

Income Investing

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AAll Silicon Valley Chapter

Overview

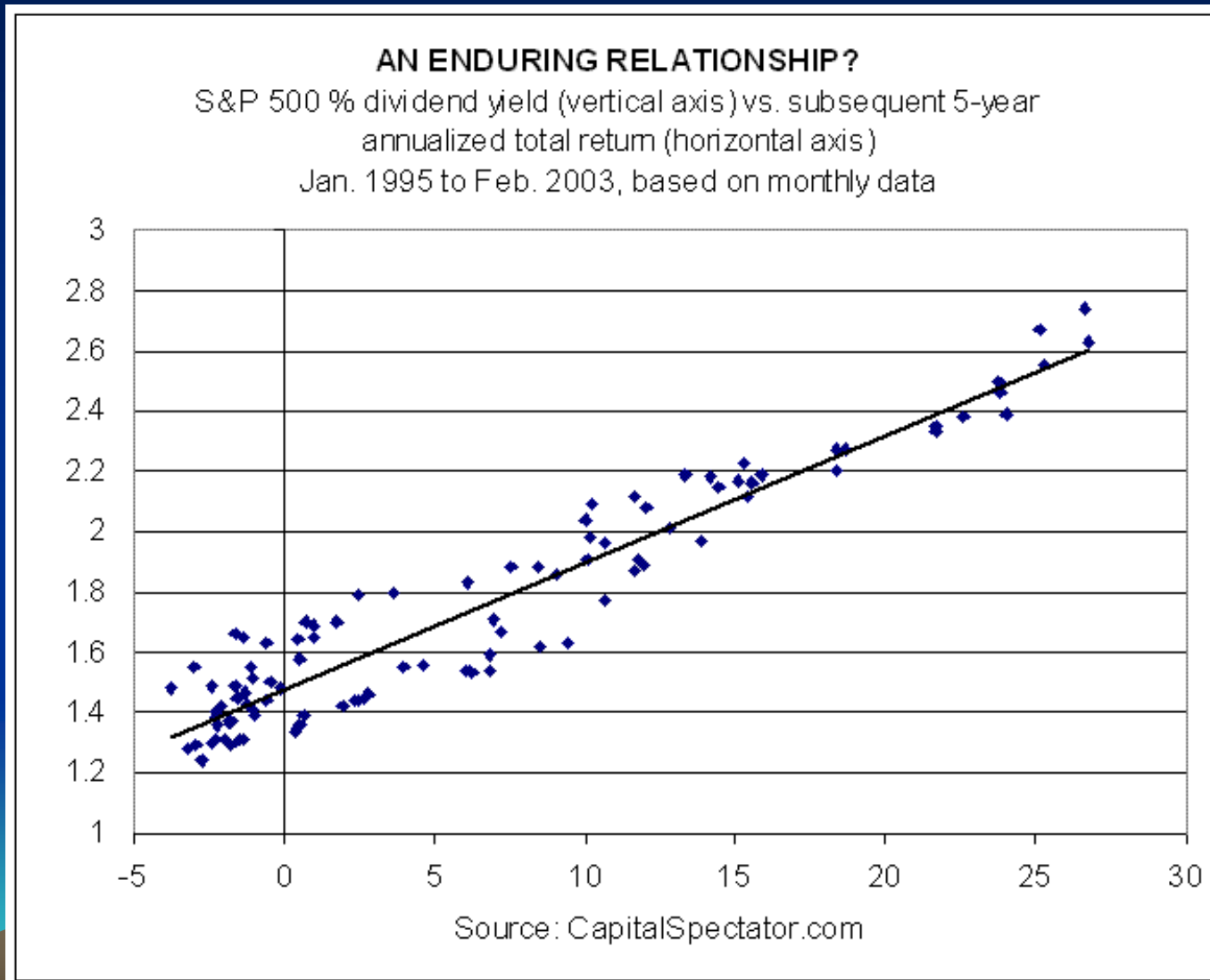
- Steady Stream of Income
- Grow Income Faster than Inflation
- Preservation of Capital
- Best investment Choices
 - Dividend Investing
 - Preferred Stocks
 - Bonds
- References
- Questions & Comments



Why Dividend Investing

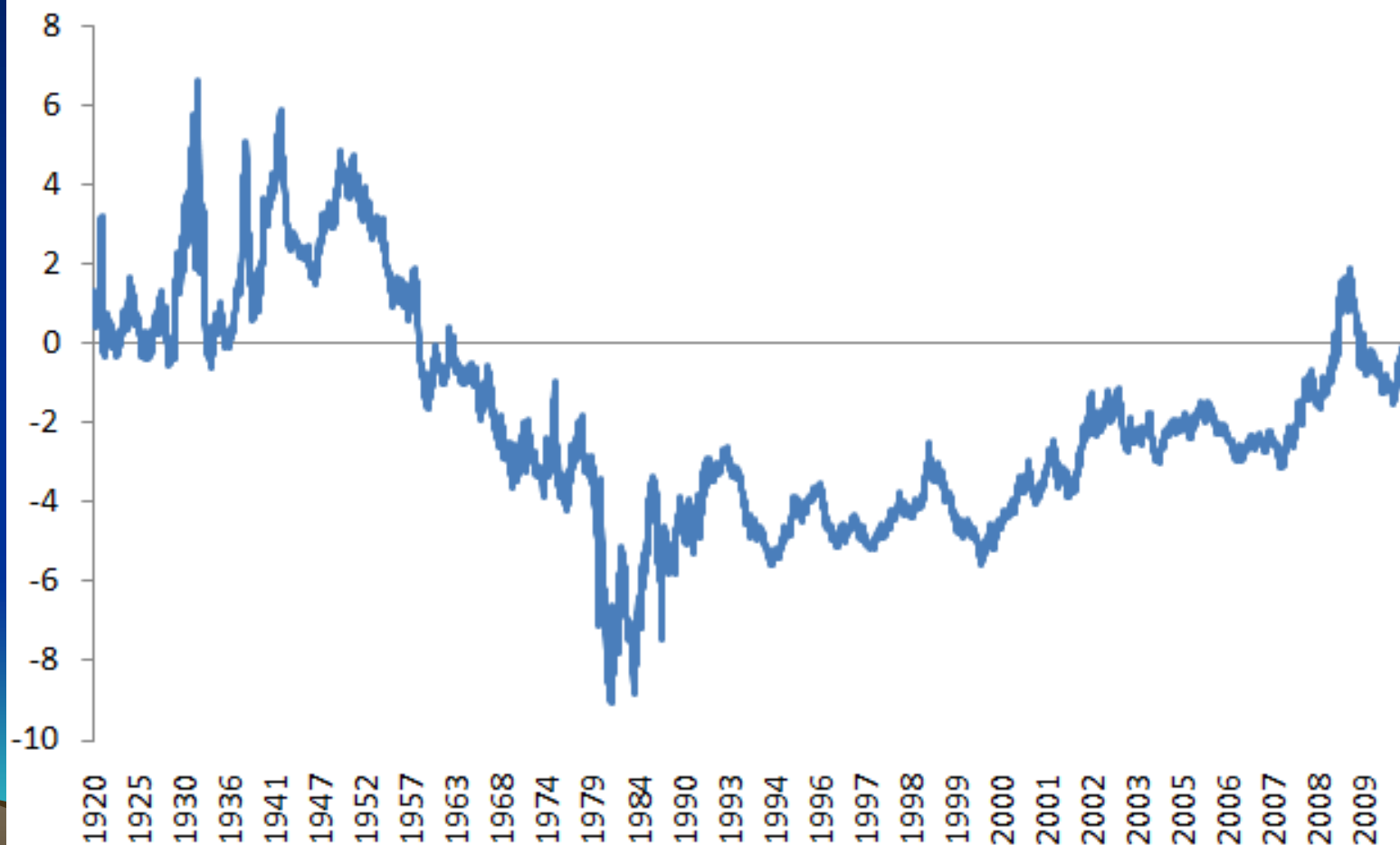
- **Because these equities go up more often... study after study shows this**
- **Above average return with lower risk**
- **Tend to be profitable companies with tested business models and disciplined management**
 - **Steady cash flow from operations, not by selling assets**
- **Dividend growth offsets inflation**
 - **Yield-on-Cost... the yield on a rising dividend income continues to grow over time**
- **Diversify across sectors, market cap and style**
- **Risk is low for dividend cuts among quality companies**
 - **In 2010:**
 - **Of the 42 Dividend Aristocrats only 2 cut their payouts**
 - **In the S&P 500 only just 4**
 - **And in 2007, in the heart of the meltdown, just 12 cut their dividend**

Why Dividend Investing

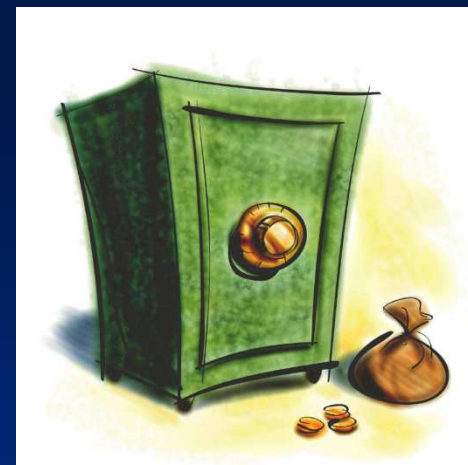


Why Dividend Investing

DJIA Dividend Yield Minus 10-Year Treasury Yield: 1920-Present



Dividend Investing



- **Yield-on-Cost: 6% today**
- **Goal: 10% in ten years**
- **Currently two dividend portfolios**
 - **Growth: 3-4% yield and 8–10% yearly growth in dividends**
 - **Harvest: 5-7% yield and 4-5% yearly growth in dividends**
- **Allocation: Each equity is less than 2.5% of the entire portfolio**
 - **Diversify across major industry sectors.**
- **Currently researching how to boost income using covered calls or/and “in the money” puts**

Years to achieve a 10% Yield-on-Cost for a Dividend Investor

Initial Yield									
Div. Growth Rate	2%	3%	4%	5%	6%	7%	8%	9%	10%
4 %	40	30	23	17	12	8	5	2	1
5%	32	25	18	14	10	8	4	2	1
6%	27	19	15	12	8	6	3	1	1
7%	24	17	13	10	7	5	3	1	1
8%	21	15	12	9	6	4	3	1	1
9%	19	14	11	8	6	4	2	1	1
10%	17	13	10	7	5	4	2	1	1
11%	15	12	9	7	5	3	2	1	1
12%	14	11	8	6	5	3	2	1	1
13%	13	10	8	6	4	3	2	1	1
14%	12	9	7	5	4	3	2	1	1
15%	12	9	7	5	4	3	2	1	1

Years to achieve a 10% Yield-on-Cost for Dividend Investors

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Bonds

- Bonds have provided excellent return over the last ten years
- But in today's climate: Bond allocation has diminished to less than 15% of the entire portfolio... In the past as high as 50%
- A reluctant compromise: Replaced by preferred equities to increase overall yield
 - I'm not comfortable with this but considering the current economy but its best solution for now
- With rates very low, ladders are possible alternative but not right now... perhaps within 12 – 18 months when the Fed indicates it intent to raise rates.
 - I'm researching possible ladder strategies



Preferred Equities

Bond Substitute... at least for now

- Seek about 6% yield
- Callable within 2 years
- Quarterly or monthly dividend
- Investment grade or higher
- Cumulative
- US companies
- Non-convertibles
- Buy below issue price (less than \$25)
- Many are thinly traded, so prices don't reflect value



References



- Dividends4life: <http://www.dividends4life.com/>
- Sensible Stock Investing: <http://www.sensiblestocks.com/>
- CDx3 Investor: <http://www.preferredstockinvesting.com>
- High Yield Investing: <http://web.streetauthority.com/hy-sample.asp?TC=HY1188>
- Income Securities: <http://www.isinewsletter.com/>
- Morningstar Dividend Investor: <http://mdi.morningstar.com/Default.aspx>
- Motley Fool Income Investor: <http://www.fool.com/investing/dividends-income/index.aspx?source=ifltnvsnv0000001>
- High Yield Wealth: <https://www.highyieldwealth.com/>
- Seeking Alpha: http://seekingalpha.com/dashboard/investing_income
- Quicken Premier 2012: <http://quicken.intuit.com/personal-finance-software/premier-investment-management.jsp> (love-hate relationship)
- Excel Spreadsheets

Recommended Reading List



- CDx3 Income Engine Preferred Stock Investing: Doug K. Le Du (latest edition)
- Sensible Stock Investing, How to pick value and manage stocks: David P. Van Knapp (latest edition)
- Ahead of the Curve, A commonsense guide to forecasting business and market cycles: Joseph H. Ellis
- Free Cash Flow, Seeing through the accounting fog machine to find great stocks: George C. Christy
- Evidence-Based Technical Analysis, Applying the scientific method and statistical inference to trading signals: David Aronson
- Income Investing Today: Safety and high income through diversification: Richard Lehmann
- The Ultimate Dividend Playbook, Income, insight and independence for today's investor: Josh Peters
- The Age of Deleveraging, Investment strategies for a decade of slow growth and deflation: A. Gary Shilling
- Investment Fables. Exposing the myths of 'can't miss' investment strategies: Swath Damodaran
- Higher Returns from Safe Investments, Using bonds, stocks and options to generate lifetime income: Marvin Appel

End

Questions

