[Slide 1 00:00] The Best Mutual Funds for Growth & Income

Welcome, everyone. I'm Neil George, and welcome to the June Profitable Investing Webinar. This afternoon we're going to be going through mutual funds. Many of our current favorites, as well I'm going to be presenting some new ideas to put forward for you. We're going to be addressing the idea of investing in mutual funds for both growth, as evidenced by that little sapling that's on the one side of the screen, and of course piling up lots of great dividends, as evidenced by the bits of currency pyramid on the other side of the screen.

[Slide 2 00:36] Lay of the Land

To begin with, I'd like to go through a little bit of the current lay of the land as far as how I see things in the marketplace. Then I'm going to go through some of the mechanics involving the fund industry, some differentiation, the different types of funds, and also address how to best and most efficiently buy, sell, and hold the different types of funds depending upon the different types of accounts that you might have for your investments, both in retirement as well as in taxable accounts. Then we'll go through a lot of specific strategies, and then we'll wrap up where we stand with the model mutual fund portfolios in Profitable Investing.

First off, let's start with that lay of the land. What's actually going on with stocks? Well, the stock market itself continues to remain in that stalled-out pattern that I've been writing about in both the July issue of Profitable Investing that just got posted onto the website and you will be receiving it in your mailbox and any day now, as well as in the June issue of Profitable Investing in which this general Standard and Poor's 500 seems to be sort of range bound after going through the initial recovery back in the early part of this year. Yet at the same time, the underlying economic conditions are still very much favoring a further improvement in the general stock market.

We have the consumer sector, which represents the biggest portion of the overall economy in the US. It continues to see further participation. We've seen a continuation of general consumer spending. We've seen specialized areas in very specific parts of the durable market, including the automobile market, which has seen a fairly robust buying in recent months. We've also seen home buying, particularly as evidenced by the report we had for new home sales this week, were up quite significantly. That in turn brings a lot of further demand for home furnishings. Everything from furniture to linens and appliances and so forth will be coming down the pike. That's all very positive, and all of that general spending is also bringing further investment from the business community as well. Companies are looking at consumers. They're seeing all that interest in buying more of their products and services, and therefore they in turn are making investments in new stores, new plants, new equipment. They're even buying more land and putting more fixed capital, so more buildings, more assembly plants, more distribution centers. Even on the data front, more data centers and cloud servicing centers.

All of that is contributing to the general economy, so that all is quite positive. At the same time, the economy is also being buoyed because we have significantly lower interest rates. Even though we're heading into more normalized rates, the central bank and the general market is very accommodative for both consumer credit as well as business and corporate credit. The economy is humming along. We had one of the best first quarter GDP numbers, with stronger growth than what we normally would see in the first quarter. We also saw a very contained inflation, as measured by the personal consumption expenditure index, the so-called PCE, which is still is still below the Fed's target. We have good growth and low controlled core inflation for the second quarter. We're going to be getting the data after we come to a close on June 30th. Most are projecting that the number we're going to be looking to see is somewhere in the four plus percent range which, would make this quarter again one of the stronger ones we've had in a while. Given the monthly input data we've been getting for the PCE, inflation is not rearing its head. Therefore, good growth, generally no major inflationary pressures and an accomodative central bank: this should be a dream period for the stock market, but it just isn't. The general market seems to be sort of sort of stuck.

I'll mention risks in a moment. But while the general S&P 500 might be sort of stuck, there are still many different segments that are faring well. Those are the segments that I keep talking about inside Profitable Investing, as well as in the journal that we've been putting out twice a week. The idea that while the general market might be sort of in a static or a malaise period of time, we've had good progress and strong recovery in the REIT segment, the real estate investment trusts. That segment has, since the recent bottom on February eighth, has returned more than double the return of the S&P 500, while generating much higher dividends in the process. As I've started to write about in the journal, I've also pointed out that the utility segment, another area that had been maligned, is now starting to come on quite strong. Again, like the REIT area, it's been outpacing the recent performance of the general market.

As I've been writing in the issues as well as in the journal, the banking sector continues to benefit from the regulatory reformation that's been coming not just from Congress, but also from the Treasury and the Fed. We have seen much of the reversal of parts of the old Dodd-Frank as well as the Volcker Rule, which enables banks to have much less compliance-cost issues. Therefore, profitability is starting to come in. It's also bringing banks back into the business of being banks, in other words, bringing in deposits and more importantly making loans. That's basically very good not just for the general market and economy, but very good for the bank stocks. I'll be talking a bit about some of the funds that are cashing in on some of these segments very shortly.

Now, what are the risks in the market right now? I think that's been one of the cornerstones over the many years that we've had Profitable Investing; we're always looking for what's going to go wrong. The thing that I think we're looking at right now what go wrong is let's look at what's been going right. What's going to cause the consumers to start to slow down their spending? Well, if we were to see some tighter credit, if we were to see a reversal on some of the improvements in the bank side, that might start to weigh on them. If we start to see some overall concerns in the general economy, that might give the consumer some pause, but there really isn't much substantive evidence that we're heading into any sort of major area of trouble there.

What about the business investment and the business spending, which has been a big driver as business investment, the fixed investment, have been hitting some record highs over the past few months? Well, again, the confidence that businesses have has been quite good, and they've been responding to robust consumer demand for their products and services, so that's all good. If that were to start to reverse, then that would be a problem. And then looking at the overall credit conditions, corporations can borrow it at very low, reasonable rates. Again, the bond market has been very accommodative and it's been faring quite well in general terms. If that were to start to reverse, then that might be a bit of a problem.

But I think all of us are seeing right now that the major threat that's sort of been hanging as a pall in the marketplace is the blustering over the trade negotiations by the current administration and the various trade delegations as they're dealing with Canada and Mexico, with the North American Free Trade Agreement, NAFTA, as well as singular trade deals with the European Union, with pending deals with Great Britain as they're exiting the European Union, as well as with China, Japan, and other Asian powers. A lot of the bluster that's been occurring has been very disconcerting for a lot of investors and a lot of companies. They are saying well, if we see a further implementation of punitive tariffs and retaliation by some of our trading partners, both as far as imported goods like aluminum and steel to finished goods, whether it be cars, motorcycles, consumer goods and so forth. It's the rhetoric right now, not necessarily the reality, that I think is really sort of hampering the general market's improvement. If we can see this sort of talk calming down, I think it will allow not just the positive sectors that we've been participating in, but the general market will fare much better. That's really what we're looking for as far as what some of the troubles that I'd be heading our way.

Now in the bond market, as I mentioned earlier, inflation as measured by the Federal Reserve's preferred measurement of inflation in the broad consumer segment, which makes up the majority of the economy, the Personal Consumption Expenditure Index. At its core, excluding the ups and downs of the volatile food and energy segment, the PCE is still sitting under the two percent target rate by the Fed and it's open market committee. Even if it were to hit the two percent and start to edge higher, as long as the economy is humming along, the Fed has made it very clear in some of the discussions that we're going to see the Fed to allow the PCE to gradually head further into the two and a half or maybe even a bit higher before they would take more punitive actions as far as some of their target rates for Fed funds as well as some of their other monetary tools.

Inflation just isn't showing up. Central banks still being very accommodative. The Fed is still holding their big bond portfolio from the bond-buying stimulus days after the 2007, 2008 financial crisis. We have the European Central Bank still buying massive amounts of bonds. They are basically going to be slowing that program but they're not going to be reversing it. That's going to be going on through 2019. They are very accommodating, and there are no signs that the European Central Bank is going to be making any change to tighten their rates. The Bank of England, same policies. We see further accommodative measures by the Bank of Japan and even more so this past few days by the People's Bank of China, which has injected some additional capital, allowing the banks and actually encouraging the banks to make some further lending to small and midsize companies as well as some of the more credit-challenged larger scale firms.

So again, the central banks and inflation are still very much being supportive of the bond market, but at the same time, as I've been pointing out, there's a differentiation between the Treasury market, which is seeing some slipping in prices and a gradual movement upward in yield, to some of the better parts of the bond market, which are the corporate bonds as well as the municipal bonds. The corporate bonds continue... particularly on some of the lower-grade ones. They're the ones that are actually rising in value and turning in positive returns. The municipal bond markets have been turning positive returns as rising tax revenues and better prospects for state and local municipalities means that Muni bonds are much better credit. We've been participating in that in some of the funds that have been recommended in inside Profitable Investing, and we're going to go through some of that in a moment. Generally, things are good. There are still the risks, and we still have the trade bluster of the negotiations, which is still causing some issues from day to day.

[Slide 3 12:53] Stocks Down, Funds Dominate

Now, one of the other interesting things about the marketplace and why the fund market has really become much more prominent, and it's always been a prominent within Profitable Investing, but more so in the general market, is this sort of change in how things are structured within the market as far as what's what, If you look at the number of stocks, we have seen a dramatic drop in the number of listed stocks in the US marketplace. We had a recent peak in '96 of some 7,400 stocks that were listed across the various exchanges. That number's down to only about 3,600 of them, and therefore the number of stocks that individual investors can participate in and be able to capitalize on developments and so forth, has dropped off dramatically.

With the number down, it means there are fewer opportunities. But at the same time, we look at mutual funds as well as ETFs have soared during the recent period. We have an overall number of mutual funds in the US market is 9,300 and some odd mutual funds. That gives a wide swath of opportunities to capitalize on various different types of strategies and different pricing mechanisms. Even more so in the emergence and growth of the exchange traded funds. Over the past decade we've gone from near zero to over 5,000, which means there are more ETFs than there are stocks in the US marketplace. That's an astonishing feature. That also is one of the other things that we need to be aware of; because of the number of ETFs being so great, so many of these are basically following particular indexes, and therefore as certain indexes move up or down, the ETFs that track these indices have to move with them. That can create or exacerbate certain buying and selling, adding to volatility, particularly when the markets are trying to settle into a specific narrative about either things are getting better or worse. That's why we've seen some upsetting days over the past year or so, because so much of this index participation in the market through ETFs.

Then of course there's one of my favorite parts of the fund marketplace, which are the Closed-End Funds. Basically a much lower rate of these, only about 500 and some odd. But these closed end funds provide a lot of opportunity. We'll talk about some of those in a moment.

[Slide 4 15:37] Open, Closed or ETF

Now, what are the differentiations and what are the advantages and disadvantages between an open-ended mutual fund, a closed-end mutual fund, or an exchange-traded fund? Well, an open-ended fund that many of us have had been participating in owning for many years, like the various funds from Vanguard or T. Rowe Price or Fidelity in the family of fund model portfolios, these basically are bought or sold at the net asset value at the end of the day of purchase or sale for the fund. Therefore, they're always going to be priced at that net asset value. There's also a very ease of access. You have your account either with the fund family or with your brokerage account. You put your order in and it's processed for that day, and you get that price. You can be in one day, out the next day. The only restriction would be if some funds do have early redemption fees, which I tend to favor, because I like to see open-ended funds investors take a little bit of a longer term and allow the fund manager to have more leeway in what they want to be able to buy and own, and not have to worry about keeping enough cash on hand. When you have so much cash on hand, worried about cash coming in and going out through redemptions and early and purchases, that means that the fund is going to be less efficient. Nevertheless, that's the general movement of the market.

Now, there is the downside to an open-ended fund, because in a bull market, particularly in a particular segment of open-ended funds can attract a lot of attention. As that occurs money can slosh into funds, and as it comes in, existing shareholders in an open-ended fund can end up being diluted, because the new cash coming in means the fund manager has to turn around and buy the same sort of things at higher and higher prices. You're going to be effectively given those share interests at higher prices with underlying stocks and so forth. You're not going to be able to keep the original basis in those stocks, and therefore it's a disadvantage in a bull market.

On the other side of the equation, in a bear market or a downturn in pertaining to particular sector, a lot of individual investors might panic and sell at the wrong time. They start to redeem their open-ended funds, and therefore a lot of good holdings end up having to be sold by the fund manager in raising cash to pay for those redemptions. Therefore, long-term fundamental investors like we are at Profitable Investing can be sold out during periods of a bear market or a downturn. That's the cost of having the ease of access in an open-ended fund.

Now, a closed end fund does away with some of those disadvantages. There's a set amount of capital, so when a closed-end fund comes in the marketplace, they come as an IPO just like a regular operating company. They sell so many shares and they have a set amount of capital and they don't have to worry about redemptions or new purchases. The fund manager can be fully committed to the fund objectives. The other part of the equation for closed-end funds is that they tend to be more focused on their particular mission as a closed end-fund. They're not going to be a closet indexer. They're not going to be following as much an overall index or a particular segment of an index. They're going to be looking at what's best for their shareholders, and therefore oftentimes you're going to get potentially a better return. Now, the downside to a closed-end fund, and/or the opportunity, is that because they are bought or sold on the stock market just like a stock, they are going to be priced at either a premium to what their net asset value or their book value of their assets are, or they're going to be bought or sold at a discount.

Therefore, like I'll remind you, the closed-end municipal bond funds that I added to the Total Return Portfolio recently, those closed ends were trading at a deeper discount. That discount's narrowed a bit, but they're still at a discount to what the actual municipal bonds inside each one of those funds are trading for. Therefore we can buy them on the cheap. It's like buying a stock below the book value; you're getting a real deal at that point. I had a great opportunity for to buy into a closed-end fund. Consequently, if a closed-end fund becomes valued at a premium, meaning you're paying more than what the underlying fund's assets are worth that is an indication that there's not much value there or there are better values in another alternative closed-end fund. That's kind of what we ended up doing with one of the niche, the MLP, midstream pipeline ones that we had to sell out of the niche investments as well as in the ten-minute portfolio that we also had that same sort of closed-end fund that had moved into a premium. We then replaced it with another MLP-focused closed-end fund that was run by Goldman Sachs, the GMZ that we've recently added to those two portfolio collections.

Lastly we have the exchange-traded fund, and/or the exchange traded notes. Now, exchange-traded funds, when you're buying into it, even though it says it's a fund, it really is an interest in a collection of underlying securities. You're not actually buying a collection of stocks, you're not buying collection of funds, you're buying into an interest in some derived securities that are put together by certain approved market makers for the underlying creation units. The idea of these are derivative securities that give you a targeted opportunity based upon a tracking index. They have become very popular, because it enables individual investors as well as institutional investors and ease of access into a market segment. Be able to buy and sell throughout the day as long as the markets are up and running. These make for very strategic moves in particular segments. At the same time, there are the internal risks that some of the derived securities that are under the hood of these exchange-traded funds can be less liquid. They also aren't necessarily being fully priced well. Therefore, there are some of the risks that are occurring under the hood, but if we're focused on the primary parts of the market, and even primary segments like what we've done with the SPDR select energy ETF that was recently brought from the niche into the Total Return Portfolio. We have interests that represent interests in some of the primary oil producers and ancillary companies in the petroleum industry that are capitalizing on the vastly improved petroleum market. That provides us that targeted opportunity to be in this market as we start to add in some individual companies, to cash in on that risk through individual stocks.

Then the exchange-traded notes, which we don't have currently in the Profitable Investing portfolios. An exchange-traded note is similar to an ETF in which these are bonds that are issued by financial firms like Goldman Sachs or Bank of America, Merrill Lynch and so forth, that are basically representing as far as the interest in the underlying value is going to be based on various indices. They really are debt instruments that pay their coupon in the form of a dividend, much like they would as a bond. These are a bit more complex than an exchange-traded fund. That's why typically I've avoided them, because of the additional sort of gears that are occurring underneath the hood. But again, they also can provide some target opportunities for certain parts of the marketplace.

[Slide 5 24:16] Mutual Fund Selection

Now, one of the things that I've been talking about in the past is the idea of looking at how I actually do the mutual fund selection for the various portfolios. One of the things we start with is, what's the fund criteria for the portfolio? Are we looking for a particular facet of the stock or bond funds? Once I've identified what that criteria is going to be, then I identify what's the relevant index that the funds are tracking in this fund area, and identify the leaders in the performance. I will typically want to look at those particular funds that are outperforming their benchmark indices for long periods of time, not in an erratic fashion, but on a steady basis. Then I want to look at times of trouble for those particular indexes. I'm going to look at where the markets have had their problems in certain years, and how did that fund cope with that? If they did better than the index or even was positive during that period of time, then I'm going to be honing further into that particular fund.

The last thing I want to look at is the fee structure. Now, different types of funds in different parts of the market have different sorts of costs. If it's a general US stock fund that tracks the S&P 500, that's a pretty cheap way of running a fund. Therefore, the fund fees will be very low. If it's a more complex fixed-income market involving global bonds or other sorts of securities whereby there's a lot more costs involved in processing, trading, and dealing with positions within the fund, then the costs are going to be higher. I always compare apples with apples when looking at the various fee structure.

[Slide 6 25:56] Look Under the Hood

As I go through the evaluation, I look at the portfolio characteristics. I then dig into what the holdings are. I pull up the funds on my Bloomberg terminal. I can dig through and look at every individual holding, particularly in the fixed income side, and I could look at what they're buying and selling. Then I want to look at the risk criteria of the holdings. How liquid are they? A lot of mutual funds out there have a collection of other funds or other institutional funds which then have another underlying fund, so they can be a fund of a fund of a fund. That can create certain risks as far as having less liquidity if there's a problem. I'm going to look at and evaluate each one of those funds as far as how they're going to work their way out.

Then I move on to my fundamental assessment of the funds. Now I don't rely on Morningstar, I don't look at other services. I do my homework, because I want to know what's going right or wrong. I dig through and do the fundamental research. Now, I will look at a report if I think I like a particular fund and somebody says, well, this fund stinks. Then I want to read the report to see why they think it stinks, to make sure that I'm not missing something. But I don't want to read somebody's sales pitch on why I need to buy a particular fund, because that will cloud my thinking. I basically want to be able to dig through and understand it specifically on my terms. Then I want to look at on the stock side, how leveraged they are to specific shares, how liquid those shares are, how much trading there are. If a particular fund is more narrowly focused, that means there could be a little more liquidity risk if there's a downturn or if there's too much redemptions. That's some of the risks that I want to be able to evaluate. On the bond front, of course, I want to look at the individual holdings and sub-holdings. Since bonds in general terms are not as liquid as stocks, I want to be able to see holdings that, if there's a problem, that there's not going to be a liquidity crunch.

Then lastly, I want to look at leverage. How much cash do they keep on hand? How much leverage do they have, either from short positions, or from a closed-end funds, the additional issuance of preferred shares or other loans they might have, and how that will impact how the fund's credit is and how liquid they need to be when the market is in a downturn. All of that goes into the process as I'm evaluating.

[Slide 7 28:30] Buy, Sell & Own

Then the last part of the equation is the idea of buying, selling and owning these funds. I know that many of you have had questions concerning some of the costs associated with buying and selling some of the funds, particularly in some of the, not necessarily the mainstream fund families like Fidelity and Vanguard and so forth. There've been questions concerning how certain things are bought and sold. You have things inside your brokerage or trust companies, the open-ended funds of course, most brokerage companies will have certain dealings and contracts with most major fund families, and therefore they might have a zero cost or a nominal cost to buy or sell most fund families. That's usually fairly easy. But when it comes to some of the less well-known fund families, your brokerage company might not have that arrangement. Therefore, there are some additional fees that have been levied. One of the examples I might bring is we had the Osterweis Fund that we brought in to the Total Return Portfolio as well as some of the other portfolios. Osterweis, being a smaller fund, does not necessarily have contracts with some of the brokerage firms, and therefore some firms were charging an additional commission, in some cases 50 or more dollars.

There's different ways we can deal with that. When it comes to closed-end funds and ETFs, those are just like stocks. Any brokerage company is going to be charging you their rack rate, whether it be 4.95, 7.95, or 9.99. Whatever it might be, that's just the cost of doing business, and that is obviously much lower than it used to be for many years. Then there's also the ability to do this from a direct basis. We have the fund family. If you have an account with Vanguard, you have account with T. Rowe Price, you have an account with Fidelity and so forth. It's easy to have the fund families. But then of course the boutique houses these like the Osterweis, like the baron fund that we also brought into the portfolio, it oftentimes will make more sense even if you have a brokerage account that could provide you access, but if they're going to charge you a fee that's more than just a normal small commission, perhaps it makes more sense to deal direct with the fund families, even if that means having an additional statement that you're going to have to deal with or an additional line on your Quicken or Quickbooks or whatever software that you might be using to track your portfolio.

The other thing to keep in mind for qualified plans like IRAs or SEP plans as well as 401k and 403bs for nonprofits. Whether you're as an individual or whether it's inside a sponsored thing. I know there are restrictions when there's a sponsored plan, as a lot of employers will have a certain leeway as far as the different types of funds. If the funds that we have from the various families aren't a part of your sponsored plan, at least you have the themes that we have in our allocations. You oftentimes will find those same sort of themes in some of the other restricted plans that are inside sponsored. But if you're running an individual, then again, it makes sense to be able to follow along. You can always basically have an IRA option, even at the boutique firms, for the open-ended funds.

For the closed-end and ETF, again, most individual plans will treat them just like they are an individual stock. In some cases, in order to avoid some of the additional fees, it might make sense to open an additional account with some of the individual fund companies. That might help reduce your costs, particularly if you're dealing with a smaller sum as far as an overall allocation.

[Slide 8 32:33] Strategies & Opportunities

Now let's move to some of the strategies and opportunities. I enjoy playing chess; I was on my chess team back in my prep school many, many decades ago. You might be thinking, well that's nice cozy fire behind it, but I basically thought this was a better graphic because to me it's not a cozy fire. That's the ever-imposing threats in the marketplace behind us. In other words, even though we're looking for opportunities to capitalize on new things that are occurring, I'm always looking for what's going to go wrong, what's going to flame up that's going to cause a problem. That's why I thought this graphic was very appropriate.

[Slide 9 33:11] Real Estate Investment Trusts (REITs)

Let's go to one of the first strategies that we're looking at. I see some opportunities on the front, and that's in our continual development in the real estate investment trust. Now we know that REITs have been going through a very strong recovery since the low on February eighth, and the graphic you see on this page is actually tracking one of the leaders in the closed-end facet of the real estate trust, which is the Cohen & Steers Quality Income Reality Fund. The symbol is RQI. The graphic below shows that it stayed pretty much in line with the general REIT index, bounced back on the eighth of February of this year. Subsequently it's been climbing quite nicely through its recovery. Now, the yield is currently sitting at about over eight percent, which is very, very good compared to a lot of the specific REITs that we have inside the Total Return Portfolio. Then the real estate investment trust section, its five year return, including the correction post the tax cuts that that occurred late last year, is still a very positive over 70 percent as far as what it's returned back to a shareholder. That means an average annual could go into over 11 percent. This is a very strong performing closed-end fund that I've been looking to potentially add to one of the portfolios.

It also has been outperforming two of the alternatives and in both the open-ended and the ETF. The Vanguard Real Estate Index Fund, the VGSIX fund that we have in the Vanguard family, a fund collection as well as the Vanguard real estate ETF, the VNQ ETF. It has been outperforming that during the same period of time while delivering additional yield. And as I mentioned earlier with the closed-end fund, buying these when the actual shares are trading at a discount to their net asset value of the underlying REITs makes them even cheaper. Right now the Cohen & Steers closed-end fund, symbol RQI, is trading at a discount of seven percent, making it very attractive to buy the thing right now. So keep your eyes peeled on the journal, as this might very well be something we're going to be adding into the portfolio going forward.

[Slide 10 35:36] Banks

The other big theme that we've been cashing in on is the strong recovery in the banking market. After the election in 2016, there was a belief that we would see some regulatory forum that would allow banks to become much more profitable. That's exactly what we're now getting from the administration through the Treasury and Federal Reserve as well as some of the affiliates within the federal agencies that oversee banks, like the comptroller of the currency as well as the FDIC. The ease of how they count their capital, the amount of compliance costs with making their loans and managing their loan portfolios, all of that has been made much more efficient. Therefore, profitability should continue to get much better for the banks.

Here is one of the easy ways that I've been writing about has been looking at the SPDR S&P Regional Bank ETF, symbol KRE. As you've seen from the graph below, that's been very strongly on the ascent from late last year all the way through June. It shows that the market is already sort of eyeballing that this is a very strong market. We've been participating in this through some of the individual banks, like the Regions Financial in the Total Return Portfolio as well as the Citizens Financial Group. But this ETF gives you that target exposure to this segment of the regional banks, which are domestic in focus, probably are going to be the most benefited from the deregulation, and therefore this is a great one to look at to add to some of your fund exposure to the bank marketplace.

[Slide 11 37:21] Utility Players

Then we have what I started to write about in the journals of recent: the beginnings of the recovery in the utility segment. Now, utilities were largely sold off in reaction to the tax cut that occurred late last year. The argument went, with the tax cut bringing the corporate rates from 35 percent down to 21 percent, that most regulated utilities weren't necessarily going to be beneficiaries of that. The reason for that is that because they're regulated not just on the cost of their fuel to generate power and so forth, but also on their rates of return, because of the lower tax bill, their rate of return was going to be much higher. Therefore rates were going to be reduced and they wouldn't necessarily benefit.

Well, the flaw in that argument, and that's what's really now being recognized, is that at worst, they're no worse off than they were prior to the tax cut, and for their unregulated businesses, that doesn't apply. Therefore, they're benefiting from that tax cut in their unregulated parts of the business. In addition, with this strong economy, as I mentioned earlier in the Webinar, we're seeing a lot of further demand for utilities. They get to capitalize by being in the front line of the economy, providing power, providing other services. They're picking up some further steam. Add in some of the other non-regulated parts of the business like renewable energy, like wind and solar with some of the additional inducements from state, federal and local authorities, and there's a lot of profitability in this segment. We've been cashing in on some of the individual stocks within this segment, including Next Era in the Overall Total Return Portfolio. But the Vanguard Utilities ETF, symbol VPU, which you're seeing the graph in front of me, this gives you that targeted exposure to the utility segment. You're seeing that same sort of bounce that occurred back in early February and gradual ascent. I think we're going to be seeing a further movement in this utility segment. So again, it's a great time to be buying into the target exposure through the Vanguard Utilities ETF.

[Slide 12 39:47] Petrol Pumping

And then of course, one of the other major themes that has been working quite well has been the petroleum market. We just got finished with the OPEC meeting in Vienna last week and then the subsequent meeting with some of the non-OPEC affiliate members, including Russia. The general agreement to increase capacity by a fairly modest sum has been well received by the petroleum market. Petroleum prices are very well supported, and more importantly, the actual petroleum companies still have yet to fully come on board to these higher values. They've really been laggers. Now that really started to change through what we've been seeing, particularly in February, March and certainly through the May and June period of time. The petroleum companies are starting to catch on. This is why I brought out targeted ETF fund play that was in the niche investments into the Total Return Portfolio, into the indexed equity segment of that portfolio with the energies like SPDR ETF, the symbol XLE. This gives us that target exposure within the ETF to not only the big global producers but also some of the pipes and refineries and ancillary services like Schlumberger, which we also have in the individual stock, all wrapped into that general exposure to this marketplace. I see this as continuing to be a very attractive way to play the further movement in the petroleum market.

[Slide 13 41:22] The PIPEs are Calling

The other part of the petroleum market are looking at the midstream, the pipelines. I mentioned earlier we had to make a change in the closed-end fund that was sitting in the 10 minute portfolio, as well as sitting in the niche segment in which the Alerian fund effectively have been trading too much into the premium price, above its net asset value. So what we did was, I went through and looked at the other opportunities that have closed in space, and I came up with an excellent, well-run MLP or Master Limited Partnership, a closed-end fund that's run by Goldman Sachs. That symbol is GMZ. It's trading at a discount, not that deep, but still at a discount to its net asset value of pipeline stocks, and it provides an even better yield at nine point one percent. As you've seen for the strong improvement that we've had from that latter part of March through June, the midstream pipelines are doing quite well. There is limited capacity in the US marketplace, which means that the pipelines that are established can charge even more for their services, and demand for their pipes is even greater. There's more certainty, more pricing power, and therefore more cashflow. I see distributions should be very well supported, if not increased, over the coming quarters, making this segment very attractive. One of the easy fund ways of getting access to it is by looking at the Goldman Sachs MOP income opportunities closed-end fund, symbol GMZ.

[Slide 14 43:03] Corporates Cashing In

Then of course, as I mentioned earlier in the lay of the land part of the of the presentation, the corporate parts of the bond market are doing quite well. Treasury yields are climbing. They're becoming much more normalized, but that does not mean that all bonds move in the same direction at the same time. In fact, what we've been seeing is that some of the lesser-rated parts of the bond market, they're the ones that are getting a lot more attention, because they are higher yield now. Therefore, they provide more insulation against the Treasury market. So Treasuries can move lower in price, higher in yield, and therefore the spread or the difference between lower-credit rated bonds and Treasuries has been and should continue to narrow. Therefore, it's driving more attention into this corporate bond market. Now, one of the easy fund ways of dealing with this opportunity is to step into the Osterweis Strategic Income Fund, which I brought into the Total Return Portfolio as well as some of the other model mutual fund portfolios to replace one of the Pimco funds after they changed the structure of the replacement fund for the Pimco income fund.

Osterweis Strategic is an open-ended fund, trades at symbol OSTIX. They're a smaller boutique firm, and therefore it might be cheaper, depending upon where you do your investing, to open an account with them directly. They're very friendly to deal with as far as my dealings with them so far as well as what I've heard from subscribers. That might be best to deal with them directly. Their yield is about four point four percent. Its 10-year return is sitting at over 81 percent. That works out to an average equivalent that's over six percent. Again, the graph basically is plotting the overall total return for that period of time for the last decade. Again, it's a well-run fund that's very focused right now on the higher-yielding corporate bond funds. The structure of their fund is very straightforward. Their holdings look very good. I think it provides a great fund opportunity for the corporate part of the bond market.

[Slide 15 45:21] Mighty Munis Muscling Up

As I mentioned earlier, the closed-end Muni funds that we have inside the Total Return Portfolio continue to fare well. The graph below is the general S&P municipal bond total return index for the past year and you saw that sell-off from December in through February and March and so forth as the thought was that because of the tax cut that would make Munis less attractive. Well, the reality is that for most higher-income individuals, having municipal bonds is even more attractive, if anything. The advantages of Munis for individual investors is as strong as ever. That has been catching on, as we've seen the performance of the general market continues to do quite well. Add in the fact that municipalities are getting strengthened their credit capability because of rising tax revenues, and you have better quality and the advantage of the tax-free aspect, and therefore the municipal bonds are doing quite well.

The three ways we're playing this, the Blackrock Municipal Income Trust, BLE, the Nuveen AMT-Free Muni Income Fund, NVG, and the Credit Income Fund, NZF. They're paying about five and change. They're all trading at discounts. Blackrock is a narrower discount than the Nuveens, I think because Blackrock has a bit more name recognition. If I were putting new money to work in an individual thing, I would probably look at the Nuveen is being cheaper opportunities versus the Blackrock. But again, if you can buy all three, I think that will give you the best collection of individual securities in those funds. You can still buy them all at discounts to their portfolio values.

[Slide 16 47:06] The Preferred Way To Invest

The other thing I want to draw your attention to on the fixed income side is looking at the preferred share market. There are two ways I think that you should be playing this. One is the, iShares US Preferred Stock ETF, trading in the symbol PFF. That's paying about six point one nine percent. The alternative is an old favorite of mine out of Pasadena, California, Flaherty & Crumrine Preferred closed end-fund, trading at a discount. Its symbol is PFO. It's paying a higher yield at seven point four percent. The graphic below shows the total return for the past 10 years in a compare contrast. So the white is the iShares ETF, that's a fairly good return, but the closed-end fund, the Flaherty & Crumrine, has vastly continued to outperform the ETF. That again shows you the power of the right closed-end fund. If you can get them at the right discounts with the internal dynamics that the closed-end fund advantages have, they can oftentimes outperform their general index peers in the ETF segment. If you want to step in with new cash in the preferred share market, which gives you the certainty of typically the fixed rate dividend higher than the common stock as well as having some credit protection of having the preferred share if the company runs into trouble versus the common, this I think is a great opportunity right now to be stepping into either one of these, but my preference would be the closed-end fund.

[Slide 17 48:48] Money Market Alternatives

Now, the last part I want to draw your attention to is, everyone's kind of looking for the money market alternatives in the fund world. Here are four ideas I'll put in front of you. The first one is the Vanguard GNMA Fund. It's an open-ended fund. It's been around for a long time. It's symbol is VFIIX. It currently yields about two point nine percent, which is much better than the general share market. We want to look at the worst years, because what this fund buys is that they're constantly buying in a series Ginnie Mae or Government National Mortgage Association funds. These are direct government-guaranteed mortgage funds. They have the entire universe of maturities. As they mature, they just roll it out and buy the next one that comes in line. It's constantly being cycled through, so its duration is fairly controlled, means it doesn't have as much interest rate risk to the overall portfolio. It has a great deal of certainty with that. The worst year in the last 10 years was 2013. It dropped about two percent, so that took out part of the overall yield for that year. For the last 12 months it's down about 16 points, zero point six nine. So again, there is a little risk, but you are picking up additional yield.

The next one is the Vanguard Federal Money Market Fund, VMFXX, which we've talked about within Profitable Investing in the past. Its current yield is about one point eight percent. Then we get into two shorter duration bond funds, the Double Line Total Return fund, DLTNX. Its current yield is three point four, three. Its worst year since coming to the marketplace was in 2013, which was a tough year for the bond market. That was down less than one quarter of one percent. So you pick up that additional yield, very controlled portfolio.. They really try to lock down the risk, but you still pick up some additional yield. The other one which we've been talking about in Profitable Investing is the Weitz Short Duration Income fund, WSHNX. Current yield is about one point nine eight percent. Its worst year in the past decade is only down zero point oh seven percent. So you pick up that yield, but you don't pick up a lot of rate risk. Those would be some other alternatives you might want to noodle if you're looking for a place to park cash for a period of time.

[Slide 18 51:12] Time For Your Questions

Now I want to head on to some of the questions that you've been sending in. The first one comes from Robert, in which he asks, "Which of your portfolios is best suited for Roth IRAs and for Fidelity transfer on death accounts and so forth?" Well, the key thing we have of course, Robert, is looking at the fund families. So we have the Fidelity family of funds that effectively replicates a good part of the strategy we have for the overall Profitable Investing portfolios. Therefore, whether you have a Fidelity, whether you have a T. Rowe Price, whether you're looking at Vanguard, we have the fund families that you can basically have a one stop shop. Then we also have some of the other model portfolios. I liked the hassle-free ETF as well as the 10 minute retirement portfolio that give you a lot of the replications of some of the themes that we had. I recently changed some of those in the July issue of Profitable Investing, where I went through and made all the changes to the actual weightings. You'll see that if you go to the website now, or if you want to wait for the paper issue, it's on its way in the mail to you as I speak.

Next, we have Daniel. He says, "What are a few places to park cash?" Well, Daniel, I just put up four different ideas. With the DoubleLine, the Weitz short term fund, the Fidelity Federal Money Market Fund as well as the Vanguard GNMA Fund, those would be places to park cash for a period of time.

Paul asked the advantages of mutual funds or ETFs over individual stocks. Well Paul, I obviously like the individual stocks. I go through the funnel and research, and they provide the best individual opportunity, or in case of some particular segments, one, two, or a handful of stocks that are cashing in on a particular development, be it the REITs, the banks, the petroleum companies, the utilities, et cetera. So if you have the ability to buy individual shares, I'd like to stay with that. If you're looking for funds because you're looking at, let's say a smaller account, or you want a little more ease of access, that's when the mutual funds come in. That's why I'm spending time doing the Webinar on the mutual funds. That's why again, for the July issue of Profitable Investing, you'll see the full rundown on some of the changes in allocations across all of the mutual fund portfolios inside Profitable Investing.

Kathy writes, "Always interested in Muni bond funds, especially closed-end funds. Thanks." Well Kathy, I am always interested in Muni bonds. I think municipal bonds are always a great idea. None of us likes paying taxes we don't have to and if we can get some additional higher yields, that makes them all the better. That's why I brought in the closed-end funds into the Total Return Portfolio. So again, look at the two Nuveen ones and the Blackrock. You'll also be seeing another Blackrock fund coming in the future, so keep your eyes peeled on the journal coming out in the coming weeks.

Pat asks, "Are any concerns to bond holdings and the target dated retirement funds? This is the Vanguard Target Date 2020." Well Pat, one of the things with target date retirement funds is that they're structured for that particular period of time, and therefore the idea that as they start moving closer to their distributions, like with the Target Date 2020, they're going to be reducing their overall duration risk as far as some of the bond holdings and bond funds that are in those funds. That's the job that they're supposed to do. Now, not all of the target date funds and all the various fund families are already successful during some of the volatile markets, but given that we've seen sort of the gradual shifts in the bond market, I don't think you're going to be seeing much of a risk for something that's so short dated as the 2020 target date fund.

Linda asks, "I appreciate the tax and tax free notices on the portfolios, but for those of us not working, tax free is limited. Please advise me in the ETF funds." Well, the key thing, of course, even if you're not working, the idea that the tax free really should be for things that don't have tax benefits. So the idea that for REITs that have the benefit of being able to deduct 20 percent of the dividend, that really is lost if you put it into a tax free account, and therefore it makes sense to have it at a taxable. Everyone has their own individual situation. I'm looking at the individual securities or the funds or ETFs. What's the most efficient way to get the biggest bang for the buck using the general tax policy of the US? That's why we work with that.

Sydney asks, "Are dividends paid by funds like the Energy Select SPDR that we have in the Total Return Portfolio considered qualified?" Sydney, the general answer to that is yes, because the dividends paid are coming from the underlying derived securities from those general qualified stocks. Again, things can change, and that's why you know, the information coming from your brokerage firm where you have the ETF is going to have the definitive answer. My estimate would be, you should expect most of it to be qualified.

David asks, "Are the MLPs you recommend suitable for placement in tax deferred accounts?" That's just an IRA. The general answer is, absolutely not. And the reason for that is that A, they're structured so that a good deal of their dividends are shielded from current tax liability. You lose that if you put it into an IRA. Secondly, if you earn too much of the dividends coming off of the shielded income, you could end up having a tax consequence if it's more than a thousand dollars on a net basis. If you want to have the pipeline companies and have them in a tax deferred IRA account, focus on the Kinder Morgan, KMI. That's a regular corporation paying regular qualified dividends, and that would give you the access to it without having the problems. Again, that's why I think Kinder Morgan set it up that way, so they'd have a broader share participation. That would fit your criteria, so put KMI in your IRA.

Michael then asks, "Are you better off in mutual funds or picking individual stocks?" Like I mentioned just a moment ago with one of the other questions, I like the individual companies. I spend a lot of time digging through them. There are a lot of great opportunities, but there are several cases some great opportunities in the fund marketplace or the targeted opportunities in ETFs. When we have the individual stocks in a segment is doing well, I'm going to show them to you and I'll recommend you buy them. In some cases when we need to move more quickly to cash in the marketplace or something very targeted opportunity like the utilities or like the petroleum market, I'm going to show you the ETF that you should be buying right now to cash in on that. In the case of certain parts of the bond market, both the open and closed-end funds can provide an ease of access to what can be a more challenging market to buy individually. Therefore, I'm always going to sort of guide you what's going to be the best and most efficient way to get access to some of these opportunities.

Lowell says, "Are you still bullish on the market going forward and if not, why? And what sectors do you believe will be most favorable?" Well, again, I think the risks are, we've got the trade bluster with negotiations and that obviously is causing some havoc in the near term. I think that's going to be resolved given some time. I'm also concerned by the midterm elections as we could see some pushback on some of the positive deregulation that's been occurring. If we were to see a change in party leadership on Capitol Hill, that could cause some potential havoc. Regardless of what your political proclivities are, what's been occurring over the past many months, it's been very positive for a lot of facets of the marketplace. That's what I care about. What is going to be working for the market, what's going to be working for companies and funds. Otherwise I don't care about what the politics are.

Bob asks, "Our bonds are currently being called. Should we park cash waiting for more rate increases or to push your equity allocation?" Well as some bonds might very well be called, the idea that I've shown you some parking places for cash. I still recommend having a cash allocation on hand, but again, I think if you look at the corporate higher yielding amount part of the bond market, you look at the municipal bond market, there's some great opportunities to be buying right now. If you have some cash you normally put into bond funds, look at the Osterweis fund, look at the closed-end muni funds. Those are still moving in the right direction.

JJ asked, "Can we update what Richard called the peak? I think everyone would like to know what sort of defensive action you might be taking." Well again, JJ, read the July issue of Profitable Investing, which is online right now. We just posted it last evening. You'll see very specifically where the risks are and what sort of actions I'll be looking for and when we might need to react. I'm already looking for where the cracks are, and I have outlined where those might be. Let me know what your thoughts are, any feedback after reading the current issue.

Steven asks, "Can you recommend an alternative investment funds diversify a heavy equity portfolio?" Well Steven, again, I've been pushing the bond funds. I've been pushing the Muni market funds. I've also suggested the preferred closed-end funds, like PFO from Flaherty. There are a lot of opportunities in these other sorts of non-equity type investments that would provide you that diversity you're seeking while boosting your overall yield. I'd focus on those first.

Doug asks, "Do you consider THOPX and the Wells Fargo Preferred to be safe income producing investments?" The Thompson Bond Fund is a fairly generic bond fund. From what I've been able to determine, it's a fairly straightforward, lower-risk but not necessarily that enticing of an open-ended fund. The Wells Fargo Preferred--as opposed to the Common, which I recommend selling, and I think Wells Fargo has a lot of cleanup and a lot of liabilities to get passed--but the preferred I think it will be fine as far as the actual dividend payout. I think that would probably be workable. But again, the Thompson, I think you'd probably find some better opportunities in some of the bond funds we have inside the portfolio.

Barbara asked, "Do you pay attention to the fund manager and buying in and expenses?" Absolutely. Like I mentioned earlier in the Webinar, I want to see how the fund manager does better than the index that he's assigned and consistently outperforming it. I also look at how the fund manager deals with some of the challenging times in their particular segment. Then I want to look at the expenses, but I want to compare apples with apples, as I talked about earlier.

Robert asked, "Do you prefer individual MLPs, like an ETF like Alerian?" Well, we had Alerian. Alerian became too expensive, started trading at a premium. So as I mentioned earlier in the Webinar, we more recently replaced that, as I wrote about in the journal, with the Goldman Sachs MLP closed-end fund, which trades as symbol GMZ. I think that might be a better alternative. Now, the Alerian we had, it was a closed-end. That was the tortoise one, I'm sorry. I'm looking at my notes. That's the tortoise MLP closed end-fund. The Alerian is an ETF. It might very well be fine, but I think the closed-end part of the marketplace is more appealing to me right now. The Goldman Sachs closed-end fund, symbol GMZ as I mentioned earlier, it's trading at a discount to its MLP stocks and it pays a much higher yield, sitting at about nine percent. I think that's a much better opportunity. Sorry for that confusion there in my notes.

Mike asked, "During a period of prolonged stagnation for the market, what would you want to own over say the next decade?" Well Mike I don't typically want it to sort of park something and hope something works in its favor. I always review the holdings each and every issue of Profitable Investing on an ongoing basis going forward with the idea, would I want to buy things all over again? I'm constantly doing that review process and therefore keep each of the positions fresh as far as what's working for the best opportunities. That said, as I mentioned earlier in this Webinar, I think you're seeing some particular segments, the banks and financials, the REITs, the utility segments, the petroleum plays, as well as in the bond market the higher-yielding corporates and the miscible bond markets and preferred shares. These are the ones I think are some of the great themes that I think should be doing well for the foreseeable future.

Sharon asked, "Explain the tax consequences if a person sells an MLP after holding it for a long time and having a capital loss?" Well, Sharon, the advantage if you sell the thing for a lower price then than what you actually paid for, you effectively would have the ability to take it as a loss, but remember you also have to consider the deductions that you have, otherwise known as return of capital. This is part of the pass-throughs of some of the depreciation or depletion allowances that goes along with the dividend. It shields your current dividend from tax liability. Those are subtracted from your cost basis of your MLP holding. That basically helps to further reduce your costs, and therefore when you sell the MLP, if your cost basis adjusted is higher than the current price of the MLP, you'll pay the long-term capital gains tax if you had it for a long period of time, or if it's still results in a loss, then you can take the loss just like you would any other share.

Robert asks, "For closed-end funds, please discuss the distribution coverage and susceptibility to variable-rate debt given a higher interest rate environment." Well, Robert basically is asking about the idea that a closed-end fund can basically borrow money, just like financial and banks do, to effectively provide some liquidity and leverage. They also can sell preferred shares. That also raises capital that they can turn around and use for the closed-end fund, but as I mentioned earlier, the debt from the corporate side is actually performing much better. In addition, the rate rises that we're seeing is generally moving in a much more gradual period of time. We're not really seeing any sort of shocks to the system. Therefore, I don't see much risk whether it's for financial, whether it's for banks, whether it's for variable borrowers, and certainly for the well run closed-end funds.

Martin asks, "For retired readers with more buy and hold, lower maintenance, what recommendations might you make for ETFs?" He asked more specifically about a couple of funds that I'm not quite as familiar with, including the Cambrian Global and another global fund. Well, obviously I like the idea of buying and owning the right sorts of fund, but again, you can't really sort of buy and forget. You've got to buy and participate, keeping an eye on things. If you're looking at some of the low fees and so forth, look at the 10-minute Retirement Portfolio collection. It doesn't really take a whole lot of attention. When you get the issue, you'll see the recommendation take a few moments and keep yourself in check, or the Hassle-Free Retirement Portfolio. Again those would be the collection that gives you the exposure to the general themes of Profitable Investing, and therefore you can buy and own, and then make some minor adjustments as I do to the portfolios. That would be an easy way to take advantage of that sort of stuff for those of you that are in retirement, don't want to have to deal with a lot of messing about with your portfolio.

George asked, "For those of us not looking for income and stepping into retirement accounts, why are you emphasizing so much on REITs and utilities?" Well, George, the key thing about this is I'm always looking at it from a total return standpoint. So even if you're not taking or don't want income right now, by participating in some of these positive-moving markets like the REITs and utilities that have been rallying in total return standpoint, you can take the dividends and pile up the dividends in reinvestment and build up that total return. I'm always looking for what's the best overall return we're going to get to grow the portfolio, both with stacking up the income as well as seeing some price appreciation. With the REITs and utilities, we're getting the appreciation and we're getting the dividend, and therefore that's why I'm doing that right now.

Albert says, "How about a portfolio of fee-free iShare funds for some small account?" Well, again, Albert, while they're not necessarily completely fee-free, we do have the within the ETF family with the Hassle-Free ETF Portfolio, we have a lot of them that have the other lower implied underlying fees. That might very well fit your criteria for your health savings account that you're asking about.

John asked, "How can Endeavor be in the Incredible Dividend Machine with such a low dividend rate that's under two percent?" Well John, one of the reasons I put it in was, we needed to move a stock out and I liked Endeavor, and it fit very well into that cycle. But as you've been reading, Endeavor is going to be acquired by Marathon Petroleum, which does have a higher dividend yield. Therefore, I'm looking for Endeavor to be with us only for the next few quarters. I'm looking forward to provide a nice near-term capital gain as it's acquired at a higher price than its current, and its dividend is still working well for us. I'll be replacing that in the Dividend Machine later this year.

David asks, "How do you rate mutual fund families? Particularly your thoughts on Vanguard, which I use for mutual fund options." Well, we're looking at the mutual fund families obviously for the ones that most investors have on a broad standpoint as far as subscribers. That's why we have the Vanguard, that's what we have the Fidelity, that's why we have the T. Rowe Price. We also realize that many people have a variety of things. That's why we have the fund supermarket. We give you a lot of other exposure, so whether you're dealing with a fund family or whether you're dealing with multiple different funds, want to have the best of what funds have you'll still be able to do that. That's why we maintain these different model mutual fund portfolios.

Larry asks, "How do you see the trade wars affecting the markets during the remainder of 2018?" Well, Larry, as I've said a few times and I mentioned also in the Journal and in the July issue, I do see the trade talks as largely been negotiation bluster, but that bluster is having negative impacts, and therefore I'd like to see things resolved and calm down. If it continues to flare up and there's more uncertainty, that's going to weigh on the general marketplace. That's going to basically give me some further pause for the general S&P, but then we can also, as I've done in the July issue of Profitable Investing, I go through and look at a lot of the holdings as far as how they're exposed to the trade negotiations. A lot of what we have is really domestic in focus, and I don't think it's going to be as exposed as some of the other portfolios out there. So again, read the issue and you'll see some of how I think each individual stock's going to play out.

Douglas asks, "How many stock ETF mutual funds should you own in growth oriented portfolio?" Well, Douglas, if you look at the Total Return Portfolio, we really just have a handful of the bond funds there. As far as overall number of positions, it really comes down to how much time and effort you can put into managing the portfolio. We have a few dozen across some of the various portfolios. I try to keep the number a manageable one. I also have to have things grouped by segment, so we have the REITs, we have the utilities, we have the toll takers in the pipelines. If you're an individual with a smaller sum, you just want to have a handful of stocks, you can pick one from each one of those segments. If you have a larger portfolio and you want and you can have the ability to have more, that's why I gave you the varieties. You can build up a little more of a portfolio exposure by having a collection with each one of these segments. That's how I would address that.

Charles asks, "How do you evaluate different funds, relative risks in a head for the doors market route?" Well, Charles, it comes down to liquidity. As I mentioned earlier in the Webinar, when I look at the funds, I look under the hood and look at the individual holdings, I'm looking for what's there. If a fund is a fund of a fund of a fund, that brings in more liquidity problems. If there're certain holdings there that really don't trade very often or are difficult to trade, like some of the bond funds can have individual securities that aren't that liquid, then that's going to be a problem, and that's going to weigh on my decision as far as what would happen in a market route. That's how I basically do the evaluation.

Fred asks, "How will this trade war affect our investments?" Well, as I mentioned in an earlier question, I think it's more bluster, but that bluster is flaring up on a day by day basis. I’m watching and I'm being hopeful that things are going to settle down and we're going to get some resolve treaties across the various trading partners that the US has.

Barbara asks, "I'm interested in high dividend stocks. What do you recommend?" Well, Barbara, I've been bringing in some new higher-dividend stocks, including in the July issue. When you read the July issue, you're going to see two new portfolio additions with dividend yields that are in the high single digit, heading into the low double digits. So Barbara, I'm going to trust you're going to read your issue and that'll be a temptation to find those two new high dividend paying stocks. I'll know then if you want to email me back and let me know what you think of them, I'd be appreciative.

John asks, "I'm interested in the Vanguard Total Return Bond Market Fund, the VBMFX, and the Vanguard Total Bond Market ETF." In both cases, John, I see that they're not necessarily that outstanding a fund. I think both of them tend to be much more sort of generic and their focus, and I think there's going to be some potential weakness as you're missing out on some of the particular opportunities in the higher-yield and corporate bond market and some of the other opportunities in the bond market. Because they have such a broad reach, you're getting much more of the generic part of the marketplace and not really some of the targeted opportunities like we're getting what the Osterweis Fund.

Then George asks, "I bought Raytheon and it's seeing some softness. Do I buy more or sell?" Well, George, Raytheon's not in any of the portfolios, but being in the defense industry, it should see some further improvement by some of the rising spending that we're seeing by the Pentagon as well as some further expansion of a lot of defense programs under the current administration. I think there's probably some more upside there.

John asks, "I'm mainly interested in ETFs, and the summer warning sign is that here we get a 30 percent haircut." Well, John, I don't necessarily share your view that the market is going to be seeing much of a downturn for the summer. I do think that the summer doldrums certainly have shown up earlier with the malaise we've had in the S&P 500, so I certainly empathize with that. But that being said, look at some of the segments that are faring well. In this Webinar I talked about the preferred share ETF. I also talked about the utilities. I talked about the petroleum market and the REIT segment and the financials. These are areas that I think are moving in the right direction right now and I think are going to be able to remain fairly warm even if the general market cools off during the summer period.

Richard says, "If retirees following the portfolio and in the only the stock portion of their funds is 60 percent?" Well, again, the key thing is that I put the allocations to give you sort of a general outline of where you should be focused on between stocks and bonds, whether it's in the Total Return or whether it's in some of the other model portfolios, particularly in the model mutual fund portfolios. I'm just sort of guiding you through where your position is being, knowing that every individual is going to make their own decisions as far as what's working for them.

Larry asks, he had the old Pimco income fund, which was acquired by the new advice Pimco fund with the higher fees. Can he still add or subtract without paying the additional sales redemption fees? Well, for now Pimco is saying yes, but I wouldn't trust them to keep that going into perpetuity. So be cautious. That's why I exchanged and recommended selling the Pimco income fund for the Osterweis Fund as the new alternative.

Kurt asked, "If I minimize choices in the portfolio to choose one mutual fund or ETF or both?" Well, Kurt, again we do Profitable Investing because I spread the risks as well as taking advantage of the targeted opportunities for various funds and stocks and bonds throughout the marketplace. I think if you were to sort of narrow things down, look at the growth portfolio and you'll see each of the segments that are faring well right now. So the REITs, the utilities, the banks and financials, and the petroleum market both in the producers with XLE as well as some of the toll takers in the pipes. I think if you look at those five or six different things, that would give you the basic themes that are in the portfolio. That's what I would be focused on if you want to minimize your individual holdings.

Gary asks, "If the market were to plunge 50 percent in the near future, how safe would our funds and ETFs be?" Well, Gary, if the market basically halved itself, we would all feel a whole lot of pain. There's no way around that, but the key thing is to look at where the cracks are going to come from. That's what I'm reviewing constantly. So again, read the July issue of Profitable Investing. In the beginning I go through where the risks are and what I'm paying attention to so that we don't sit around waiting for our 50 percent plunge. If we start seeing cracks, I'll start pulling the trigger and we'll start moving stuff around. So again, read the July issue and you'll learn more how I'm dealing with some of the potential risks that might impact us.

Hope asks, "If you already own the Tortoise, which was selling at a premium to NAV, why not hold it?" Well, the key thing is that you can cash out at a premium. If you bought it a while ago, you've seen the appreciation not only the assets but also in the stock price for the closed end. Take the profit and buy into the Goldman Sachs, trading symbol GMZ. It's trading at a discount, which means you can buy it cheaper, you pick up a dividend, and again, it's a much better opportunity. You always look at where things are going forward, not backwards.

Stevens asks, "I'm 62 and I think I have retirement covered. How much risk should I take in mutual funds to basically be in the safer investments for my age?" Well Steven, 62 is way young, and I hope you have many years to go in the future. I think if you're looking at your portfolio as basically sort of building your value, then just as I mentioned in this Webinar, there are some strategic areas that I'd want to focus on that are working quite well to build up that portfolio for your estate or some of the other plans that you might want to have for your portfolio. Again, the REITs, the pipelines, the petroleum market, the banks and financials, the preferred shares, the municipal bond market, these are all great opportunities that you can buy right now.

Then we look at Edward, and he asked, "What's the impact of bitcoin and other cryptocurrencies on the price of gold?" Well, Edward, I think the key thing you want to look at is that gold is more impacted by the dollar value. In other words, the dollar's picking up some strength of recent, and I think that is making a little bit harder impact on gold. Also, the interest rate environment for short term rates particularly. As interest rates start to rise, the implied opportunity costs of gold become higher, and therefore it makes it less attractive. The cost to own gold, whether it's gold specific or structured financial instruments that track gold, become more expensive to put together, and therefore it makes gold less attractive. Now, bitcoin and other cryptos theoretically are being bought as a store of value, but there really isn't necessarily any store of value. The only value they have is what someone else is willing to pay and if you can get an exchange to actually execute the transaction, and you also have to hope the exchange isn't going to be hacked and that your coins don't go flying out of your computer. Again, I don't necessarily think there's going to be much of an impact on that. I think gold is more impacted by interest rates and the value of the dollar.

Trevor asks, "In the Profitable Investing letter, is there some way you can indicate if it's recommended by price have changed from the last issue?" Well, Trevor, I make changes because I'm reviewing things week by week and I report on those in the Journal. As far as the letter, I will think about that and I'll talk with the rest of the editors to see if we might want to put an additional asterisk if we have made an upped price change. That's something we'll take a look at for you.

Debbie asks, "I'm investing mostly in individual stocks. I'm retiring now and considering moving into a fund portfolio." Well again, I like the individual stocks, but I recognize that if you're retired and you want to be a little more easy as far as your homework for your portfolio as far as moving into the funds, the fund Webinar gave you a lot of the sector allocations that the cash in on these opportunities. Then of course if you just simply follow some of the model mutual fund portfolios, that might be a way of dealing with that. You know, if you want to spend the least amount of time, then look at the 10-Minute Retirement Portfolio or the Hassle-Free ETF. Those would be some fairly easy ways to get that general exposure to the Profitable Investing methodology.

Eugene asks, "Is DLTNX still a hold? I've had the bond fund for seven years and I'm down a bit." Well, the DoubleLine Fund is still an opportunity for those in the bond fund. It's a fairly balanced sort of fund that provides the general market. I think it's, it's down for a bit as far as its price because of some of the changes that are occurring in some of the Treasury market as well as some of the higher credit rated bonds. I'd look at for the near term, I think the Osterweis is going to be a better opportunity. But the reason we had the double line is that it does provide that broader part of the bond market that fits in with the particular portfolios.

We're coming down to the end. Ahmed asks, and this will have to be our last question, "Is it advisable to mix ETF with individual stocks, and if so how to approach?" That's a great question. I'll give you the advice in which we look at the petroleum market. In the Total Return Portfolio, I added the SPDR Energy Select ETF to give us specific exposure to what I see as the profitable petroleum market right now. We already have Schlumberger, and I'm going to be adding in a couple of producers in the oil patch in a subsequent issue. I use an ETF to give this very specific target for an opportunity, so that we we're in and we participate, and then I'll add in some of the additional stocks that provide more specific opportunities. So the ETF can work with individual stocks to capitalize on certain market directions, and that's what I'll continue to do with some of the other segments we have that's working for us like the REITs, like the utilities, like the preferred shares, and like some of the banks and financials as well as the portfolios and the MLPs.

With that, I'm going to have to come to a close. I've certainly appreciated all of you participating in the June Webinar. I'll look forward to participating in the next Webinar. I'm always looking forward to your comments and queries for Profitable Investing for the issue, the journal, and of course, on these webinars. If you have suggestions on different areas I should cover in the next Webinar, please let me know. Again, thank you for taking the time. If you're watching this on a recorded basis, again, if you have questions you can easily email us with those. And again, I appreciate all of your subscribers. Please continue to renew your subscription. Appreciate that as well. Again, thank you very much. This is Neil George for Profitable Investing.