



Wenzel
Analytics
Inc

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Clients,

Inflation has hit the stock market as well as many other parts of our economy. Gains such as in most of your enclosed reports, as well as prices for homes being sold, can bring both a sense of satisfaction and of anxiety. Will what quickly goes up also quickly collapse? In the past I have found that people get scared of a rapidly rising market and want to exit. However, experience is that a market in the "blow-off" phase can run far longer than what people think, and that over the long term, riding the end of the cycle is essential for longer-term gains. At this point, I do not see signs that a collapse is imminent.

What I do see as imminent is the prospect of needing to take gains from preferred stocks as most are selling above par (\$25). If a preferred is now selling at \$27 with a call date two years out, it could be called for the \$25 and we would lose the opportunity to sell for \$27. The net calculation is to balance the excess dividends against the potential lower price. Of course, the risk increases as the call date approaches and is greatest for preferreds already callable. The general strategy with preferreds is to take gains when prices are above par and to take dividends when prices are below par. It is getting harder to find preferreds selling for less than par.

The result is that most of your accounts have fewer preferred stocks now than three months ago. In general, when the Yield-to-Call gets below 4% and stays there, I sell. Sometimes I find less expensive preferreds. If not, I move to other high-dividend securities or a growth portfolio which for now is the Navellier Grades. The strategy persists of maintaining a balance between the security of fixed income putting money in the account and growth stocks that can exceed market returns but be more volatile. That balance is different for each of you.

If you have specifically designated your account as a preferred stock account, we will go with lower returns as I manage the risk of calls below current prices. Some of you have more broadly specified high dividends, such as mostly preferreds but some other high dividend securities. That gives room to move into other high dividends for now, such as agency mortgage REITS having government price support.

The bottom line is to enjoy the ride. Where I grew up the wisdom was to make hay while the sun shines.

Thanks for the trust you have placed in me.

Sincerely,

Lee

An alternative to mutual funds.

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