

# Performance Summary

Second Quarter, 2021.



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. Each client may allocate differently to these different categories, impacting overall returns.

*An alternative to mutual funds.*

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## Allocation

Inv Type	Goal	Portfolio	Alloca	
Cash	Status Quo	Cash	2%	
Realized	Locked Income	Preferred	22%	
		Pref REIT	26%	
Subtotal			48%	
Realized & Unrealized	High Inc-Growth	REIT	7%	
		High Div	9%	
	Subtotal			16%
	Price Appreciation	Singles	1%	
		IAS SCI	2%	
		Nate's Notes	3%	
		Passive	3%	
Navellier		17%		
Subtotal			26%	
Uncorrelated	Intl	Gold Silver	3%	
			4%	
Subtotal			8%	
Realized & Un			50%	
TOTAL			100%	

### A. Fixed Income Returns Going Forward of 9.3% Yield on Cost.

The best way to show fixed or locked-in income from the almost half of our allocation invested 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 82 preferred stocks or notes held by one or more of the twenty-three households is **9.3%**. If these positions would be called when they become callable, the yield would be **30%** (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 \$24.91 which is almost the par value when called of \$25. The bargains of a year ago are gone.

To report 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 sold still have dividends due. The average Return on Investment (ROI) for preferreds the last year is 41% and the percent change in just the last quarter is 6.2% (times four for a rough annual rate). The Equal Weighted Russell 1000 has an ROI the last year of 49% and a percent change the last quarter of 6.4%. Rather than to get carried away with these volatile numbers, we prefer to think in terms of the more reliable forward dividend returns of 9.3%.

### Return Calculations

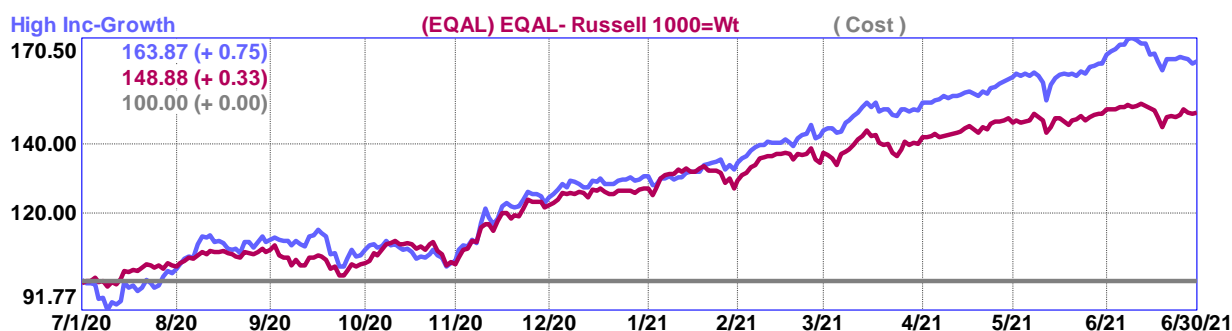
*Return on Investment (ROI) is most relevant for individual client reports. Time Weighted Returns (TWR) are how mutual fund returns are calculated. It gives a return calculation independent of when funds were added or withdrawn. If no funds were added or withdrawn, the two calculations are the same. It takes a long time for the computer to calculate the TWR.*

*The charts give an average independent of position size. A \$3,000 position will affect the average as much as a \$15,000 position.*

## B. Variable High Income.

ROI 12 Months: 64.4%. Percent Change 3 Months: 9.4%.

TWR 12 Months: 64.1%. TWR Percent Change 3 Months: 9.8%



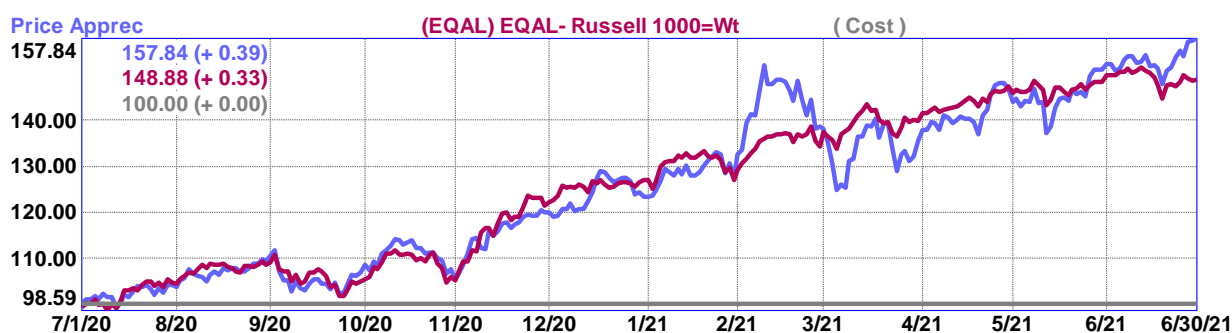
These are Real Estate Investment Trusts (REITs), Business Development Corporations (BDCs) and Closed End Funds (CEFs) with dividends only slightly less than the preferred stocks. The goal is to have greater price appreciation and eventual gains to offset the risk accompanying dividends that can be changed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

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 quarter – 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: 3.0%. ROI 12 Months: 56.7%. Percent Change 3 Months: 16.1%.

TWR to date: 7.3%. TWR 12 Months: 57.9%. TWR Percent Change 3 Months: 16.6%



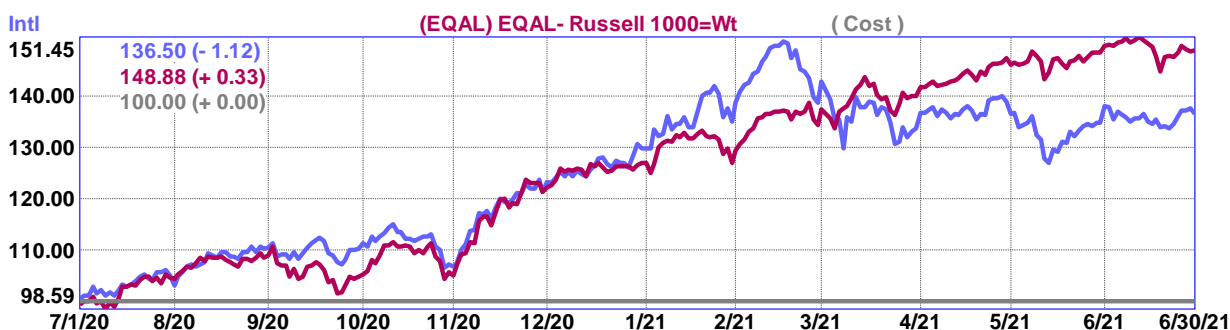
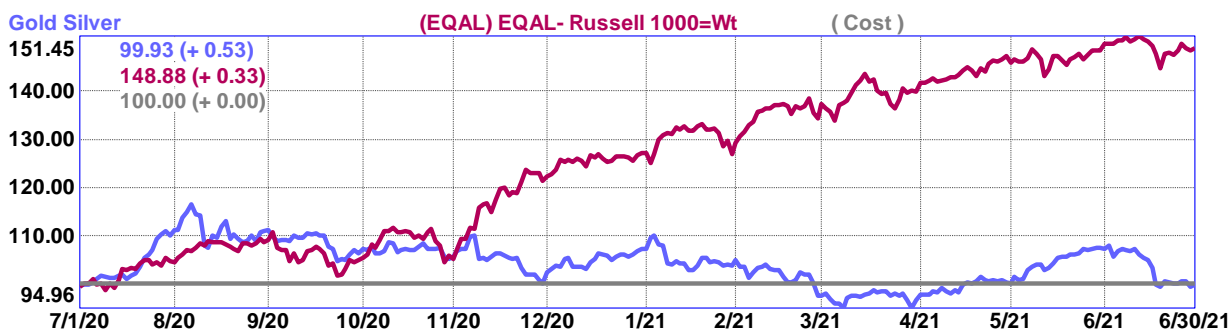
The Price Appreciation category includes several portfolios formerly shown individually, mostly because they are in transition and I'm phasing out but not ready to sell all the positions. As I sell I can then fill out a replacement portfolio. The overall pattern is more relevant than reporting on individual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

The Investor Advisory Services and SmallCap Informer (IAS/SCI) newsletter-based portfolio has not been performing well and is being replaced by the Navellier grades.

## D. Uncorrelated.

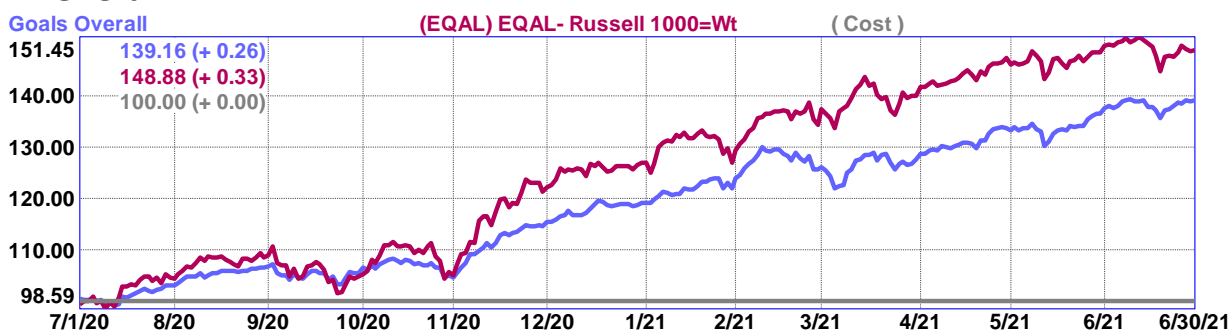
ROI to date: 8.6%. ROI 12 Months: 9.5%. Percent Change 3 Months: 2.8%.

TWR to date: 9.8%. TWR 12 Months: 8.8%. TWR Percent Change 3 Months: 2.9%.



The Gold/Silver portfolios and the International portfolios 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.

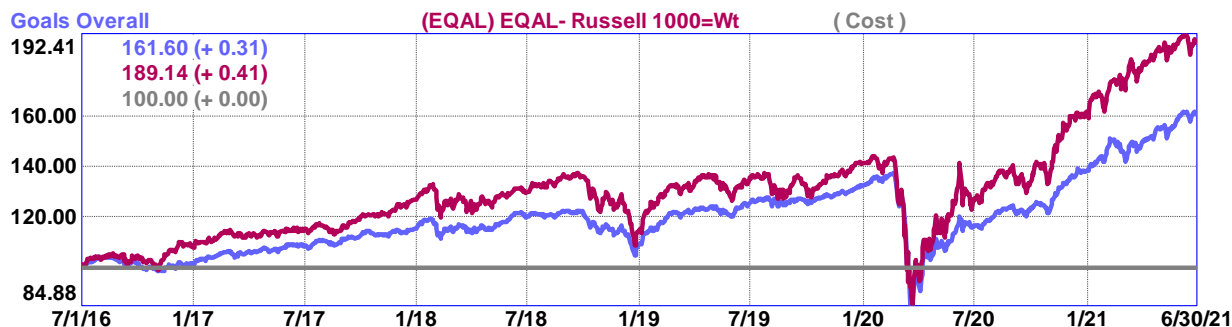


The underlying strategy is to avoid stocks or portfolios which are likely to match the market. The fixed-income preferred stocks portfolios representing half of our allocation is conservative based on dividends independent of market volatility. The Price Appreciation portfolios are aggressive, balancing 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 sub-set 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 composite 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. Sometimes elaboration can also be found at the Client Letter found on the [website](#).