

## Good News For Income Investors

Looking for good news in today's markets is like searching for the proverbial needle in a haystack. Needless to say, practically all investment grade equities and nearly all closed end funds that specialize in providing regular recurring monthly income have been reduced in market value by this prolonged correction. The quake has spread in all directions from its financial epicenter, and the mounting doom and gloom has taken its toll on even the most rational investment decision makers. Try to keep in mind that the purpose of income investing is the income that your portfolio produces not an increase in the securities' market values---

So here's the good news (and for anyone with a 40% or higher income asset allocation, or an income portfolio being used for living expenses), it really is very good news. Base income levels, from the beginning of the stock market correction in June '07 until mid-July '08, have barely changed at all. In fact, they have probably risen in properly asset allocated portfolios. I have examined the regular recurring monthly income distributed by 56 taxable income CEFs and 61 tax-free income CEFs, and the conclusions are pretty remarkable.

In spite of the fact that the vast majority of my favorite monthly income producers are lower in market value than I would like, the amount of income they are distributing to shareholders has not moved lower meaningfully--- even though the Federal Reserve has reduced interest rates by approximately 60% during the past twelve months. Here are the numbers: (1) 48% of the taxable-income CEFs are distributing precisely the same amount per share as they did a year ago. Fourteen issues have increased their payouts and fifteen have reduced them.

The net result is a decrease of just fourteen cents (2.5% of the total monthly payout). The average current yield on the portfolio, as of mid July '07, is 9.86% without considering any capital gains distributions. Additionally, the group is selling at market prices that reflect an average discount of nearly 11% from NAV. Is that special or what? The bonds, preferred stocks, government securities are priced 11% below their current market values.

(2) The numbers are similar with regard to the 61 tax-free income CEFs: 46% have not altered their payout over the past twelve months; eighteen have reduced their payout slightly, and 15 have increased the monthly dole. The net difference for the group over the past year is less than one cent, or a percentage change of two-tenths of one percent. Remarkable. This group is selling at an average discount from NAV of 9.1% and has a current tax-free yield of 5.51%.

(3) Of 117 individual issues, about half have produced stable income. The others have accounted for a total payout reduction of less than 15 cents--- a measly 1.7%. Why is this amount of little consequence? Two reasons really.

First of all, a properly asset-allocated income portfolio does not disburse all of the base income it receives, so there is income available to reinvest in more shares of income producing securities. This process assures a growing cash flow to calm your fear of rising prices. The other reason is a bit more hypothetical. The Fed has lowered rates significantly, a process that normally produces higher prices for income securities. Eventually, those lower interest rates (even if global pressures convince politicians to take back some of the reductions) should produce higher prices (i.e., profit taking opportunities) in these securities.

Admittedly, even if your asset allocation has been fine tuned for years, lower portfolio market values in this area make stock market valuation shrinkage feel even worse. But the value of stable cash flow becomes painfully clear for investors who misguidedly depend on capital gains for their spending money. Properly asset allocated portfolios contain enough base income generators to pay the bills. The purpose of capital gains is to produce proportionately more base income generators.

The purpose of this email is simply to bring some needed sunlight into an investment environment that is far gloomier than I think it needs to be. If you want the details, you'll have to request them personally.

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