

Money Matters

Investing Open Discussion - June 2022

Agenda

- [Current Investment approach and models](#)
- [High Inflation Investment Conversation](#)
- [Dividend Providers](#)
- [Investments where principal is not at risk](#)
- [Model Portfolios](#)
- Appendix
 - [Gold Historic Prices 1975 - Present](#)

Current Investment Approach and Models

Based in information on Investment Approaches including:

- Your Winning Retirement
- Chris Pederson: [Simple and Effective Balanced Portfolios for Lifetime Investing Success](#)
- Paul Merriman: [Which is the Best 1, 2, 3 and 4 fund Strategy](#)

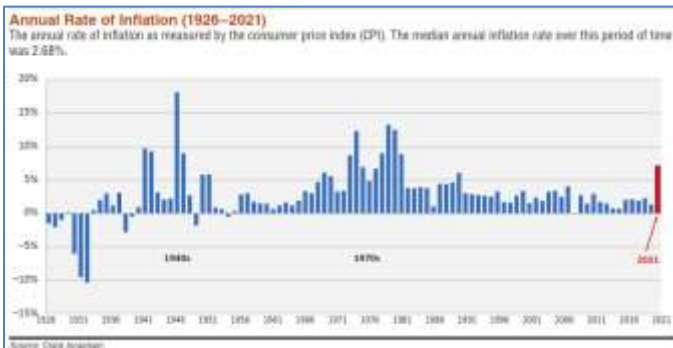
General approach. Would like to have 25% to 30% of retirement savings in super safe investments (ie Annuities, Bonds, Cash). Main focus on Equities will be index funds. Small percentage (10% or less) of investment in individual investments (aka long shots).

Once targeted allocation has been reached minimize trading action to long shots and semi-annual or annual adjustments to rebalance portfolio.

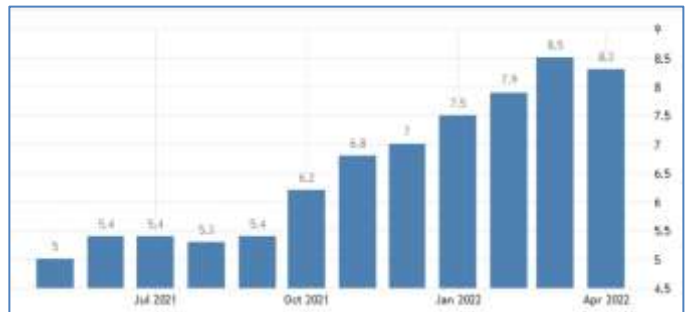
High Inflation Investment Conversation

Historic Inflation rate since 1926 has been **2.68%**. The inflation in April was **8.6%**. Inflation has not been this high in over 40 years. [Many analysts expect inflation to slow down to 6.3% by the end of the year and possibly as low as 3.0% by the end of next year.](#)

Historic Inflation Rate



Inflation since 2021



Money Matters

Investing Open Discussion - June 2022

Equities (Investing in the stock market) has historically been one of the best ways to hedge against inflation. As a result I generally don't plan on changing my sector/investment allocations to address inflation.

- Investments within the stock market that are generally considered good hedges against inflation include:
 - Real Estate Investment Trusts (**REITs**) – investments in properties and real estate. Great dividend payers, but subject to large price swings. More on REITs in the Dividend Provider section below.
 - **Gold** – Historically considered a good hedge against inflation, but personally I wouldn't touch it with a 10 foot pole, pays no dividends, and can experience prolonged periods of loss or stagnant prices. REF [Kitco website](#). I.E. 1982 – 2004 with no net gain in value (see References Below).
 - **Commodities**
 - **Vanguard Commodity Strategy Fund Admiral Shares ([VCMDX](#))** – This is a new fund with only one year of data.
 - **Vanguard Materials Index Fund ETF ([VAW](#))** – Expense Ratio = 0.10% with Distribution Yield of 1.57%
 - **Treasury Inflation Protected Securities (TIPS) & iBonds** directly from the US government ([Treasury Direct](#)). Note \$10,000 limit per person on iBonds.
 - Currently paying in the neighborhood of 7.5% - 9.6%, interest rates are adjusted semiannually, and are linked to the CPI. This means the rate of return is not fixed, but should come close to matching inflation.
 - Reference: [Why I Bonds have an appeal when Inflation is Rising](#).

When I Bonds Change Rates

The composite rate for I bonds is reset every six months in May and November. The date that the new composite rate for a given I bond takes effect depends on the month in which the bond was issued.

Issue Month of Your Bond	New Rates Take Effect
January	January 1 and July 1
February	February 1 and August 1
March	March 1 and September 1
April	April 1 and October 1
May	May 1 and November 1
June	June 1 and December 1
July	July 1 and January 1
August	August 1 and February 1
September	September 1 and March 1
October	October 1 and April 1
November	November 1 and May 1
December	December 1 and June 1

Source: [TreasuryDirect.gov](#).

Historical Fixed, Inflation and Composite Rates

The composite rate for I bonds is determined by a fixed rate, set each May and November and applies for the life of the bond, as well as an inflation rate that is set each May and November and applies for six months to all I bonds ever issued. The composite rate will never be less than zero; however, the composite rate can be lower than the fixed rate. The rates below were as of the six-month period starting with the date of issuance.

I Bond Issue Date	Fixed Rate (%)	Inflation Rate (%)	Composite Rate (%)
May 2022	0.00	4.81	9.62
November 2021	0.00	3.56	7.12
May 2021	0.00	1.77	3.54
November 2020	0.00	0.84	1.68
May 2020	0.00	0.53	1.06
November 2019	0.20	1.01	2.22
May 2019	0.50	0.70	1.90
November 2018	0.50	1.16	2.83
May 2018	0.30	1.11	2.52
November 2017	0.10	1.24	2.58
May 2017	0.00	0.98	1.96
November 2016	0.00	1.38	2.76
May 2016	0.10	0.08	0.26
November 2015	0.10	0.77	1.64
May 2015	0.00	(0.80)	0.00
November 2014	0.00	0.74	1.48
May 2014	0.10	0.92	1.94
November 2013	0.20	0.59	1.38
May 2013	0.00	0.59	1.18
November 2012	0.00	0.88	1.76

Source: [TreasuryDirect.gov](#). Data as of 5/10/2022.

Money Matters

Investing Open Discussion - June 2022

Dividend Providers

- **REITs** - A possible hedge against inflation since it is based on real estate, also generally a very healthy source for dividends. However, REITs tend to be subject to large swings based on market sentiment. Currently targeting about 2.5% - 5% of portfolio in REITs
 - References
 - [What are the risk of REITs?](#)
 - [5 Types of REITs and How to Invest In Them](#)
 - [REITs vs Real Estate Mutual Funds: What's the Difference?](#)
 - REITs I am currently invested in:
 - **Easterly Government Properties Inc (DEA)** 5.4% Dividends, Rent property and buildings to government agencies.
 - **Vanguard Real Estate Index Fund ETF Shares (VNQ)** 2.9% Dividends, Broad index fund covering many sectors of REITs.
 - **Annaly Capital Management Inc (NLY)** 13.48% Dividends, Borrows cheaply to reinvest in government-guaranteed mortgage securities.
 - There are many REITs to select from, ranging from server farms, retirement homes, storage facilities, hospital/medial buildings, restaurants, etc. ([DLR](#), [O](#), [WELL](#))
- **Utility Stocks** – Historically pay good dividends and tend to be a more stable with less pronounced price swings compared to most equities. Ideally, I would like to have about 5% of my portfolio in Utilities, the bulk is in [VPU](#).
 - **Vanguard Utilities ETF (VPU)** While not the highest paying dividends, [VPU](#) has been a reliable steady investment, currently paying 2.6% dividends.
 - Other Utilities for consideration (I currently do not own): **American Electric Power (AEP)**, **Xcel Energy (XEL)**, **Magellan Midstream Partners (MMP)**, **Valero Energy (VLO)**

Additional Resources

- AAii: [High-Yielding Dividend Payers](#)

Money Matters

Investing Open Discussion - June 2022

Kiplinger's

25

for Income

Once again, we have a mix of excellent results and ghastly losses. But strong gainers outnumbered lowly losers, as several selections ascended to their highest share prices in more than a year. Valero Energy's April 14 close of \$104.86 was the refiner and gasoline marketer's highest price since October 2018. Suburban Propane units soared 14.2%, and Suburban has a year-to-date return of 17.7%. Utilities and real estate also had a fine month, affirming our dictum that the days when utility and REIT shares would run along with bonds are long past. American Water flipped last month's 13.7% loss into a 9.3% gain. Welltower tacked on another 5.3%, raising its one-year gain to 31.1%. And after sinking below \$63 six months ago, Realty Income closed a few pence below its two-year top. Those gains offset drops in regular and closed-end bond funds, where discounts to net asset value blew out. AT&T completed its spinoff, so consider its \$19.54 share price the opening bid in its new iteration rather than a plunge from \$25. We shall wait to see whether T meets expectations as a pure wireless company instead of a hodgepodge.

Utility stocks		Price	Yield	Frequency
American Electric Power (AEP)	Traditional electric company serving 11 eastern and southern states	\$102.04	3.1%	quarterly
AT&T (T)	Wireless-service giant that grew out of the former SBC	19.54	5.7	quarterly
American Water (AWK)	Largest investor-owned water utility, serving 16 states	166.16	1.5	quarterly
National Grid (NGG)	British national gas and electric utility that also operates in New York and New England	77.49	4.4	semiannually
Xcel Energy (XEL)	Central states electric system that emphasizes wind energy	74.34	2.6	quarterly
High-yielding open-end bond funds				
Baird Core Plus Bond (BCOSX)	A rare general bond fund that usually beats its benchmarks handily	\$11.09	2.3%	quarterly
Dodge & Cox Global Bond (DODLX)	A mix of domestic and foreign corporate bonds, mostly denominated in U.S. dollars	10.76	3.1	quarterly
Fidelity Capital & Income (FAGIX)	Creative and aggressive junk bond fund	10.41	3.4	monthly
Hotchkis & Wiley High Yield (HWHAX)	Boutique high-yield fund that concentrates on small companies	10.75	4.2	monthly
Loomis Sayles Bond (LSBRX)	Go-anywhere investment-grade bond fund	12.55	3.0	monthly
TCW Emerging Markets (TGEIX)	A higher-quality approach to emerging markets, with all debt in hard currency	6.85	4.7	monthly
Closed-end mutual funds and ETFs				
AllianceBernstein Global High Income (AWF)	High-yield corporate bonds and government bonds from emerging markets	\$10.36	7.6%	monthly
BNY Mellon Municipal Bond Infrastructure (DMB)	A leveraged closed-end fund that likes transportation and hospital bonds	11.58	5.5	monthly
iShares U.S. Preferred ETF (PFF)	This exchange-traded index fund spreads your money in more than 301 preferred stocks	34.93	4.2	monthly
Nuveen Credit Strategies Income (JQC)	A leveraged floating-rate fund that also has some junk bonds	5.98	3.5	monthly
Nuveen Municipal Value (NUV)	This non-leveraged closed-end is an alternative to the BNY Mellon Infrastructure fund	9.24	3.6	monthly
Pimco Corporate & Income Strategy (PCN)	An unusual mixture of high-yield corporate, muni and foreign bonds	15.15	8.9	monthly
Real estate investment trusts				
Annaly Capital Management (NLY)	Borrows cheaply to reinvest in government-guaranteed mortgage securities	\$6.77	13.0%	quarterly
Digital Realty Trust (DLR)	Developer and operator of data centers in the U.S., Canada, Europe and Asia	145.02	3.4	quarterly
Realty Income (O)	Landlord to chain stores and restaurants, also known for 618 straight monthly dividends	72.61	4.1	monthly
Welltower (WELL)	Develops and owns assisted-living facilities, hospitals and medical labs	96.03	2.5	quarterly
Energy Investments and partnerships				
Brookfield Infrastructure Partners (BIP)*	Owns toll highways, ports and transmission lines	\$66.73	3.2%	quarterly
Magellan Midstream Partners (MMP)*	One of the largest pipeline carriers of gasoline, diesel and chemicals	50.81	8.2	quarterly
Suburban Propane Partners (SPH)*	Propane distributor normally yields substantially more than junk bonds	17.15	7.6	quarterly
Valero Energy (VLO)	World's largest independent refiner, known for large dividend increases	104.86	3.7	quarterly

Funds in italics pay tax-exempt income. Investments with an asterisk (*) are partnerships. Prices and yields as of April 14, 2022. SOURCES: Fund companies, Morningstar Inc., Yahoo.

Money Matters

Investing Open Discussion - June 2022

Investments where principal is not at risk

Some options for super safe investments along with expected rates of return are provided below. Most products have a range of terms, but I have focused on the most common. All of these products have penalties associated with early withdraw.

Term	Product	Rate	Comments	References
1 Year	Bank CD	1.3% - 2.5%	This is a fixed rate product. Laddering may be appropriate to address interest rate fluctuations.	<ul style="list-style-type: none"> • Best 1 Year CDs
3-5 Years	Deferred Fixed Annuity	3.2% - 4.0%	This is a fixed rate product. Laddering may be appropriate to address interest rate fluctuations.	<ul style="list-style-type: none"> • Schwab • ArtCentrics - Annuities
5 Years	TIPS	Variable	Pay twice a year and are based on the Consumer Price Index (CPI), can be purchased in 5, 10 and 30 years	<ul style="list-style-type: none"> • How TIPS Works • TIPS Info • Rates and Terms
10 Years	Fixed Index Annuities	4% - 7%	Based on common indexes historically delivering about 4% - 7%. Principle safe, but return is not guaranteed.	<ul style="list-style-type: none"> •
30 Years	Series I Savings Bonds	Variable	Based on the Consumer Price Index (CPI).	<ul style="list-style-type: none"> • I Bonds • TIPS vs I Savings Bonds

Money Matters

Investing Open Discussion - June 2022

Model Portfolios

Two model portfolios are provided below. These represent templates I am utilizing in a couple of my investment accounts. Please keep in mind that there are other assets we own outside of these portfolios. One of our goals is to have 25% – 33% in investments not subject to loss of principal (ie Cash or Index Annuities)

IRA Account

This portfolio is roughly based on the asset allocation setup in my Health Savings Account in through [Betterment](#) and represents a fairly conservative approach.

Betterment Portfolio (75% Stocks, 25% Bonds)

Sector	Allotment	This	Ticker	Name
U.S. Total Stock Market	25.0%	25.0%	VTI	Vanguard Total Stock Market ETF
U.S. Value Stocks – Large Cap	8.0%	8.0%	VTV	Vanguard Value ETF
U.S. Value Stocks – Mid Cap	7.0%	7.0%	VOE	Vanguard Mid-Cap Value ETF
U.S. Value Stocks – Small Cap	5.0%	5.0%	VBR	Vanguard Small-Cap ETF
International Developed Market Stocks	20.0%	20.0%	VEA	Vanguard FTSE Developed Markets
International Emerging Market Stocks	10.0%	10.0%	VWO	Vanguard FTSE Emerging Markets
U.S. Inflation-Protected Bonds	5.0%	5.0%	VTIP	Vanguard Short-Term Inflation Protected Securities ETF
U.S. High Quality Bonds	8.0%	8.0%	AGG	iShares Core Total US Bond Market ETF
International Developed Market Bonds	7.0%	7.0%	BNDX	Vanguard Total International Bond ETF
International Emerging Market Bonds	5.0%	5.0%	EMB	iShares Emerging Markets USD Bond ETF

Roth Account

This portfolio is mostly based on research from [Simple & Effective Balanced Portfolios for Lifetime Investing Success](#) by Chris Pedersen and is an aggressive, long term portfolio.

Pederson Portfolio (95% Stocks, 5% Cash/Bonds)

Sector	Allotment	This	Ticker	Name
US Large Cap Value	20.0%	20.0%	VTV	Vanguard Value Index Fund ETF Shares
US Small Cap Value	20.0%	20.0%	VBR	Vanguard Small-Cap Value Index Fund ETF Shares
International Large Cap Value	15.0%	15.0%	VTRIX	Vanguard International Value Fund Investor Shares
International Small Cap Value	15.0%	15.0%	DLS	WisdomTree International SmallCap Dividend Fund
Utilities	5.0%	5.0%	VPU	Vanguard Utilities Index Fund ETF Shares
REITS	5.0%	2.5%	VNQ	Vanguard Real Estate Index Fund ETF Shares
REITS		2.5%	DEA	Easterly Government Properties Inc
Commodities	5.0%	2.5%	VCMDX	Vanguard Commodity Strategy Fund Admiral Shares
Commodities		2.5%	VAW	Vanguard Materials Index Fund ETF
Cash/Short Term Bonds	5.0%	5.0%	VTIP	Vanguard Short-Term Inflation Protected Securities ETF
Long Shots	10.0%	2.0%	JETS	U.S. Global Jets ETF
Long Shots		4.0%	TSLA	Tesla Inc
Long Shots		2.0%	PEJ	Invesco Dynamic Leisure and Entertainment ETF
Long Shots		2.0%	XBTF	VanEck Bitcoin Strategy ETF

Gold Historic Prices 1975 – Present

