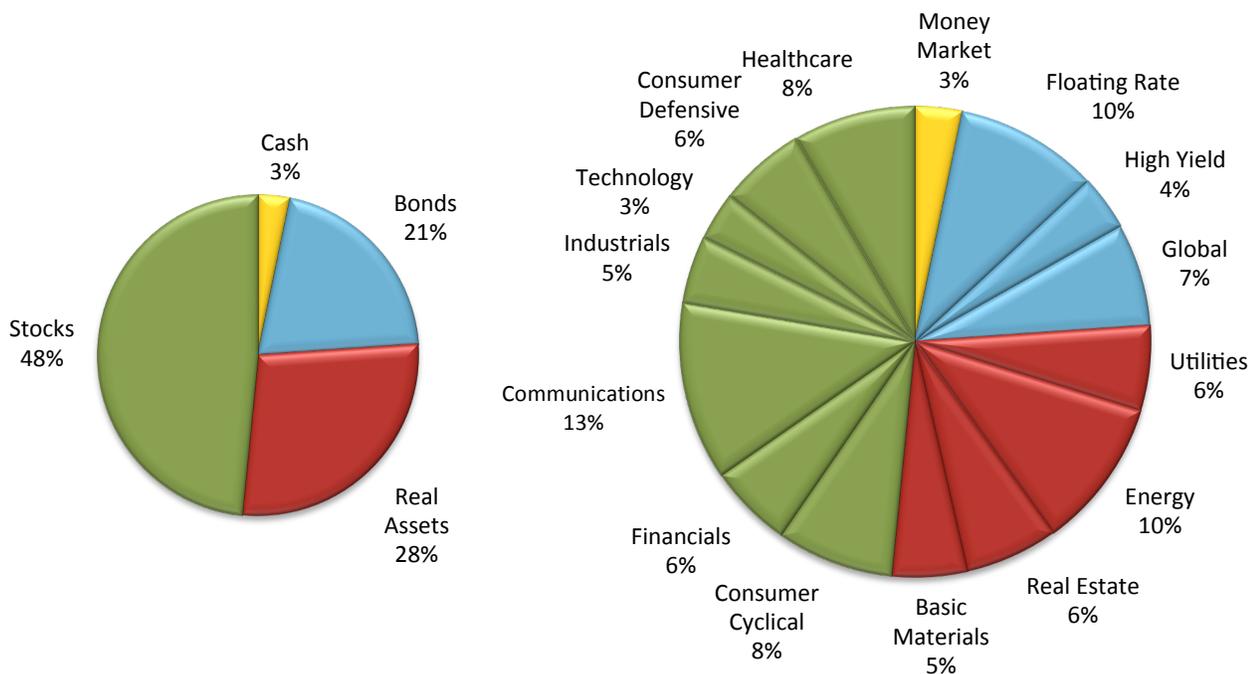


# Balanced Income Strategy

## July 2016 Investment Notes

**Strategy Description:** Pursues current and long term income with a secondary emphasis on growth of principal and growth of income. The strategy invests in multiple asset classes including stocks, bonds, real estate and utilities. Most businesses will have historically generated earnings through economic expansions as well as recessions. Stock selections are scrutinized based on a company's valuation, growth rate, and dividend history.



### Holdings as of 7/31/16:

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Alerian MLP Fund                | <input type="checkbox"/> Intel                        | <input type="checkbox"/> RR Donnelley & Sons                |
| <input type="checkbox"/> Altria Group                    | <input type="checkbox"/> Iron Mountain                | <input type="checkbox"/> Southern Company                   |
| <input type="checkbox"/> AstraZeneca                     | <input type="checkbox"/> JPMorgan Chase               | <input type="checkbox"/> Spectra Energy                     |
| <input type="checkbox"/> AT&T                            | <input type="checkbox"/> Las Vegas Sands              | <input type="checkbox"/> Templeton Global Total Return Fund |
| <input type="checkbox"/> BP                              | <input type="checkbox"/> Macy's                       | <input type="checkbox"/> Unilever                           |
| <input type="checkbox"/> CenturyLink                     | <input type="checkbox"/> McDonald's                   | <input type="checkbox"/> Verizon                            |
| <input type="checkbox"/> Dominion                        | <input type="checkbox"/> Outfront Media               | <input type="checkbox"/> Vodafone                           |
| <input type="checkbox"/> GlaxoSmithKline                 | <input type="checkbox"/> Potash                       | <input type="checkbox"/> Westpac Banking                    |
| <input type="checkbox"/> Guggenheim 2018 High Yield Fund | <input type="checkbox"/> Ridgworth Floating Rate Fund | <input type="checkbox"/> Weyerhaeuser                       |

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## July Commentary:

Dividend paying stocks have become very popular. This has resulted in the Balanced Income Strategy doing very well and outpacing more aggressive investments. Last year's returns were reduced by the high dividend paying energy and commodity companies, while those companies have rebounded well this year.

If interest rates begin to rise the portfolio will no doubt face a head wind. Our goal is to have enough of the portfolio in companies which are growing to offset this headwind, even if we reduce our current dividend yield.

Current market indicators show the US market as expensive compared to history on most measures. There are two ways for this to work out. The market could decline to make stocks less expensive, or the companies which make up the market could increase their earnings more than expected. The market strength and the improvement in the economy make us believe the likely scenario is greater growth and inflation than is expected will prevail and in turn support current market valuations. This is certainly just a best guess, but experience has taught us the stock market tends to be a predictor of what will happen in the economy instead of vice versa.

## Activity:

### Increased

- General Thoughts:** The shift from Starwood to Vodafone was to increase the quality of our portfolio.
- Vodafone**
  - **Description:** Vodafone provides voice and data communications services for all types of customers. The Company has a presence in more than 25 countries. Revenue by Country: Germany, 20%; the United Kingdom, 15%; Italy, 11%; India, 10%; Spain, 9%; other, 35% (<http://www.valueline.com/>).
  - **Thoughts:** Vodafone is financially strong, pays a 5.5% dividend and is expected to raise their dividend in the future. The price was down due to the Brexit, so we added to our holding.

### Sold

- General Thoughts:**
- Starwood REIT**
  - **Description:** Starwood Property Trust is a real estate investment trust. The Company operates through three business segments: Real estate lending (the Lending Segment), Real estate investing and servicing (the Investing and Servicing Segment), and Real Estate property (the Property Segment).
  - **Thoughts:** Especially when including dividends Starwood was a good investment, but that is only after bouncing back from lower levels. So we took advantage of the big bounce to move on.

### Highlighted Holdings

- AstraZeneca**
  - **Description:** AstraZeneca is a London-based biopharmaceutical company. It is engaged in the discovery, development, and commercialization of prescription medicines for the treatment of cardiovascular, metabolic, respiratory, inflammation, autoimmune, oncology, infection, and neuroscience diseases worldwide. Its top-grossing products in 2015 included Crestor (cholesterol), and Nexium (acid-related diseases).

- **Thoughts:** Better than expected earnings made AstraZeneca one of our best performers for July. We purchased shares back in April and May while the stock was down over competition concerns. It fit our focus of finding good companies with current challenges. If everything were perfect the stock would be high and the dividend low. Our screens for value and growth potential have gotten this one right so far. Even after the increase, the dividend is 4.1%.
- **BP**
  - **Description:** BP provides energy products and services. It is one of the world's largest integrated oil companies. Daily 2015 production: oil, 1,232,000 barrels; natural gas, 6.0 billion cubic feet. 2015 refinery throughput of 1.7 million barrels daily.
  - **Thoughts:** BP has been challenged ever since the Gulf oil spill, but that has helped make the stock less expensive than its peers. Their 7.2% dividend is a big attraction, they have been able to maintain it despite the drop in oil prices. We both hope and expect that to continue (<http://www.valueline.com/>).
- **Weyerhaeuser REIT**
  - **Description:** Weyerhaeuser is a real estate investment trust. It is one of the world's largest private owners of timberlands. The Company owns or controls nearly seven million acres of timberlands in the U.S., and manages additional timberlands under long-term licenses in Canada.
  - **Thoughts:** We like the diversification Weyerhaeuser brings our portfolio. Timber has different economic attributes than most any other investment we could make. Increases in construction spending have helped earnings. Recent decisions to exit the high competition pulp mill business is something we see as a positive, especially since the proceeds are earmarked for buying back stock and paying dividends.

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