



**INVESTING NOW FOR
INCOME -- *WITHOUT*
LOSING YOUR PRINCIPAL**

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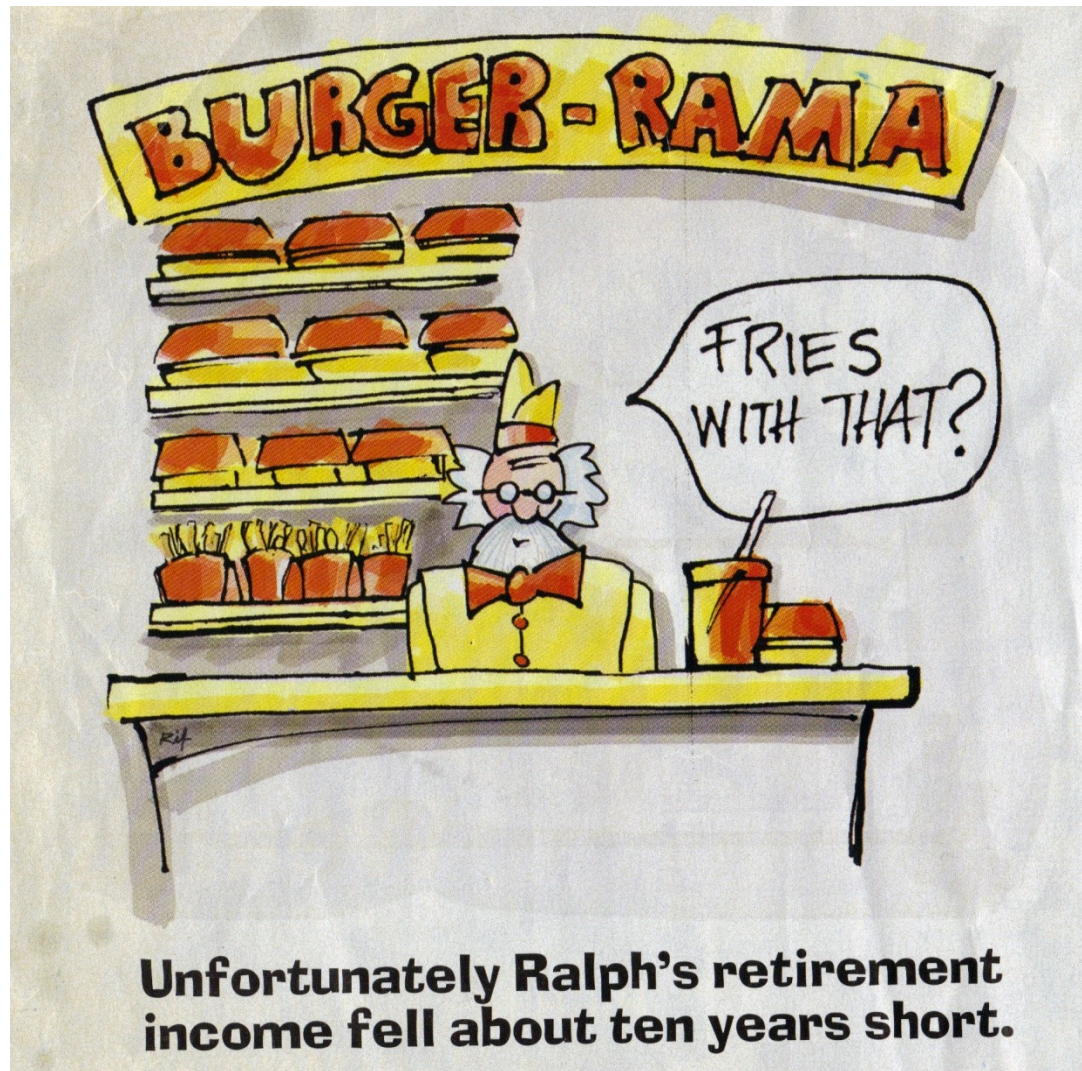
Do your own homework!

NOTE re GRAPH SLIDES

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- **The following panel lists, in order, the specifications in BigCharts.com for the nine slides appearing on screen but not in your handout.**

SPECIFICATIONS FOR GRAPHS

- 1. Good Dividend History: OKE 10 yrs weekly
- 2. High Correlation: 1 Yr daily: FOF & PSAPRM
- 3. Com vs Pfd: 1 yr daily to 10/1/08: PSA & PSAPRM
- 4. Directors Know: PNM 5 Yrs weekly w/EPS & Divs
- 5. Long Look @ PNM: All data; div & EPS @ bottom
- 6. Unisource, Diffs: 10Y weekly; div @ EPS @ bottom
- 7. 2 companies: 10 Yrs weekly FGP w/divs below
- 8. Or This: 10 Yrs weekly SPH w/divs below
- 9. Price Comp: 10 Yrs weekly, SPH comp to FGP



**WILL YOU COUNTERACT, OR
COMPOUND, THIS PROBLEM ?**

**“What did
you take
away
from the
meeting?”**

**Source: Readers Digest,
October 2011**



**“What did you take away from
the meeting?”**

Major Take-Aways



- ***Don't*** chase high yield in any form
- ***Don't*** be passive
 - Nothing is forever!
 - A not-forever focus reduces agonizing/effort
- ***Do*** think outside the box
 - More asset classes than just bonds
 - Write options
- **A little-known year-end trick**
in closed-end income funds



Good Online Sources

- **Preferreds: www.QuantumOnline.com**
- **MLPs: www.NAPTP.org**
- **REITs: www.NAREIT.com**
- **Closed-ends: www.CEFconnect.com**
- **Dividend history (tabular):**
**[http://finance.yahoo.com/q/hp?
a=05&b=20&c=2004&d=11&e=31&f=2011&g=v&s=t](http://finance.yahoo.com/q/hp?a=05&b=20&c=2004&d=11&e=31&f=2011&g=v&s=t)**
- **Dividend history (graphed): www.bigcharts.com**
- clicks: Advanced Chart; 5+yrs; Rolling Div'd



ASSET ALLOCATION ?

- **Asset LO-cation too !!**
- **Bonds, REITs in IRAs**
- **FOR NOW, Q'fd-Div Stocks in Taxable a/c**
- **IF have loss carry-fwd, write options in taxable a/c to accelerate using it !**



RULE # 1

NEVER BE SOLD ANYTHING !!



-Bernie Madoff

- Allen Stanford

- Local confidence scams everywhere !

- Scams thrive on fear, greed, *desperation*.

THE BEST SINGLE INVESTMENT

- **A PHONE-ANSWERING *MACHINE* (!)**
 - NOT the costly monthly phone-co *service!*



- **KEEPS FINANCIAL SALESPEOPLE AWAY**
 - (also: newspaper, aluminum siding, freezer plans)
- (800-289-9999 to check out brokers)
- www.DoNotCall.gov/register/reg.aspx

“NEVER BE SOLD ANYTHING” = PART OF GENERAL CAUTION

- Yield Sells, so...



- Brokers Push What's
Easy to Sell You, so...



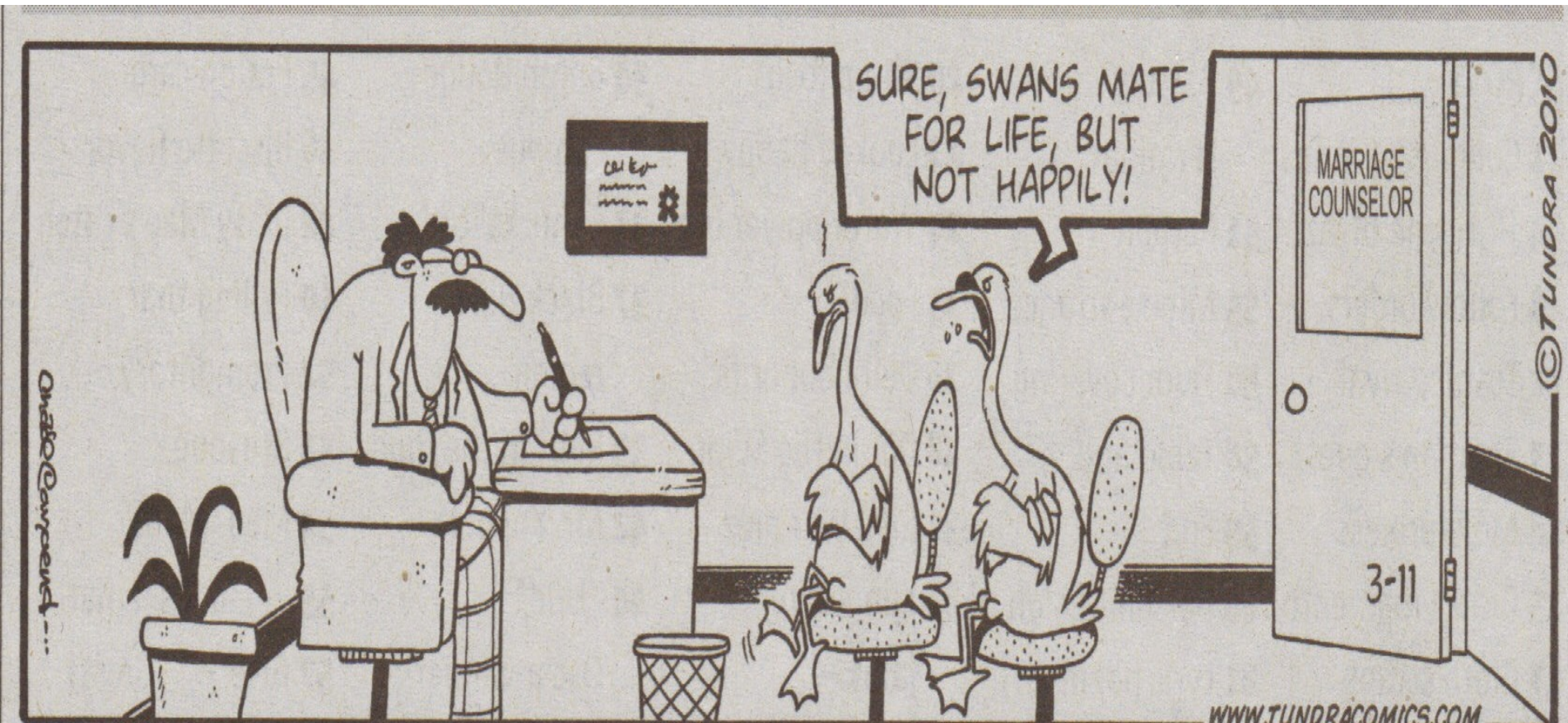
- Don't buy anything offering high yield, and...
- Do your own work; use a DISCOUNT broker

RULE # 2:

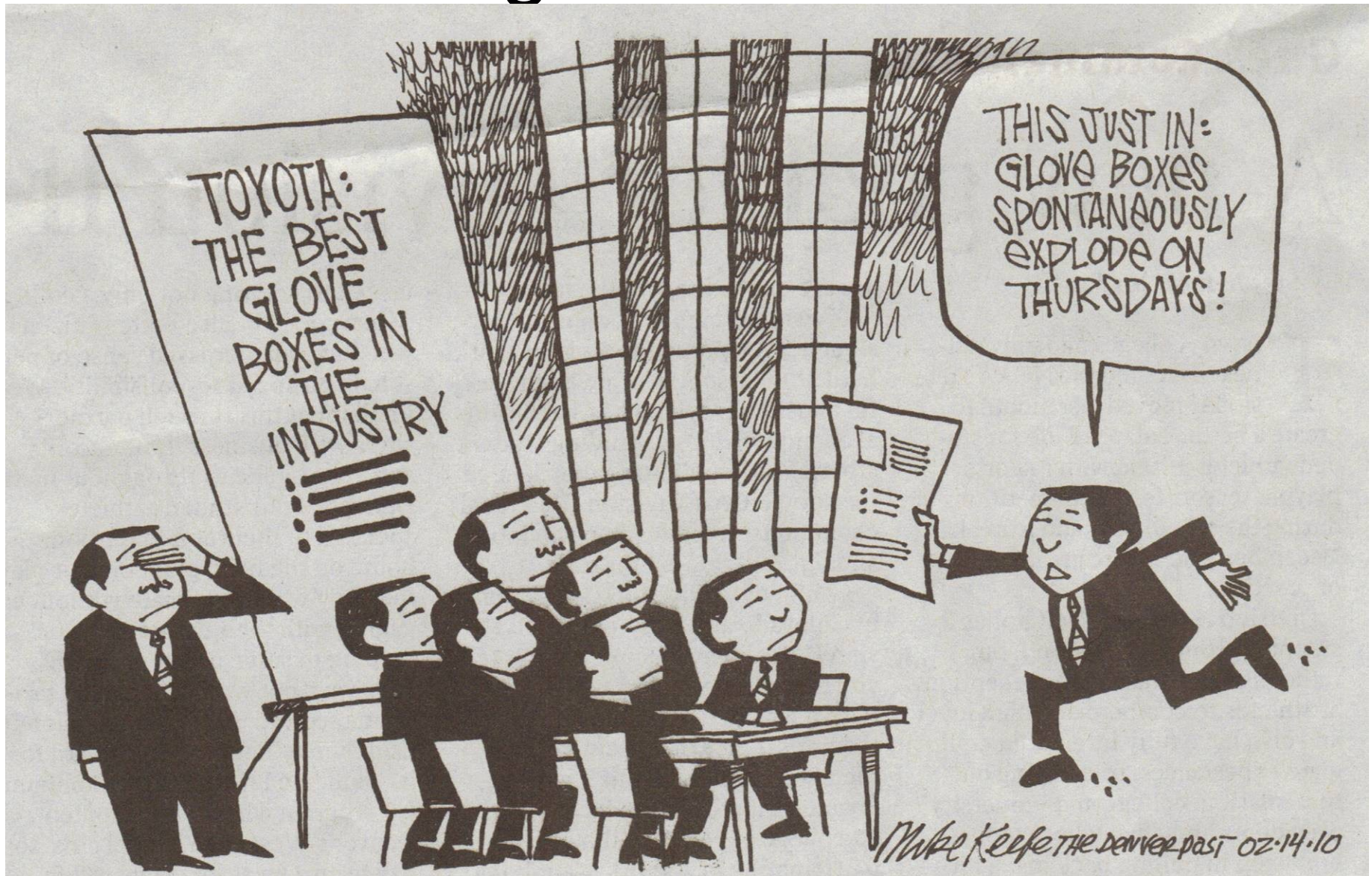
- **DON'T CHASE HIGH YIELD – EVER**
 - High-yield bond funds or CEFs/ETFs
 - Among bonds
 - Among preferred stocks
 - Among utilities
 - Among REITs
 - Among MLPs
 - Within any industry
 - **JUST DON'T !!**



BUYING AN INVESTMENT IS NOT A MARRIAGE VOW!



“Things CHANGE !”



THINGS CHANGE !



- So our portfolios must **NOT** stay constant as collections from the past!
- Especially important to recognize this *when we've experienced past comfort* from regular income payments. They are **NOT** guaranteed into the future !

THINGS *DO* CHANGE !

- **AT&T: no dividend cut in Great Depression**
- **Marriott REIT omitted common div after 911**
- **GM went Chapter 11**
- **Bear Stearns, Merrill Lynch, ETC...**
- **USA *led* world in auto consumption, mfg.**
- **S&P cut U.S. Govt's "AAA" rating Aug,2011**

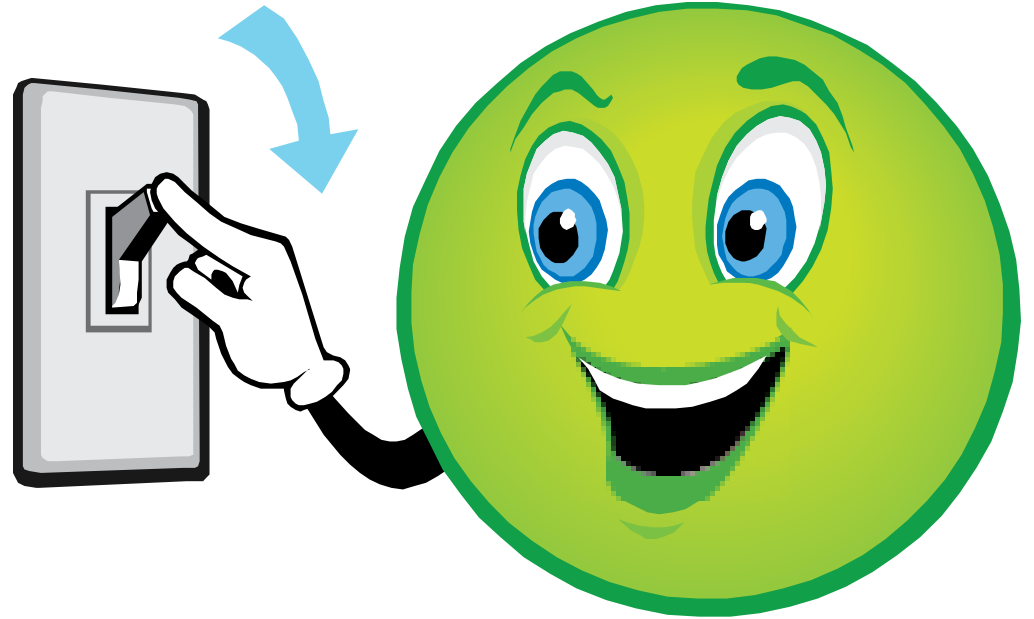
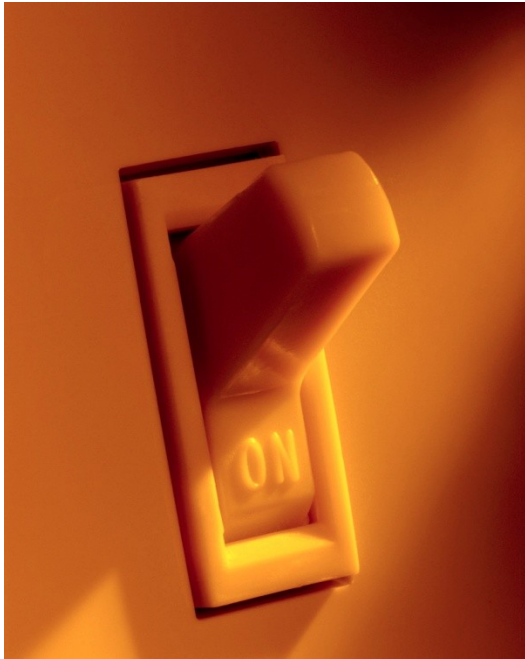
- **Muni bonds: "safe as ever"?**
- **Euro: survival in question?**

Exiting from a...

- **Bad Marriage**
- **Bad Job**
- **Bad Neighborhood**
- **Bad Stock Position**



SELLING A STOCK (!)



Don't MAKE this hard on yourself !

Judge, and ACT !

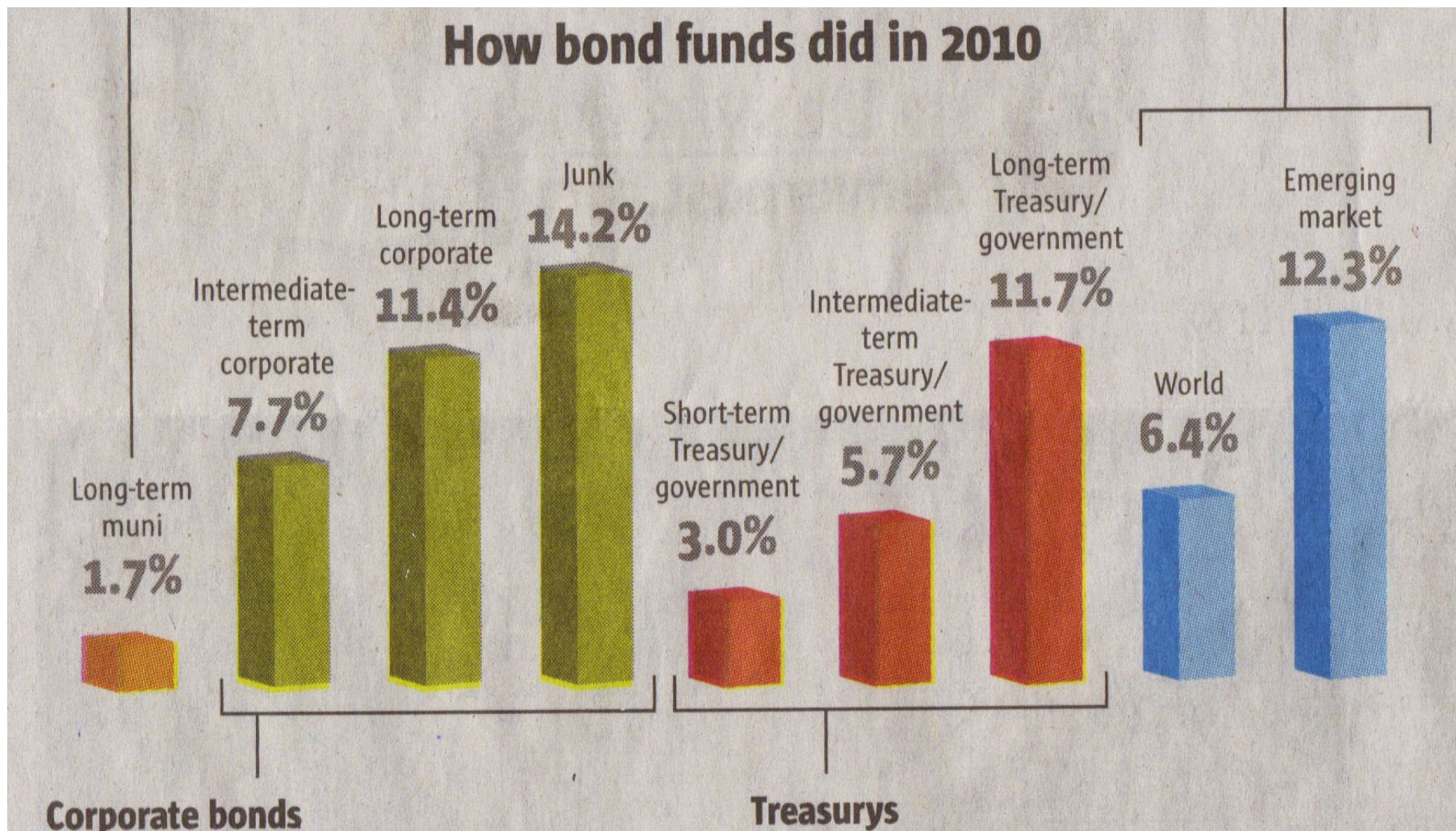


BASIC RULES FOR STAYING OUT OF TROUBLE

- **DO NOT stretch for higher yield**
- ***Believe* the directors' dividend message**
- **Remember, NOTHING is forever!**
- **CDs are NOT a better choice than UST Bonds/Notes/Bills !**
- **Be Counter-intuitive and Skeptical**



ALSO, *Don't* Chase Hot Asset Classes



Sources: Morningstar; Associated Press

WHY TO AVOID HIGH YIELD

- **Junk Bonds a troubled asset class, *per se***
- **Total-return strategy beats high-cash choice**
 - Higher total return
 - With lower risk to principal
- **Market is not stupid!**
 - Generally, valid reasons for yield differentials

“Junk” Bonds

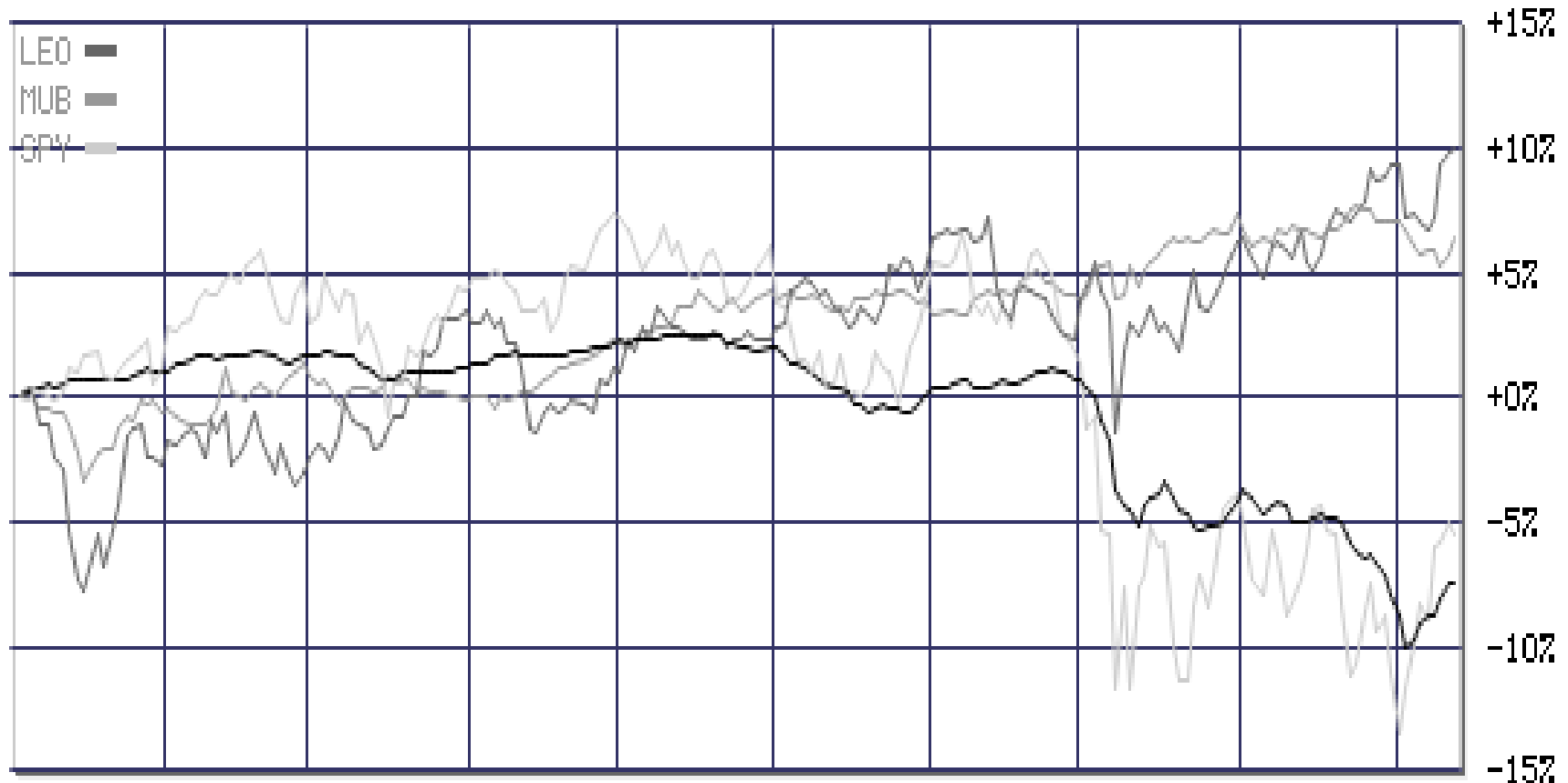
- **Called that for a reason!**
- **The market is not totally stupid: do NOT reach for yield !**
- **Good only in Short Time Windows (~ 1 year in 5)**
- **Lipper Study: 20 years: +20 bps vs. UST**
- **This is NOT a B & H Investment**
- **Already too LATE in this Economic Cycle**
 - **Defaults are a lagging indicator; Prices HAVE bounced!**



HY correlates with STOCKS !

- Top 2 lines: corporates & munis
- Bottom 2 lines: S&P 500 and HY bonds

JHYFX Daily Earnings Up ▲ Down ▼ Dividends Splits 10/13/201



THE UGLY SECRET OF JUNK-BOND FUNDS

- PM stretches for high (risky) yield
- PM locks in losses when bonds default
- 98% of funds lost principal – through 2006!



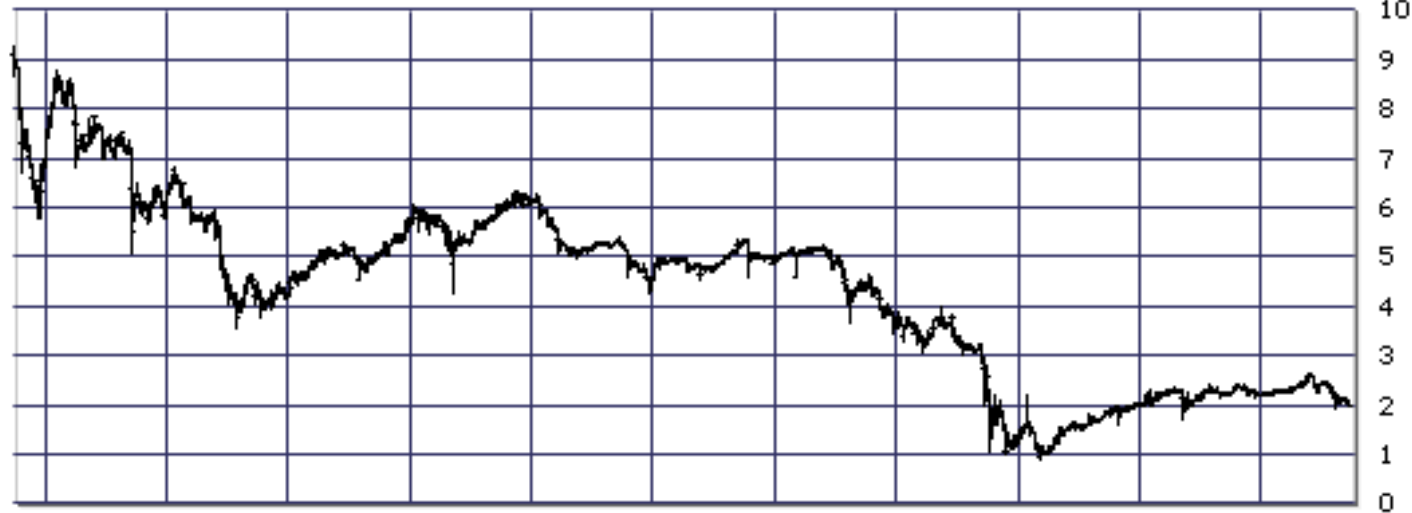
- MORAL OF STORY:
Run the other way !!



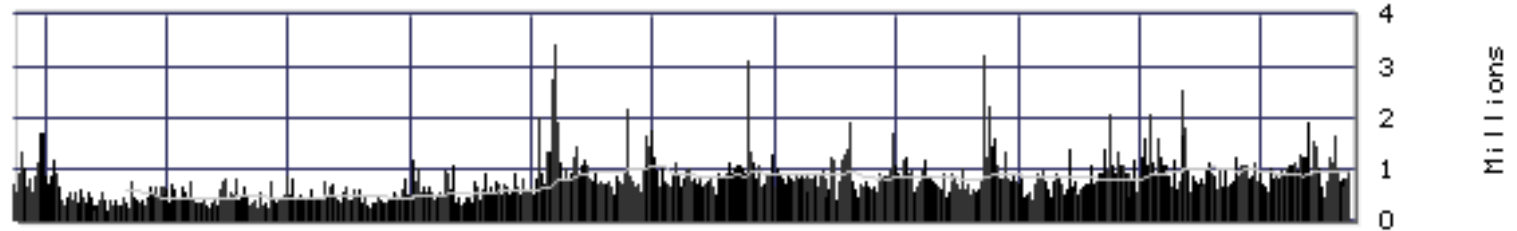
TYPICAL EXAMPLE (!)

HYF Weekly

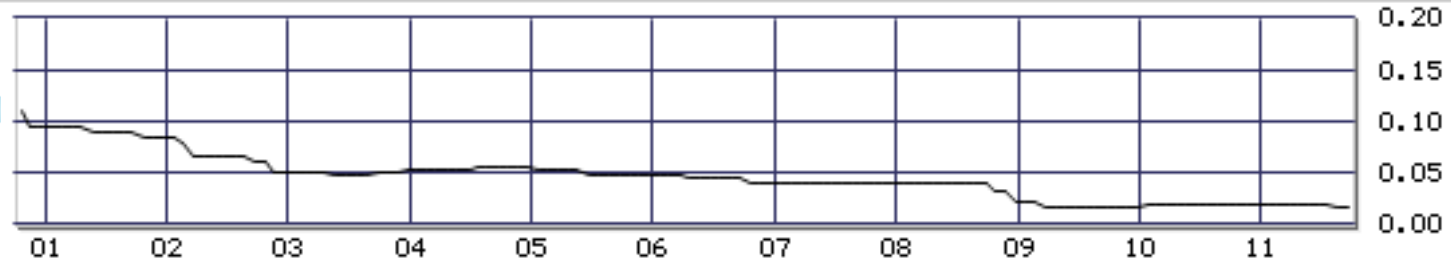
9/18/2011



Volume+ Close Up — Close Down — SMA(50) — ©BigCharts.com



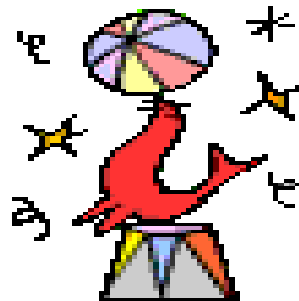
Rolling Dividends



“Preferreds” that are Bonds



- Generally AVOID these street-mfrd products -- QUIDS, TOPRS, PINES, CORTS etc etc

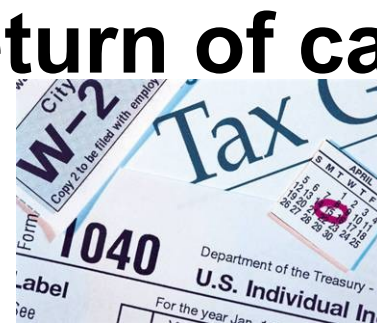


- Trick Provisions

- “Yields” are heavily return of capital

- Very Tax-Inefficient

- CHECK STATUS @ QuantumOnline.com





OUTLOOK → STRATEGY

**“Have a plan for different scenarios.
Don’t under any circumstance show up
with plans to “see what will happen.”
Good decisions are made beforehand,
not in the heat of battle.”**

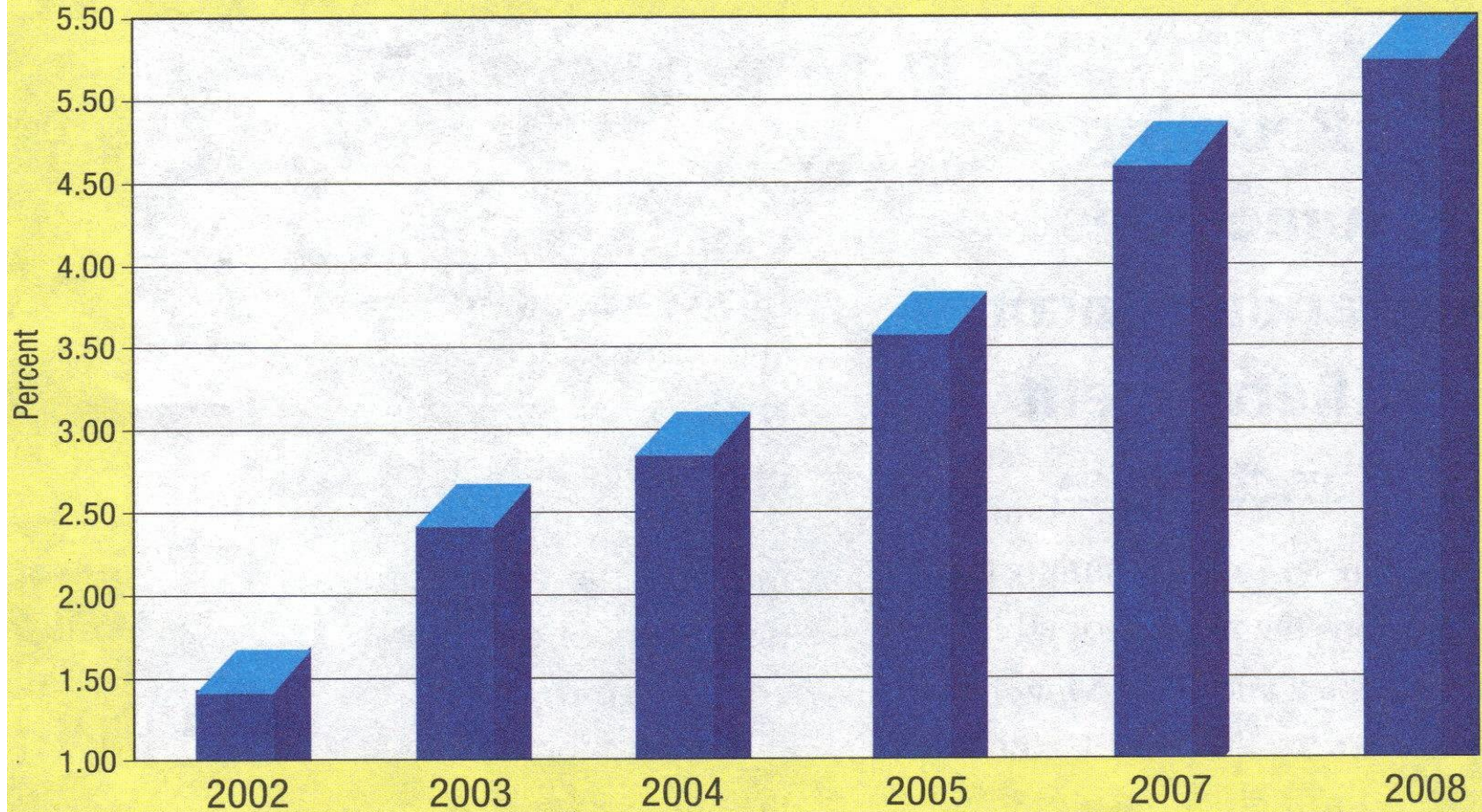
- Jason Leavitt (LeavittBrothers.com)

SCENARIOS

- Inflation
- NO-flation
- Deflation / Severe Econ. Distress
- ? Stagflation
- ? “Double Dip”



U.S. Inflation Rate Almost Quadruples!



Source: The Complete Investor

INFLATION IN 2011-12 ?

- **ZERO (so says Washington) for 2009-10**
- **So much for projecting trends**
- **Inflation WILL return unless we have a depression**



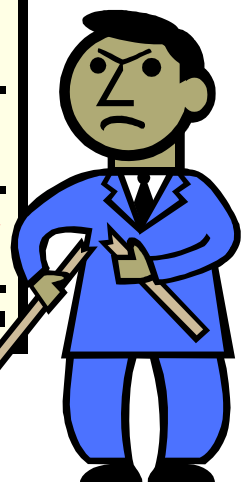
INFLATION STRATEGY

- Some TIPs. Why Risk Vanilla Treasuries??
- A LITTLE in non-G O Munis (upper tax rates to rise)
- Protect vs. Inflation as possible...
 - MLPs with rising distributions
 - Royalty Trusts (ditto)
 - Utilities (ditto)
 - Equity REITs (ditto)
 - The ETF “UDN” and maybe FXA, FXC
- HIGH-QUALITY Preferreds if possible at Discounts
- **AVOID JUNK BONDS & JUNK FUNDS (high risk)**



DEFLATION STRATEGY

- U.S. Treasury L-T Bonds (TLT)
- *NOT* TIPs
- AAA Munis: GO's vs Transp?
- Maybe the ETF: UUP
 - not FXC, FXA
- **Corporate Securities:**
 - Low/No debt leverage
 - Think **SURVIVAL** (new mind-set!)
 - Companies not dependent on raising prices
- **Junk of any kind will be a major disaster!**



QUALITY IS JOB ONE IN 2011 & Beyond !



**Adopt Ford's Presumed (internal) Slogan:
SURVIVAL is job one.**

**Consider some UST bonds
or easier: the 'TLT' and 'TIP' ETFs**

TOXIC Ideas



- **High-Yield Bonds and Funds**
- **Bank Loan Funds (a.k.a. 'prime rate')**
- **Unit Investment Trusts (UITs)**
- **Any utility or REIT *not* raising its dividend**

- **Exotic 'Preferreds' with acronym names (PINES, CORTS, QUIDS, TOPRS, etc)**

- **REITs / Utilities with incredible yields**
- **ALL *leveraged* Closed-End Funds**
- **Income Closed-Ends @ big premiums**
- **Big-Pharma names with 4%+ yields**

UNIT INVESTMENT TRUSTS



• **Low Expenses**

- **Totally Unmanaged**
- **Illiquid Aftermarket**
- **Nasty Exit Costs**
- **Hard to Get Info**
- **Bottom Line:**



WHY WOULD YOU DO THIS??

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

UTILITY STOCKS

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

REITs

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

**MASTER LIMITED
PARTNERSHIPS**

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

PREFERRED STOCKS

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

MUNICIPAL BONDS

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

CORPORATE BONDS

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

SOVEREIGN BONDS

**DON'T BUY OR HOLD
THE HIGHEST-YIELD**

CLOSED-END FUNDS

**DON'T BUY OR HOLD
CLOSED-END FUNDS**

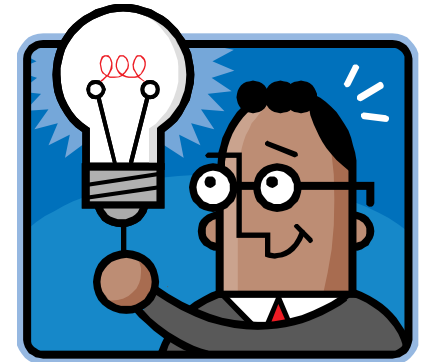
**THAT HOLD THOSE
OTHER HIGH-YIELD
THINGS**

**DON'T BUY OR HOLD
MUTUAL FUNDS or ETFs**

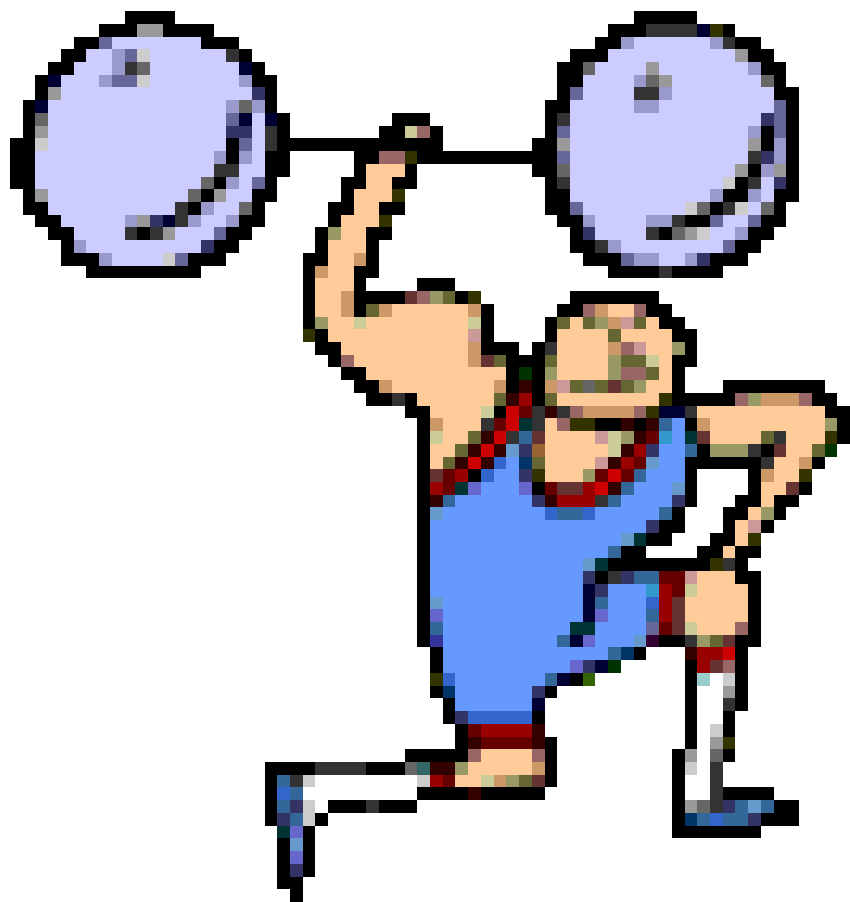
**THAT FOCUS ON THOSE
OTHER HIGH-YIELD
THINGS**



***DOES
ANYONE
SEE A
PATTERN
HERE??***



**It's EASY to Tell the Difference
Between Strong and Weak !**



“WHAT ABOUT THE PAYOUT RATIO?”

**I watch DIVIDEND trend.
That reflects directors’
informed confidence level !**



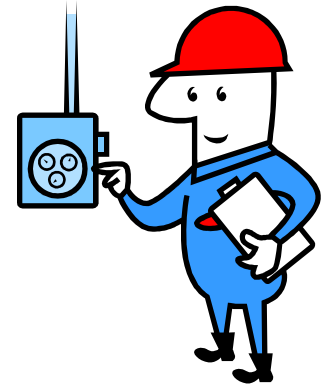
**EPS highly variable
Cash Flow better
FREE Cash Flow even better**

SIX CYCLE STAGES for UTILITY, REIT, and MLP DIVIDENDS

- Acceleration
- Steady Growth
- Decelerating Growth
- Zero Change
- Decrease
- Omission

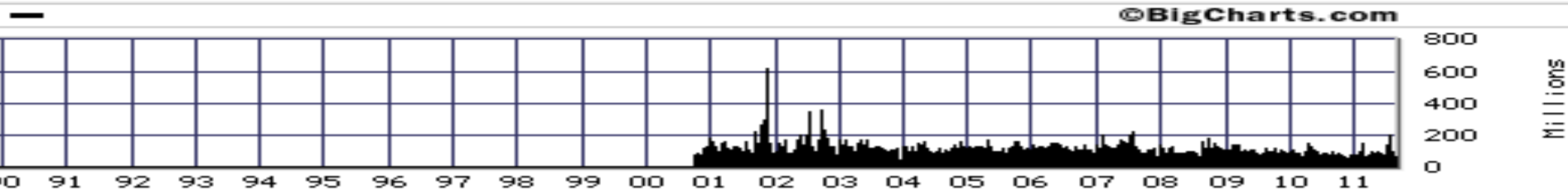
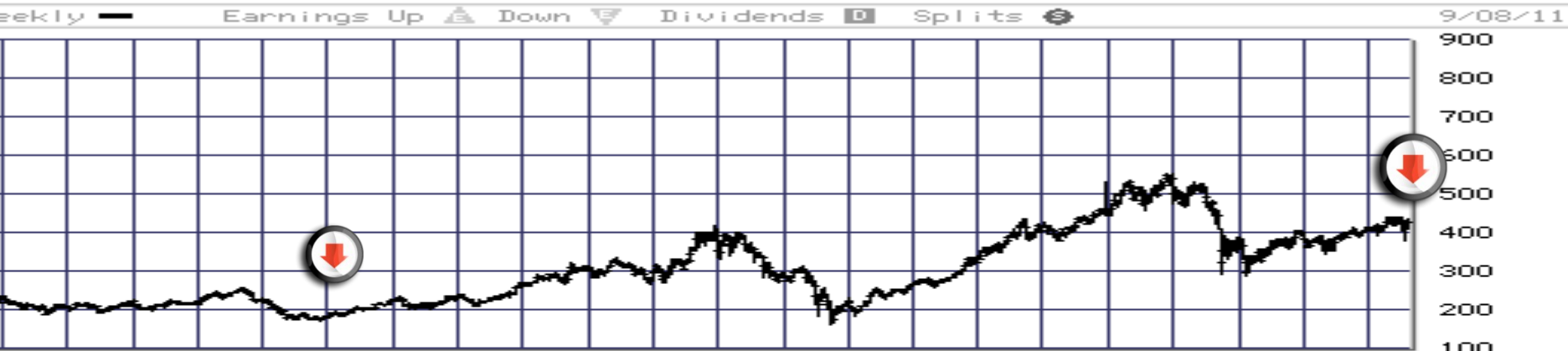
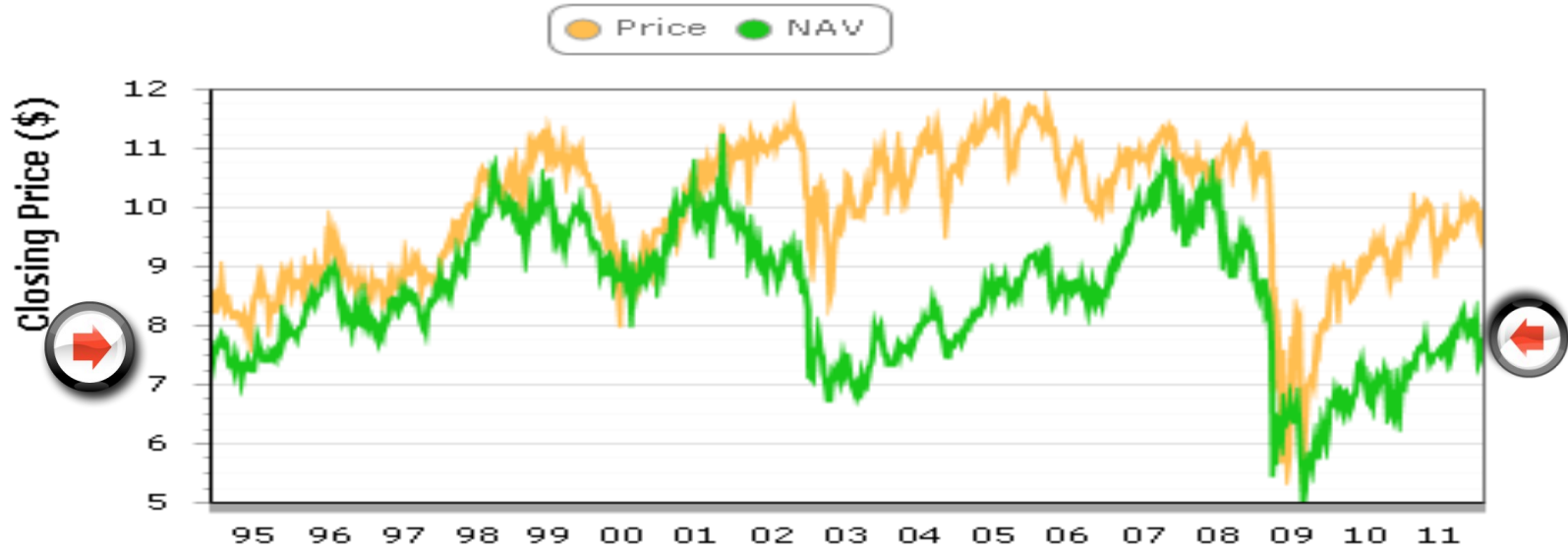


IMPLICATIONS OF SIX STAGES



- Acceleration +
- Steady Growth +
- Decelerating Growth - early warning
- Zero Change - urgent
- Decrease - *and late!*
- Omission + (!) Usually

High-Yield Strategy: Results





YOUR CHOICE

- Higher Current Yield, no growth, lower quality, *no signal from directors*; thus higher risk
- **Lower Current Yield, grow *income and capital*, higher quality, annual signal from directors; thus lower risk of surprise**



A COMMON STOCK WITHOUT DIVIDEND GROWTH IS LIKE A WEAK BOND, BUT WITH MUCH LOWER STATUS AND NO CONTRACTUAL OBLIGATION !



AREAS OF INTEREST

- **U.S.T. Bonds via “TLT” ETF (or, TBF ?)**
 - **Utilities**
 - **REITs**
 - **REIT Preferreds**
 - **MLPs**
 - **Royalty Trusts (commodity infla. is a ...)**
 - **Banks & qualified pfd** – not over par!
- VERY SELECTIVELY**
- **Other (special situations)**



Common Problem for Wall Street's Orphans: *Aftermarket* Support Absent !

- **Master Ltd. Partnerships**
- **Preferred Stocks**
- **Royalty Trusts**
- **Closed-End Funds**

— **Hint: possibly opportunities!**



SOME ETFs/CEFs that CONVERT K-1 Income to 1099s

- **AMPLP**
- **MLPL (leveraged for 2:1 return !)**
- **Recent (2011) CEFs: SMF, EMO, JMF**
- **Tortoise CEFs:
TYG, NTG, TYN, TPZ**

Consult your own tax advisor.

Phone the sponsor's 800# for details.

What about Income-Oriented Closed-End Funds??

- **Don't want to pay premiums over NAV !**
- **Super-hi yields = trouble waiting to happen !**
- **Many CEFs have 'fixed-distribution' policies**
 - **If overpaying, just depleting your capital!**
 - **See CEFconnect.com for dividend details !**

NATURE of CEFs' DISTRIBUTIONS

• XD date	Total	Reg Incm	LTG	STG	ROC
• 11/28/2011	\$0.065	\$0.054	\$0.011	00	
• 10/28/2011	\$0.065	\$0.054	\$0.011	00	
• 9/28/2011	\$0.065	\$0.054	\$0.011	00	
• 8/29/2011	\$0.065	\$0.040	\$0.024	00	\$0.001
• 0/27/2011	\$0.065	\$0.031	\$0.034	00	
• 6/28/2011	\$0.065	\$0.054	\$0.011	00	
• 5/27/2011	\$0.065	\$0.033	\$0.032	00	
• 4/27/2011	\$0.065	\$0.040	\$0.025	00	
• 3/29/2011	\$0.065	\$0.038	\$0.027	00	
• 2/24/2011	\$0.065	\$0.042	\$0.02	00	
• 1/27/2011	\$0.065	\$0.031	\$0.034	00	
• 12/29/2010	\$0.065	\$0.065	\$0.00	00	

EXAMPLE from CEFconnect.com (click: dist'n history)

NY-muni CEFs (Oct 13 data)

- **31 (!) *Only 3 non-leveraged* (NNY, NXN, NYV)**
- **Recent cash TF yields: 4.5% to 5.8%**
- **All at discounts 3% to 8% (lower ylds, less liquid)**
- **VERY SMALL Market Caps (\$30-\$140 MM) !**

- **8 LEVGD w/TNA > \$200 MM:**
- **yields 5.8% to 6.7%; 3.2% prem to 5.7% disc**
- **4 Nuveens; 2 BlackRocks; 1 Invesco; 1 E-Vance**

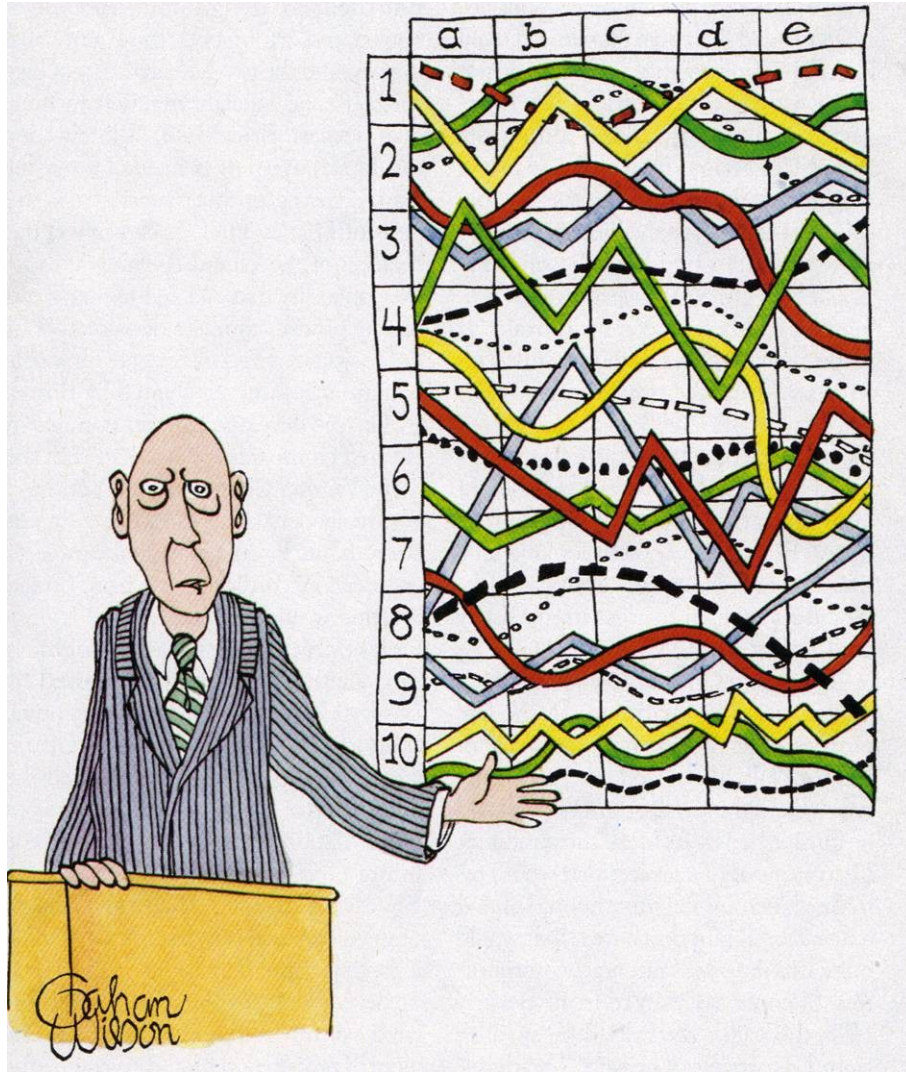
www.CEFconnect.com & screen on NY Muni

OBSERVATION:

- In 2008 and early 2009, price action in preferred stocks was totally illogical (they moved down while same companies' common stocks rose!). This was due to lack of aftermarket support and provided a huge opportunity for the brave. ***Lesson: Making money requires having courage when market is scary, and exercising prudent discretion when market is lots of fun.***

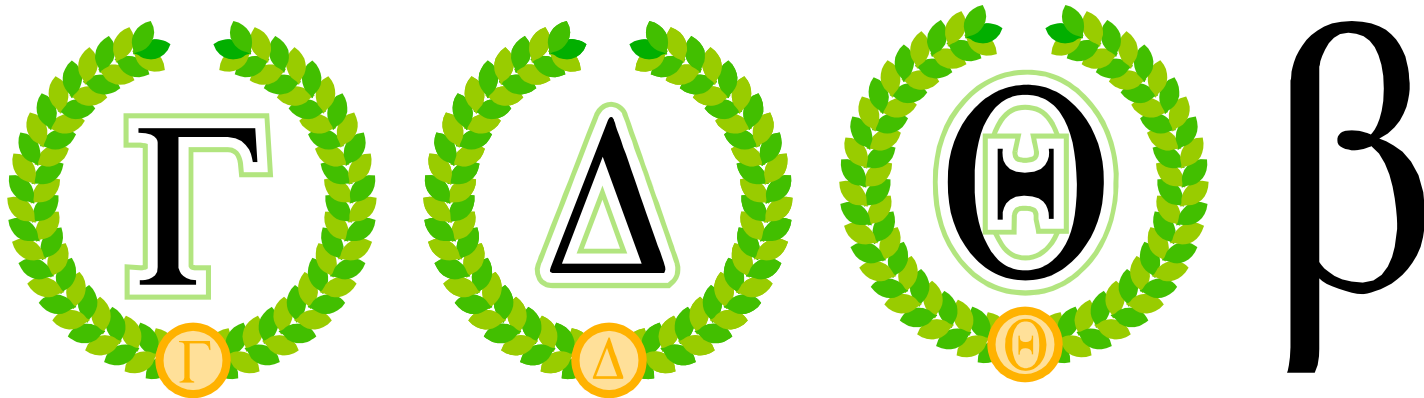
OPTIONS:

**THEY'RE
NOT
AS
COMPLEX
AS YOU
THINK!**



WRITING CALLS

- Know “the Greeks” ?



- **No, Know the *CHARTS* !**
(K-I-S-S principle)
- **Always Know When X-D Date Is !!**

BIG CAUTION RE OPTIONS

- Be a **WRITER / SELLER**, *not a Buyer*
- Per CBOE, about 80-85% expire *worthless*

- **IGNORE seminars**



about getting rich quick in options !



Covered-Call Writing EXAMPLE !



- APL: Nov(19) \$34 calls \$0.85 (7.5 weeks)
 - _ on Sep 26, with APL @ \$30.00 (MIN Yield = 6.20%):
 - PLUS**
 - _ Nov 34s Calls @ \$0.85 (7.5 weeks, annualizes to \$5.89 or > 19%)
 - _ ? Annualize return (!) IF OPTION EXPIRES
 - _ Take the cap gain IF OPTION EXERCISED
- Get Stock's Yield + Added Income from Options
- (the venturesome can also write Puts !)
 - _ **Example ONLY. Not a specific recommendation.**

NEE's Dividend Pattern

(the old FPL; now NextEra)

23-Feb-11 \$0.545 !

24-Feb-10	\$0.50
25-Feb-09	\$0.4725
25-Nov-08	\$ 0.445
27-Aug-08	\$ 0.445
27-Feb-08	\$ 0.445
28-Nov-07	\$ 0.41
29-Aug-07	\$ 0.41
6-Jun-07	\$ 0.41
28-Feb-07	\$ 0.41
24 Nov-06	\$ 0.375
23-Aug-06	\$ 0.375
7-Jun-06	\$ 0.375
3-Mar-06	\$ 0.375
22-Nov-05	\$ 0.355



Writing Calls on NextEra Energy

- **Sep 26: Stock trading @ \$54.30 (tkr: NEE)**
- **Yield 4.05% (on new \$2.18 annual div rate)**

- **Dec 60s \$0.45 (11.5 weeks)
annualizes to \$2.03 (another 3.8%)**
 - **Example ONLY. Not a specific recommendation.**



CONSIDER DOING OPTIONS ON VOLATILE STOCKS !

TOTAL RETURN

= *cash yield PLUS/MINUS
price change*

- *Rising Dividends drive rising stock prices.*
- *Flat Dividends **do not** drive rising prices (and imply higher risk!).*

Comparison: 7 Regional Companies

<u>Utility</u>	<u>10yGR</u>	<u>Yield</u>	<u>Sum</u>	<u>Status</u>
Dominion	4.3	4.0	8.3	Accel
Duke	2.9	5.2	8.1	Decel
Scana	4.9	4.9	9.8	Accel
Piedmont	4.2	3.8	8.0	St'dy Gr
Southern	3.1	4.5	7.6	Accel
Spectra	4.3*	4.0	8.3	St'dy Gr

* since spinoff, 2007

NextEra 7.0 4.05 11.05 ACCEL

BOND INTEREST, *WITHOUT* PRICE RISK* !

- Buy BOTH ETFs: TLT and TBF (inverse)
 - Get Interest on the TLT
- Write O-O-M Options on Both
 - *- Enter buys at collar prices for TLT, TBF
- Sep 26: TLT yield 3.24% @ 119.30
 - Dec (17) 130s \$1.70 (for 11.5 weeks)
 - **Option (7.68%) yields more than the bonds!**
- TBT (double inverse!) no yield @ \$19.99
 - Dec (17) 24s @ \$0.74 (11.5 weeks)
 - Annualizes to 16.7%
 - **Example ONLY. Not a specific recommendation.**

SOME EXAMPLES TO CHECK OUT (DO YOUR OWN HOMEWORK!)

- TLT and sell covered calls (also TBF or TBT(!) as hedge)
- Utilities: T* OKE* NEE* vod* vz* ngg* se* duk* te*
- REITs: OHI* hcp* iyr* **negative on uht nly***
- REIT Pfds BREPRC PSAPRMorP nlypra hcprf
ofcprj udrprg
hptprc **ahtpra?**
- MLPs APL* or **EEQ**** or **bwp*** LINE bpl** apu**
MWE* MLPL(!)
- Royalty Trusts sbr (*avoid* GNI) **negative on msb pbt***
- Banks-?? bacprl wfc* usb* (usbprl too high) fitbp

- Other rgc** imkta metprb swy* kr* bgs* cvs* pff**
rnp sfl* codi** **rig***

!-2x levg'd * optionable; ** optionable, but options trade thinly

Order Entry



- Pfds are THIN; ALWAYS use Limits.
- MLPs often similar. Ditto Royalty Trusts.
- Always check quote *and size!* Look at recent daily ranges on chart.
- Be a bit patient. No need to own *today!*

The YEAR-END Game

- **Recently-Issued Closed-End Funds (<2 yrs)**
 - find @ CEFconnect.com
- **Income Oriented**
- **Trading Well Below IPO Price**
- **Look for Volume build-up in December**
- **Buy for 6-8 weeks' rally**

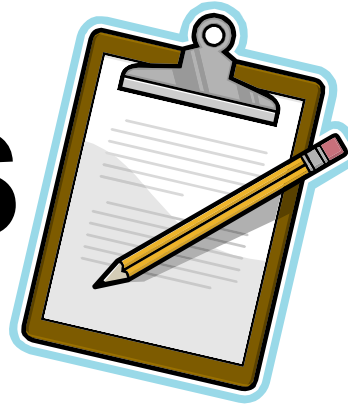
- **Each has its own timing. No exact percents!**
- **Don't Buy Bad Asset Classes !**

DO YOUR HOMEWORK ON THIS **CANDIDATE** LIST

Tkr	IPO date	Portf	IPO \$	Recent \$
DPG	Aug	Global Util	20	18
EMO	Jun	MLPs	20	17
GNT	Feb	Gold/NR*	20	14+
HEQ	Jun	Option Incm	20	14+
JMF	Mar	MLPs	20	16+
SMF	May	MLPs	25	22

*** - this CEF has a 'stable-divd' policy**

FINAL THOUGHTS



- ***Don't* Stretch for Yield (High Risk!)**
- ***Don't* Buy a Dividend ! (dumb tax-wise)**
- ***Do* Write Options (out-of-the-money strikes)**
- **Diversify Themes (since outlook murky)**

ONE MORE THOUGHT...

Don't

Buy & Hope!



Why Be Watchful ?



Happier Income Investing !

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MORE re INVERSE ETFs

- SPY s&p-500 DOG dj-30
- FXP china EUM emerging EUO the euro
- DTO double oil GLL double gold
- VXX the VIX fear index
- SKK = smallcap
- SZK = consumer goods
- **FAZ**, SEF = financials (SKF=2x bear)

- **Get a COMPLETE LIST at the
free website www.ALLetf.com**