

Performance Summary

Fourth Quarter, 2020.

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, bonds or “baby bonds”. Beyond the fixed income, these investments have a bonus created at the time of call or sale which then is also fixed. There will be changes in valuation based on current price although that may be considered irrelevant to the goal of fixed income. Showing a price chart would distract 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 securities 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 report of performance.
- 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 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. Examples would be other markets or certain sectors, such as international, gold, consumer staples or cash. 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.
- 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.

Allocation

Investment Type	Goal	Portfolio	Allocation
Cash	Status Quo	Cash	2%
Realized (Fixed)	Locked Income	Preferred REIT	29%
		Preferred Stock	23%
	Locked Income		51%
Realized & Unrealized	High Inc-Growth	High Dividend REIT	4%
			9%
	High Inc-Growth		13%
	Price Appreciation	IAS SCI	8%
		Nate's Notes	2%
		Navellier	7%
		Passive	3%
		Resources	1%
		Singles	2%
Price Appreciation		24%	
Uncorrelated	Gold Silver	7%	
	International	3%	
Uncorrelated		10%	
Realized & Unrealized			47%
TOTAL			100%

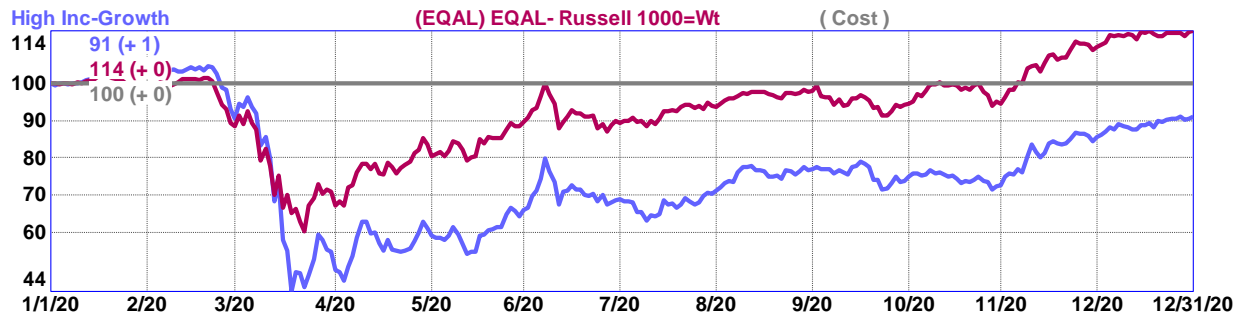
A. Fixed Income Returns Going Forward of 9.0%.

The best way to show fixed or locked-in income from the half of our allocation in preferred stocks is to show Yield-on-Cost. Yield-on-Cost is the annual yield going forward based on the cost of the preferred stock or note, which does not change, and the dividend income, which also does not change until the stock is called or sold. The average Yield-on-Cost for the 70 preferred stocks or notes held by one or more of the sixteen households is **9.0%**. If these positions would be called when they become callable, the yield would be **19.3%** (Yield-to-Call). However, that return is not fixed with regular payments to the account as are dividends. Many will not be called when callable and will continue to pay the Yield-on-Cost. The average current price is \$23.13 which means a gain of 8% on top of dividends when called at \$25.

Dividends over the past quarter or past year are less meaningful since positions recently purchased may not have yet paid their quarterly dividends, and some that were called will show dividends while they are no longer held. For an approximation, if we take the average of the beginning valuation and the end valuation and divide that by dividends received, it comes to 6.9% yield. It is lower than the 9.0% current Yield-on-Cost because I have been doing a lot of buying while preferreds have been so attractively priced. The average ROI for preferreds the last year is 8.6% and the percent change in just the last quarter is 13.8%. Since the bottom in March, preferreds have increased 95% while the index has increased 89%.

B. Variable High Income.

ROI 12 Months: -7.6%. Percent Change 3 Months: 20.8%.



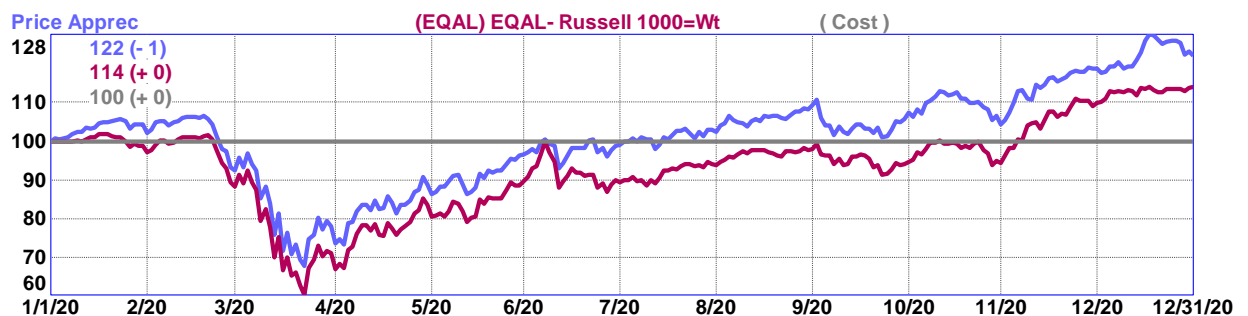
These are Real Estate Investment Trusts (REITs), Business Development Corporations (BDCs) and Closed End Funds (CEFs) with dividends comparable to the preferred stocks (average 8.8%). The goal is to have greater price appreciation and eventual gains to offset the risk accompanying dividends that can be changed any quarter.

While the benchmark Equal-Weighted Russell 1000 is up 14% for the year, these are still 7.6% below year-ago valuations. If we take the 20.8% change of the last quarter, times four quarters for an annual rate, they are catching up fast. The chart shows the average price to be 91% of one year ago, while the returns were -7.6%. The -7.6% is based on dollars; the -9% is based on the average price. The difference is accounted for by variations in position size. Much of the real estate market is still waiting for the effects of the pandemic to shake out. There will be repurposing of real estate which incurs costs and a lapse in rental income. The damage was mostly in March, with the recovery since then of 102% and 89% for the index.

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 year – which we didn't do. Next week or next month the figures will be history and not available as cash in the account. Of course, some of what is represented in the return figures and blue line on the chart is in the form of realized dividends.

C. Price Appreciation.

ROI to date: 3.8%. ROI 12 Months: 9.6%. Percent Change 3 Months: 16.1%.



The Price Appreciation category includes several portfolios formerly shown individually, mostly because they are in transition and I'm phasing out but not ready to sell. As I sell I can then fill out a replacement portfolio. The overall pattern is more relevant than reporting on individual portfolios.

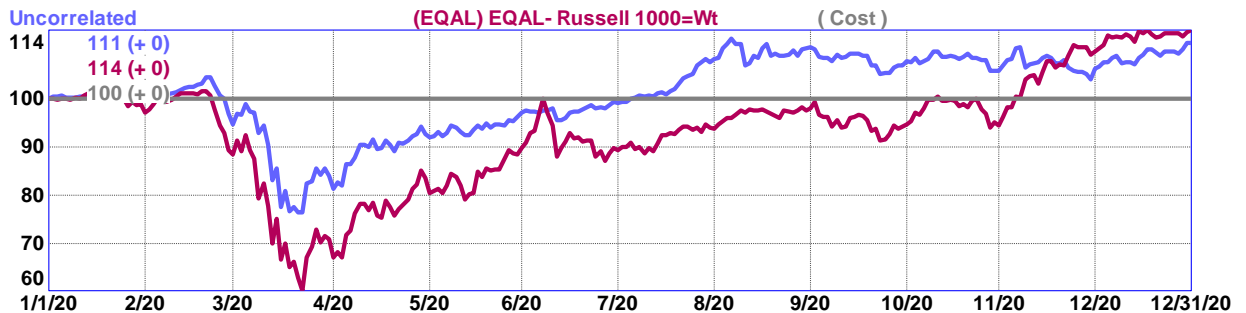
The Investor Advisory Services and SmallCap Informer (IAS/SCI) newsletter-based portfolio has been flat since the election while the EQAL benchmark went up 15% and the Navellier portfolio went up 23%. This last week I have been selling positions out of IAS/SCI and buying in Navellier.

The average price increase for the year of 22% is more than the ROI of 9.6%. In part this was a result of selling as I went to cash with the market uncertainty of the second quarter. There were a couple outliers held in small amounts in several accounts which accounted for much of the price increase. Mannkind (MNKD) in the Nate's Notes portfolio doubled between the election and mid-December and quadrupled from the March bottom. It has fallen back to the November highs. I look for it to triple from where it is at.

Centrus Energy (LEU) tripled between the election and mid-December but has since fallen back some to where it is finding support. Centrus is a play on fuel for advanced nuclear energy, which is an interest of mine.

D. Uncorrelated.

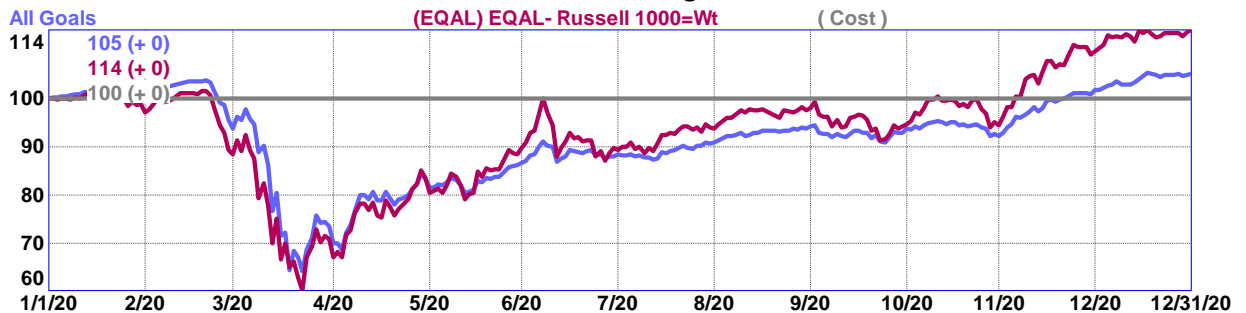
ROI to date: 8.8%. ROI 12 Months: 0.6%. Percent Change 3 Months: 4.0%.



The Gold/Silver portfolios (ROI 12 Months: 23.8%. Percent Change 3 Months: 1.0%.) and the International portfolios (ROI to date: 8.3%. ROI 12 Months: -7.1%. Percent Change 3 Months: 18.3%.) 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 chart. The International is increasingly being targeted with EMQQ towards Internet and ecommerce technologies in emerging markets.

E. Overall.

ROI to date: 5.7%. ROI 12 Months: 6.1%. Percent Change 3 Months: 12.7%.



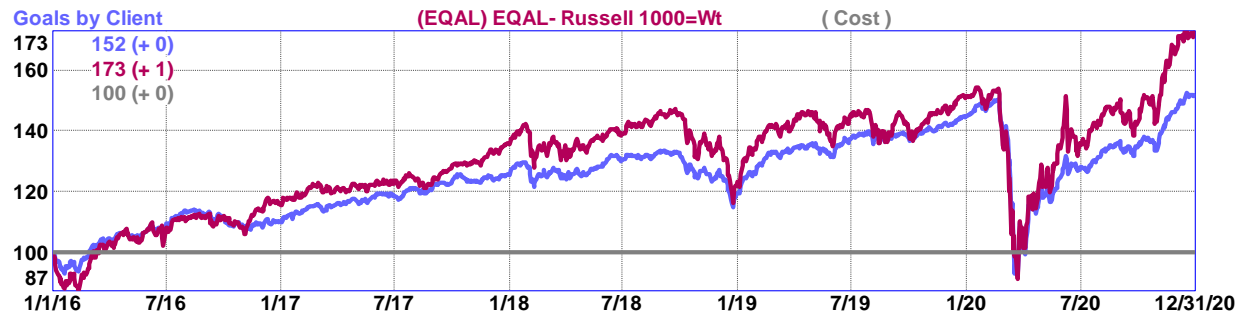
The underlying strategy is to avoid stocks or portfolios which are likely to match the market. The fixed-income preferred stocks portfolios representing half of our allocation is conservative based on dividends independent of market volatility. The Price Appreciation portfolios are aggressive, balancing out what one may picture as a barbell strategy on the risk continuum. I expect to continue with about a fourth of our allocation to price appreciation while shifting between portfolios within the category.

Each client has distinct goals relative to income and possible gains with accompanying price volatility.

Our more conservative approach is evident in the five-year chart below which shows less volatility than the equal-weighted benchmark. This reflects not only cash balances, increased dramatically after the March 2020 decline, but a reliance on fixed income. Returns on fixed income have gone up

dramatically since we discontinued using the Moody's ratings and have relied on multiple other sources to evaluate credit risk. The March decline had dynamics outside the range of historical precedent.

Five-Year 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. Some fees are withdrawn from the brokerage accounts and some clients pay by check from other accounts and are thus outside the database calculations. 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 subset portfolio preferences, as well as individual stock selection. Some portfolios work better in different market periods. 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 total of all accounts is more consistent than any given account, this report is more relevant to expected future performance than the single sample of a client's individual report. Some readers struggle with understanding the charts. It's really quite simple. Lines going up are good. Lines going down are not so good.

If you have trouble understanding this report, or sections of it, I would be happy to walk through it with you and elaborate or provide additional data if you have questions. Elaboration can also be found at the Client Letter found on the [website](#).