We’re Off to a Better Start

Last year’s closing months witnessed selling largely on fears of lower expectations for earnings growth for 2019. Yet as earnings season has unfolded for the fourth quarter, the members of the S&P 500 Index have been doing better than expected. Sales growth is up by 6.37% on average and earnings growth by 10.87%. Guidance has been fairly positive for the current year.

The market in general has been taking the underlying facts from corporate reports and running with them, resulting in an impressive winter rally and sending the general stock market up over 10%, with many sectors up even more.

The key factors for this run include a continuation in the growth of the US economy fueled by consumer comfort and spending. This, in turn, is supporting business spending and investment, which should buoy revenue and earnings for 2019, at least.

In addition, the US has low inflation, and the Federal Reserve is committed to a wait-and-see approach regarding further tightening of monetary policy.

We still have the same fear factors to keep on our dashboard, however: US-China trade negotiations, the next round of election uncertainty, slowing global growth, and the lingering concern from last quarter over slower earnings expansion in 2019.

In this issue, I feature three opportunities in specific stocks to buy for more growth and income. I start with another play on the ever-rising demand in the US healthcare sector. While we have good exposure to drug stocks and other healthcare-related companies, I’ve found an old favorite of mine that uses other companies’ money to fund a high and rising dividend flow from a lower-risk part of the healthcare market.

The other top story is that banks are finally getting noticed again. As I wrote last year, there’s a lot going right in this sector that hasn’t been noticed by most investors until now. I’ll explain why regional banks are getting hot again, as well as two top stocks to put new money into right now.

Read on as I review the market and economic landscape and go through my recommendations.

Here’s What to Buy for More Growth & Income

Dear Friend,

As we progress further into 2019, the markets are moving upward. What went sorely wrong in the latter months of 2018 seems much more like a distant memory because of it. Yet there are plenty of good values in the market right now that still have plenty of growth ahead, along with rising dividend yields.

While the market has had a good start, it doesn’t mean that we have the all-clear sign to buy at will. As I discussed previously in my February issue, having plenty of defensive investments such as preferred stocks, quality strong-yielding bonds, and utilities, will keep your portfolio humming when—not if—the general stock market takes another pause.

In this issue, I feature three opportunities in specific stocks to buy for more growth and income. I start with another play on the ever-rising demand in the US healthcare sector. While we have good exposure to drug stocks and other healthcare-related companies, I’ve found an old favorite of mine that uses other companies’ money to fund a high and rising dividend flow from a lower-risk part of the healthcare market.

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Growth Strategies

We’re Running Strongly – Will It Last?

It certainly has been quite a couple months so far in 2019, given the doleful way we ended 2018. Greed appears to be in charge over fear once again, as the new ubiquitous phrase “risk on” is getting more press than “risk off.”

The report card for key sectors of the stock market is telling of the flow of investment towards what is deemed to be better value now, with better prospects for the coming quarters. The base is the S&P 500 Index, which is up 11.08%. That’s good news of course—but it isn’t the best in the markets.

The next better investment group is typically the tech sector, which has picked up 12.15% year to date. This is the return of the story that I wrote about last year. More and more tech companies are embracing the move towards recurring income rather than unit sales. The poster child of the market continues to be Microsoft (MSFT), which we hold in the Total Return Portfolio. This company remains on the forefront of reaching into new markets for more revenues—particularly leveraging its Azure cloud services.

Next is one of my favorite segments of the stock market—real estate investment trusts (REITs). The Bloomberg REITs Index is up 12.53%, with more and more analysts and institutions catching onto the benefits of its strong cash flows from still-undervalued portfolios of properties in varied markets. Add in

(continued)
the higher dividend yields thanks to the Tax Cuts & Jobs Act (TCJA) that come with a 20% tax deduction on dividend distributions, and they are even more attractive.

We hold a large collection of REITs across the model portfolios of Profitable Investing and, in this issue, I’m bringing a new REIT addition in the healthcare sector.

Climbing further in the ranking is another one of my favored market segments—the toll-takers of the petroleum market. Tracked by the Alerian MLP Infrastructure Index, the midstream energy sector is up 14.05%. Pipelines and related companies are flush with cash from oil and gas producers and, while there continues to be constraints in capacity, several of our holdings will be bringing on additional capacity, with expanded services coming on line this year and next.

This will bring even more cash to fund rising dividend distributions, which like the REITs, continue to be great tax-advantaged income buys.

Further up the performance list is a surprise for many—regional banks. The KBW Regional Banking Index is up 21.01%. I wrote extensively last year about how banks had been strangled within inches of their lives by punitive regulatory laws and policies and how Congress and the Administration made several reforms that would bring banks back to business.

The market didn’t seem to want to pay attention. Part of that story was that, with banks on the sidelines, non-traditional lenders were taking a bigger slice of business lending—along with talent—from banks. But now that we’ve gotten a series of quarterly reports, including for the fourth quarter, banks are demonstrating that they’re recovering. In this issue, I examine what’s happening and why you need to buy the banks in the model portfolios again.

The laggard is the utilities sector, with a gain of only 6.39% as tracked by S&P. However, as I’ve been noting, particularly during the latter months of last year, utilities are the dependable segment of the market for gradual growth with rising dividends. We also have a good collection of the better REITs throughout the model portfolios that are still great buys for safety and income.

What’s Right?
The economy is growing. Gross domestic product (GDP) may slow in its ascent, but it’s still climbing. The compiled consensus by Bloomberg has growth for 2019 coming in at 2.50%. Moreover, the underlying components of the economy look to be in a sustained growth mode.

Consumer spending, which makes up about 70% of the US economy, is projected to increase by 2.70%. Job and wage gains are still robust, with more workers entering the market and wage growth staying comfortably above core inflation.

Business spending and investment continues to respond as well, with projections for an increase of 3.60% for the year. And that business spending should result in industry doing its part to increase output, with gains of 2.00% expected in 2019.

Good old Uncle Sam never seems to be able to keep cash in his pockets, with projections for government spending rising again this year by 2.20%. Much of that money is spent on contracts with the private sector, so it’s doing its part to grease the economy’s wheels of industry.

Inflation remains completely at bay. The core Personal Consumption Expenditure (PCE) Index remains below 2.00%, with expectations it will stay in that ballpark throughout the year. This allows the Federal Reserve to remain on the sidelines, as was confirmed in the recently released notes from its last meeting. It also looks like the Fed’s bond portfolio will remain more or less intact to keep the capital markets well supported. This should help corporate bonds, mortgages and municipals.

There is some added traction coming to the economy as well, particularly for areas of the economy that are lagging. Part of the TCJA included so-called Opportunity Zones. These are locally identified urban and rural areas that need a further shot in
the arm for development.

The TCJA provides tax incentives, including deferred/eliminated capital gains taxes and the ability to roll over gains from stocks, bonds and other assets if the proceeds go to the Zones. Right now, there are 8,700 such Zones, with more expected. This could help to provide a shift into the next gear for the economy.

**What’s Wrong?**

So far, I’ve highlighted the silver lining. But now, let’s talk about the clouds. I’ll start with cloud of trade tariffs and negotiations. China is the big one that continues to weigh on day-to-day market optimism. I continue to stand on the belief that some deal will be reached, particularly as the 2020 election cycle is getting underway.

China isn’t alone in the trade issue. We still have to get the United States-Mexico-Canada Agreement (USMCA) passed with Mexico and Canada. Japan is also on the horizon. Closer is Europe, with many European Union members at a disadvantage.

Trade brings in the other cloud that was forming last year. Many of the major economies are no longer in growth mode. China is slowing, and consumers there are getting more interested in saving than spending. Europe remains at risk. Germany, with its vulnerable auto sector and banking market that never got fixed from the last crisis, leads the risk. Lesser credit-worthy nations including Italy and France will continue to weigh on the continent as well. And of course, there is also the Brexit issue.

The US remains the island of prosperity and, while that’s good for our markets in the near term, we can’t keep it going on our own.

Then there’s the 2020 elections—whether you want to hear about them or not. The election of 2016 brought the TCJA, regulatory reforms and other benefits for the economy, but not everyone is pleased. Businesses are always looking to plan ahead, and uncertainty of changes from taxes to regulation will weigh on strategic plans.

The big cloud of earnings growth expectations for 2019 is still there from the fourth quarter of last year, despite compiled projections showing further gains in S&P 500 Index member revenues and earnings for 2019 and into 2020, albeit at lower growth rates than what we saw for 2018. This will impact the valuations of companies that will be in the crosshairs for the next round of earnings.

Once again, I will point to a pair of forward-looking indicators I presented throughout last year. The Bloomberg Consumer Comfort Index (I refer to it as the Comfy Index) remains very positive, with the recent data showing a level of 59.60. This continues to be very strong compared to the past two years and bodes well for the majority of what drives the economy. Business profits from consumer spending.

In terms of business confidence, the Federal Reserve Bank of New York’s Business Leaders Survey for capital spending remains one of my go-to indicators for business investment. The index is up strongly for the start of the year at 26.60%. The indicator is up 245.45% from the fourth quarter of 2016.

So, we do have some clouds, but some serious silver linings are showing. Read on to see where you should deploy more cash for the year.

**Proven Growth & Income**

**Ill-Gotten Gains**

The US population is aging and becoming ever less healthy. This isn’t a good thing for one of the leading economies on the planet.

In a recent study by the US Department of Commerce and the US Census, it’s projected that 78 million folks will be 65 years of age or older by 2035—a mere 16 years away. By that same year, those at or under the age of 18 years will number around 76 million.

This will mark a significant change in the demographics of our nation. The US has traditionally skewed toward the younger side, with more healthy and able folks to produce more for the economy.

And the news regarding the health of US citizens gets worse from there. The Mayo Clinic recently released an extensive study of the health of the US population, which estimates that 3% or less are living a healthy lifestyle.

To that end, the US Center for Disease Control (CDC) just released a study that reveals that 36.5% of the US population is obese. This sets up the nation to deal with more cases of diabetes and all of the ancillary health effects of that disease. Not to mention, that also brings the possibility of heart issues and its own complications.

Add in a high poverty rate, which can lead to further health challenges for both the young and the old, as well as other factors showing health troubles—infant mortality, for example—and the nation doesn’t look too healthy.

Furthermore, last year we saw that
life expectancies in the US stopped rising, with some segments actually dropping. But as we know, the end of the line is where healthcare really ramps up to keep patients alive a bit longer.

It’s no surprise then that healthcare spending in the US is climbing so quickly. According to the US Centers for Medicare and Medicaid Services (CMS), healthcare spending increased by 3.9% in 2017 to $3.9 trillion, or $10,739 per person. This represents 17.9% of US gross domestic product (GDP).

The CMS projects that spending will continue to rise by an average annual rate of 5.5% to reach a total of $5.7 trillion in the coming years. That means healthcare costs would come closer to accounting for 20% of the overall economy.

Now, while this isn’t good news for the US population, it does provide a silver lining for us as investors. No, I’m not suggesting that we look at gym or fitness companies (although I’m not suggesting that we look at those lines that I’ll be bringing to you in the near future). I am suggesting, however, that investing in health is a good source for income and gains—even though they come from the increasingly ill of the market.

**We’re Already Healthily Invested**

Inside the Total Return Portfolio, we are synthetically invested in the overall market for healthcare through the Vanguard Healthcare ETF (VHT), which remains a buy in a tax-free account under $174.00. Also in the portfolio, we have Walgreens Boots Alliance (WBA) with its pharmacies, which remains a buy under $84.00 in a tax-free account.

Then, in the Incredible Dividend Machine portfolio, we have three plays on health. In Cycle A, we have drug-maker Merck (MRK), which continues to perform for us and remains a buy under $75.00 in a tax-free account. In Cycle C, we have another drug-maker, Pfizer (PFE), which follows the success of Merck and is a buy in a tax-free account under $45.00.

Also in Cycle C, we have Ventas (VTR), which, as a real estate investment trust (REIT), owns a series of senior healthcare and related care facilities. It is doing quite well as we move through 2019 and remains a buy under $63.00 in a taxable account.

Over in the Niche Investments portfolio, we have Healthcare Trust of America (HTA), which is another REIT with a focus on medical and doctor office buildings. It pays a nice dividend of 4.39% and is a buy under $30.00 in a taxable account.

But in this issue, I’m presenting another strong performer that continues to position itself into the thick of the rising healthcare spending market with a whole lot less risk, while paying out an ample and rising dividend.

**Other Peoples’ Money**

One of the best investing lessons I learned in my career comes from one of the best stocks in the model portfolios of Profitable Investing, which is to capitalize on others that take risks while you focus on locking in revenues. That stock is W.P. Carey (WPC), a REIT, which is in the Total Return Portfolio.

Since being added in 2014, W.P. Carey has generated a return of 64.83%, for an average annual equivalent return of 10.22%.

W.P. Carey doesn’t operate its properties. Nor does it pay for maintenance, insurance or taxes on those properties. Instead, it does sale and lease-back and other leases known as triple net leases. This means it locks up long-term cashflows with less risk due to rising costs for the properties and the vagaries of tax rates.

Its tenants pay for all of that—thus, W.P. Carey profits from other peoples’ money.

In the healthcare market, there is a specific equivalent in Medical Properties Trust (MPW). This is a REIT that owns and acquires healthcare facilities, including inpatient and outpatient facilities as well as surgical centers and specialty healthcare facilities. It has more than 120 properties in 25 states, in addition to some newer, innovative investments in Germany.

These properties are leased on a net basis to operators that run the facilities and pay rent month after month for years. The portfolio has expanded dramatically over recent years, with only a small pause in the past year. But it continues to look to expand its portfolio with the right properties in an ever-expanding market.

Revenues are climbing, with gains running at over 11.30% in just the trailing year. And its funds from operations (FFO), which measures just the return rate from the cashflows from the property portfolio, is ample at 11.60%. That’s impressive in the REIT space.

This contributes to an 11.40% return on its assets and a 24.30% return on equity.

The stock continues to reflect its performance as a company. Over the years, W.P. Carey has generated a return of 64.83%, for an average annual equivalent return of 10.22%.

As for the incredible dividends, W.P. Carey pays a nice dividend of 4.39% and is a buy under $30.00 in a taxable account.

**Medical Properties Pays**

The Total Return of MPW

Source: Bloomberg Finance L.P.
past 10 years, MPW has delivered a total return of 981.71%, for an average annual equivalent return of 26.87%. Again, that’s pretty impressive for a real estate company.

It is a disciplined company when it comes to debt and leverage, as its debt to capital is at only 47.00%. This allows it the ability to easily service its current debts and provides easy access to credit on good terms to fund additional acquisitions.

Best of all, it’s still a good value. The stock trades at only 1.49 times its book value. That climbed significantly over the trailing year from 1.14 times book in October 2018.

But it isn’t just the price to book that’s rising—the actual value of the assets is also on the rise. Over the past five years alone, the underlying book value per share has gone from $7.98 to a current $12.27, which represents an impressive gain of 53.76%. This is important because it shows genuine growth in the underlying company and not just the stock price.

The dividend is currently at 25 cents per share and has been climbing in distribution by an average annual rate of 4.30% over the past five years. This equates to a current yield of 5.48%.

I’m adding MPW to the Total Return Portfolio with a buy under price of $19.50. It should be bought in a taxable account. This is due to the Tax Cuts and Jobs Act of 2017 (TCJA), which provides a tax deduction of 20% of the dividend distribution for US individual investors, making the taxable equivalent yield even higher.

**Bank on Banks**

Banks didn’t get the attention that they should have last year. After a decade of punitive legislative and administrative regulatory additions and changes, by 2018 banks were nearly strangled from doing even the simplest of things, including taking deposits and making loans.

These restrictions included a dramatic increase in capital requirements and the types of securities that could be counted as capital and at what valuations. This meant that the cost of keeping capital drove up the overall cost of making loans and conducting various other traditional banking operations.

They also included highly complex and costly stress-testing on a continuing basis to prove how banks would fare under various market and economic conditions. This meant devoting armies of financial and accounting professionals to these efforts—adding to costs and driving down margins.

In addition, banks were restricted on shareholder rewards, including restrictions on dividends. This meant that just as banks—even very healthy banks—needed equity capital, the market was less than enthused to invest in them. Adding to the challenges were restrictions based on size of assets. This meant that banks, particularly smaller regional banks, were effectively restricted from merging with other banks to lessen administrative and other costs.

Then, there was the consumer side of the regulations. The Consumer Financial Protection Bureau (CFPB) maintained a bevy of compliance obligations for even the simplest of accounts and transactions. Adding to the CFPB was the additional supervision by the Federal Reserve Bank (Fed) and ancillary Office of the Comptroller of the Currency (OCC), as well as the US Treasury, which just added additional costs for banks.

All of the above effectively drove up costs for generating revenues. This showed up in one of the most telling of ratios for banks—the efficiency ratio. The efficiency ratio measures the cost to earn each dollar of revenue.

The higher the ratio, the higher the costs. Before the 2007-2008 financial mess, good performing banks would
have efficiency ratios in the 25%-30% range. Those ratios soared to 60%-70% or more post-crisis. This meant it took 70 cents or more to earn each dollar versus the 30 cents or so it did pre-crisis.

Adding to the troubles were sustained low interest rates. While stimulating for the general economy, for banks the low to near zero short-term interest rates and low intermediate interest rates meant that they had little room to price deposits against loans. This meant that banks were squeezed in what is called their net interest margin (NIM).

NIM measures the overall spread between the cost of funds through deposits and other means against the yield earned on assets, such as loans and other facilities. Banks saw NIM plummet, weighing on overall profitability, which meant that lending was all the more challenging to justify given the low interest margins.

**Banks Busted**

The impact to bank stocks post-2008 through October of 2016 was dire compared to the recovering general stock market. From December 31, 2008 through October 1, 2016, the S&P 500 Index generated a total return of 176.40%. But regional bank stocks only managed to generate a total return of 73.81% for the same time period as tracked by the KBW Regional Bank Index.

**Electoral Win?**

The US general elections in November 2016 set the stage for banks to begin to return to normalcy. From November 16 through year-end, the same KBW Bank Index soared by 9.28% against the S&P 500 Index’s gain of 2.84%.

Investors saw that changes might be in store to relieve some of the stresses on banks, and they began to buy them.

The process of legislative and administrative regulatory reforms would take time. But they began to come into play slowly in 2017 and more so into 2018. Capital requirements were eased—particularly for regional and smaller banks. Compliance costs were reduced for regulations. And review of regulations was eased and more codified—providing more certainty for banks and lower costs for business and consumer business operations.

In addition, regulations were also further eased for regional and smaller banks based on raised asset size. This made domestic banks more attractive for investors and also meant that they were able to merge with less threat of more regulation compared to their mega-global bank peers.

Then came the TCJA. This brought down the corporate tax rate for banks as well as for all corporations. This was a particular boon for domestic regional banks that were focused on the US market for their earnings. This meant their after-tax profitability was dramatically aided.

It was into these developments last year that I reiterated my buy recommendation for Citizens Financial Group (CFG) and initiated my new buy recommendation for Regions Financial (RF). I saw that both of these regional banks were beginning to thaw out from the frozen market. Both were taking action to bolster their loan origination as well as increasing their deposit bases.

In addition, both had high efficiency ratios reflecting the past cost challenges. But with regulatory reforms, I saw that these ratios would fall, providing for improving profit margins.

The initial catch was that, last year, the market was highly concerned about rising interest rates. The Federal Reserve was expected to raise its fed funds target rate, which is the base rate for inter-bank lending. This was expected to send market interest rates up dramatically for other products that were deemed higher risks for banks.

But I saw that spiking and soaring rates were not in the cards. Instead, I wrote in several issues last year that rates were more likely to normalize rather than soar. This was based on the low and steady level of inflation as measured by the core Personal Consumption Expenditure (PCE) Index. This index measures the overall price rise for all consumer spending and not just a configured synthetic basket of prices as measured by the Consumer Price Index (CPI).

The PCE is what the Fed’s Open Market Committee (FOMC) uses to gauge inflation. And as we’ve seen through 2018 into 2019, the PCE has remained at or below the 2.00% level, which the FOMC considered its target. Moreover, the FOMC has been clear that it would be content to see the PCE rise into the mid-2% range in a healthy expanding economy without needing to really tighten monetary policy.

This controlled inflation and a FOMC that didn’t need to tighten in a draconian way meant that interest rates would move towards more normalized levels. This is important for banks because they could then get more room to price deposits and loans with better margins. And that meant an

(continued on p. 8)
# Stocks (56%)

## Indexed Equities (18%)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Entry Date</th>
<th>Fwd. Yield</th>
<th>Buy Under</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td>XLE</td>
<td>5/21/18</td>
<td>3.23%</td>
<td>70.00</td>
<td>Crude oil prices remain supported and US efficiency rising along with more pipes</td>
</tr>
<tr>
<td>VHT</td>
<td>3/16/16</td>
<td>1.45%</td>
<td>174.00</td>
<td>Drug and treatment companies should remain supported by demographic conditions</td>
</tr>
<tr>
<td>VYM</td>
<td>6/21/18</td>
<td>3.46%</td>
<td>88.00</td>
<td>The more conservative means to have exposure to the S&amp;P 500 Index</td>
</tr>
<tr>
<td>VGT</td>
<td>8/20/18</td>
<td>1.35%</td>
<td>195.00</td>
<td>Information technology should continue to perform on push for recurring income</td>
</tr>
<tr>
<td>VPU</td>
<td>9/24/18</td>
<td>3.22%</td>
<td>128.00</td>
<td>This is the area of the market to carry you through with dividends and sustained growth</td>
</tr>
</tbody>
</table>

## Growth & Income Plays (18%)

- *Alliance Bernstein*
  - AB T 11/19/18 9.06% 33.00
    - It’s all about fee income from rise in assets under management
  - *Citizens Financial*
    - CFG T 9/8/17 3.41% 39.00
      - Bank is proving it can profit from regulatory reforms & big inflow of hedge buying
  - *Compass Diversified Holdings*
    - CODI T 5/21/18 8.87% 17.00
      - Great collection of underlying companies with stock at discount to rising sales
  - *Hormel*
    - HRL T 4/17/17 2.00% 46.50
      - Benefitting from better management of meat and packaged products
  - *Microsoft*
    - MSFT T 3/8/18 1.68% 115.00
      - This is the poster child for technology companies moving to recurring revenue
  - *Nestle*
    - NSRGY T 11/30/12 0.00% 92.00
      - Management providing proof that packaged goods can be profitable
  - *NextEra Energy*
    - NEE T 9/8/18 2.38% 187.00
      - This utility shows the way for the industry to be more profitable
  - *Procter & Gamble*
    - PG T 12/17/08 2.88% 94.00
      - Big run up in the stock price—Let’s wait for a better buy price
  - *Regions Financial*
    - RF T 4/23/18 3.43% 17.50
      - The bank is beginning to deliver and the market is finally catching on
  - *Hercules Capital*
    - HTGC T 6/24/18 9.41% 14.50
      - Want to own the next big tech before the IPOs?—This is your company
  - *Viper Energy*
    - VNO T 7/23/18 5.72% 38.00
      - More assets being dropped down to Viper from Diamondback—Buy this stock

## Real Estate Investment Trusts (8%)

- *Medical Properties Trust*
  - MPW T 7/12/18 5.48% 19.50
    - Prime play for income from healthcare landlord
  - *American Campus Communities*
    - ACC T 7/12/18 4.04% 47.00
      - The last of the lucrative and dependable student housing REITs
  - *Digital Realty Trust*
    - DLR T 2/9/18 3.47% 125.00
      - Continues to expand its data center properties with eager demand
  - *Life Storage*
    - LSI T 12/24/18 4.00% 102.00
      - Self storage REIT REIT provides backstop for when the market runs into trouble
  - *W.P. Carey Inc.*
    - WPC T 1/3/14 5.48% 75.00
      - Well managed company through thick and thin with rising dividends
  - *MFA Financial*
    - MFA T 6/24/18 10.85% 8.00
      - Big dividend comes from one of the best managed mortgage portfolios

## World Class Franchises (6%)

- *Starbucks*
  - SBUX T 2/8/18 2.04% 69.00
    - Stock is now getting ahead of the company—Wait for more proof before paying more
  - *United Technologies*
    - UTX T 8/6/14 2.33% 130.00
      - Market isn’t pricing the underlying value of the pending break-up
  - *Walgreens Boots Alliance*
    - WBA T 4/7/17 2.50% 84.00
      - Still too cheap with stock valued at discount to sales

## Toll Takers (6%)

- *Buckeye Partners*
  - BPL T 8/21/06 9.08% 36.00
    - Company continues right on its plan for transformation to market changes
  - *Enterprise Products Partners*
    - EPD T 2/22/05 6.20% 30.00
      - One of the best pipeline companies in the business
  - *Kinder Morgan Inc.*
    - KMI T 11/28/14 4.17% 20.00
      - Stock is back and catching up to the underlying asset value and distributions
  - *Pembina Pipeline*
    - PBA T 8/14/12 4.68% 37.00
      - Canadian government is pushing to get more gas and oil flowing
  - *Plains GP Holdings*
    - PAGP T 3/10/17 5.12% 26.65
      - Great Permian Basin pipe that will be expanding for more sheltered distributions

## Fixed Income (44%)

### Cash (11%)

- *Synchrony Bank high-yield savings account*
  - 7/31/15 2.25%
    - Market 2.25% yield—Call 866/226-5638 to order

### Intermediate Credit Bonds (7%)

- *DoubleLine Total Return Bond Fund*
  - DLTX T 7/22/14 3.33% 10.55
    - Bonds offer better yields and provide balance to stock market risk
  - *SPDR Interm-Term Corp. Bond ETF*
    - SPIB T 4/21/17 3.31% 34.00
      - The bond ETF is an easy buy to provide balance for your portfolio

### Multisector Bonds (8%)

- *Osterweis Strategic Income Fund*
  - OSTIX T 4/19/18 5.08% 11.67
    - One of the best open-ended strategic bond funds

### Preferred Shares (7%)

- *Seaspan 7.875%*
  - SSW.PH T 1/22/19 8.44% 25.00
    - CUSIP# 81254U304
  - *Teekay LNG Partners 9.00%*
    - TGP.PA T 1/22/19 9.02% 25.00
      - ISIN# MHY8564M1131
  - *NuStar Energy 8.50%*
    - NS.PA T 1/22/19 8.93% 25.00
      - CUSIP# 67058H201
  - *iShares US Preferred Stock ETF*
    - PFF T 3/9/17 5.62% 38.00
      - Preferred stocks should be go-to for all portfolios
  - *Farthley & Drumrine Preferred Opp. Fund*
    - PFO T 7/23/18 6.56% 11.51
      - Great closed-end fund from good management team—Watch buy price

### Minibonds (3%)

- *JMP Group 7.25% 11/15/27*
  - JMPD T 1/22/19 5.55% 25.00
    - CUSIP# 466273109
  - *Cowen Inc. 7.75% 06/15/33*
    - COWNL T 1/22/19 7.91% 25.00
      - CUSIP# 223622804
  - *US Cellular 6.95% 05/15/60*
    - UZA T 1/22/19 7.15% 25.00
      - CUSIP# 911684405

### Municipal Bonds (4%)

- *Blackrock Municipal Income*
  - BLE T 4/23/18 7.92% 14.58
    - Discount to NAV narrowing to 3.4% with great tax-free yield and bonus dividend
  - *Nuveen AMT-Free Credit*
    - NVG T 4/23/18 8.45% 15.15
      - Discount to NAV dropping to 8.3% with monthly tax-free dividends
  - *Nuveen Municipal Credit*
    - NZF T 4/23/18 8.65% 15.00
      - Discount dropping to 7.2% as investors are buying and portfolio performs

### Treasury Bonds (4%)

- *Two-year Treasury bond*
  - 12/24/18
    - Market 2.48% at market price

---

### TOTAL RETURN PORTFOLIO

<table>
<thead>
<tr>
<th>Entry Date</th>
<th>Fwd. Yield</th>
<th>Buy Under</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Buy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Treasury with current coupon (interest rate) near 2.48% at market price</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
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*At least 10% below buy-below price as of the publication of this issue*

<table>
<thead>
<tr>
<th>Symbol</th>
<th>T/TF</th>
<th>Entry Date</th>
<th>Fwd. Yield</th>
<th>Buy Under</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td>Buy in taxable account for best results</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy in tax-advantaged account (IRA, etc.) for best results</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Taxable-equivalent yield</em></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
improvement in net interest margins. In addition, the US economy was on course to be one of the highest-growing mature economies in the world. That economic growth, which continues today, will benefit the banks. It will drive more business- and consumer-loan growth and other business segments, helping the banks—including Citizens and Regions—generate higher revenues.

So, we had a good economy, regulatory reforms, normalizing interest rates and lower corporate tax rates—a good mix for investors in banks.

Both Citizens and Regions began to prove that out with improvements in loan growth, reduced costs aiding efficiency ratios and improvements in NIM. But the market didn’t care, and so I put both stocks on hold until the markets saw what was happening.

Then the stock market took it on the chin in the fourth quarter of last year. As I’ve written previously, the core reason for the selloff was the fear that earnings and revenue growth for companies in general were not expected to gain as much in 2019 as they did in 2018.

Not that earnings and revenue were to fall—just not rise as much. This is even as the S&P 500 Index stocks have seen average sales gains for the fourth quarter of 6.37%, which is like earnings growth averaging 10.87%.

In addition, Wall Street analysts are currently projecting overall 2019 revenue growth of over 5% and earnings growth of nearly 5%. For 2020, they’re predicting over 5% revenue growth and nearly 11% in earnings growth.

Whole New Year

January was like the day after waking from a bad nightmare. The market saw that the FOMC was set to pause its rate hikes and had little reason to tighten monetary policy for 2019. Earnings reports and guidance remain positive for companies reporting so far this year. The S&P 500 Index is up 10.92% to date, and the KBW Regional Bank Index is up 8.32%.

At this point, I've seen the quarterly reports from both Citizens and Regions, and I expect more progress, which justifies buying them again.

Citizens shows a continued improvement in loan growth, which is now up for the recent quarter by 5.97%. This is up significantly from 2.80% during the same quarter in the prior year.

And Citizens’ efficiency ratio, while having more room for improvement, is showing gains over 2018 and is now sitting at 59.70%. Even more telling is that its NIM continues to sharply improve, with the current rate at 3.17%.

Overall revenue growth year over year is now running at 15.81% and, with the improved profitability discussed above, I see more profits for the bank. The dividend is running at 32 cents per share and, thanks to deregulation, it was upped over the past year by 50% for a current yield of 3.41%.

But what makes Citizens a compelling buy now is that the shares are valued at less than book value—just 0.88 times book. Banks should be valued at 2 times book, with higher-performing banks valued even higher.

Buy Citizens Financial Group (CFG) again in the Total Return Portfolio under $39.00 in a tax-free account.

Regions is showing further improvement as well. Its loan growth is up 3.93% against a drop for the same quarter of the prior year. The efficiency ratio has improved to 58.75%, which is still high, but the bank is doing what it promised to cut costs while driving more revenues. And with normalizing interest rates, the NIM is continuing to improve to a current level of 3.44%.

Region’s revenue growth is only 4.06%, but that’s up significantly from the negative rates throughout 2017. The dividend is running at 14 cents per
share, having been boosted by 46.03% over the past year thanks to regulatory relief, for a current yield of 3.43%.

But while the stock’s price to book value is sitting at 1.17, that’s well below where banks are normally valued, making it a great bargain buy right now. Buy Regions Financial (RF) in the Total Return Portfolio in a tax-free account under $17.50.

One last note on the banks: The announced merger of BB&T (BBT) and SunTrust Banks (STI) is due to the regulatory relief noted earlier. Both Citizens and Regions are also good merger targets, or good acquirers. And Citizens has significant ownership stakes by various hedge funds. A deal for either—or for other regional banks for that matter—will also bolster the market for both stocks.

**Total Return Portfolio**

The Total Return Portfolio features a base of defensive investments that will carry through during the ups and downs of the general stock market as well as a collection of growth-focused stocks that should capitalize on specific market and economic developments over time.

All of the holdings are chosen for being shareholder-focused, with good to ample dividend yields that can be depended upon to pay you well over the long term.

As noted throughout this issue, the general stock market is off to a strong start for the year. Many companies in the US market have been reporting good results for their last quarters and are providing good guidance for their future.

That said, there are some sector standouts worth your attention, particularly at this point in the market.

**REITs**

Real estate investment trusts (REITs) are doing very well so far this year—up as much or more than the general stock market. Investors are catching on to the attraction of good assets and lots of cash flow for ample tax-advantaged dividends. Moreover, many of the REITs are still trading at lower price-to-book values than in past boom years, providing value buying opportunities.

**The Incredible Dividend Machine**

<table>
<thead>
<tr>
<th>Cycle A (January, April, July, October)</th>
<th>T/TF</th>
<th>Buy Under</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCE Inc. (NYSE: BCE, 5.2%)</td>
<td>TF</td>
<td>$43.00</td>
</tr>
<tr>
<td>Cisco Systems (NASDAQ: CSCO, 2.7%)</td>
<td>TF</td>
<td>$50.00</td>
</tr>
<tr>
<td>Merck (NYSE: MRK, 2.8%)</td>
<td>TF</td>
<td>$75.00</td>
</tr>
<tr>
<td>Mondelez International (NASDAQ: MDLZ, 2.2%)</td>
<td>TF</td>
<td>$46.00</td>
</tr>
<tr>
<td>Northern Trust (NASDAQ: NTRS, 2.4%)</td>
<td>TF</td>
<td>$90.00</td>
</tr>
<tr>
<td>PPL Corp. (NYSE: PPL, 5.2%)</td>
<td>TF</td>
<td>$33.00</td>
</tr>
<tr>
<td>South Jersey Industries (NYSE: SJI, 3.6%)</td>
<td>TF</td>
<td>$36.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cycle B (February, May, August, November)</th>
<th>T/TF</th>
<th>Buy Under</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT&amp;T (NYSE: T, 6.6%)</td>
<td>TF</td>
<td>$37.00</td>
</tr>
<tr>
<td>Colgate-Palmolive (NYSE: CL, 2.5%)</td>
<td>TF</td>
<td>$64.00</td>
</tr>
<tr>
<td>General Mills (NYSE: GIS, 4.2%)</td>
<td>TF</td>
<td>HOLD</td>
</tr>
<tr>
<td>Magellan Midstream Partners (NYSE: MMP, 6.8%)</td>
<td>T</td>
<td>$65.00</td>
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<tr>
<td>ONEOK Inc. (NYSE: OKE, 5.1%)</td>
<td>TF</td>
<td>$64.30</td>
</tr>
<tr>
<td>Realty Income Corp. (NYSE: O, 3.9%)*</td>
<td>T</td>
<td>$68.98</td>
</tr>
<tr>
<td>Verizon (NYSE: VZ, 4.3%)</td>
<td>TF</td>
<td>$62.50</td>
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</table>

<table>
<thead>
<tr>
<th>Cycle C (March, June, September, December)</th>
<th>T/TF</th>
<th>Buy Under</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominion Energy (NYSE: D, 4.5%)</td>
<td>TF</td>
<td>$78.00</td>
</tr>
<tr>
<td>Easterly Gov’t Properties (NYSE: DEA, 5.8%)</td>
<td>T</td>
<td>$21.54</td>
</tr>
<tr>
<td>Marathon Petroleum (NYSE: MPC, 3.3%)</td>
<td>TF</td>
<td>$74.27</td>
</tr>
<tr>
<td>Main Street Capital (NYSE: MAIN, 6.1%)*</td>
<td>T</td>
<td>$42.00</td>
</tr>
<tr>
<td>Pfizer (NYSE: PFE, 3.4%)</td>
<td>TF</td>
<td>$45.00</td>
</tr>
<tr>
<td>Public Svc. Enterprise Group (NYSE: PEG, 3.2%)</td>
<td>TF</td>
<td>$56.00</td>
</tr>
<tr>
<td>Ventas (NYSE: VTR, 5.0%)</td>
<td>T</td>
<td>$63.00</td>
</tr>
</tbody>
</table>

*Monthly dividend payer

**American Campus Communities** (ACC) has turned in a total return of 9.03% to date. The educational rental property market remains strong. This is one of the few focused public REITs in educational real estate, as its peers are being bought out or taken private. It continues to provide a nice dividend of 4.04% and should be bought under $47.00 in a taxable account.

**Digital Realty** (DLR) took a pause last year after its additional share sale to raise capital for more property investments. But now, the stock is roaring back, with a year-to-date return of 9.39%. The space for data storage and processing is vital for the quickly expanding cloud computing market. Digital Realty has all the big names as clients, providing for dependable revenue. Its yield is 3.47%, though it has more growth upside given its client base. It’s a buy in a taxable account under $125.00.

**Life Storage** (LSI) is a newcomer to the portfolio. So far, it’s showing good progress. The self-storage market is a little less about growth than it is about defensive properties always in demand during good and bad economic times. With a nice 4.00% yield, it’s a defensive buy in a taxable account under $102.00.

**MFA Financial** (MFA) is coming back strong. The REIT is really a mortgage portfolio management company. With mortgage demand on the rise and a supportive interest rate environment, the portfolio should be gaining in cash flow and overall performance. The dividend is big, with a yield of 10.85%. That may seem high, but it really isn’t with an understanding of what the company does so well. It is a buy under $8.00 in a taxable account.

Then there’s W.P. Carey (WPC), which I have followed and invested in since it came public. This sale-lease-back triple-net lease investment company is the king of this market segment. It has been doing well so far this year, with a return of 13.65%. Revenues have been slowing recently, but the track record of management is quite good at controlling risk, making it appealing to me. With a yield of 3.48% from a consistently rising
dividend distribution, the stock is a buy under $75.00 in a taxable account.

**Toll-Takers**

The energy infrastructure companies, including pipelines and related assets, are back not only pumping profits and dividends, but their stock prices are gaining as well. Natural gas is in demand, with liquified natural gas (LNG) development making for more demand over time. Shale producers have gotten more efficient—meaning full capacity pipes and more cashflow for the toll-takers.

While these companies are up big so far this year, there’s still plenty of value left, from the Canadian-focused Pembina Pipeline (PBA) to the US-focused Buckeye Partners (BPL), Enterprise Product Partners (EPD), Kinder Morgan Inc. (KMI) and Plains GP Holdings (PAGP).

All are buys under the prices listed in the portfolio table—Buckeye Partners, Enterprise Product Partners, Plains GP Holdings and Pembina Pipeline for taxable accounts and Kinder Morgan Inc. for tax-free accounts.

**Information Technology**

This group of stocks is one of the market leaders, just like it was for most of last year, with the general collection of them—as tracked by S&P—returning 12.81% so far this year. The key is the broad industry shift from unit sales of gizmos and products to subscription sales, resulting in recurring income and more stable cash flow. The leader that continues to show no sign of slowing is Microsoft (MSFT). It should be part of your portfolio under $115.00 in a tax-free account.

**Preferreds**

In my last issue, I offered a collection of individual preferred stocks to expand beyond the preferred ETF holding iShares US Preferred Stock ETF (PFE) and the closed-end fund Flaherty & Crumrine Preferred Income Opportunity Fund (PFO).

While both the ETF and closed-end should be bought first, look to the individual preferreds for additional reliable income streams with lower market price volatility. Buy NuStar Energy 8.50% Series A Preferred (NS.PA), Seaspan Corporation 7.875% Series H Preferred (SSW.PH) and Teekay LNG Partners 9.00% Series A Preferred (TGPP.A) all under $25.00 in tax-free accounts.

Preferred stocks might not be currently exciting in a generally positive market, but they will come through when the general stock market pauses.

**Bonds**

I continue to advocate buying bonds strategically. In the portfolio, I still see a lot of value and income from the corporate market. I brought in three minibonds in the last issue that provide significant current income with price stability. Buy these three—Cowen Inc. 7.75% Series L (COWNL), JMP Group 7.25% Series D (JMPD) and US Cellular 6.95% Series A (UZA)—together, all under $25.00 in a tax-free account.

Then there are the three tax-free municipal closed-end bond funds. These offer tremendous taxable equivalent yields with funds that are still trading at nice discounts to their net asset values. BlackRock Municipal Income Trust II (BLE), Nuveen AMT-Free Municipal Credit Income Fund (NVG) and Nuveen Municipal Credit Income Fund (NZF) should be part of your portfolio at the buy under prices in the portfolio table, in a tax-free account.

**Incredible Dividend Machine**

Dividends might not be as important while the stock market is doing well on the price side of things, but dividends are what got us through 2018’s ups and downs, as well as the stalls-out period.

Since 2019 is still very new and dividends aren’t the big story at the moment, having monthly payouts from the three dividend cycles in the Incredible Dividend Machine portfolio will make your portfolio hum once the general market hits turbulence.

All of the stocks in each of the cycles continue to do their jobs in dividend distribution. The one stock I’ve had on hold is General Mills (GIS) in Cycle B. I’ve had this on hold until we get the earnings report scheduled for March 20. I’m looking for proof of cost controls and better product management.

Meanwhile, the stock has earned a return to date of 21.89%, so we’re not missing out by holding it. If you own it, continue to hold it, and I’ll have a call on it after the report. If you don’t own it, there are other attractive stocks in

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**All-in-the-Family Fund Portfolios**

<table>
<thead>
<tr>
<th>Fidelity (800/544-8888)</th>
<th>T. Rowe Price (800/638-5660)</th>
<th>Vanguard (800/662-2739)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisor Strategic Income (FADMX)</td>
<td>Spectrum Income (RPSIX)</td>
<td>High Dividend Yield Index (VHDYX)</td>
</tr>
<tr>
<td>iShares Core High Div ETF (HDV)</td>
<td>Equity Income (PRFDX)</td>
<td>Intermed.-Trm Inv.-Grade (VFICX)</td>
</tr>
<tr>
<td>Real Estate Investment (FRESX)</td>
<td>Real Estate (TREX)</td>
<td>Real Estate Index (VGSIX)</td>
</tr>
<tr>
<td>Money market</td>
<td>Value (TRVLX)</td>
<td>Money market</td>
</tr>
<tr>
<td>L-C Value Enhanced Idx (FLVEX)</td>
<td>Money market</td>
<td>Total Bond Market Index (VBMFX)</td>
</tr>
<tr>
<td>L-C Growth Enhanced Idx (FLGEX)</td>
<td>Growth Stock (PRGF)</td>
<td>Value Index (VIVAX)</td>
</tr>
<tr>
<td>Select Software &amp; IT Svcs (FSCSX)</td>
<td>Science &amp; Technology (PRSCX)</td>
<td>Growth Index (VIGRX)</td>
</tr>
<tr>
<td>Select Utilities (FSUTX)</td>
<td>Global Stock (PRGSX)</td>
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<td>Worldwide (FWWFX)</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Global Equity (VHGE)</td>
</tr>
</tbody>
</table>

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This group of stocks is one of the market leaders, just like it was for most of last year, with the general collection of them—as tracked by S&P—returning 12.81% so far this year. The key is the broad industry shift from unit sales of gizmos and products to subscription sales, resulting in recurring income and more stable cash flow. The leader that continues to show no sign of slowing is Microsoft (MSFT). It should be part of your portfolio under $115.00 in a tax-free account.
Cycle B to buy at their recommended prices. But keep some cash on hand for General Mills or its replacement.

Model Mutual Fund Portfolios

In my last issue, I drew your attention to more defensive positions, even as the general stock market was beginning to climb back up from the fourth-quarter selloff. I advised keeping cash on hand in the money market funds in each of the model mutual fund portfolios. I mentioned that this might keep us from some near-term profits but would provide stability in case of another downturn.

The same was the case for the heavier focus on utilities and REIT-focused funds and ETFs, which provide for dividends and more stable prices. Now, the S&P 500 Index is up strongly again this month, which is good, but so are the utilities and even more so for the REITs.

Then there are the preferred-focused ETFs, including the iShares US Preferred Stock (PFF) in the Hassle-Free ETF portfolio. Preferreds might not be rallying, but they’re reliable dividend payers, and they will come in handy when the market takes another downturn.

You Have Questions, I Have Answers

I always appreciate your queries and comments on my work in Profitable Investing and the Journal. This extends to the collection of individual holdings in our model portfolios as well as general investing discussions. Please keep your queries and comments coming. You can email my team at feedback@investorplace.com (please put Profitable Investing or Neil George in the subject line) or reach out via phone by calling us at 1-800-211-8566.

Here are some of the queries that my team and I recently received, and my replies:

Q: What are some of the reasons for a sell recommendation?
A: There are several reasons for a call to sell. In every issue, I review each holding with the question: Would I buy a position all over again and at what price?

If the answer is no or if the market has pushed the price too high—then it gets a sell. Or if the market price is a bit ahead, then I’ll keep the buy under price below the market if I see a reason for a small pullback in the near term. And if I need a bit more time to review—then it gets a hold, and the final call will happen in a following issue or in the weekly Journal.

But I’ll also sell if a company is running into trouble. Before I recommend anything, I look at what could go wrong and how I expect it to get past potential challenges. However, there is always the possibility for additional problems to surface. The three examples below over the past year are great case studies.

Pacific Gas & Electric (PCG) was sold early in 2018 ahead of the devastating fires later in the year that resulted in the company’s Chapter 11 filings. I saw that legal wrangling over prior fires was becoming too great a hindrance, hence the sell.

Johnson & Johnson (JNJ) was sold...
before the massive legal loss in a Saint Louis courtroom over known cancer risks in its flagship product. I saw that the company wasn’t addressing cost and product issues and had followed the suit from the start, which allowed me to see the hit that it was going to take.

Kraft Heinz (KHC) was sold in May of last year, as I saw management wasn’t addressing core product problems, cost challenges and debt issues—the same reasons that recently resulted in the market dumping the stock along with additional inquests coming from the Securities and Exchange Commission (SEC).

Q: Is the US dollar’s strength helping our stocks or hurting prospects?

A: The dollar, as measured by the Dollar Index, is up 8.40% over the past 12 months. This reflects the stronger US economy, the more attractive financial markets and the yield advantage of the currency.

This is quite good for investment inflows for good US stocks, as well as keeping more cash in the US market.

The downside is that revenue from foreign sales, if not properly hedged, may be reduced in US dollar terms. However, I see this as less of a threat given the attraction of US stocks, which is in part reflective of the strength of the dollar.

One Final Thought

Don’t Get Caught Focused on an Up Market

Bull markets are fun. Watching the daily tally as the S&P 500 Index, the Dow Jones Industrials and Nasdaq Composite rack up gains is not only comforting, but enriching. I’ve been in the markets worldwide for decades and have gone through plenty of reversals only to ask, what did I miss?

With my background in financial forensics, every market pullback or selloff provides an educational opportunity for me. Each lesson I learn gives me one more tool to help keep you from getting caught in another selling session.

The best lesson learned long ago is not to get too focused on bull markets or segments where you aren’t prepared for trouble or turbulence. The way to do this is to continue to review each holding in the portfolio with the following questions: 1. Would I buy this again and why? And 2. What could go wrong and how will this company get through it?

However, what trumps everything is making sure that even during bull markets, I have plenty of defensive investments. Lots of dividend paying stocks, bonds and funds make for a good cushion for a fall. In the model portfolios this month, there are plenty of them, with our utility stocks, REITs, preferred shares, an assortment of individual bonds and quality bond funds and funds.

At the same time, there are always opportunities for growth. In this issue, I focus on my new play on healthcare services with less risk and lots of yield in Medical Properties Trust (MPW) as a new buy under $19.50 in a taxable account. And while I might have been early on the turnaround in banks last year, right now the banking reforms are proving to bring success. Buy Citizens Financial Group (CFG) under $39.00 and Regions Financial (RF) under $17.50 in tax-free accounts.

Striking a balance between income and growth will be the continuing plan for this issue and for the quarters to follow.

All My Best,

Neil George

NEIL GEORGE began his financial services career in 1987 with Merrill Lynch International Bank in Vienna, Austria and subsequently held senior positions at what are now US Bank and globally-based Investec PLC. Neil’s long career has included stints as a bond trader and the manager of a fixed-income fund worth over $1 billion. An income hunter at heart, he’s also the former editor of several successful investment advisories dedicated to finding Wall Street’s best yields. Neil earned an MBA in international finance from Webster University in Europe and a bachelor’s degree in economics from King’s College. His market commentary and insights have been featured in the Wall Street Journal, Barron’s, Bloomberg, CNN and NBC.