

High Desert Investment Advisors

Albuquerque New Mexico
Voice - 505-797-2644 or 505-469-3467
Fax - 505-797-1901

Serving Your Personal Investment Needs Since 2003

Thursday, September 20, 2012

INVESTMENT ADVISORY GNMA, FNMA, FHLMC BONDS PAY OFF

RECOMMENDATION:

- Investing strategy for those who wish to maintain higher interest/dividend income levels in your investment portfolio.
- As principal is returned to the portfolio from principal pay-downs from government guaranteed MBS investments, this money be reinvested into a selection of assets from each of the five (5) high-dividend stock Categories, diversifying among investment choices and investment Categories, limiting each investment choice to a maximum of \$5,000 each.
- Note: The above does not apply to the Corporate/Other bond portion of the portfolio. When principal is paid back into your portfolio from these investments, that money will go back into investments of a similar grouping.

Iris Brackett 505-220-0571
Dick Brackett 505-797-2644

irisbrackett@q.com
rbracket@newmexico.com

The Fed announced that it will be buying \$40 Billion in assets every month, for perhaps as long as 24-36 months. The first choice of assets will be the Government Agency mortgage backed securities - GNMA, FNMA, and FHLMC bonds. If there are insufficient assets available in this category - which is likely - other U.S. Treasury bonds will be purchased instead of, or in conjunction with, the purchase of the MBS bonds.

With last week's Fed action, our fixed income investment options have been severely limited. We have relied heavily on the availability of this type of MBS bond investment (higher yields, collateral guarantees, and monthly payments of principal for reinvestment). This action by the Fed will force yields lower - prices higher - and significantly reduce the investment income we strive to maintain. It impacts all bond yields, and not just the mortgage yields!

Already this year, we have lost as much as 30 bps (0.30%) in average portfolio yield. This doesn't seem like much (\$300/year per \$100,000 invested), but when you include the long term compounding aspects of this, along with the short term reduction in lifestyle options, it will reduce your available future cash such that it may have a significant impact on that lifestyle.

For retirees, it is important to be able to count on a stable portfolio income that is greater than 5% annually. Over the past 10-12 years, we have been able to provide average yields on our fixed income portfolios that range from 5.5% to as much as 7.5%. Today, those yields have fallen, and are continuing to shrink, as mortgage backed bonds are repaid and cash comes back into our accounts. The Government guaranteed mortgage backed securities have seen yields (for short term maturities - average life) fall from about 6% to as little as 1.3%. Typically, a minimum of 50% of each fixed income portfolio is invested in mortgage backed bonds. If we continue purchasing these bonds in the future, our average yields will drop dramatically.

We now must have an alternative strategy for reinvesting the money that is coming back into our accounts from MBS pay-downs of Government guaranteed mortgages. We will be able to continue buying the Government guaranteed investments, but, in order to maintain our annual portfolio income, we will have to find higher

yielding investments for at least a portion of that money, higher than what we can get from the MBS investments.

The issue of reinvestment into dividend stocks is one of price volatility in the stock that is owned. In many cases, the dividend stocks - high yield dividend stocks - are actually more volatile than the S&P index and/or the Nasdaq Index. In 2000-2003, these stocks actually went up (energy pipelines), but then in 2009, they lost even more than the indexes and were huge losers - most dropping as much as 50% and even more.

Clearly, in times of difficult markets and economies - domestic and global - it is appropriate to consider exiting (selling) these investments, versus holding onto them through such difficult times.

Decisions as to whether to sell or hold a given stock can be made for individual companies, based upon an analysis of Balance Sheet data, Cash Flow data, Debt repayment schedules, and total Debt Levels. In other words, we can analyze these investments as if they were bonds rather than equity investments, and then decide if we want to keep them or sell them.

The same diversification requirements applicable to bonds are appropriate for this kind of alternative fixed income investment. Limit the dollar exposure to any given investment, and treat these investments as very long maturity assets, for the purpose of our maturity ladder.

In order to exit these investments in advance of very negative changes in stock market equity index valuations, it is necessary to have a model determinant that provides timing guidance. A reasoned approach would be to use the S&P Index daily close, the S&P Index 10 month, end of month, moving average, and the 34 MA. When the daily close moves across the 10 MA (Downward cross), begin to reduce the number of shares owned, at a rate of 25% every two weeks. If the 34 MA crosses the 10 MA (Downward cross), liquidate all shares in the alternative fixed income investments.

Generally, we continuously reinvest excess cash that returns to your accounts from bond principal payments. As an alternative investment strategy, we propose to continue to do this - with your agreement - and maintaining a minimum mix of 50% MBS investments plus alternative fixed income investments, depending upon your risk profile design.

The essential meaning of this recommendation is to try to maintain the high quality of the collateral by agreeing to sell the alternative investments, rather than hold them to maturity. **Preservation of capital is the operable concept!**

Iris will be calling everyone to discuss this recommended change in investment design. If you want to provide immediate input as to your preferences, call us, and we can figure out a strategy for your portfolio.

RECOMMENDED INVESTMENT CHOICES

There are five (5) Categories to choose from, and over 100 potential options to choose. Categories 1-4 can be selected based upon their yields, and purchased only if their current price is below their 250 day MA. Category 5 is preferred stock, issued by financial and corporate institutions. These stocks can be selected based upon their yields and their reflected volatility - lowest volatility being the preferred choice.

The Proposal: As principal is returned to the portfolio from the government guaranteed MBS investments, that money be reinvested in a selection of assets from each of the five (5) Categories, diversifying among investment choices and investment Categories, limiting each investment choice to a maximum of \$5,000.

Note: The above does not apply to the Corporate/Other bond portion of the portfolio. When principal is paid back into your portfolio from these investments, that money will go back into investments of a similar grouping.

ALTERNATIVE INCOME PRODUCING INVESTMENTS

Symbol	Description		Close	Dividend Yield %	Dividend Amount
CATEGORY 1					
<u>LIMITED PARTNERSHIPS</u>					
QRE	QR ENERGY LP	MLP,OIL&GAS US, HEDGES	\$19.39	9.9	\$1.92
NRP	NATURAL RESOURCE PARTNERS		\$22.51	9.8	\$2.20
EROC	EAGLE ROCK ENERGY PARTNERS LP	NGL-VERTICAL INTEGRATION	\$9.66	9.1	\$0.88
XTEX	CROSSTEX ENERGY LP	NGL-VERTICAL INTEGRATION	\$15.18	8.7	\$1.32
NS	NUSTAR ENERGY LP		\$50.38	8.69	\$4.38
ETP	ENERGY TRANSFER PARTNERS LP COM		42.37	8.44	\$3.58
BPL	BUCKEYE PARTNERS L P UNIT LTD PARTN INITS		\$50.41	8.23	\$4.15
EEP	ENBRIDGE ENERGY PARTNERS LP		\$28.80	7.53	\$2.17
TCP	TC PIPELINES LP		\$46.11	6.76	\$3.12
KMR	KINDER MORGAN MANAGEMENT COM		\$75.40	6.52	\$4.92
EPB	EL PASO PIPELINE PARTNERS COM		36.12	6.09	\$2.20
KMP	KINDER MORGAN ENERGY PARTNERS CM LP		\$83.00	5.92	\$4.92
ARLP	ALLIANCE RESOURCE PARTNERS LP	COAL PRODUCTION	\$62.92	5.12	\$4.25
SXL	SUNOCO LOGISTICS PARTNERS COM LP		49.82	3.77	\$1.88
CATEGORY 2					
<u>DIVIDEND STOCKS</u>					
WIN	WINDSTREAM CORPORATON		\$10.86	9.2	\$1.00
SDRL	SEADRILL LIMITED	DRILL RIGS-OFFSHORE	\$39.62	8.3	\$3.36
NGG	NATIONAL GRID PLC	UTILITY	\$55.86	7.3	\$4.03
CTL	CENTURYLINK, INC		\$42.18	6.9	\$2.90
EXC	EXCELON		\$35.47	5.9	\$2.10
VALE	VALE S.A. (BRAZIL)	BASIC MATERIALS	\$19.55	5.9	\$1.15
POM	PEPCO HOLDINGS	UTILITY	\$18.79	5.7	\$1.08
RDS-B	ROYAL DUTCH SHELL PLC		\$74.52	5.3	\$3.44
VVC	VECTREN CORPORATION COM		27.98	5	\$1.40
ETR	ENTERGY		\$68.19	4.9	\$3.32
DUK	DUKE ENERGY HOLDINGS CORP COM		64.14	4.77	\$3.06
T	AT&T INC COM		37.6	4.68	\$1.76
VZ	VERIZON COMMUNICATIONS COM		\$44.58	4.62	\$2.06
WR	WESTAR ENERGY INC COM		\$29.10	4.53	\$1.32
COP	CONOCOPHILLIPS CORP COM		\$58.30	4.52	\$2.64
OKS	ONEOK PARTNERS LP COM		\$58.85	4.48	\$2.64
BP	BRITISH PETROLEUM PLC		\$42.87	4.4	\$1.92
SO	SOUTHERN CO COM		\$44.93	4.36	\$1.96
LMT	LOCKHEED MARTIN COM		\$92.21	4.33	\$4.00
BKH	BLACK HILLS CORP	UTILITY,COAL PROD.	\$35.31	4.2	\$1.28
WM	WASTE MANAGEMENT, INC		\$32.69	4.2	\$1.42
RY	ROYAL BANK CDA MONTREAL QUE COM		\$57.44	4.17	\$2.40
XEL	XCEL ENERGY INC COM		\$27.85	3.87	\$1.08
INTC	INTEL CORP COM		\$23.31	3.86	\$0.90
HNZ	H.J. HEINZ COMPANY		\$56.49	3.7	\$2.06
PAYX	PAYCHEX, INC		\$34.48	3.7	\$1.28
JNJ	JOHNSON & JOHNSON		\$68.55	3.6	\$2.44
KMB	KIMBERLY CLARK CORP COM		\$83.02	3.56	\$2.96
NEE	NEXTERA ENERGY INC COM		67.55	3.55	\$2.40
SY	SYSCO CORP COM		\$30.52	3.53	\$1.08

K	KELLOGG COMPANY		\$50.94	3.5	\$1.76
STO	STATOIL ASA		\$26.59	3.4	\$0.91
UL	UNILEVER PLC ADR		\$36.75	3.21	\$1.18
PG	PROCTER & GAMBLE CO		\$69.26	3.2	\$2.25
IP	INTERNATIONAL PAPER COMPANY		\$34.13	3.1	\$1.05
UPS	UNITED PARCEL SERVICE, INC		\$74.27	3.1	\$2.28
CTWS	CONNECTICUT WATER SERVICE INC COM		\$31.33	3.09	\$0.97
GE	GENERAL ELECTRIC CO COM		\$22.05	3.08	\$0.68
SJT	SAN JUAN BASIN ROYALTIES COM		14.19	3.03	\$0.43
CSCO	CISCO SYSTEMS INC COM		\$19.16	2.92	\$0.56
NSRGY	NESTLE S A SPON ADR REPSTG REG SH		\$62.97	2.84	\$1.79
MATX	MATSON INC COM		22.27	2.69	\$0.60
UTX	UNITED TECH CORP COM		82.15	2.6	\$2.14
MMM	3M CO COM		93.78	2.51	\$2.36
DE	DEERE & CO COM		\$81.02	2.27	\$1.84
CAT	CATERPILLAR INC COM		\$91.99	2.26	\$2.08
ALEX	ALEXANDER & BALDWIN	HAWAII R.E.	\$29.62	2.03	\$0.60
SLB	SCHLUMBERGER LTD COM		\$77.14	1.42	\$1.10
CEF	CENTRAL FUND OF CANADA	GOLD & SILVER	23.4	0.04	\$0.01

CATEGORY 3

REITS, SECURITIZED LOANS, FINANCIAL ASSETS

NMYT	NEW YORK MORTGAGE TRUST INC	MTG PRODUCT LEVERAGED MTGS-GVT GTD,WHL LNS	\$7.21	14.5	\$1.05
AI	ARLINGTON ASSET INVESTMENT CORP		\$24.67	14	\$3.45
MITT	AG MORTGAGE INVESTMENT TRUST	NON-AGENCY RMBS	\$22.99	13.2	\$3.03
NLY	ANNALY CAPITAL MANAGEMENT, INC	REIT-MTG PASS-THRU,CMO,LNS	\$17.21	12.8	\$2.20
CYS	CYS INVESTMENTS	RMBS,CMO,ARM,FINANCE	\$14.63	12.3	\$1.80
EFC	ELLINGTON FINANCIAL	RMBS,SUBPRIME,COM.R.E. LNS	\$22.51	12.3	\$2.77
TWO	TWO HARBORS INVESTMENT CORP	REIT, RMBS	\$11.82	12.2	\$1.44
MFA	MFA FINANCIAL, INC	REIT	\$8.38	11.1	\$0.93
DX	DYNEX CAPITAL, INC	REIT,MBS,COM LNS,	\$10.74	10.8	\$1.16
CXS	CREXUS INVESTMENT CORP	COMMERCIAL MTGS	\$10.59	10.2	\$1.08
NRF	NORTHSTAR REALTY FINANCE	REIT,COM SR & SUB DEBT	\$6.33	10.1	\$0.64
CMO	CAPSTEAD MORTGAGE CORP	REIT:RMBS,ARM,GVT GTD	\$14.39	10.1	\$1.45
PNNT	PENNANTPARK INVESTMENT CORP	SR SECURED LNS,MEZ LNS	\$11.23	9.8	\$1.10
KFN	KKR FINANCIAL HOLDINGS	FINANCIAL ASSETS,LNS,R.E.	\$10.19	8.3	\$0.85
MPW	MEDICAL PROPERTIES TRUST, INC	REIT	\$10.53	7.5	\$0.80
HPT	HOSPITALITY PROPERTIES TRUST	REIT-HOTELS	\$24.63	7.3	\$1.80
CLNY	COLONY FINANCIAL	REIT,COM LNS	\$19.74	7.1	\$1.40

CATEGORY 4

ENERGY STOCKS

ECT	ECA MARCELLUS TRUST I	NAT.GAS RESERVES	\$20.16	11.6	\$2.34
PSEC	PROSPECT CAPITAL CORPORATION	VC,ENERGY, PIPELINES	\$11.84	10	\$1.18
NDRO	ENDURO ROYALTY TRUST	OIL,GAS-TX,NM,LA	\$17.49	9.3	\$1.63
VNR	VANGUARD NATURAL RESOURCE LLC	NGL PROD.(NOT VANGUARD EQTYS)	\$28.41	8.4	\$2.39
NNA	NAVIOS MARITIME ACQUISITION	OIL,CHEM TANKERS-LEASE OUT	\$2.98	6.7	\$0.20
PWE	PENN WEST PETROLEUM	OIL,NAT GAS-CANADA	\$15.65	6.6	\$1.03

MISCELANEOUS STOCKS

DCIX	DIANA CONTAINERSHIPS INC	HLDG CO.	\$5.71	21.2	\$1.21
TEU	BOX SHIPS INC	CONTAINER SHIPS-5 SHIPS	\$6.39	16.1	\$1.03

RNF	RENTECH NITROGEN PARTNERS, LP	NAT GAS BASED N-FERTILIZER	\$36.63	12.7	\$4.68
BBEP	BREITBURN ENERGY PARTNERS LP	OIL,GAS DEVELOPER	\$19.47	9.4	\$1.83
UAN	CVR PARTNERS, LP	FERTILIZER-NITROGEN	\$25.86	9.2	\$2.40
CQP	CHENIERE ENERGY PARTNERS LP	LNG TERMINAL	\$26.58	6.5	\$1.70
CLF	CLIFFS NATURAL RESOURCES	IRON ORE,COAL	\$43.28	5.9	\$2.55

CATEGORY 5

PREFERRED STOCK - FINANCIAL

COUPON %

MER-E	ML CAPITAL TRUST 7.12% SERIES	12	\$25.36	11.83%
RBS-E	RBS CAPITAL FNDG TR V PFD 5.9% PERP/CALL	5.9	\$17.99	8.20%
IGK	ING GROEP N V PFD PERP/CALL 8.50 DIV	8.5	\$26.06	8.15%
C-M	CITIGROUP INC PFD PERP/CALL SER F DIV 8.5%	8.5	\$26.28	8.09%
BCS-D	BARCLAYS BANK PLC 8.125% SER 5 PERP/CALL BK PLC	8.125	\$25.98	7.82%
C-G	CITIGROUP CAP XX PFD 7.875% CALLABLE	7.875	\$25.36	7.76%
BWF	WELLS FARGO PFD 7.875% 3/15/68 CALLABLE	7.875	\$25.85	7.62%
DKT	DB CONT CAPITAL TRUST V PFD PERP/CALL DIV 8.05%	8.05	\$27.43	7.34%
RBS-P	ROYAL BK SCOTLAND GRP PLC ADR REP PFD SERIES P SHS	6.25	\$21.40	7.30%
DTK	DB CAP TRUST III PFD SEC PERP/CALL DIV 7.6	7.6	\$26.41	7.19%
HCS-B	HSBC HLDG PLC PFD 8% PERP/CALL NON-CUML	8	\$28.32	7.06%
C-V	CITIGROUP CAPVII PFD 7.125% 7/31/31 CALLABLE	7.125	\$25.31	7.04%
C-Z	CITIGROUP CAPITAL VIII PFD 6.95% CALLABLE	6.95	\$25.20	6.89%
WFC-J	WELLS FARGO COMPANY NON-CUM PERP PFD 8% SERIES J	8	\$29.98	6.67%
C-U	CITIGROUP CAPITAL XV PFD 6.5% CALLABLE	6.5	\$25.03	6.49%
JPM-S	JPM CHASE CAPITAL XIX PFD SER S 6.625% CALLABLE	6.625	\$25.70	6.44%

PREFERRED STOCK - CORPORATE OTHER

KNR	CORST TR BRIST-MY-SQUIBB PFD 6.80% CALLABLE	6.8	\$26.80	6.34%
GEC	GENERAL ELEC CAP CORP 6.1% CALLABLE NOTES	6.1	\$26.38	5.78%
GED	GENERAL ELEC CAP CORP PREFEREED 5.875%	5.875	\$26.13	5.62%
PSA-T	PUBLIC STORAGE PFD SER T 5.75% DIV PERP/CALL	5.75	\$26.20	5.49%
PNCZL	PNC FINL CORP PFD Q QTLY PERP/CALL 5.375%DIV	5.375	\$24.78	5.42%

Sincerely,

Dick Brackett
High Desert Investment Advisors

****This analysis is provided to you for informational purposes only. Actual investment results may be materially different from the projected performance results portrayed. This report uses information that is considered reliable, but it does not represent that the information is accurate or complete, and the report may not be relied upon as such. The report is not intended to be either an expressed or implied guaranty of performance. It is not intended to supply tax or legal advice. There is no solicitation to buy or sell securities.