

# The Sizemore Income Letter

March 19, 2021

## Let's Talk Bonds

By Charles Lewis Sizemore, CFA



I have to cut it a little short this week, unfortunately. My wife is under the weather, so baby responsibilities have fallen (quite literally) into my lap. I have my six-month old daughter Gabriela “helping out daddy” in the office today.

Bond yields have continued to rip higher this week. In more ordinary times, I would consider this a major risk to our portfolio. As our main focus is income, a rising yield environment is generally bad for us. Rising bond yields means falling bond prices... and falling prices for assets that tend to behave like bonds, like dividend-paying stocks, REITs and BDCs.

Fed Chairman Powell’s comments were not taken kindly by the bond market this week. In a nutshell, the Fed raised its forecast for GDP growth and acknowledged that inflation might run a little hot this year. But in the same statement, the Fed also said that it expects any short-term spike in inflation to be “transient.”

In other words, there might be mild pop in inflation this year due to supply bottlenecks, massive government stimulus and, of course, awful comps from 2020 to compare to. But this inflation should be a one-off event and won’t be a trend as it was in the 1970s.

We’ll see.

I’m not going to say the Fed is *wrong*, per se. The action we see in the bond market actually seems to support this. If the bond market were truly worried about inflation, the 10-year yield would be a lot higher than 1.7%. We’d also see gold prices performing better than they are today.

The market’s action tends to actually support the Fed’s view that the economy is getting closer to normal... but that inflation or overheating still isn’t much of a problem.

Fundamentally, we have a lot of money and credit sloshing around the system. And as I’ve made very clear in recent months, I think this means commodity and precious metals prices ultimately go a lot higher. But I don’t believe bond Armageddon is imminent. Yields may go a little higher from here. But I believe we’re pretty close to a top and that the most likely scenario is that bond yields bounce around in a range in the years ahead. That should create some trading opportunities for us.

Let's get back to our portfolio.

I indicated that the ponds I tend to fish in tend to be affected negatively by rising bond yields. Yet our portfolio positions are doing just fine, thank you very much.

What gives?

In a nutshell, the differential between bond yields and the yields on our income investments reached unsustainably high levels. Bonds were expensive; my recommendations were cheap.

Bonds have gotten a little cheaper... and my picks have gotten a little more expensive. But the fundamental relationship hasn't changed. My high-yield investments are still cheap relative to bonds.

This is a long way of saying "keep calm and carry on." I'm very comfortable with our income portfolio. That will eventually change. At some point, we'll want to book profits and wait for our next opportunity. But for now, our portfolio is working. So, we're sticking with it.

#### The Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
BHP Group	BHP	2/25/2021	\$78.04	\$ 71.55	\$60.94	4.10%	\$ -	-8.32%	Yes
Vale SA	VALE	2/25/2021	\$17.40	\$ 17.56	\$12.06	3.00%	\$ -	0.92%	Yes
Magellan Midstream Partners	MMP	1/29/2021	\$44.41	\$ 45.48	\$34.74	9.10%	\$ 1.03	4.72%	No
WisdomTree Emerging Markets High Dividend Fund	DEM	12/31/2020	\$41.22	\$ 44.55	\$37.02	4.70%	\$ -	8.08%	Yes
Healthcare Trust of America	HTA	11/20/2020	\$26.80	\$ 28.50	\$23.14	4.75%	\$ 0.32	7.54%	Yes
Physicians Realty Trust	DOC	11/20/2020	\$17.80	\$ 18.57	\$14.53	5.12%	\$ 0.23	5.62%	Yes
AllianceBernstein Holding, LP	AB	11/6/2020	\$30.85	\$ 40.37	\$28.16	9.12%	\$ 0.97	34.00%	No
Main Street Capital	MAIN	9/25/2020	\$29.74	\$ 38.86	\$24.36	8.46%	\$ 0.82	33.42%	Yes
Iron Mountain	IRM	8/25/2020	\$30.22	\$ 36.19	\$23.53	8.15%	\$ 1.24	23.85%	Yes
Starwood Property Trust	STWD	8/25/2020	\$15.70	\$ 25.28	\$15.87	12.05%	\$ 0.96	67.13%	Yes
Dow Inc.	DOW	6/24/2020	\$38.45	\$ 66.01	\$41.05	6.62%	\$ 0.70	73.50%	Yes
Tortoise Essential Assets Income Term Fund	TEAF	6/24/2020	\$10.73	\$ 13.92	\$11.07	8.19%	\$ 0.60	35.32%	Yes
LyondellBasell Industries	LYB	5/22/2020	\$60.39	\$ 108.72	\$73.29	6.17%	\$ 1.05	81.77%	Yes
Invesco Adv. Municipal Income Trust II	VKI	4/23/2020	\$10.12	\$ 11.83	\$10.87	4.76%	\$ 0.51	21.89%	No
Ares Capital Corporation	ARCC	4/23/2020	\$11.35	\$ 18.69	\$15.02	11.44%	\$ 1.20	75.24%	Yes

That's all I have for this week. But before I sign off, I want to reiterate the offer I made last week. I believe tax rates will be rising in the years ahead. If you are a high-income

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earner who owns your own business, I have a few tricks to dramatically lower your tax bill. Under the right conditions, you can marry a traditional 401(k) to a one-man pension plan and potentially shield well over \$100,000 per year from taxes. These aren't for everyone. But if you're late in your career and really wanting to turbocharge your tax-free savings, this is a great way to do it. I find this strategy works particularly well for self-employed doctors, but it is an option for anyone that owns their own business and has limited employees. If you'd like to discuss, reach out to me at [info@sizemorecapital.com](mailto:info@sizemorecapital.com), and I'm happy to discuss.

Until next week, keep cashing those dividend checks.

A handwritten signature in blue ink that reads "Charles Lewis Sizemore". The signature is fluid and cursive, with a long horizontal stroke at the end.

Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*. But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at [info@sizemorecapital.com](mailto:info@sizemorecapital.com).