

INVESTMENT FORUM AGENDA FOR WEDNESDAY, JULY 18, 2018 11:50AM,

LORD OF LIFE LUTHERAN CHURCH, FELLOWSHIP HALL
5114 Twinbrook Road, Fairfax VA 22032

The Forum Summer Term runs through July 25.

Market Perspective. Markets were up for the week: The DOW was up 2.3%; the S&P was up 1.5%; and the NASDAQ was up 1.8%. All three indices are now up YTD. Despite tariff actions, especially with China. Is the market discounting a trade war? Not really. According to *Barron's*, high correlation between sectors (all sectors moving in the same direction) has decreased. Lately, materials and industrials have trailed the overall markets; they are most impacted by tariffs and a possible trade war. Financials are lagging, due to the flat yield curve. Other sectors, especially tech and energy, are performing well. Stock and sector picking is back in.

Real Estate. Herb Bachner and Jerry Schragger will discuss investing in real estate. Both have been real estate investors since the 1970s, in rental houses in Northern Virginia, land in Northern Virginia, land in Nevada, and equity sharing, a concept that originated in the late 1980s. They will share their experiences.

Future Topics

Commercial Real Estate. On July 25, Ed Swoboda will discuss investing in commercial real estate, and his views on the pros and cons of directly investing in real estate (instead of via REITs or stocks of real estate companies.)

On July 25 or a later session, "Al buys a rental townhouse." I will pretend buy a townhouse in Northern Virginia (my example will be a real property) as an investment, finance it, find a tenant, rent it out, and look at the cash flow, tax shelter, and possible gains after a holding period.

Follow-Up

Business Development Companies (BDCs). David Toms, who led the discussion of BDCs last week, provides a clarification of an answer to a question asked. "How can a BDC distribute dividends at 10%? They must be charging usury rates on their loans!" The correct response is this. "BDCs borrow at low fixed rates, typically 2% to 3%, then issue floating rate loans at typically 6-8%. The difference becomes their revenue. After expenses, 90% of their cash flow is then distributed as dividends. But the yield on the stock is set by the stock price in response to the market's risk assessment. As the stock price goes up or down in response to business conditions, the yield adjusts accordingly. Therefore, the yield on the stock is a reflection of the stock's risk, and not simply the company's loan spreads."

Also, several funds invest in BDCs. A closed end fund, First Trust Specialty Finance (FGB) with a 11.4% distribution rate, and a Exchange Traded Note, UBS ETRACS 2x Leveraged WF Business Development Company ETN (BDCL), which yields 18.1%. Needless to say, both of the funds are risky. Don't try these at home, or without adult supervision!

Buys and Sells

Buys (2 weeks ending 7/11/2018)

Verizon (VZ)

Dominion Energy (D)

Bank of America (BAC)

Turtle Beach Corp (HEAR) - audio products MC: \$322M

AT&T (T) - add to

Harbor Capital Appreciation Fund (HACAX)

Align Technology (ALGN) - dental technology. MC: \$29B

Sells (2 weeks ending 7/11/2018)

Dodge and Cox International Stock (DODFX)

Vanguard Select Value Fund (VASVX)

Schwab US Broad Market ETF (SCHB) - trim

American Water Works (AWK)

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