

AAII Portland Income SIG Meeting

Oct 2022



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Disclaimer

- Opinions that may be expressed in this subgroup are not necessarily those of AAll or the Portland Chapter.
- The intent is to provide a background for the understanding of income investing and share personal experiences.
- Attendees should not consider views expressed here as recommendations.
- AAll mission: A grassroots organization led by volunteer members, and extend the mission of "person to person" to individual investors in our community
- The goal is unbiased income-oriented investment education in a social context.
- None of us are investment professionals... just individuals, who wants to form a community income-oriented investors.
- A forum where we exchange income ideas in an open friendly environment.
- To get the most out this SIG, come prepared to learn something new, move out of your comfort zone and grow your knowledge base.

Income Investing Group Goals

- ***Self-directed investors***
- ***Learning (everyone contributes!)***
- Become prudent knowledgeable investors
- Sustainable stream of income
- Growing income faster than inflation
- Preservation of capital
- Long holding periods (Buy and hold or better yet... buy and monitor). Income investors are in It for the long run.

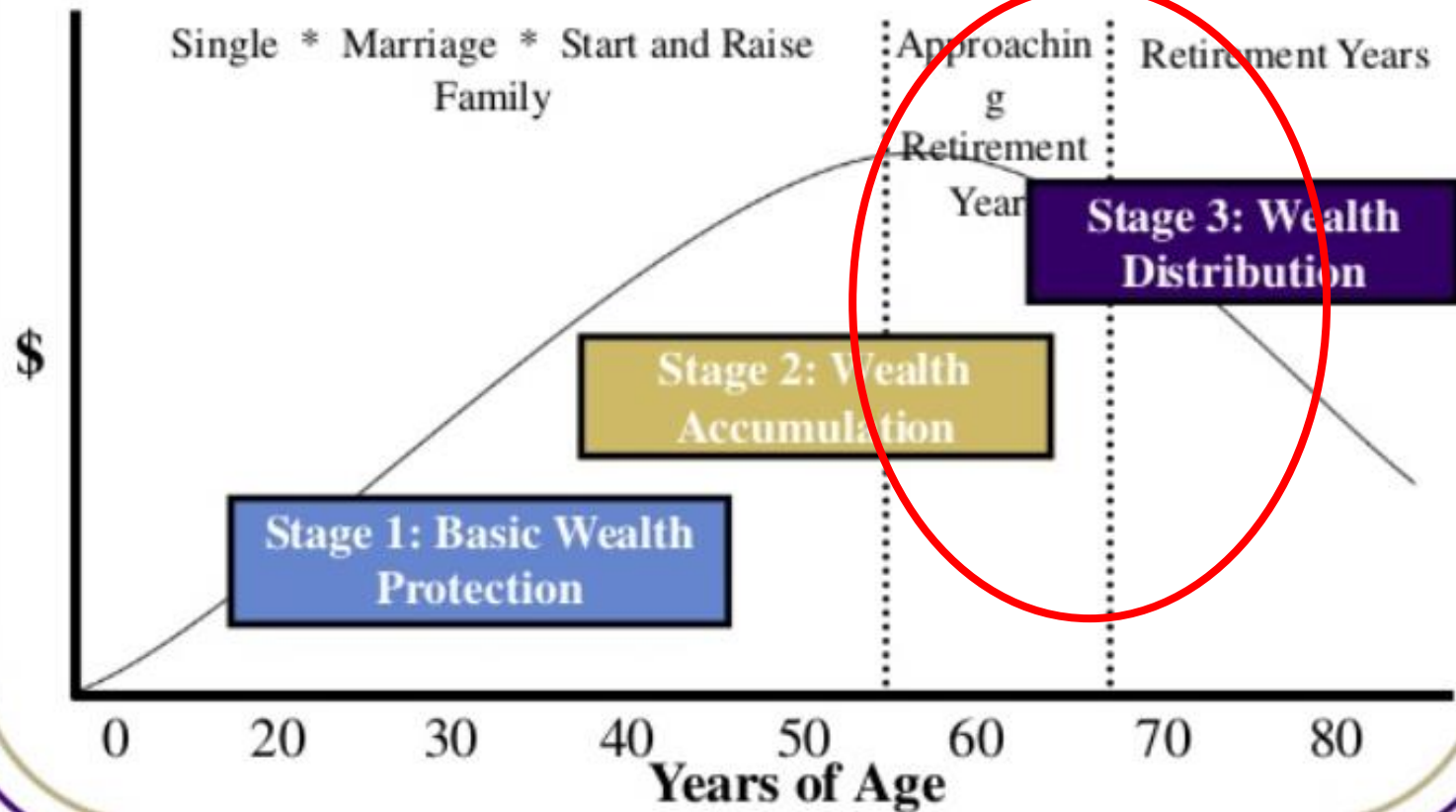


Be a Better Income Investor

- AAll is for active self-directed investors
- AAll Portland Income SIG works best when you become active.
 - Propose Income-oriented topics
 - Share your knowledge (spreadsheets, valuation tools, income newsletters, etc.)
 - Share your research (surveys, research reports, articles from AAll Journal, YouTube Channels, etc.)
 - Share that favorite web site or tools
 - What would like to learn about income investing



An Individual's Financial Life Cycle (ages are averages)



Google Groups: AAI PDX Income SIG

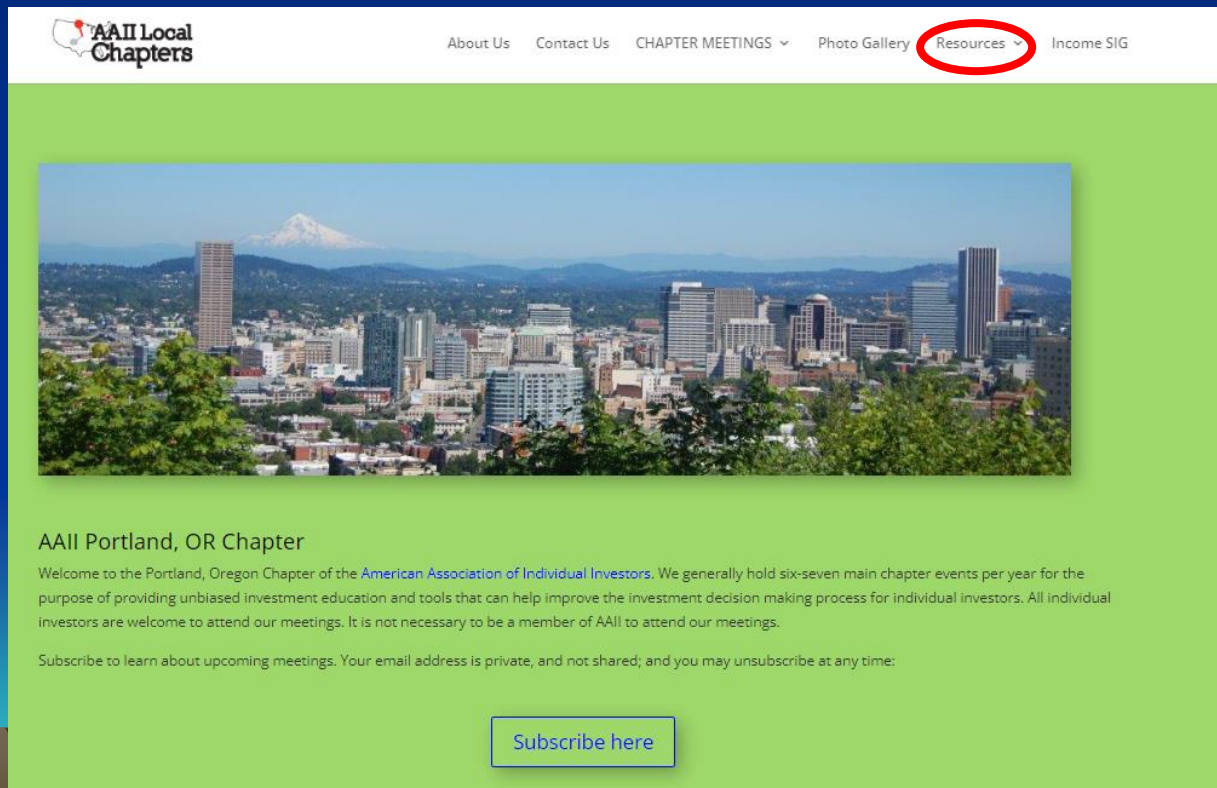
- To post a message: aai-income-investing@googlegroups.com
- Meetings announcements
- All discussions in one place
- Express yourself... find people with similar interests
- People power discussions... connect with your fellow Income investors
- Streamlined design means you won't spend time waiting to read and get involved.
- Mobile friendly... Access from anywhere.



More on Portland AAI Meetings

– Future Portland Chapter AAI Meetings:

- aaiipdx.com
- Todd Blickenstaff – President, AAI Portland



The screenshot shows the website for AAI Local Chapters. The header includes the logo and navigation links: About Us, Contact Us, CHAPTER MEETINGS, Photo Gallery, Resources (circled in red), and Income SIG. The main content area features a large photograph of the Portland city skyline with Mount Hood in the background. Below the photo, the text reads: "AAI Portland, OR Chapter" followed by a welcome message: "Welcome to the Portland, Oregon Chapter of the American Association of Individual Investors. We generally hold six-seven main chapter events per year for the purpose of providing unbiased investment education and tools that can help improve the investment decision making process for individual investors. All individual investors are welcome to attend our meetings. It is not necessary to be a member of AAI to attend our meetings." Below this is a subscription prompt: "Subscribe to learn about upcoming meetings. Your email address is private, and not shared; and you may unsubscribe at any time:" and a "Subscribe here" button.

AAII Portland YouTube Channel:

Click the Subscribe button under any video from the Income SIG or main PDX Chapter. Once you're subscribed, any new videos published will show up.

<https://www.youtube.com/channel/UCnxl8fQH-F4ooXb-U8IO6zQ>

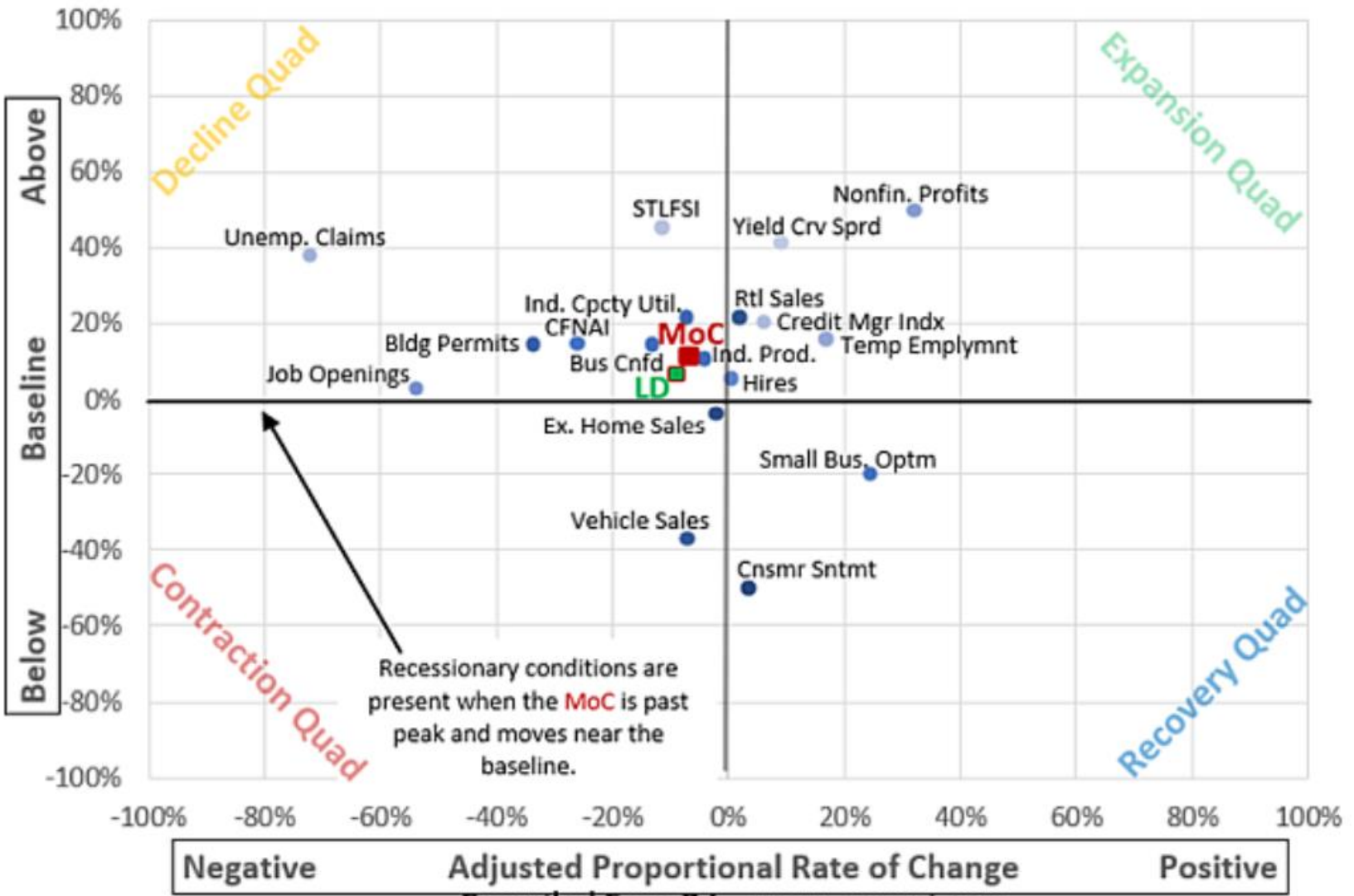
The screenshot shows the YouTube channel page for 'AAII - Portland Chapter'. The search bar at the top contains the text 'All Portland Chapter', which is circled in red. The channel name 'AAII - Portland Chapter' is displayed with a profile picture and '40 subscribers'. A 'SUBSCRIBED' button is visible. The navigation menu includes 'HOME', 'VIDEOS', 'PLAYLISTS', 'CHANNELS', and 'ABOUT'. The 'Uploads' section is active, showing a grid of video thumbnails with their titles, view counts, and upload dates.

Video Title	Views	Upload Date
Feb. 2022 Income SIG Meeting	24 views	3 weeks ago
Jan 2022 Income SIG Meeting - Utilities	36 views	1 month ago
Dec. 5, 2021 Income SIG Meeting on Value Line	32 views	3 months ago
Oct. 10, 2021 Income SIG - Open Discussion	29 views	4 months ago
10/9/2021 Timothy Bock	31 views	4 months ago
Sept. 2021 PDX SIG Meeting - Philip Mause	35 views	5 months ago
July 2021 SIG Meeting Peter Lingane	50 views	7 months ago
June 6 2021 Income SIG Mtg Don Maurer ETFs	131 views	9 months ago
May 2, 2021 IDI Nicholas Ward	43 views	10 months ago
April 11, 2021 Income Investing SIG - Bond Savvy...	28 views	10 months ago

AAll PDX Income SIG: Planning for the Future

- We need more than one SIG Chair
- We have many contributors. That's greatly appreciated...
- As we approach year-end, it's a good time to think about the long-term future of the Income SIG
- Being a co-chair is a great way to serve the AAll PDX community.
- Training provided

BaR Analysis Grid[®] 10/7/22 Update

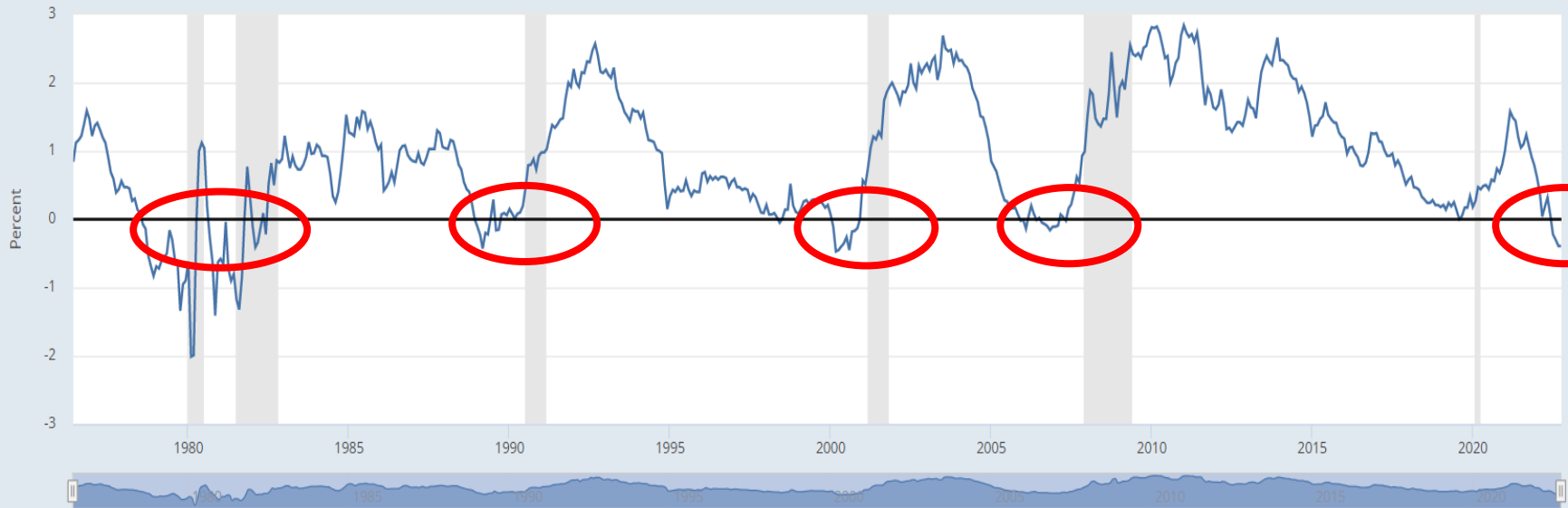


Note: Because the yield curve spread is forward looking, when plotted it is lagged 12 months.

Yield Curve Has Inverted

10/2 Yield Curve

FRED — 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity

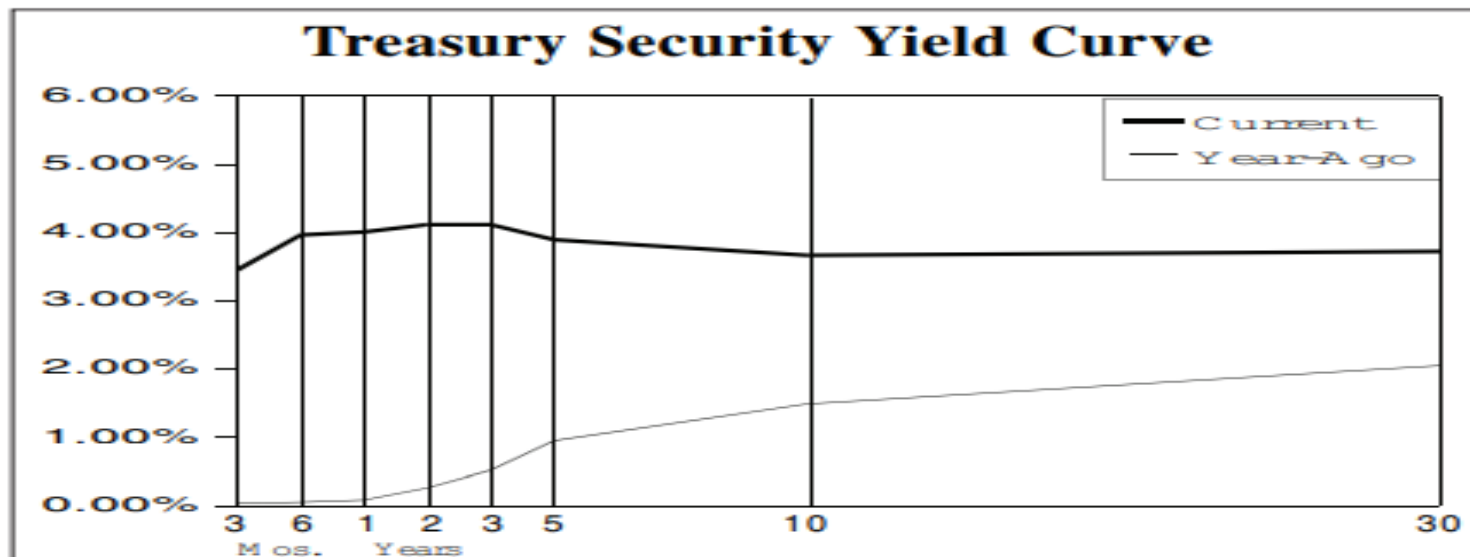


Source: Federal Reserve Bank of St. Louis
2 of 6 graph(s)

fred.stlouisfed.org

Close

TAXABLE	Recent (10/3/22)	3 Months Ago (7/1/22)	Year Ago (10/4/21)
Market Rates			
Discount Rate	3.25	1.75	0.25
Federal Funds	3.00-3.25	1.50-1.75	0.00-0.25
Prime Rate	6.25	4.75	3.25
30-day CP (A1/P1)	3.11	1.64	0.05
3-month LIBOR	3.75	2.29	0.13
U.S. Treasury Securities			
3-month	3.46	1.73	0.04
6-month	3.97	2.52	0.06
1-year	4.01	2.79	0.09
5-year	3.90	2.88	0.95
10-year	3.67	2.88	1.49
10-year (inflation-protected)	1.43	0.54	-0.89
30-year	3.73	3.35	2.05
30-year Zero	3.64	3.08	2.08
Common Stocks			
VL Stocks (Median)	2.30	2.20	1.80
DJ Industrials (12-mo. est.)	2.40	2.30	1.90
VL Utilities	3.70	3.50	3.60



- Implied ERP on Oct 1, 2022 = 5.30% (Trailing 12 month)
- For more info on Implied ERP:
 - <https://pages.stern.nyu.edu/~adamodar/podcasts/Webcasts/ImpliedERP.mp4>
- Risk free rate: 3.67% (10yr T bond)
- Investment premium needed to compensate for risk:
 - = Implied ERP + Risk free
 - = 5.30% + 3.67% = 8.97%

Valuing the S&P 500 on Sept 23, 2022

	<i>Earnings = 30% below Estimates</i>			<i>Earnings = 15% below Estimates</i>			<i>Earnings = Estimates</i>		
Riskfree Rate	<i>ERP =4%</i>	<i>ERP =5%</i>	<i>ERP =6%</i>	<i>ERP =4%</i>	<i>ERP =5%</i>	<i>ERP =6%</i>	<i>ERP =4%</i>	<i>ERP =5%</i>	<i>ERP =6%</i>
2%	4276	3416	2842	4677	3737	3110	5449	4348	3615
3%	4132	3303	2750	4519	3613	3009	5169	4129	3436
4%	3979	3183	2653	4352	3482	2903	4889	3910	3257
5%	3819	3058	2551	4176	3345	2790	4609	3690	3078
6%	3650	2926	2443	3991	3200	2672	4328	3471	2899

Index was trading at 3693 on 9/23/22. Shaded cells are higher than 3693

Posted by Aswath Damodaran Sep 26 2022

Agenda

- Oct 9
 - [Econ Pi status](#), latest ERP and risk-free rate
 - Brief Introductions to Preferred Stocks
 - Open discussion (Everyone!!)



Preferred Stocks

- A quick overview
- Key features
- References and resources





Preferred Equities

Bond Substitute... at least for now

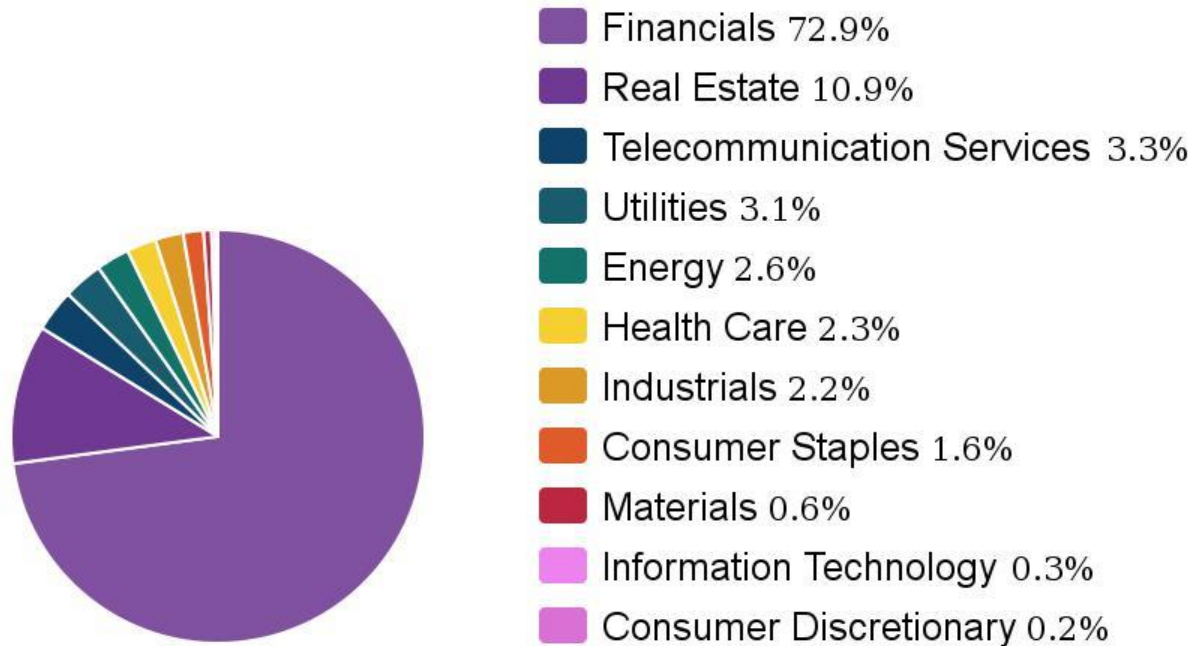
- Called “Preferred” because their dividends must be paid before its common stock.
- Several percentage points higher than comparable income securities... Current rate about 5.2 to 6.6%
- Preferreds are issued by the same companies that issue common stock.
 - Financial firms, telecom companies, utilities etc.
- Dividends never increase and price usually remains within a narrow range... usually about par value of \$25 per share

Factors that affect the price of a preferred

- Yield
- Interest rate
- Rating: Moody's, Standard & Poor's
- Inflation
- Duration: Call date and maturity date
- Risk of default



Preferred Equities by Sector



Based on GICS® sectors

The weightings for each sector of the index are rounded to the nearest tenth of a percent; therefore, the aggregate weights for the index may not equal 100%.

As Of Oct 31, 2016

Preferred Equities: Benefits & Drawbacks

Benefits:

- Typically non-voting but pay a steady dividend
- High dividend yield... higher than common stocks
- Dividends are paid **BEFORE** common share holders
- Price is much less volatile than common shares... low correlation to price variation of common shares.
- If a company is liquidated, preferred stockholders have priority over common stockholders.



Preferred Equities: Benefits & Drawbacks

(Continued)

Drawbacks:

- Limited upside appreciation
- Prices vary inversely with interest rates... a positive in the current market
- Some have No maturity dates like a bond... no guaranteed to recover principle
- Some may be redeemed (called) by the issuer.
- Call risk: The issuer could retire the security before maturity, often leading investors to invest in a lower yield environment.
- Interest rate risk: The price of a preferred can fall when yields rise.
- Credit risk: The issuer being unable to make interest and principal payments.
- Sector concentration: Mostly banks and finance companies



Preferred Equities Common Characteristics



- Cumulative: pays all past due dividends
- Non-cumulative: does not pay all past due dividends
- Callable: Issuer may redeem at PAR price, typically \$25/sh.
 - Check the call date before buying
 - Be sure to calculate “Yield to Call”. For example: B of A Series I, 6.2% trading at \$26.70 can be redeemed at \$25 next year, hence yield-to-call is 0.3%.
- Non-callable: Issuer will not redeem
- Convertible: Exchangeable for a given number of shares of common stock. Holders may be forced to convert shares... more volatile.
- Non-convertible: Cannot be exchanged for its common stock.
- Tax Implications: Most dividends are ordinary income hence taxed accordingly. Some dividend income is treated at 15% rate, Check the prospectus.

Selecting Preferred Equities

- Ways to own preferreds:
 - Individual preferred shares
 - Closed-end funds
 - Open-end funds
 - Exchanged-traded funds (ETFs)



Credit Ratings and Default Rates

Moody's Rating	S&P Rating	Rating Description	Avg Cumulative Global Corporate Default Rate (1981–2021)		Classification
			1 Year (%)	7 Years (%)	
Aaa	AAA	Minimal credit risk	0.00	0.50	Investment Grade
Aa1	AA+	Very low credit risk	0.00	0.25	
Aa2	AA		0.02	0.58	
Aa3	AA-		0.03	0.46	
A1	A+		Low credit risk	0.05	
A2	A	0.05		0.75	
A3	A-	0.05		0.83	
Baa1	BBB+	Moderate credit risk	0.09	1.28	
Baa2	BBB		0.14	1.86	
Baa3	BBB-		0.23	3.63	
Ba1	BB+	Substantial credit risk	0.31	4.59	Speculative/Junk
Ba2	BB		0.46	7.58	
Ba3	BB-		0.92	12.02	
B1	B+	High credit risk	1.94	17.02	
B2	B		2.99	19.56	
B3	B-		5.89	28.84	
Caa1	CCC+	Very high credit risk	26.55	49.82	
Caa2	CCC				
Caa3	CCC-				
CA	CC C	Near possible default			

Source: S&P Global Ratings.

Quick Search



Information for Income Investors

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by Ticker Symbol ▼

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Welcome, Andy Prophet 😊
Days of use: 3

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All Preferred Stocks

The QuantumOnline website is completely supported by voluntary user contributions. If our income investing information is useful to your income investing activities, please become a QuantumOnline supporter so that we can continue to offer this information to you. [Become a QuantumOnline Supporter!](#)

This list of **808** preferred stocks are all known preferred stocks trading on the major stock exchanges plus most of the preferred stocks trading on the OTCBB, Pink Sheets and Other OTC markets. The list contains all preferred stocks covered by QuantumOnline including traditional preferred stocks, trust preferreds, and traditional convertible preferreds. Separate lists are available for each of the three types of preferred securities if you wish to research the categories of preferreds separately. This is a dynamic list and changes constantly whenever the data behind the table is revised.

Public Storage, 3.875% Dep Shares Cumulative Preferred Share Series N

Ticker Symbol: PSA-N CUSIP: 74460W511 Exchange: NYSE

Security Type: [Traditional Preferred Stock](#)

QUANTUMONLINE.COM SECURITY DESCRIPTION: Public Storage, Inc., 3.875% Depository Shares each representing 1/1000 Cumulative Preferred Shares of Beneficial Interest, Series N, liquidation preference \$25 per depository share, redeemable at the issuer's option on or after 10/06/2025 at \$25 per depository share plus accrued and unpaid dividends, and with no stated maturity.

Cumulative distributions of 3.875% per annum (\$0.96875 per annum or \$0.2421875 per quarter) are paid quarterly on 3/31, 6/30, 9/30 & 12/31 to holders of record on the record date fixed by the board, not more than 45 days or less than 15 days prior to the payment date (NOTE: the ex-dividend date is one business day prior to the record date). Dividends paid by preferreds issued by REITs are NOT eligible for the preferential 15% to 20% tax rate on dividends and are also NOT eligible for the dividend received deduction for corporate holders.

This security was rated as A3 by Moody's and BBB+ by S&P at the date of its IPO. In regard to the payment of dividends and upon liquidation, the preferred shares rank junior to the company's senior debt, equally with other preferreds of the company, and senior to the common shares of the company. See the IPO prospectus for further information on the preferred stock by clicking on the 'Link to IPO Prospectus' provided below.

Stock Exchange	Cpn Rate Ann Amt	LiqPref CallPrice	Call Date Matur Date	Moodys/S&P Dated	Distribution Dates	15% Tax Rate
NYSE Chart	3.88% \$0.96875	\$25.00 \$25.00	10/06/2025 None	A3 BBB+ 6/20/2022	3/31, 6/30, 9/30 & 12/31 Click for MW ExDiv Date Click for Yahoo ExDiv Date	No

PUBLIC STORAGE 3.875% DEP SHS RP 1/1000 PF SH BEN INT N (PSA/PN)

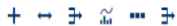
16.30 +0.02 (+0.12%)

Last Trade Time: 10/07/2022 19:00:00

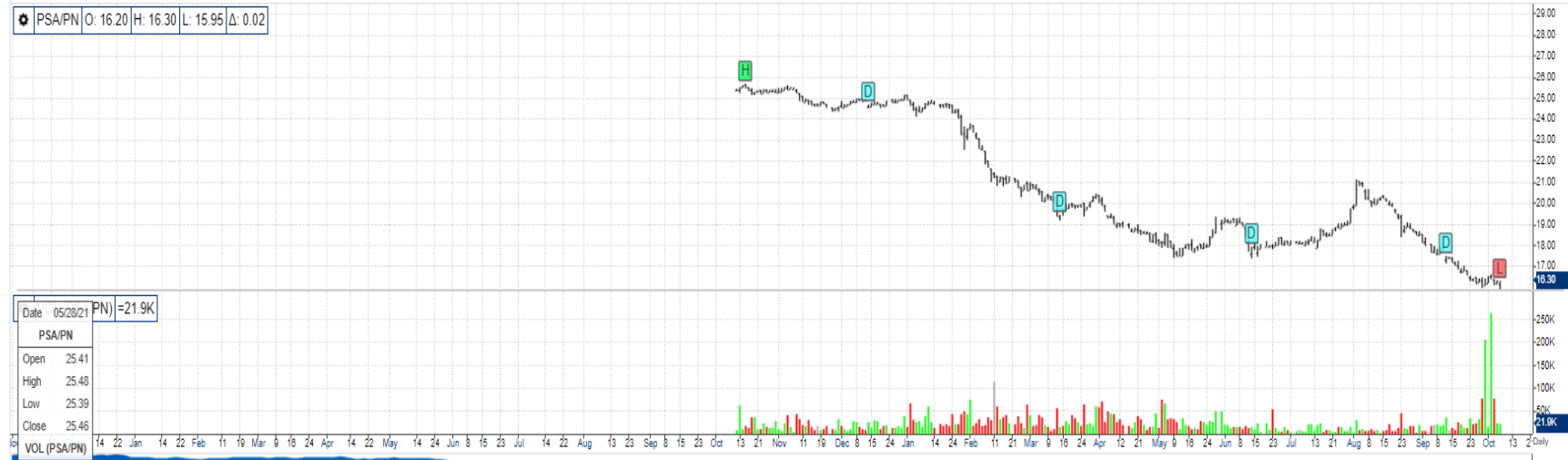
LAST: 16.30	CHANGE: +0.02	% CHANGE: +0.12%	VOLUME: 21915
TRADE SIZE: 341	BID-ASK: 13.28/9.28	BSIZE X ASIZE: 3x2	PREV PRICE: 16.28
OPEN: 16.20	HIGH: 16.30	LOW: 15.95	52WK HI: 25.70
52WK HIDATE: 10/15/21	52WK LO: 15.95	52WK LODATE: 10/07/22	BETA: --
EXCHANGE: NYSE			

CHART

Symbol Search



PSA/PN O: 16.20 H: 16.30 L: 15.95 Δ: 0.02



Date	05/28/21	PN	=21.9K
PSA/PN			
Open	25.41		
High	25.48		
Low	25.39		
Close	25.46		
VOL (PSA/PN)			

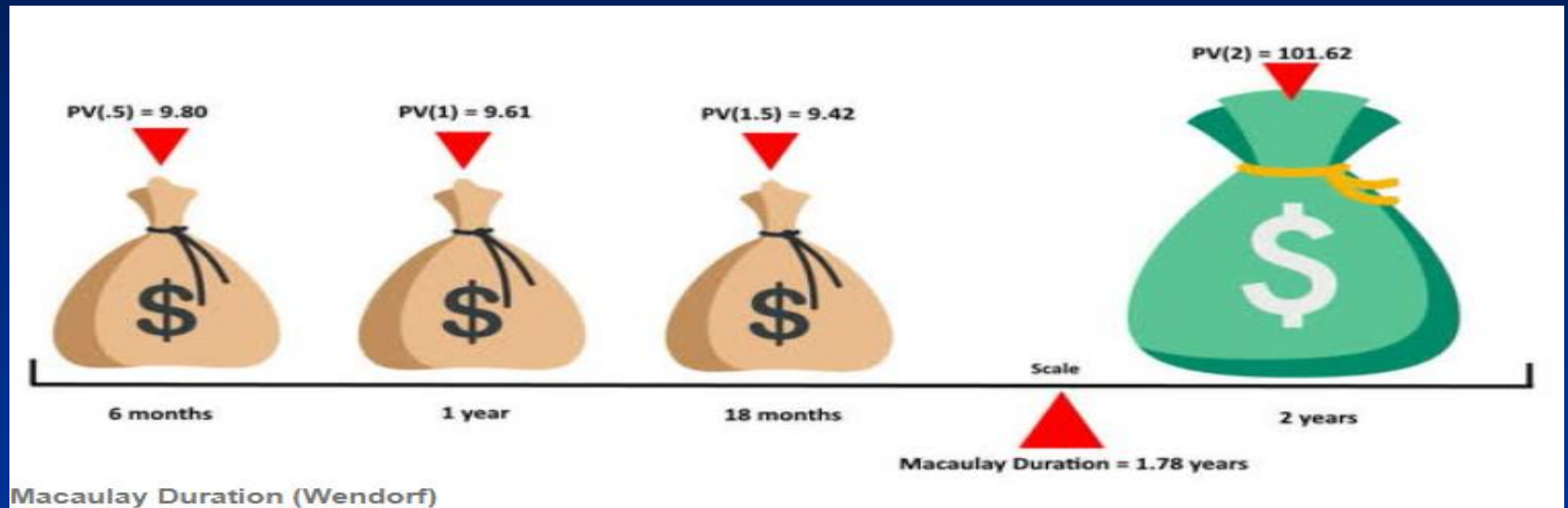
CDx3 Criteria for Screening for Preferred Equities

- Seek about 5.5 to 6% yield
- Callable within 2-3 years
- Quarterly or monthly dividend
- Investment grade or higher (check the credit rating of the offering company)
- Cumulative
- US companies
- Non-convertibles
- Buy below issue price (less than \$25)
- Many are thinly traded, so prices don't reflect value
 - Check bid-ask price... the spread is important.
 - Always use limit orders
- In the current market: If possible... Setup a laddered portfolio of maturity dates



Tools for Screening for Preferred Equities

Macaulay Duration (weighted average duration in years)



Want to learn more and be a better income investor? Do some research on Macaulay Duration... how it works, how it benefits an income investor.

Tools for Screening for Preferred Equities

Modified Duration (Measures percent change in value vs percent change in interest rates)

$$\text{Mod D} = \frac{\text{MD}}{\left(1 + \frac{\text{YTM}}{n}\right)}$$

Modified Duration Formula (Wendorf)

- **YTM** is the Yield to Maturity
- **n** is the frequency of compounding

Want to learn more and be a better income investor?
Do some research on Modified Duration... how it works, how it benefits an income investor.

Preferred Funds & ETFs

- Preferred funds:
 - Cohn & Steers Low Duration Preferred & Income Fund (LPXAX)
 - Holds a mix of fixed and floating payments based on the LIBOR (London Interbank Offered Rate) (Could be attractive in a rising interest rate market)
 - American Century Equity Income (TWEIX)
- ETF preferreds
 - iShares US Preferred Stock (PFF)
 - PowerShares Preferred (PGX)



Preferred Stock Symbol Cross-Reference

HERE IS HOW THE SYMBOL 'PSA-A' IS DENOTED BY VARIOUS ONLINE SERVICES

online service	convention	example
BigCharts	.P	PSA.PA
E*Trade	PR	PSA.PR.A
Fidelity	/P and PR	PSA/PA, PSAPRA
Google Finance	<hyphen>	PSA-A
Interactive Brokers	<space>PR	PSA PRA
MarketWatch	.PR and .P	PSA.PRA , PSA.PA
Morningstar	PR	PSAPRA
NYSE	PR	PSAPRA
Quantum Online	<hyphen>	PSA-A
Schwab	+ and /PR	PSA+A, PSA/PRA
Schwab StreetSmart	p	PSApA
Scottrade	p and P	PSApA, PSAPA
Seeking Alpha	.P	PSA.PA
T. Rowe Price	<space>PR	PSA PRA
TDAmeritrade	<hyphen>	PSA-A
Yahoo Finance	-P	PSA-PA

Summary Remarks

- Be realistic: Your income needs may not always match what is the market offers
- Higher the yield the great the risk
- Nothing works forever
- So Passiveness Means Losing Money
- Preferred stocks are NOT same as preferred fund or ETFs
- Research some of fixed income tools and share what you learn with the AAI PDX Income SIG
- Research CDs... Are there income opportunities there? Share what you learn with the SIG

Reference URLs



- CDx3 Investor: <http://www.preferredstockinvesting.com>
- Income Securities: <http://www.isinewsletter.com/>
- Seeking Alpha: http://seekingalpha.com/dashboard/investing_income
- Quantum On-Line: <http://www.quantumonline.com/>
- Federal Reserve of Atlanta: <https://www.frbatlanta.org/>
- Investopedia on Preferreds: <http://www.investopedia.com/exam-guide/series-7/equities/preferred-stock.asp>
- Preferred-Stock.com: <http://www.preferred-stock.com/>
- FINRA: <https://finra-markets.morningstar.com/BondCenter/Default.jsp>
- Yield to call calculators:
 - https://www.preferred-stock.com/calculator_ytc.php
 - http://www.moneychimp.com/calculator/bond_yield_calculator.htm
 - You Tube tutorial using Excel: https://www.youtube.com/watch?v=BpvC1z_WY7Q

Recommended Reading List

- Investing in Preferred Stock, An introduction for modern income investors, Paul Josephs (latest edition)
- REIT: Cash is King, Simon Wadsworth (REIT preferreds)
- CDx3 Income Engine Preferred Stock Investing: Doug K. Le Du (latest edition)
- Fixed-Income Risks and Opportunities in a Rising-Rate Environment, Matthew Crouse, AAI Journal Sep 2022
 - Duration Risk
 - Interest Rate Risk
 - Credit Risk
 - Price Comparison Shopping
- Fidelity: Important Information About Preferred Securities
https://www.fidelity.com/quick-content/etf/help/research/learn_er_preferred_securities.shtml
- Schwab: Preferred Securities: Balancing Yield with Risk
<https://www.schwab.com/learn/story/preferred-securities-balancing-yield-with-risk>
- Preferred Stocks: An Overlooked Alternative, John Deysher AAI Journal, Aug 2010
<https://www.aai.com/journal/article/preferred-stocks-an-overlooked-alternative>
- Duration: Definition, Calculation & Types Marcia Wendorf
<https://seekingalpha.com/article/4500351-duration>



Agenda

- Oct 9
 - [Econ Pi status](#), latest ERP and risk-free rate
 - Brief Introductions to Preferred Stocks
 - Open discussion (Everyone!!)



Closing Comments

- We are always looking for prospective topics and discussion leaders... suggestions are welcomed (income oriented). Contact me at: andyprophet9@gmail.com
- Don't forget use our private Google Group
- If you have an idea on how to select an income stock, **post it to:** aaii-income-investing@googlegroups.com
- Or perhaps some commentary from your favorite income newsletter or share your "watch list".
- Feel free to post links to articles and web sites of interest to income investors: aaii-income-investing@googlegroups.com
- Looking for volunteers to develop valuations spreadsheets that can be shared with SIG Members
- Share ideas on income investing!
- Don't forget to sign-up for the main Portland Chapter meeting

Next Meeting Nov 6th

andyprophet9@gmail.com