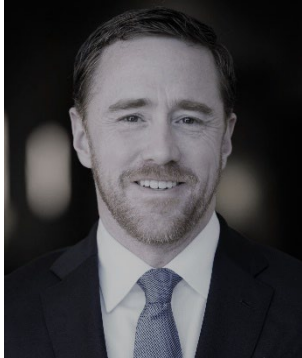


The Sizemore Income Letter

February 2023

A Solid Return With NO Risk

By Charles Lewis Sizemore, CFA



I'll be straight with you.

I agonized this month over what to recommend. There are a lot of income plays I like right now... and all are attractively priced.

But they're also trending lower at the moment... and it looks like the January market rally is starting to roll over.

I can't tell you that the bear market rally is officially over. For all I know, we get phenomenal inflation news out of the blue next week, and the Fed somehow manages to engineer the perfect soft landing in which inflation eases without causing a recession. Earnings rebound... and the market is back to new highs before you can blink.

Hey, stranger things have happened. But we're not making investment decisions based on what is *possible*. We make decisions based on what is *probable*. And right now, I don't see conditions in place that suggests we've hit bottom.

Walmart released its quarterly earnings this month. It beat analyst estimates for both earnings and revenues.

That's good, right?

Not so fast. Walmart mentioned in its earnings call that a major driver of the results were comparatively higher-income Americans trading down.

Now, you tell me. When upper-middle-class and rich people are shopping at Walmart... does that sound like a normal, healthy economy? Or does that sound like an economy holding on by a thread?

I think you know my answer.

Perhaps I'm being too conservative. But I'm not in a hurry to invest heavily in the market right now. I'm happy to be patient and wait for a better entry point.

You know me. I'm not selling everything and hiding in a bunker. That's not my style. I'm happy to hold good stocks through a bout of volatility. I'm just not eager to add a lot of new exposure right now.

But that doesn't mean we can't make money. And this month, we're doing it in the world's most boring asset class, earning 5% absolutely risk free.

Sample Bond Yields as of February 22, 2023

	0-1yr	1-3yr	3-5yr	5-7yr	7-10yr	10-20yr	20+Yr
CDs	4.815	5.069	4.824	4.613	---	4.858	---
Agencies	5.031	5.173	5.246	4.798	4.543	4.545	---
Corporate (AAA)	4.246	4.644	4.560	---	4.514	4.733	4.900
Corporate (AA)	4.365	5.046	4.955	4.722	4.876	5.046	5.523
Corporate (A)	5.219	5.881	5.821	5.388	5.517	5.793	5.903
Corporate (BBB)	5.347	6.420	7.072	7.478	7.004	6.918	7.297
Municipal (AAA)	2.983	3.466	3.882	3.541	4.421	5.015	4.866
Municipal (AA)	3.363	4.782	4.902	5.150	5.235	5.476	5.483
Municipal (A)	3.286	3.646	5.002	5.202	4.873	5.614	5.476
Municipal (BBB)	---	4.149	4.342	4.241	4.244	5.784	5.674
U.S. Treasuries	5.080	5.071	4.395	4.174	3.990	4.173	4.172

This best ticket in town right now is in US Treasury bills. Yes, boring, widows-and-orphans-appropriate T-bills.

I've been recommending T-bills off and on for months. But I've never really told you how to do it or gone into a lot of detail. This month, that's exactly what we're going to do.

What is a T-Bill?

Let's start with the basics. A T-bill is a debt issued by the US federal government ranging from as little as a few days to as long as a year.

This is a true risk-free security, as the U.S. government can't really "default." The country can always print the money it needs to pay its debt... and we have seen plenty of that over the years.

Yes, I know the United States has officially breached its debt ceiling and that the morons running our country are

very much playing with fire. These idiots might, strictly speaking, push us into some sort of short term technical default if they refuse to behave like adults and agree to borrow the money they've already voted to spend.

But let's get serious. The debt ceiling is a circus sideshow. The split second things start to melt down due to technical default, the debt ceiling will be raised. These idiots want to keep their jobs, and they are unlikely to do that if they plunge the country into a financial crisis.

So, I repeat, U.S. government securities are the one and only truly risk-free securities for an American investor.

Interest Rate Risk and the Inverted Yield Curve

You've heard the expression "inverted yield curve" and likely heard me drone on about it. Well, if you want to see one

in action, take a look at the table at the top of page two. This is a screen shot from the bond screener in my TD Ameritrade advisor account. This is literally the exact tool I use to buy bonds for myself and for clients.

The yields on offer for T-bills (circled in red) are significantly higher than longer-term yields of seven years or longer.

That's not normal, of course, and is generally a sign of financial distress. Your bank would never charge you less for a 30 year mortgage than for a 15 year mortgage. But the Federal Reserve has pushed up the short end of the yield curve, creating the pricing we see today.

Longer-term bonds are extremely sensitive to changes in market interest rates. The S&P 500 was down just shy of 20% last year, but 20+ year Treasuries declined in value by about 30%, in line with a lot of risky tech stocks. Those declines were a direct result of rising bond yields.

Well, short-term bonds have virtually no interest rate sensitivity. If Jerome Powell were to jack up the Fed funds rate by a full 1% tomorrow, it would cause a price decline of less than 1% in the bond. And that tiny unrealized capital loss would disappear as the T-bill approached maturity. (Remember, bonds always mature at their par value, usually at a price of \$1,000.)

So, as long as you plan to hold your T-bill to maturity – which is less than a year – you have no interest rate risk.

[Investors Aren't Getting Paid to Take Risk](#)
Take another look at that table on page two. Look at corporate BBB-rated bonds of 0-1 years. At 5.347%, the yield on

offer is only 0.267% higher than the 5.080% on risk-free Treasuries.

BBB-rated bonds are just one rung above junk bonds. Investors are getting essentially no premium at all for accepting significantly more risk.

Sure, the yields start to look a little juicier when you get out to 5-7 years. But that's not what we're looking for here. We're looking to park our cash in a risk-free security.

[How to Buy a Bond?](#)

Buying a bond is a little bit trickier than buying a stock, but just barely.

Because there are almost infinite numbers of substantially identical Treasuries, it really doesn't make sense to focus on a single issue. I certainly don't. Whenever I buy bonds for myself or clients, I use the bond tool you see on page two.

If you use TD Ameritrade, Charles Schwab, Fidelity or any other major broker, you should have something awfully similar. In your account, look for "bonds" or "fixed income." It will be there.

If you don't have a table like mine, you should have some sort of screening tool that lets you set the criteria you're looking for. For our purposes, we're looking for U.S. Treasury securities maturing in one year or less. That's it. I don't care what specific month the bond matures in. I don't care what specific semi-annual coupon it pays or if it pays a coupon at all. All of that is just detail, and it's not important for what we're trying to do here.

Now for the fun part. If your brokerage account has a table like mine, click on the 0-1-year box.

Treasury Bond Search Results

For more details, click on the Issue Description

Search criteria returned offerings on 102 bonds

		SELL				BUY					
Benchmark	Issue Description CUSIP	Coupon Maturity	Qty/Min (M)	YTM	YTW*	Price	Price	YTW*	YTM	Qty/Min (M)	
<input type="checkbox"/>	Treasury Note UNITED STATES TREAS NTS CUSIP: 91282CBEO	0.125 01-15-2024	Sell 5,000/10 35,000/500	5.174 5.205	5.174 5.205	95.639 95.626	95.721 95.723	5.091 5.073	5.091 5.073	35,000/500 5,000/10	Buy
<input type="checkbox"/>	Treasury Note UNITED STATES TREAS NTS CUSIP: 91282CDM0	0.500 11-30-2023	Sell 35,000/500 5,000/10	5.226 5.212	5.226 5.212	96.493 96.491	96.579 96.603	5.090 5.074	5.090 5.074	50,000/350 35,000/500	Buy
<input type="checkbox"/>	Treasury Note UNITED STATES TREAS NTS CUSIP: 91282CDV0	0.875 01-31-2024	Sell 5,000/10 35,000/500	5.200 5.227	5.200 5.227	96.084 96.072	96.198 96.188	5.083 5.082	5.083 5.082	35,000/500 50,000/350	Buy
<input type="checkbox"/>	Treasury Note UNITED STATES TREAS NTS CUSIP: 912828B66	2.750 02-15-2024	Sell 5,000/10 35,000/200	5.175 5.195	5.175 5.195	97.709 97.697	97.801 97.814	5.076 5.069	5.076 5.069	50,000/350 35,000/200	Buy
<input type="checkbox"/>	Treasury Note UNITED STATES TREAS NTS CUSIP: 912828B66	0.125 02-15-2024	Sell 5,000/10 25,000/1	5.186 5.208	5.186 5.208	95.221 97.679	95.335 97.817	5.075 5.059	5.075 5.059	35,000/500 5,000/10	Buy

You should end up with a screen that looks something like this.

There's a lot of information here, but most of it you can ignore. We'll focus on the important stuff.

The date you see in the third column is the day the bond matures and you get your principal back. The column to the right labeled "YTM" is the yield to maturity. This is the annualized return you'll get, and it is a blended return of income and capital gains.

If I were buying a longer-term bond, I would care about the coupon rate. That's the semiannual payment, and you obviously want that to be higher if you're buying an income investment you plan to hold for years. But for a T-bill, it really doesn't matter. You're holding this thing for a year or less. It doesn't really matter if you get an interest payment

halfway through or if you get your entire return when the bond matures. You're holding it for less than a year. On a time frame that short, it doesn't matter.

So, which one bond do you choose?

All else equal, just buy whichever one has the highest yield. If you have a specific reason for wanting your money back in a certain month – let's say you have an expense coming up that month that you need to plan for – then choose a bond that matches your time horizon.

Otherwise, just buy the highest-yielding one and be done.

How Much to Buy?

Let's talk position sizing.

My advice here is simple. Dump ALL idle cash that you don't plan to invest in the next 6-12 months into T-bills. Every last penny.

There's just no reason not to. Inflation is still running hot, so your cash is losing purchasing power by the day. No, the 5% on offer in T-bills is still below the rate of inflation. But it's at least getting you darn close.

So, with no further ado...

Action to take: Invest ALL idle cash you don't have an immediate need for in Treasury bills maturing in up to one year.

What's the risk?

There is none.

We're getting 5% absolutely risk free while we wait for the bear market to run its course.

And what if an emergency pops up and you need cash in a hurry?

No worries. T-bills can be readily sold. And as I mentioned before, their sensitivity to interest rate moves is close to nil. If you had to sell in a hurry, you might get scalped by a percent. But that's a risk I'm very comfortable taking.

Portfolio Update

There's no practical way for me to add T-bills to our Portfolio table (see page six) because every one of my readers is likely to buy a different T-bill and, in any event, there's really not much to track. But take a look at the table anyway because I raised several of our stop losses.

My enthusiasm for T-bills should not be taken as a lack of enthusiasm for the stocks in our portfolio. I am wildly bullish about every stock on the list. But I also have no interest in giving back the gains we worked so hard to accumulate.

So, we lock in the gains as we go by raising our stops.

If you haven't bought my recommendation from last month, the **Nuveen Real Estate Income Fund (NYSE: JRS)**, it's not too late. We're down a little over 1%, so you can actually get in at a slightly better price today.

JRS is a way to buy a cheap sector – real estate investment trusts (REITs) – in an even cheaper wrapper, as the fund trades at a nice 7% discount to net asset value.

It also pays an attractive 10% in dividends.

I also really like the **Ecofin Sustainable and Social Impact (NYSE: TEAF)** at current prices. This fund trades at a ridiculous 18% discount to net asset value and yields over 8%.

If you're looking to add to existing positions, I would start with those.

Before I sign off, I do want to remind you that you don't have to do this alone. If you'd like to have me take a look at your portfolio, I'm happy to do it. Even if you are a rugged do-it-yourselfer, it's always a good idea to get a second opinion.

Returning to my opening comments, I don't know what 2023 has in store for the markets. But I know a good deal when I see it. T-bills are a great place to park money for now while we wait and see what happens next in the market.

Assuming the world doesn't blow up between now and then (and even if it does!) I will plan on recommending another dividend stock or closed-end fund next month. But for now, let's just enjoy the freedom of taking zero risks.

Have a good week, and until next time, keep cashing those dividend checks!



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 think your portfolio is a little too exposed to the stock market right now, let's talk. I may have some alternatives that can offer competitive returns without the heartburn. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.

The Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
Nuveen Real Estate Income Fund	JRS	1/30/2023	\$8.46	\$8.35	\$6.41	9.77%	\$ -	-1.30%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	\$28.79	\$28.21	\$20.15	12.44%	\$ -	-2.01%	Yes	Buy
Atlantica Sustainable Infrastructure	AY	11/22/2022	\$27.75	\$27.54	\$20.41	6.39%	\$ -	-0.76%	Yes	Buy
AGNC Investment Corporation	AGNC	11/3/2022	\$8.16	\$11.12	\$9.30	12.95%	\$ 0.24	39.22%	Yes	Hold
Cheniere Energy Partners	CQP	8/4/2022	\$46.49	\$48.35	\$41.42	7.22%	\$ 1.07	6.30%	No	Buy
Citigroup Inc	C	6/23/2022	\$47.34	\$49.84	\$36.00	4.09%	\$ 1.02	7.44%	Yes	Buy
ONEOK, Inc.	OKE	4/28/2022	\$65.50	\$66.13	\$47.91	5.66%	\$ 2.81	5.24%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	\$8.16	\$12.74	\$8.59	7.22%	\$ 0.87	66.79%	No	Buy
EPR Properties	EPR	11/29/2021	\$47.78	\$41.63	\$33.92	7.93%	\$ 3.20	-6.17%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	\$103.33	\$161.00	\$132.62	3.53%	\$ 7.02	62.61%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	\$21.94	\$29.54	\$20.49	6.91%	\$ 2.68	46.86%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	\$44.41	\$52.98	\$41.78	7.83%	\$ 8.28	37.95%	No	Buy
Starwood Property Trust	STWD	8/25/2020	\$15.70	\$19.41	\$18.15	9.89%	\$ 4.32	51.15%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	\$10.73	\$12.89	\$12.53	8.38%	\$ 2.24	40.96%	Yes	Buy

The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
National Retail Properties	NNN	9/29/2022	\$ 39.07	\$ 46.10	None	4.77%	\$ 1.10	20.81%	Yes
Conagra Brands	CAG	6/23/2022	\$ 32.47	\$ 36.36	None	3.63%	\$ 0.99	15.03%	Yes
The Clorox Company	CLX	6/23/2022	\$ 132.28	\$ 154.42	None	3.06%	\$ 3.54	19.41%	Yes
Campbell Soup Company	CPB	6/23/2022	\$ 47.04	\$ 53.35	None	2.77%	\$ 1.11	15.79%	Yes
Flowers Foods	FLO	6/23/2022	\$ 24.97	\$ 28.31	None	3.11%	\$ 0.44	15.16%	Yes
General Mills	GIS	6/23/2022	\$ 67.90	\$ 80.16	None	2.69%	\$ 1.62	20.44%	Yes
J.M. Smucker Company	SJM	6/23/2022	\$ 123.83	\$ 150.00	None	2.72%	\$ 3.06	23.60%	Yes
Target Corporation	TGT	6/23/2022	\$ 141.08	\$ 166.22	None	2.60%	\$ 3.24	20.12%	Yes
Coca-Cola Company	KO	4/27/2022	\$ 65.56	\$ 59.80	None	2.94%	\$ 1.32	-6.77%	Yes
Prologis	PLD	10/29/2021	\$ 146.67	\$ 123.48	None	2.56%	\$ 3.79	-13.23%	Yes
Crown Castle International	CCI	10/29/2021	\$ 181.90	\$ 136.66	None	4.30%	\$ 7.45	-20.78%	Yes
Philip Morris International	PM	3/30/2021	\$ 89.35	\$ 99.98	None	5.08%	\$ 7.49	20.28%	Yes
Altria Group	MO	3/19/2020	\$ 37.10	\$ 47.44	None	7.93%	\$ 10.60	56.44%	Yes
Realty Income	O	3/19/2020	\$ 48.08	\$ 65.22	None	5.10%	\$ 8.40	53.12%	Yes
AT&T	T	3/19/2020	\$ 31.15	\$ 19.21	None	5.78%	\$ 5.79	-19.74%	Yes
Enterprise Products Partners	EPD	3/19/2020	\$ 14.52	\$ 25.96	None	7.32%	\$ 5.51	116.70%	No
Kinder Morgan	KMI	3/19/2020	\$ 11.20	\$ 17.34	None	6.40%	\$ 3.24	83.79%	Yes
Ventas	VTR	3/19/2020	\$ 19.98	\$ 49.98	None	3.60%	\$ 5.74	178.89%	Yes
Public Storage	PSA	3/19/2020	\$ 187.60	\$ 298.90	None	2.68%	\$ 35.15	78.07%	Yes
International Paper	IP	3/19/2020	\$ 30.13	\$ 36.11	None	5.12%	\$ 4.77	35.67%	Yes
STAG Industrial	STAG	3/19/2020	\$ 21.71	\$ 34.73	None	4.20%	\$ 4.23	79.47%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	\$ 7.25	\$ 14.28	None	4.20%	\$ 1.27	114.48%	Yes

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