10	
Chubb Corp.		CB		Insurance		19		Y		30		98		1.91		0.4100		0.4400		7.20/21313		2/15/13		3/2/13		A02		A02		A02	
Cincinnati Financial		CNF		Insurance		11		N		50		05		3.36		0.4075		0.4200		3.07/9/1013											
Clorox Corp.		CLX		Business Services		31		N		85		97		13.43		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02		D02	
Clorox Corp.		CLX		Business Services		20		Y		100		15		0.70		0.1550		0.1600		1.00/12/13		12/24/13		1/6/14		B03		B03		B03	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13		D02		D02	
Clorox Corp.		CLX		Business Services		16		N		100		50		50.79		1.35		0.6400		0.7000		10.01/16/12/13		11/20/13		12/11/13					

Portfolio Admin Tools

Software, software and more software ad nauseam...

- Quicken Premier (my choice, but others like..)



- Investment Account Manager (Gets good reviews on the AAI Computerized Investing site)

- OneNote (Great for journal keeping and follow-up notes)



- Seeking Alpha (Create a watch list)



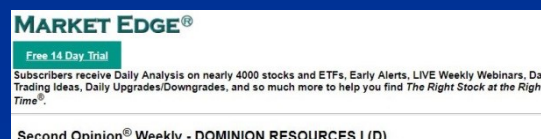
- Fundamentals Analyzer Software Tool



- Excel



- Schwab Market Edge



- Taxvisor.com (Tax planning spreadsheets... good for estimating quarterly payments)

- TurboTax (used at tax-time)



Keeping a Journal Really Helps

Investment Check List & Journal

Ticker: **Company Name:**

Recommended Source: Select or type...

Thesis Statement:
(Reasons I believe this stock is good investment, basic tenets, use the 3-minute rule):

Meets the Following Goal:

Dividend Equities:

- ☐ **Builder:** (Current Yield: 3-4% per year Dividend Growth: 6-9% per year)
(Yield must exceed 20-yr Treasury Bond)
- ☐ **Harvest:** (Current Yield: 5-7% per year Dividend Growth: 3-5% per year)
- ☐ **Fixed Income Equities:** (Yield: 3.5-8%)
- ☐ **Preferred Equities:** (Yield: > 6.0%, Investment Grade, Less than Call Price, Prior to call date.)

Scenarios:

1 If price goes below then buy shs at

2. If price goes below: then buy more shs at

Comments:

Purchase Information:

Date: **Shares:** **Price:**

Date: **Shares:** **Price:**

Sell Criteria:
(Document several plausible scenarios such as: positive developments such as price target, negative developments such as lower earnings, loss of key competitive advantage. If company is purchase for good growth characteristics, then selling must be consider if slower growth occurs. Or if based on value criteria, then consider selling if it becomes overvalued. Identify most likely to reflect success or failure of the Thesis Statement.)

- Originally prepared in a notebook binder... one page for each security
- Later, it moved to OneNote.
- Today, I record the transactions in Quicken.
- I log important events and analyst commentary... weekly
- I write down why I buy and when to sell the stock... up front

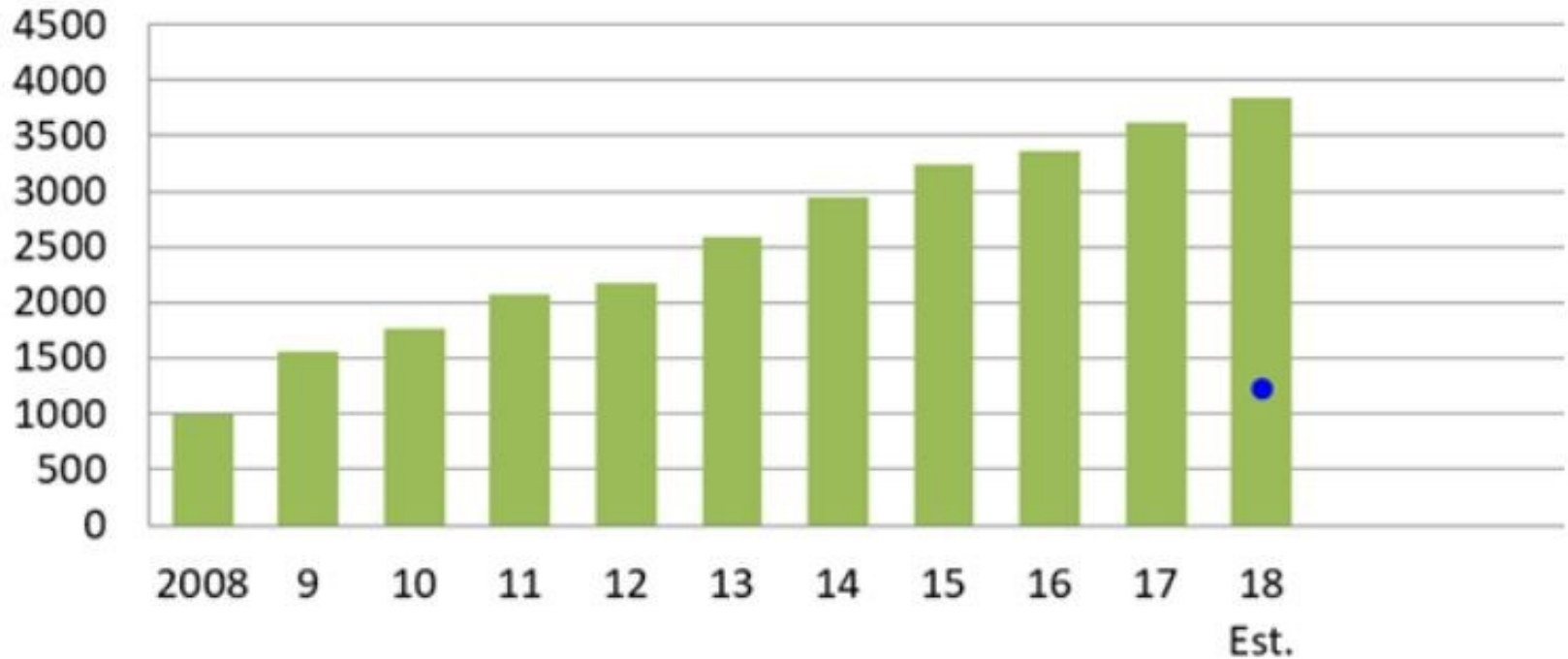
Dividends Received Since the Portfolio Was Started

Source: David Van Knapp's Web Site

Dividend Growth Portfolio

Dividends Received Each Year

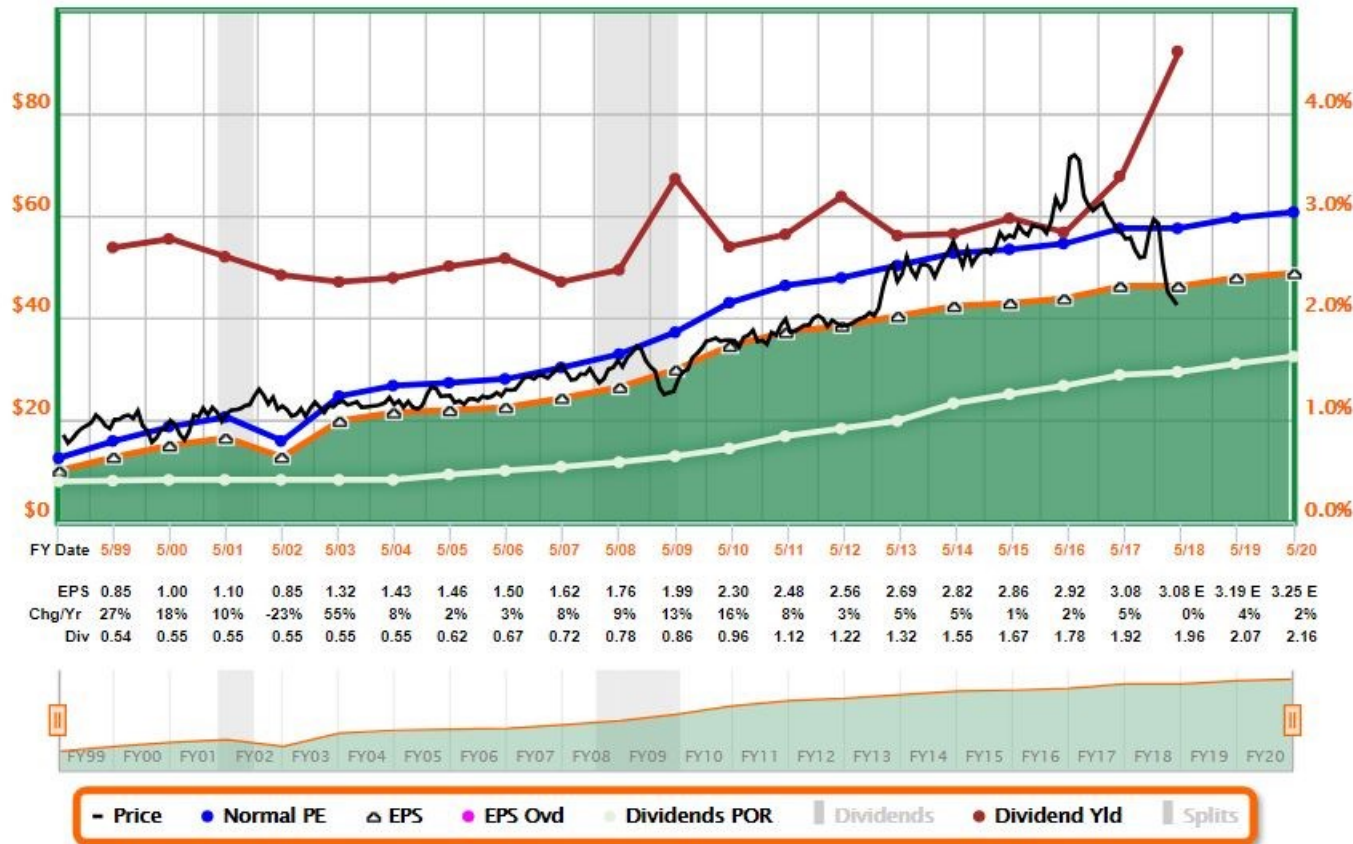
2018 = \$1233 YTD



General Mills Inc.(NYSE:GIS)

20Y 19Y 18Y 17Y 16Y 15Y 14Y 13Y 12Y 11Y 10Y 9Y 8Y 7Y 6Y 5Y 4Y 3Y All

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
High	21.97	22.66	26.43	25.86	24.83	24.98	26.95	29.61	30.76	36.01	36.05	38.98	40.80	41.88	53.07	55.64	59.87	72.95	63.73	60.69	N/A
Low	16.25	14.69	18.63	18.69	20.71	21.50	22.34	23.52	27.09	25.50	23.18	33.11	34.54	36.75	40.44	46.70	47.43	53.53	49.65	41.01	N/A



FAST FACTS
05/04/2018
Price: 42.54 USD
Common Stock
P/E: 13.8
Div Yld: 4.6%
<== Color Coded
Recessions
Dividends Declared
Dividends
Normal P/E
Ratio 18.7
Adjusted (Operating)
Earnings Growth Rate 7.4
GDF...P/E=G 15.0
Sub-industry Class
Packaged Foods & Meats
Market Cap. 25.222 Bil.
S&P Credit Rating: BBB
50% Debt/Cap
NYSE
United States
Common Stock
Stock Splits (5)

✖ Reset Selections

Tip: To toggle lines on the graph click corresponding legend item

Historical Graph - Copyright © 2018, F.A.S.T. Graphs™ - All Rights Reserved

www.fastgraphs.com

General Mills Inc.(NYSE:GIS)

20Y 19Y 18Y 17Y 16Y 15Y 14Y 13Y 12Y 11Y 10Y 9Y 8Y 7Y 6Y 5Y 4Y 3Y All

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
High	21.97	22.66	26.43	25.86	24.83	24.98	26.95	29.61	30.76	36.01	36.05	38.98	40.80	41.88	53.07	55.64	59.87	72.95	63.73	60.69	N/A
Low	16.25	14.69	18.63	18.69	20.71	21.50	22.34	23.52	27.09	25.50	23.18	33.11	34.54	36.75	40.44	46.70	47.43	53.53	49.65	41.01	N/A



FY Date	5/99	5/00	5/01	5/02	5/03	5/04	5/05	5/06	5/07	5/08	5/09	5/10	5/11	5/12	5/13	5/14	5/15	5/16	5/17	5/18	5/19	5/20
FCF	0.70	0.76	0.76	0.61	1.25	1.08	1.83	2.07	1.86	1.81	1.91	2.32	1.37	2.67	3.56	2.99	3.03	3.17	2.77	3.45 E	3.45 E	3.68 E
Chg/Yr	-25%	9%	0%	-20%	105%	-14%	69%	13%	-10%	-3%	6%	21%	-41%	95%	33%	-16%	1%	5%	-13%	25%	0%	7%
Div	0.54	0.55	0.55	0.55	0.55	0.55	0.62	0.67	0.72	0.78	0.86	0.96	1.12	1.22	1.32	1.55	1.67	1.78	1.92	1.96	2.07	2.16



Price FCF EPS Ovd Normal P/FCF Dividends POR Dividends Dividend Yld Splits

✖ Reset Selections

Tip: To toggle lines on the graph click corresponding legend item

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FAST FACTS

05/08/2018

Price: 42.30 USD

Common Stock

P/FCF: 12.4

Div Yld: 4.6%

<== Color Coded

Recessions

Dividends Declared

Dividends

Normal P/FCF

Ratio 19.5

FCF Growth

Rate 6.5

GDF...P/FCF=G

15.0

Sub-industry Class

Packaged Foods & Meats

Market Cap.

25.079 Bil.

S&P Credit Rating:

BBB

50% Debt/Cap

NYSE

United States

Common Stock

Stock Splits (5) ⓘ

General Mills Inc.(NYSE:GIS)

PERFORMANCE RESULTS for 05/29/1998 to 05/04/2018

Invested: \$ 10,000 Begin Shares: 586.08

Split-adjusted Price(05/29/1998): 17.06

Begin Shs at Closing Price: \$24,931.84

Closing Price(05/04/2018): 42.54

Dividend Cash Flow

End Fyr or Fqtr**	Dividends per Share	Dividend Growth%	Div. Payout Ratio	End of Period #Shares	Dividends	%Yield On Cost
5/1999	** 0.54		64%	586.08	\$ 316.50	3.2%
5/2000	0.55	2%	55%	586.08	\$ 322.36	3.2%
5/2001	0.55	0%	50%	586.08	\$ 322.36	3.2%
5/2002	0.55	0%	65%	586.08	\$ 322.36	3.2%
5/2003	0.55	0%	42%	586.08	\$ 322.36	3.2%
5/2004	0.55	0%	39%	586.08	\$ 322.36	3.2%
5/2005	0.62	13%	42%	586.08	\$ 363.36	3.6%
5/2006	0.67	8%	45%	586.08	\$ 392.66	3.9%
5/2007	0.72	7%	44%	586.08	\$ 421.96	4.2%
5/2008	0.78	8%	44%	586.08	\$ 460.09	4.6%
5/2009	0.86	10%	43%	586.08	\$ 504.04	5.0%
5/2010	0.96	12%	42%	586.08	\$ 562.64	5.6%
5/2011	1.12	17%	45%	586.08	\$ 656.40	6.6%
5/2012	1.22	9%	48%	586.08	\$ 715.00	7.1%
5/2013	1.32	8%	49%	586.08	\$ 773.64	7.7%
5/2014	1.55	17%	55%	586.08	\$ 908.42	9.1%
5/2015	1.67	8%	58%	586.08	\$ 978.75	9.8%
5/2016	1.78	7%	61%	586.08	\$ 1,043.24	10.4%
5/2017	1.92	8%	62%	586.08	\$ 1,125.28	11.3%
08/2017**	0.49**			586.08	\$287.18**	
11/2017**	0.49**			586.08	\$287.18**	
02/2018**	0.49**			586.08	\$287.18**	

Dividend Growth Rate: (19yr) AVG: 7.2%
CAGR: 7.0%

Dividends: \$ 11,695.32

Growth: \$24,931.84
Annualized ROR (w/o Div): 4.7%
Growth and Dividends: \$ 36,627.16
Total Annualized ROR: 6.7%

S&P 500
\$ 4,698.25
\$ 23,741.42
\$ 28,439.67
5.4%

** NOTE: Fiscal year data is incomplete and only quarterly dividends in our database are included in these calculations.

Performance History - Copyright © 2016, F.A.S.T. Graphs™ - All Rights Reserved

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Fundamental company data and index data provided by S&P Global Market Intelligence LLC

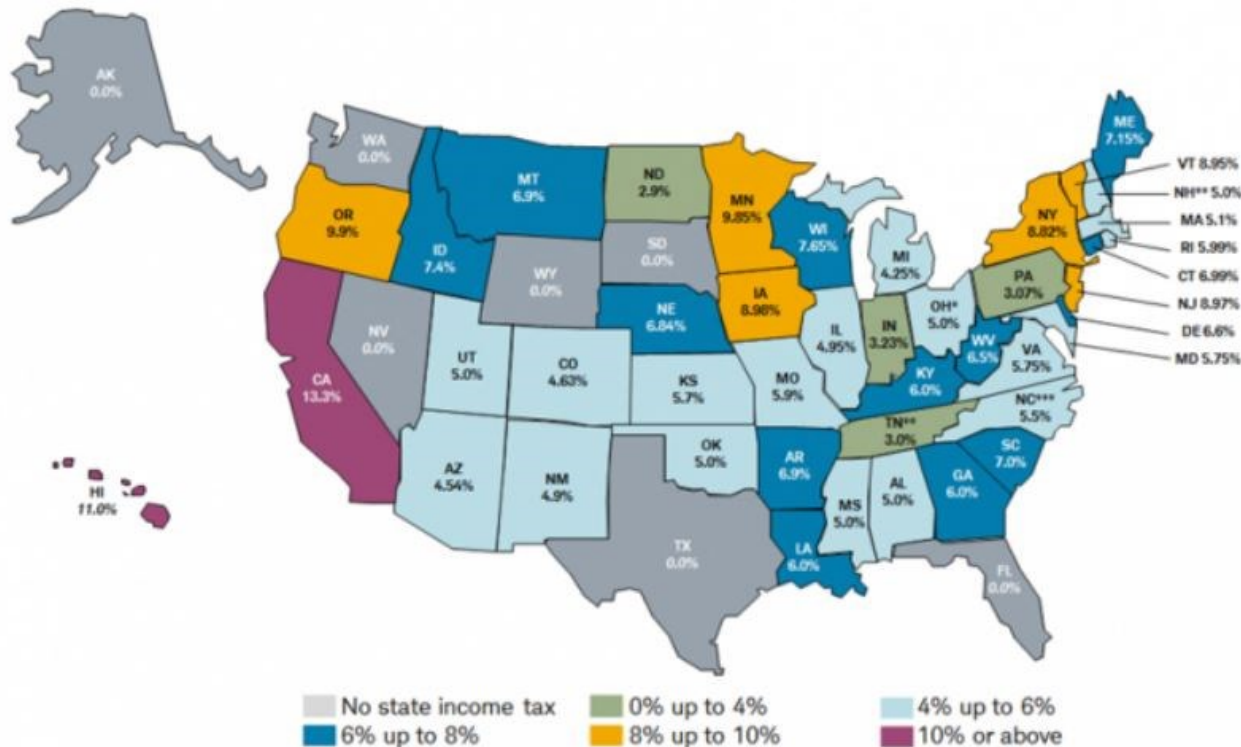
Dividend Investing With ETFs

- Power Shares S&P 500 High Dividend Low Volatility (SPHD)
- Schwab U.S. Dividend Equity ETF (SCHD)
- SPDR Portfolio S&P 500 High Dividend ETF (SPYD)
- AAM S&P 500 High Dividend Value ETF (SPDV) (A recent ETF)
- Vanguard Dividend Appreciation ETF (VIG)
- ALPS Sector Dividend Dogs (SDOG)
- Cboe Vest S&P 500 Dividend Aristocrat Target Income ETF (KNG)



High Tax States

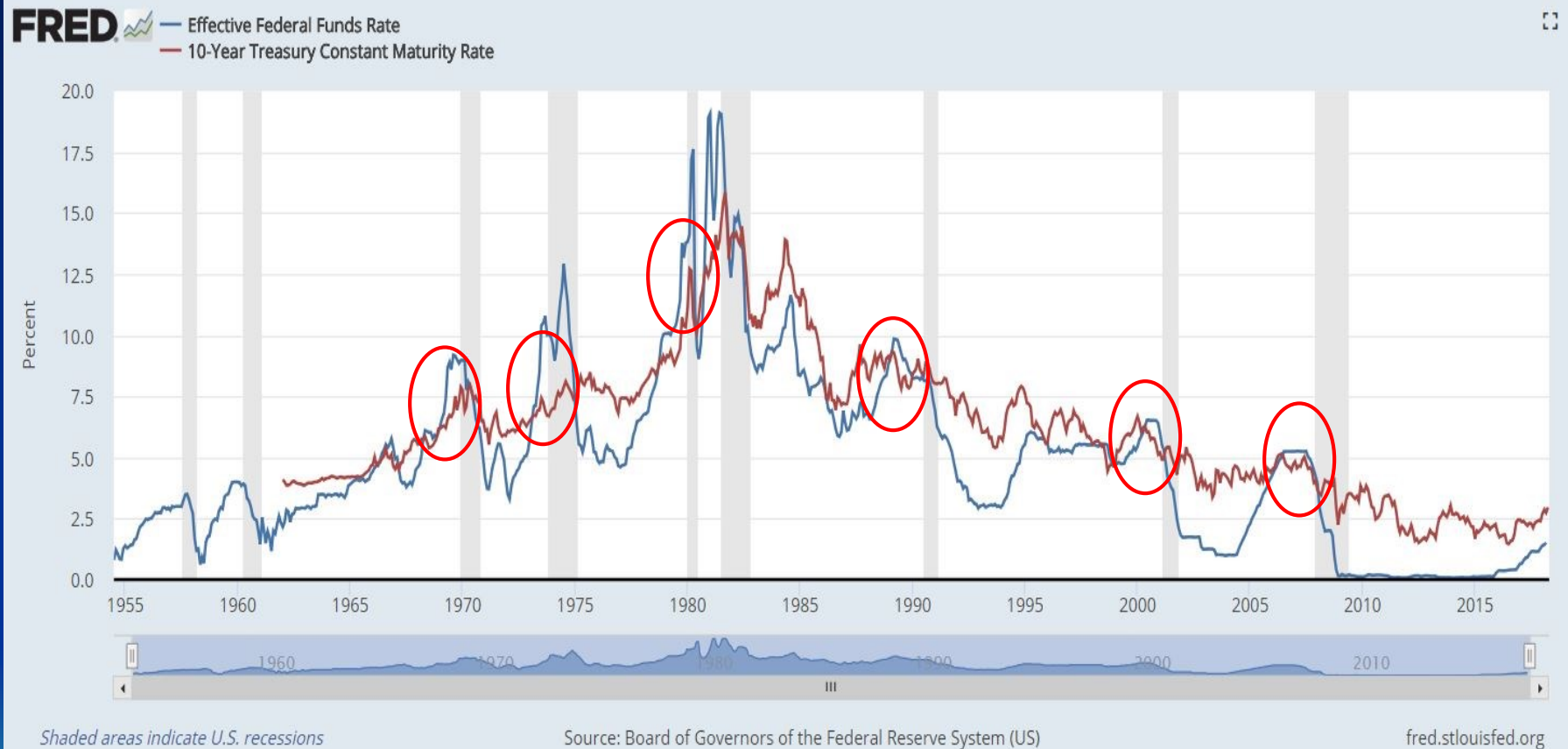
Note: California over 10% and Oregon 9.9%



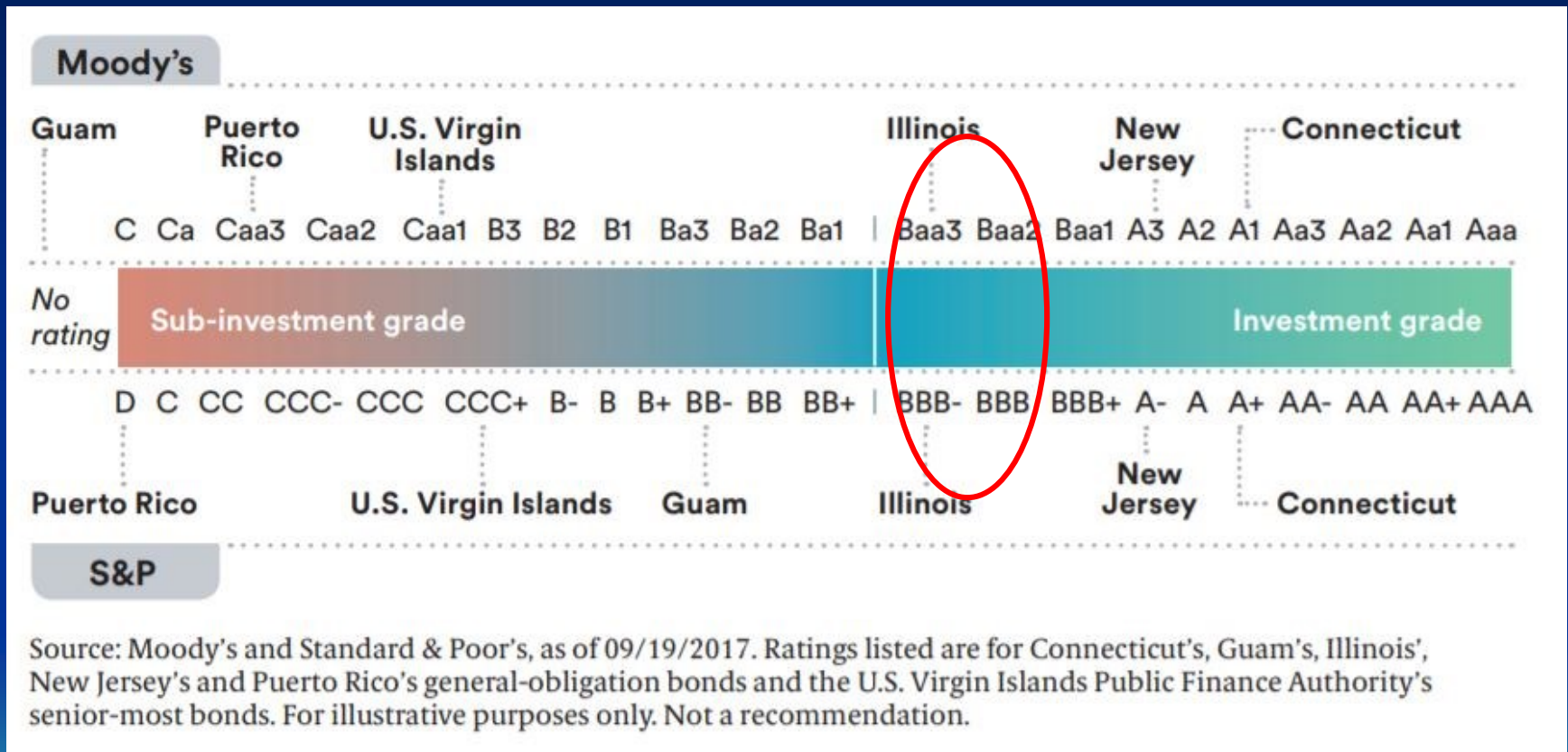
Source: Tax Foundation, as of 3/5/2018. Note: The top marginal tax rate is 4.997% for Ohio and 5.499% in North Carolina. Indiana, Massachusetts, Michigan and Pennsylvania have a flat income tax. Tennessee and New Hampshire only tax interest and dividend income.

Mitigating Interest Rate Risk

Difficult times for Income Investors



When Searching for Preferreds Ratings Matter



Preferred Equities Using the CD3x Model

Bond Substitute... at least for now

- Seek about 6% yield
- Callable within 2 years
- Quarterly or monthly dividend
- Investment grade or higher
- Cumulative and non-convertible
- US companies
- Buy below issue price (less than \$25)
- Many are thinly traded, so prices don't reflect value
- Though preferred stock dividends are fixed like interest on a bond they are much higher
- Most Preferreds are taxed as qualified dividends (15 %)

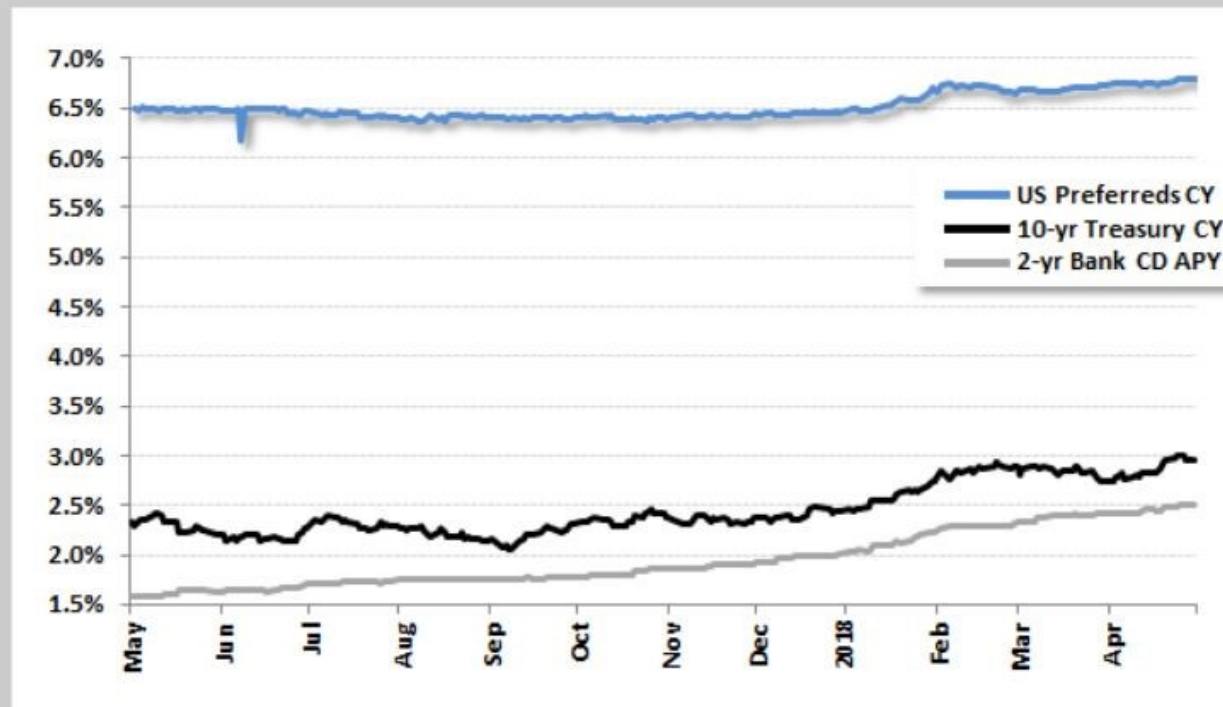


Preferred Equities and Alternative Vehicles

Bond Substitute... at least for now

Income Alternatives, Annual Rates of Return

PREFERRED: 6.8%; 10-YR TREASURY: 3.0%; 2-YR BANK CD: 2.5%



Sources: CDx3 Notification Service database, PreferredStockInvesting.com
10-year treasury, federalreserve.gov
2-year bank CD, bankrate.com

*Includes call-protected, US-traded preferred stocks and ETDs, \$25 par, non-zero volume, fixed-rate.
Excludes preferred stocks that are convertible to another type of security, suspended or deferred dividends.
Data date: April 30, 2018*

Closing Remarks

Investing for Income is Effective But...

- Be patient: It takes 8 -10 years to achieve a sustainable yield on cost.
- Be realistic: Your income needs may not always match what the market offers
- Higher the yield the great the risk
- Be sure to have plan for income investing if you or your partner become cognitively impaired.
- Getting older means more medical expenses
- Taxes won't disappear once you retire
 - Always calculate your after-tax return
 - Check out April 2018 Journal: “[Social Security and Medicare Can Raise Retirees’ Tax Rates](#),” by William Reichenstein and William Meyer