

# Income Securities

BUILDING YOUR WEALTH WITH BONDS, CONVERTIBLES & PREFERREDS

## INVESTOR



Richard Lehmann

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ALL PRICING AS OF 8/31/2009

## The Economic Outlook

Market pundits tell us the recession is over, at least for those of us who still have their jobs. Actually, unemployment is expected to continue for some time to come so calling an end is a selective call. This recession is different from those most of us have experienced in our lives because it leaves an economy which is fundamentally changed. We have a stock market that reacts strongly to economic reports coming out of China. Ten years ago they would have laughed at the thought. Today people make decisions here based on just such reports. It makes one realize how the World Trade Organization or WTO has made us interdependent. Still and all, America continues to be the engine for world growth and the US government is providing much of the stimulus or much of the constraint, depending on your political leanings.

A wonderful thing about economics is it lends itself to both interpretations; hence, it is politically neutral. It is also wonderfully complex so that rarely can any point of view be proved wrong unless one

**I advise focusing on the multi-driver portfolio which tracks the performance of the medium and high risk portfolios without the same level of risk.**

is so rash as to forecast a specific result by a specific time. Knowing these factors, I have been careful not to put a date to my forecast of inflation, but rather to point out that the policies of the last six months would inevitably result in inflation. How soon is uncertain. What is certain, however, is that the price of

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## Inflation

To understand the economics of today and tomorrow, it helps to go back in history. A century or two ago people worked to survive as government provided little or no direct help and all charity was private. Knowing this, people saved against rainy days, which came frequently. This situation results in low economic growth, a low rate of innovation and risk taking and sporadic accumulations of wealth by the masses. Today we have a happier situation brought about, in the main, by the fact that government provides a safety net for the poor and unemployed that assures they will receive, at worst, a uniformly mediocre life style. A constant struggle today is between those who would like to define that minimal lifestyle upward and those who think people should strive to achieve better through their own efforts, but this debate is best left aside for now.

The focus of today's society is consumption or human demand which is infinite if left unconstrained. Our economy and financial system are geared to encouraging people to consume, as if it was a right and seeing they have enough credit to fulfill their wants. In recent decades, America became the hope of the underdeveloped world by our prodigious consump-

tion of everything these countries can supply us. Even things we could easily make for ourselves were contracted out to these countries because they could make them cheaper. In fact, competition among these foreign suppliers kept driving prices down, thereby increasing how much we could consume. And what do these foreign countries get in return for all the goods they send us? They get paper promises in the form of US dollar denominated treasury notes.

Strange as this one sided exchange may seem, the arrangement works quite well, at least until it doesn't. It works because the people in these underdeveloped countries are still of the 'work to survive' mentality and save as much as they can, denying themselves what we would consider bare essentials. This is still necessary since government social safety nets in these countries still have very large holes.

The recent financial crisis may well have ended this happy circumstance, both for these countries as for us. Our imports from abroad have decreased considerably and are not likely to rise to their previous levels for some time to come. The baby-boomer generation has taken a major financial hit and now sees a

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## Pick of the Month

The financial crisis has wounded everyone in the banking sector, even if their financial condition was robust. An example of this is the National Bank of Greece which has a 9% non-cumulative preferred that is yielding 10% apparently due to the fact that the credit rating agencies have widely divergent opinions. Moodys rates it A2 and S&P BB-. We say go with Moodys. See page 3 for more details.

## EUROPEAN FINANCIALS

### Aegon N.V

Aegon N.V (AEG) is one of the world's largest global life insurance and pension companies. Two of Aegon's securities have been recommended, the 6.375% perpetual preferreds (AEH) and the floating rate Series 1 (AEB). On September 21, 2009 these preferreds declined in price by about 25%. A little digging revealed that Fitch, a rating agency, had downgraded the preferreds to BB status on fears the European community might force financial institutions who had accepted bail out loans to suspend preferred dividends. The news was not widely disseminated but tanked the preferreds nonetheless. In addition to Aegon the Fitch downgrade caused other European financial preferreds to decline by similar amounts as well. When Moody's and Standard & Poor's did not follow Fitch's lead and downgrade the preferreds, their prices recovered a bit over the next few days. If Moody's and S&P downgrade the preferreds, the action may cause another plunge and bring about another buy opportunity. We think the risk is real, but we don't think the dividends will actually be deferred, except, perhaps for the Royal Bank of Scotland where you face the added risk that the dividends are not cumulative. The following European financials were also affected by the downgrade.

### Royal Bank of Scotland (RBS)

RBS S

RBS M

RBS Q

ABN F acquired by Royal Bank of Scotland

### Ing Groep (ING)

ISG

IGK

**Recommendation for all 3 above: Hold; Buy for high-risk investors.**

## Alpine Total Dynamic Dividend Fund

The Alpine Total Dynamic Dividend Fund (AOD) is a closed-end fund. Its primary objective is to provide a high current dividend income and long-term capital growth as a secondary objective. The fund uses a unique dividend capture strategy to increase its dividend income. They also seek out special dividends to capture. The fund produces extraordinary yields based on these strategies. At the time of our recommendation, the fund traded at a discount, but now trades at a significant 25% premium to its net asset value. This means you are paying \$1.25 for \$1.00 worth of assets. Plainly, investors are interested in the 17% yield and we think the premium is because their dividend capture strategy has worked well in the current market. We don't advise buying the fund at such a premium but would hold on to enjoy the high current yield. **Recommendation: Hold**

## Citizens Republic Bancorp

Citizens Republic Bancorp (CRBC) is a diversified financial services company providing a wide range of commercial, consumer, mortgage banking, trust and financial planning services to a broad client base. The company's 7.50% preferred (CTZ A) was recommended in January 2008 at a price of \$15.50 for a then current yield of 12.10%. In July of 2008, the company raised \$200 million in new equity, which diluted the common stock, but helped the preferreds. Recently the company made a tender offer for the series A preferreds. The company will exchange the preferred for common shares valued at \$21.25. The number of shares will be calculated by the average volume weighted average price for the five consecutive trading day period ending on and including the expiration date of the exchange offers (currently September 14, 2009). Since the preferred is trading at \$19.50, it is worth tendering your shares for \$21.25 worth of common stock. If the preferred should rise to around the tender offer price, it would be worth selling outright to avoid the uncertainty inherent in a tender offer. **Recommendation: Tender your shares.**

## Dyneegy Inc/NGC Corp

Dyneegy Inc provides energy products and services in North America and Europe. The company's 7.12% bonds of 2018 were initially recommended in September 2000 at a price of 90.375 for a then current yield of 7.884%. The bonds were rated investment grade but since then have been steadily downgraded to their current B3/B rating. Standard & Poor's recently changed its outlook from stable to negative. The analyst indicated that financial weakness was likely to continue for the next several years, further eroding the company's financial health. Dyneegy recently sold some generation projects in the Midwest in order to raise cash. The projects sold for less than expected. The low price reflects a substantial decline in power prices in the Midwest as well as expectations that recovery in this region, which has been hardest hit by industrial demand losses, may lag other regions. Despite a string of negative news, the bonds are still trading at 70. We recommend a sale, since further downgrades may hit the bond price and possible bankruptcy speculation will further erode the price. **Recommendation: Sell**

## First Bancorp

First Bancorp (FBP), is the second largest Financial Holding Company in Puerto Rico and is the parent of First Bank Puerto Rico. It provides commercial banking services in Puerto Rico, the US and the British Virgin Islands. The banks 7.40% Series C preferred (FBP C) was recommended in 2003. The company announced on July 30, 2009 that it would suspend both common and preferred dividends effective with the September payment. The bank president cited loan and lease losses primarily in Puerto Rico and South Florida mainly due to the decline in real estate prices. Their worst loan performers were in the construction loan sector, which has virtually stopped in Florida. Since the preferreds are non-cumulative there is no point continuing to hold this preferred. The preferred is currently trading at \$6.75. We recommend selling this security and investing the proceeds elsewhere. There is another bank First Bancorp of North Carolina, which often gets confused with First Bancorp of Puerto Rico, there is no relation.

## Preferreds

**Bank of America Corporation (BAC)**, one of the largest banks in the country by assets, reinforced its dominant position with the acquisition of Countrywide Mortgage and Merrill Lynch. They currently serve individual consumers; small and middle market businesses and large corporations through the country's largest branch network with over 6100 locations in 30 states. In addition to banking services, BAC offers asset management and other financial and risk-management products, global corporate and investment banking and equity investments. For the second quarter 2009, BAC reported net interest income of \$11.63 billion and net income of \$3.22 billion. For the same period last year, net interest income was \$10.62 billion and net income was posted at \$3.41 billion. Second quarter actual loan losses were \$8.7 billion compared to \$3.62 billion in 2008.

**Bank of America Corporation, (former name of security Fleet Capital Trust VIII)**, 7.20%; Par: \$25.00; Current Price \$20.72; Current Yield 8.68%; Exchange: NYSE; Rated Baa3/B; Call Anytime at \$25.00; Yield to Call High; Pay Cycle 3m; CUSIP 33889X203; Family Trust Preferreds; Symbol FBF M (need preferred designation).

This previously recommended issue is backed by a junior subordinated debenture issued by Fleet Boston Financial Corporation, a subsidiary of Bank of America Corp (BAC). BAC acquired Fleet in April of 2004. This security would fit best in a high yield portfolio. **Buy FBF M at or below \$21.50.**

**Bank of America Corporation, (former name of security MBNA Capital E)**, 8.10%; Series E; Par \$25.00; Current Price \$21.72; Current Yield 9.28%; Exchange NYSE; Rated Baa3/B; Call Anytime at \$25.00; Yield to Call High; Pay Cycle 2m; CUSIP 55270B201; Family Trust Preferreds; Acronym TOPrS; Symbol KRB E (need preferred designation).

This previously recommended issue is backed by a junior subordinated debenture issued by MBNA Corporation, a subsidiary of Bank of America Corp (BAC). BAC acquired MBNA in January of 2006. They were the largest independent credit card lender in the world. This security would fit best in a high yield portfolio. **Buy KRB E at or below \$22.25.**

**Bank of America Corporation (former name of security First Republic Bank)**, 6.70%; Par \$25.00; Series A; Current Price \$19.95; Current Yield 8.30%; Exchange NYSE Rated B3/B Call Anytime at \$25.00; Yield to Call High; Pay Cycle 3e; CUSIP 060505575; Family Perpetual; Symbol BML N (need preferred designation).

This previously recommended preferred has gone through several changes since we first recommended it. Merrill Lynch acquired the bank on September 21, 2007 and exchanged the preferred to an issue with almost identical terms. The new Merrill Lynch preferred symbol was (MER N). Recently BAC acquired Merrill Lynch and changed the symbol of this

preferred to BML N and the CUSIP to 060505575. This security would fit best in a high yield portfolio. **Buy BML N at or below \$21.00.**

**National Bank of Greece S.A., 9.00%; Non-Cumulative; Par \$25.00; Current Price \$24.62; Current Yield 10.05%; Exchange NYSE; Rated A2/BB-; Call 06/13 at \$25.00; Yield to Call 12.49%; Pay Cycle 2b; CUSIP 633643507; Family Foreign; Symbol NBG A (Need preferred designation).**

National Bank of Greece, the oldest and largest among Greek banks, heads the strongest financial group in the country. It serves customers internationally, particularly in Southeastern Europe and the Eastern Mediterranean. The NBG Group provides a full range of financial products and services to both corporate customers and private individuals, including investment banking services, brokerage, insurance, asset management, leasing and factoring. The Bank's branch and ATM network is the largest in Greece with over 578 domestic banking units and 1,500 s. In addition, a recent NBG acquisition in SE Europe has expanded their network overseas by about 1230 units. They are also developing and growing alternative distribution channels such as Mobile and Internet banking. Their current customer base holds over 9 million deposit accounts and more than 1.5 million lending accounts. For the second quarter 2009 NBG reported net income of \$532.22 million US dollars, well below the \$644.61 million reported in 2008 but higher than the analyst expectations. This high yielding QDI eligible preferred would fit nicely into a medium-risk portfolio despite the widely divergent credit ratings. **Buy at or below \$25.25.**

**Qwest Communications International, Inc. 8.00%; Series QWS-2; Par \$25.00; Price \$16.03; Current Yield 12.50%; Exchange NYSE; Rated B1/B+; Call Anytime at \$25.00; Yield to Call High%; Pay Cycle 2/8; CUSIP 740434816; Family Third Party Trust Preferreds; Acronym PPLUS; Symbol PJA (no preferred designation)**

The underlying security of this hybrid preferred issued by PREFERREDPLUS Trust-QWS2, is a 7.75% Note due 02/15/31 issued by Qwest Capital Funding, Inc. (formerly US West Capital Funding Inc), a wholly owned subsidiary of Qwest Communications Intl Inc (Q). Qwest provides coast-to-coast industry-leading fiber-optic Internet service, digital home phone service and DIRECTV service. They also offer a full package of network, data and voice and image communications to both large and small businesses, government entities and wholesale customers. Qwest will discontinue their wireless services October 31, thus customers will have to switch to a new provider. As an authorized agent for Verizon Wireless, Qwest Wireless customers who select Verizon as their provider would have combined billing for all Qwest services. For the second quarter 2009, Qwest reported revenues of \$3.09 billion, which was slightly lower than the \$3.38 billion reported for second quarter 2008. Second quarter net income increased to \$212 million from the \$180 million reported for the same period in 2008. This is a good issue for high-risk investors. **Buy at or below \$18.50.**

## Convertibles

**Bristow Group Inc, Coupon 3.00%; Maturity 06/15/2038; (Bond); Current Price 82.55; Current Yield 3.63%; Exchange OTC; Rated NA/BB; Call 06/15 at 100; Conversion Rate 12.9307; Common Stock Price \$29.18; Premium 118.49%; Pay Months 6/12; CUSIP 110394AC7.**

Bristow Group Inc. (BRS), formerly known as Offshore Logistics, is a major provider of a wide-range of services to the offshore oil and gas industry as well as other worldwide sectors. Through its brand names, Air Logistics and Bristow Helicopters, the company provides helicopter transportation, maintenance, search and rescue and other related services. They also offer pilot training through Bristow Academy. Bristow

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## Convertibles *(continued from page 3)*

has major operations in the U.S. Gulf of Mexico, the North Sea, and lesser operations in Alaska, Australia, Brazil, Mexico, Nigeria, Norway and Trinidad. Fiscal first quarter 2010 ending June 30 showed revenue increasing slightly to \$290 million over the \$284 million reported for the same pe-

riod last year. Net profit for the quarter was \$23.72 million compared to \$22.58 million last year. This bond should be bought for high-risk growth and income portfolios with the emphasis on growth. **Buy at or below 84.**

## Closed-End Funds

**Nicholas-Applegate Equity & Convertible & Income Fund;** *Current Price \$14.86; Current Indicated Yield 7.54%; Exchange NYSE; Discount from Net Asset Value -10.37%; Pay Cycle 3m; Expense Ratio 1.07%; Leverage None; CUSIP 65370K100; Family Closed-End Fund; Symbol (NIE)*

The fund's objective is to provide total return comprised of capital appreciation, current income and gains. It will pursue this objective by investing in a domestic portfolio of 60% equity securities and 40% income-producing convertible securities. These percentages will generally vary within a range of 20% above or below its initial allocation. The fund employs a strategy of writing call options on the stocks held, usually with respect to about 70% of the value of each stock position. The flexibility to use a varying mix of asset classes and strategies should modulate the return for the fund. This is a good investment for medium and high-risk total return portfolios. **Buy at or below \$15.25.**

**Nicholas-Applegate Global Equity & Convertible & Income Fund;** *Current Price \$12.98; Current Indicated Yield 9.25%; Exchange NYSE; Discount from Net Asset Value -11.69%; Pay Cycle 3m; Expense Ratio 1.23%; Leverage None; CUSIP 65370L108; Family Closed-End Fund; Symbol (NGZ)*

The fund takes a total return approach, striving to participate in a portion of equity upside potential combined with downside risk management from investments in convertibles. The fund invests in a portfolio of approximately 65% equity securities and 35% convertible secu-

rities. The current geographic allocation is roughly 40% international and 60% domestic securities. The fund will enhance yield and reduce risk by employing an option strategy of writing (selling) call options on stocks held in the portfolio. It will ordinarily write call options with respect to 70% of the value of the equity. In addition to being able to invest in several types of securities, the global investment option provides the fund a great deal of flexibility. This fund would fit well in a medium to high-risk growth and income portfolio. **Buy at or below \$13.50.**

**Cohen & Steers Select Utility Fund,** *Current Price \$13.28; Current Indicated Yield 7.23%; Exchange NYSE; Discount from Net Asset Value -12.00%; Pay Cycle 3e; Expense Ratio 1.62%; Leverage 40%; CUSIP 19248A109; Family Closed-End Fund; Symbol UTF (no preferred designation).*

This sector oriented closed-end fund's objective is to achieve a high level of after-tax total return through investment in the utility securities. The fund emphasizes both current income, consisting primarily of tax-advantaged dividends and capital appreciation. Under normal market conditions, the fund will invest at least 80% of its managed assets in a portfolio of common stocks, preferred stocks and other equity securities issued by utility companies. Duke Energy Corp, Entergy Corp, Southern Co, FPL Group Inc and Exelon Corp, are the largest of the 142 holdings in the funds portfolio. Electric Utilities make up 58% of the funds portfolio, 24% is in Multi Utilities and the remainder is scattered in other types of companies. Here is a conservative investment that would fit nicely into a growth and income medium to low-risk portfolio. **Buy at or below \$13.90.**

## Inflation

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bleak future even if they increase their previously meager savings rate. The foreign countries, who were piling up treasury notes from all their exports will find themselves accumulating less and even spending their accumulated dollar reserves to prop up the local economy which is no longer exporting as much.

Since the US Treasury will need to finance a couple of trillion dollars of deficit spending over the coming year, the loss of these foreign buyers presents a problem. Sure, increased domestic savings will absorb a portion of this need, but to deal with it all, interest rates will have to rise substantially to attract buyers. This in turn raises the concern that government borrowing will crowd out the financing needs of private industry and consumers, which leads to economic stagnation. Since high interest rates find their way into the cost of almost everything, inflation will likely begin.

But there are several other sources of inflation that threaten our

future. Short of a prolonged worldwide recession, the demand for raw materials (minerals) and basic resources (oil & gas) is growing faster than supplies, and new sources are more costly than the old. Ongoing financial speculation and hoarding of such resources only adds to the problem. Another source of inflation is government simply printing money. This was done at the height of the financial crisis, but can come in handy at other times such as if the government discerns that a dose of inflation would remedy many of our current short-term problems. No Treasury Department or Federal Reserve official would ever admit to such a policy, just as they would never admit they want to see a weak dollar, but nevertheless such things happen. A dose of inflation would be good for the economy right now, if only we knew how to stop it short of triggering another recession. But there is always someone in politics willing to give it a try. After all, if they're wrong, the biggest losers will be the rich.

Exch	Issuer	Coupon Rate %	Maturity	CUSIP	Current Price	Current Yield %	Yield to Maturity %	Ratings Moody	Ratings S&P	Call Date	Call Price	Yield to Worst %	'Recom- mend
<b>INVESTMENT GRADE</b>													
N/L	American Standard	7.63	02/15/2010	029717AM7	102.76	7.42	1.33	NR	BBB+	NC	NA	1.33	Hold
N/L	Firstar Bank N.A.	7.13	12/01/2009	33764RAA5	101.67	7.01	0.28	Aa2	A+	NC	NA	0.28	Hold
NY	Hanover Insurance Gp	7.63	10/15/2025	410867AA3	85.00	8.97	9.45	Baa3	BBB-	NC	NA	9.45	88
OTC	Intl Paper Co	7.96	06/15/2018	460146CA9	105.99	7.51	6.97	Baa3	BBB	NC	NA	6.97	107
OTC	Morgan Stanley	6.66	05/16/2018	61745ETB7	88.00	7.57	2.43	A2	AA-	5/11	100.00	2.43	90
N/L	Sara Lee Corp	6.13	11/01/2032	803111AM5	100.09	6.12	6.12	Baa1	BBB+	NC	NA	6.12	102
N/L	Union Pacific Resc	7.50	10/15/2026	907834AB1	97.51	7.69	7.76	Baa3	BBB-	NC	NA	7.76	99
<b>BELOW INVESTMENT GRADE</b>													
NY	AES Corporation	7.75	03/01/2014	00130HBC8	98.11	7.90	8.14	B1	BB-	NC	NA	8.14	100
NY	Amer & Foreign Power	5.00	03/01/2030	023663AB3	48.00	10.42	9.45	B2	B	Any	107.50	9.45	51
OTC	ArvinMeritor Inc	8.75	03/01/2012	043353AA9	86.59	10.11	15.23	Caa2	CCC-	NC	NA	15.23	89
N/L	Belo Corporation	7.25	09/15/2027	080555AF2	68.50	10.58	11.40	B1	B	NC	NA	11.40	70
OTC	CMS Energy Corp	6.55	07/17/2017	125896BA7	93.25	7.02	7.71	Ba1	BB+	NC	NA	7.71	95
OTC	Case New Holland Inc	7.13	03/01/2014	147446AM0	95.49	7.46	8.23	Ba3	BB+	3/10	103.56	8.23	98
OTC	Dycom Industries Inc	8.13	10/15/2015	267482AC1	87.50	9.29	10.98	Ba3	BB-	10/10	104.06	10.98	90
N/L	Goodyear T & R Co	7.86	08/15/2011	382550AH4	99.64	7.89	7.91	B2	B+	NC	NA	7.91	100
OTC	Hertz Corp	7.63	06/01/2012	428040BS7	91.59	8.33	11.06	B3	CCC+	NC	NA	11.06	94
NY	MBNA Capital Sec	8.28	12/01/2026	55263BAA9	90.25	9.17	9.43	Baa3	B	Any	104.14	9.43	92
OTC	Masco Corp	6.13	10/03/2016	574599BD7	91.47	6.70	7.62	Ba2	BBB	NC	NA	7.62	93
OTC	Peabody Energy Corp	7.38	11/01/2016	704549AE4	100.65	7.33	7.17	Ba1	BB+	NC	NA	7.17	102
OTC	Pilgrim's Pride Corp	8.38	05/01/2017	721467AF5	94.00	8.91	9.24	NR	NR	05/12	104.19	9.24	96
OTC	Reliant Energy Inc	7.88	06/15/2017	75952BAP0	89.85	8.76	9.76	B1	BB-	NC	NA	9.52	92
OTC	Senior Housing Ppty Tr	7.88	04/15/2015	81721MAB7	94.24	8.36	9.18	Ba1	BBB-	Any	103.94	9.18	96
OTC	Tesoro Corp	6.50	06/01/2017	881609AT8	88.10	7.38	8.55	Ba1	BB+	06/12	103.25	8.55	90
OTC	US West Comm	7.13	11/15/2043	912920AG0	74.00	9.63	9.76	Ba1	BBB-	11/13	102.74	9.76	77
OTC	Wynn Las Vegas LLC	6.63	12/01/2014	983130AD1	92.11	7.19	8.41	Ba2	BB+	12/09	103.31	8.40	94
<b>CLOSED END FUNDS</b>													
Symbol	Issuer	Current Price \$	Current Yield %	12 Mo Yield %	Net Asset Value \$	Premium Discount %	52 Week High \$	52 Week Low \$	52 Week High Date	52 Week Low Date	52 Week Low \$	Pay Periods	'Recom- mend \$
(AVK)	Advent Claymore Conv Inc Fd	13.70	8.22	9.93	15.82	-13.40	19.93	6.67	09/19/2008	10/10/2008	6.67	Monthly	14.500
(BOE)	Blackrock Gbl Opp Eqty Tr	17.65	12.89	12.89	18.27	-3.39	24.21	10.40	09/03/2008	10/10/2008	10.40	Feb,May	19.00
(UTF)	Cohen & Steers Sel Utly	13.28	7.23	9.86	15.09	-12.00	22.24	6.75	09/02/2008	03/09/2009	6.75	Monthly	13.90
(FFC)	Firly&Crum/Claymore Pfd In Fd	11.73	11.66	12.11	12.12	-3.22	13.86	3.40	09/08/2008	10/10/2008	3.40	Monthly	11.00
(BIO)	J Hancock Bk & Thrift Opp Fd	13.97	1.44	9.20	17.01	-17.87	23.67	8.43	11/14/2007	10/10/2008	8.43	Mar,Jun	13.50
(NIE)	Nich-Apple Eqty & Conv Inc	14.86	7.54	11.76	16.58	-10.37	19.45	8.61	09/02/2008	11/21/2008	8.61	Jan,Mar	15.25
(IPC)	Nuveen Multi-Stgy Inc & Gw	6.44	9.01	11.34	7.78	-17.22	8.99	2.61	09/02/2008	10/10/2008	2.61	Monthly	6.55
(IOC)	Nuveen Mlti-Stgy Inc & Gw 2	6.72	8.93	11.07	8.15	-17.55	9.19	2.75	09/02/2008	10/10/2008	2.75	Jan,Apr	6.75
(PEL)	PIMCO Fltg Rate Inc Fd	10.64	7.41	10.72	9.84	8.13	13.51	3.65	09/02/2008	03/10/2009	3.65	Monthly	11.00
<b>CANADIAN ENERGY/ROYALTY TRUSTS</b>													
Symbol	Issuer	Current Price \$	Indicated Yield %	Tax	52 Week High \$	52 Week High Date	52 Week Low \$	52 Week Low Date	Currency	Pay Periods	Country	'Recom- mend \$	
(ERE)	Enerplus Resources	29274D604	21.01	15%	42.42	09/02/2008	12.85	03/09/2009	USD	Monthly	Canada	24.00	
(HTE)	Harvest Energy Tr	41752X101	5.67	15%	20.01	09/02/2008	3.00	03/09/2009	USD	Monthly	Canada	6.25	
(PGH)	Pengrowth Energy Tr	706902509	8.62	15%	17.55	09/02/2008	4.51	03/03/2009	USD	Monthly	Canada	9.50	
(PWE)	Penn West Energy Tr	707885109	12.83	15%	28.81	09/02/2008	6.77	03/09/2009	USD	Monthly	Canada	15.00	
(PVX)	Provident Energy Tr	74386K104	5.27	15%	10.34	09/02/2008	2.23	03/03/2009	USD	Monthly	Canada	6.00	

1. Recommendation: accumulate at or below this price. NA: not applicable.

# CONVERTIBLES *previously recommended*

Exch	Issuer	Coupon Rate %	Maturity	CUSIP	Current Price	Current Yield %	Yield to Maturity %	Moody Rating	S&P Rating	Conversion Rate	Common Price \$	Premium %	Call Date	Call Price \$	Yield to Worst %
<b>INVESTMENT GRADE CONVERTIBLE BONDS</b>															
OTC	Intel Corp	2.95	12/15/2035	458140AD2	89.47	3.28	3.55	NR	A-	31.7162	20.17	39.86	12/12	100.00	3.55
<b>BELOW INVESTMENT GRADE CONVERTIBLE BONDS</b>															
OTC	Allied Waste Indu	4.25	04/15/2034	019589AD2	98.98	4.29	4.31	Ba3	BBB-	48.9476	25.68	-21.26	Any	100.00	4.31
N/L	AudioCodes Ltd	2.00	11/09/2024	050732AB2	93.00	2.15	2.56	NR	NR	53.4474	1.84	845.67	11/09	100.00	42.91
OTC	Exterran Holdings	4.75	06/15/2014	30225XAA1	102.66	4.13	3.58	NR	BB	43.1951	17.97	32.26	NC	NA	3.58
OTC	Human Genome Scie	2.25	10/15/2011	444903AK1	143.29	1.56	-14.64	NR	NR	64.3211	19.28	15.55	NC	NA	-14.64
N/L	Liberty Media Cor	4.00	11/15/2029	530715AG6	42.00	9.52	11.40	Ba2	BB+	11.4743	0.00	****.***	Any	100.00	11.40
OTC	LifePoint Hospita	3.50	05/15/2014	53219LAH2	83.26	4.18	7.71	NR	B	19.3095	25.12	71.65	NC	NA	7.71
OTC	NII Holdings Inc	3.13	06/15/2012	62913FAJ1	86.72	3.59	8.42	NA	B+	8.4517	23.52	336.25	NC	NA	8.42
OTC	Bristow Group Inc	3.00	06/15/2038	110394AC7	82.55	3.63	4.03	NR	BB	12.9307	29.21	118.56	06/15	100.00	4.03
*** = 11.4743 Shts(S) & 0.5737 Shts(EQ)															
Symbol	Family	Issuer	Issue %	Div. \$	Tax	CUSIP	Current Price \$	Current Yield %	Moody/S&P Ratings	Conversion Rate	Common Price \$	Premium %	Call Date	Call Price \$	Yield to Call %
<b>MANDATORY CONVERTIBLE PREFERRED</b>															
AIGA	MD	American Intl Gp	8.500%	6.38	OI	026874115	11.25	56.25	Ba2/NR	1.6447	-84.91		08/11*	Variable	NA
ADM A	MD	Archer-Daniels-Mi	6.250%	3.13	OI	039483201	38.81	7.67	NR/NR	1.0000	34.62		06/11*	Variable	NA
AVY A	MD	Avery Dennison Co	7.875%	3.94	OI	053611307	34.47	12.64	NR/BB+	0.7680	45.25		11/10*	Variable	NA
FCX M	MD	Freepport-McMoran	7.000%	7.00	15%	35671D782	95.50	7.07	NR/BB	1.3605	11.46		05/10*	Variable	NA
GXP F	MD	Great Plains Ener	12.000%	6.00	OI	391164803	61.00	9.85	NR/NR	2.9800	15.65		06/12*	Variable	NA
(LMI)	MD	Legg Mason Inc	7.00%	3.50	OI	524901303	33.05	10.59	WR/BBB-	0.8881	29.40		06/11*	Variable	NA
SGP B	MD	Schering-Plough C	6.000%	15.00	15%	806605705	242.30	6.75	Baa3/BBB	9.0909	-5.42		08/10*	Variable	NA
CJA	MD	Vale Capital Ltd	5.500% RI	2.75	15%	91912C208	39.98	6.29	NR/NR	0.8664	140.21		06/10*	Variable	NA
<b>OPTIONAL CONVERTIBLE PREFERRED</b>															
AMGZO	OP	Affiliated Mangrs	5.100%	2.55	OI	00169X203	33.64	7.75	NR/BB	0.3333	54.49		Sft C	50.00	NA
AHL	OP	Aspen Insur Hldgs	5.630% AH	2.82	OI	EP0179044	48.75	5.47	Ba1/BBB-	1.7077	12.39		Sft C	50.00	NA
BACL	OP	Bank of America C	7.250% L	72.50	15%	060505682	863.00	7.26	B3/B	20.0000	145.31		01/13	Variable	NA
BGEPF	OP	Bunge Ltd	4.875%	4.88	OI	EP0237628	89.50	5.45	Ba1/BB	1.0846	23.14		NC	NA	NA
CEP	OP	Celanese Corp	4.250%	1.06	15%	150870202	32.73	3.57	NR/NR	1.2500	2.80		Sft C	25.00	NA
CHK D	OP	Chesapeake Energy	4.500%	4.50	15%	165167842	74.90	6.65	NR/NR	2.2639	44.85		Sft C	100.00	NA
CCIKO	OP	Crown Castle Intl	6.250%	3.13	15%	228227401	50.35	6.09	NR/NR	1.3559	38.25		NC	NA	NA
EP C	OP	El Paso Egy Cptl	4.750%	2.38	OI	283678209	31.82	7.33	B2/B	1.2022	186.76		Any	50.48	High
EPR E	OP	Entertainment Pro	9.000% E	2.25	OI	29380T600	20.53	9.99	NR/NR	0.4512	45.09		04/13	25.00	NA
F S	OP	Ford Motor Cptl T	6.500%	3.25	OI	345395206	28.11	11.57	Ca/C	2.8249	37.44		Any	51.63	NA
HCN G	OP	Health Care REIT	7.500% G	1.88	OI	42217K502	31.86	6.01	NR/NR	0.7157	8.68		06/10	25.00	-18.51
HBANP	OP	Huntington Bancsh	8.500% A	85.00	15%	446150401	875.00	8.96	NR/NR	83.6680	129.34		NC	NA	NA
NEFIO	OP	Newell Fncl Tr I	5.250%	2.63	OI	651195307	32.25	8.14	WR/BB	0.9865	134.85		Any	50.79	High
OCR B	OP	Omnicare Inc	4.000% B	2.00	OI	68214Q200	34.24	6.57	B3/B	1.2248	22.13		Any	50.00	High
SPG I	OP	Simon Property Gp	6.000%	3.00	OI	828806802	56.20	0.15	Baa1/BBB	0.7830	12.82		Sft C	50.00	NA
(SNCT)	OP	Sovereign Capital	4.375%	2.16	OI	846048205	27.30	8.01	Baa2/BBB+	1.7214	2.78		Sft C	50.00	NA
URIRP	OP	United Rentals Tr	6.500%	3.25	OI	91136H306	21.95	14.81	Caal/CCC	1.2189	95.95		Any	51.30	High
WFCL	OP	Wells Fargo Compa	7.500% L	75.00	15%	949746804	852.50	9.76	Ba3/A-	6.3814	385.43		NC	NA	NA

1. Symbol: symbols in parentheses require no delimiters, all others require a preferred designation. 2. zero-coupon bonds. 3. Family: MD=Mandatory, OP=Optional. 4. Tax: OI=Ordinary Income Rate, 15%=15% tax rate.

'Symbol	Exch.	'Family	Issuer	Issue %	Div. \$	'Tax	²Cycle	CUSIP	Current Price \$	Current Yield %	Moody/S&P Rating	Call Date	Call Price \$	Yield to Call %	Debt Maturity	³Recom- mend \$
<b>INVESTMENT GRADE</b>																
(AEH)	NYS	Fg	Aegon NV	6.375%	1.58	15%	3m	007924301	12.88	10.09	Baa1/BBB	06/15	25.00	16.26	NA	15.00
AMP A	NYS	PB	Ameriprise Fincl Inc	7.750%	1.94	OI	3m	03076C205	24.08	8.05	A3/A	06/14	25.00	8.64	06/39	25.00
BSC C	NYS	Fg	Barclays Bank PLC	7.750%	1.94	15%	3m	06739H511	20.71	9.23	Baa2/BBB+	03/13	25.00	13.43	NA	23.00
(KTBC)	OTC	TPTP	BellSouth Corp (CorTS)	7.000%	1.75	OI	6/12	22081C208	23.00	7.61	A2/A	Any	25.00	High	12/95	24.00
(XVG)	NYS	TPTP	Boeing Corp (CBTCS)	6.050%	1.51	OI	2/8	21988G262	24.02	6.25	A2/A	Any	25.00	High	02/33	24.50
(HJT)	NYS	TPTP	Cummins Inc (SATURNS)	7.375%	1.84	OI	3/9	86360Y207	24.92	7.09	Baa3/BBB	08/11	25.00	5.19	03/98	25.50
(DRU)	NYS	PB	Dominion Resc Inc	8.375%	2.09	OI	3m	25746U604	26.50	7.54	Baa3/BBB	06/14	25.00	6.13	06/64	26.75
(DKM)	NYS	TPTP	Dow Chemical (SATURNS)	6.375%	1.60	OI	5/11	80411C207	23.90	6.60	Baa3/BBB-	Any	25.00	89.75	11/29	24.50
(GEC)	NYS	PB	General Elec Cptl Corp	6.100%	1.53	OI	2m	369622519	22.75	6.59	Aa2/AA+	Any	25.00	High	11/20	23.25
GS B	NYS	Perp	Goldman Sachs Gp	6.200%	0.00	15%	2m	38144X500	24.64	6.91	A3/BBB	Any	25.00	16.53	NA	25.00
PRE C	NYS	Fg	PartnerRe Ltd	6.750%	1.69	15%	3b	EP0081752	23.00	8.12	Baa1/BBB+	Any	25.00	High	NA	24.00
PSA K	NYS	REIT	Public Storage Inc	7.250%	1.81	OI	1b	74460D273	23.97	8.34	Baa1/BBB	08/11	25.00	16.06	NA	25.00
(PYS)	NYS	TPTP	R.R.Donnelle (PPLUS)	6.300%	1.58	OI	4/10	73941X593	16.56	11.77	Baa3/BBB	4/11	25.00	56.16	04/29	17.75
(KOS)	NYS	TPTP	Sherwin-Williams (CorTS)	7.250%	1.81	OI	2/8	22081Y200	25.06	8.00	A3/A-	Any	25.00	High	02/97	25.50
(TDA)	NYS	PB	Telephone & Data	7.600%	1.90	OI	1b	879433878	22.19	7.92	Baa2/BBB-	Any	25.00	81.94	12/41	23.00
(WCO)	NYS	TP	Wells Fargo Capital XIV	8.625%	2.16	OI	3m	949829204	26.73	7.91	A3/A-	09/13	25.00	6.60	09/68	26.75
<b>BELOW INVESTMENT GRADE</b>																
(PKM)	NYS	TPTP	Allmerica Fncl (PPLUS)	8.000%	2.00	OI	2/8	740434832	18.90	8.60	Ba1/BB-	Any	25.00	High	02/27	20.75
BAC H	NYS	Perp	Bank of America Corp	8.200%	2.05	15%	2b	060505765	22.05	9.28	B3/B	05/13	25.00	12.44	NA	23.00
BMR A	NYS	REIT	BioMed Realty Trust Inc	7.375%	1.85	OI	1m	09063H206	21.85	9.31	NR/NR	01/12	25.00	19.00	NA	22.50
CEG A	OTC	PB	Constellation Energy Gp	8.625%	2.16	OI	3m	210387205	24.79	9.60	Ba1/BB+	06/13	25.00	12.70	06/63	25.25
(PKJ)	NYS	TPTP	Cooper Tire&Rub (PPLUS)	8.000%	2.00	OI	6/12	740434865	18.60	11.90	Caa1/B	Any	25.00	High	12/19	20.00
(DDT)	NYS	TP	Dillard's Cptl Tr I	7.500%	1.88	OI	2b	25406P200	13.90	10.03	Caa1/CCC-	Any	25.00	High	08/38	15.00
EPR B	NYS	REIT	Entertainment Prop Tr	7.750%	1.94	OI	1m	29380T303	19.40	11.05	NR/NR	01/10	25.00	High	NA	21.00
FCH C	NYS	REIT	Felcor Lodging Tr Inc	8.000%	2.00	OI	1e	31430F507	11.00	19.96	Caa2/C/	04/10	25.00	High	NA	12.00
(PIJ)	NYS	TPTP	Ford Motor Co (PPLUS)	7.400%	1.85	OI	5/11	740434600	15.00	11.56	Ca/CCC-	Any	25.00	High	11/46	16.50
HCP F	NYS	REIT	HCP Inc	7.100%	1.78	OI	3e	40414L208	22.44	8.76	Ba1/BB+	Any	25.00	High	NA	23.75
HCN F	NYS	REIT	Health Care REIT Inc	7.625%	1.91	OI	1m	42217K403	23.53	8.07	Baa3/BB	Any	25.00	High	NA	24.75
(IGK)	NYS	Fg	ING Groep NV	8.500%	2.13	15%	3m	456837806	16.55	12.84	Ba1/BBB	09/13	25.00	21.05	NA	18.00
(JBN)	NYS	TPTP	J.C.Penney (CBTCS)	7.000%	1.75	OI	3/9	21988T207	20.95	7.94	Ba1/BB	01/12	25.00	12.89	03/97	22.25
(PYA)	NYS	TPTP	Liberty Media (PPLUS)	7.000%	1.75	OI	2/8	73941X668	15.65	12.60	Ba2/BB+	08/09	25.00	High	02/30	16.50
(XFJ)	NYS	TPTP	Motorola Inc (CBTCS)	8.375%	2.09	OI	5/11	21988G387	21.95	9.54	Baa3/BB+	Any	25.00	High	11/28	22.50
NXY B	NYS	Fg	Nexen Inc	7.350%	1.84	15%	2b	65334H508	22.45	7.79	Ba1/BB+	Any	25.00	96.40	11/43	23.75
OHI D	NYS	REIT	Omega Hlthc Inv Inc	8.375%	2.10	OI	2m	681936407	23.68	9.71	B2/B+	Any	25.00	228.57	NA	24.75
RBS M	NYS	Fg	Royal Bk Scotland Gp	6.400%	1.60	15%	3e	780097796	9.50	16.67	B3/CCC+	09/09	25.00	9872.87	NA	10.50
(CWZ)	NYS	TPTP	Royal Carb (CBTCS)	8.875%	2.22	OI	4/10	21988G650	20.32	10.91	Ba3/BB-	Any	25.00	**** **	10/27	22.25
SLM A	NYS	Perp	SLM Corp	6.970%	3.49	15%	1e	78442P205	34.41	10.10	Ba3/BB-	11/09	50.00	252.98	NA	36.50
(GJD)	NYS	TPTP	Sprint Corp (STRATS)	6.500%	1.63	OI	5/11	784788200	15.00	12.30	Ba2/BB	Any	25.00	1351.14	11/28	16.50
(KCC)	NYS	TPTP	UnumProvident (CorTS)	8.200%	2.05	OI	3/9	22081B200	22.99	9.01	Ba2/BB	Any	27.68	0.00	03/38	23.75
(KTX)	NYS	TPTP	Xerox Cap (CorTS)	8.000%	2.00	OI	2/8	220804207	24.05	9.25	Baa3/BB+	Any	25.55	277.69	02/27	25.00

1. **Symbol:** symbols in parentheses require no preferred designation, all others require a preferred designation. **2. Cycle:** denotes dividend payment months. 1: Jan., Apr., Jul., Oct.; 2: Feb., May., Aug., Nov.; 3: Mar., Jun., Sep., Dec.; M: monthly; b: beginning of month; m: middle of month; e: end of month; two numbers, e.g., 5/11: semiannual pay. **3. Recommendation:** accumulate at or below this price. NR: not rated. NA: not applicable. **4. Family:** Fg=foreign, PB=PET Bonds, TP= Trust Preferreds, TPTP= Third Party Trust Preferreds, PERP = Perpetual, pship=partnership **5. Tax:** OI=Ordinary Income Rate, 15%=15% tax rate.

# RATING CHANGES AND NEW ISSUANCE

## Corporate Bonds

Issuer	Agency	Action	New Rating	Issuer	Agency	Action	New Rating	Issuer	Agency	Action	New Rating
ABN Amro Holdings	M	-	Aa3	DPL Inc	M	+	Aa3	Nicor Inc	M	+	Aa3
AES Corp	M	+	A3	DTE Energy Co	M	+	A2	Northeast Utilities	M	+	A2
Allegheny Energy Inc	M	+	Baa1	Developers Diversifi	S	-	BB	Northwestern Corp	M	+	A3
Amer Capital Ltd	S	-	B-	Duke Energy Corp	M	+	A1	Novelis Inc	M	-	Caa1
Ameren Corp	M	+	Baa2	E*Trade Finl Corp	S	+	CCC	Pepco Holdings Inc	M	+	A3
American Elec Power	M	-	Baa1	Edison International	M	+	A1	Portland Gen Electr	M	+	A3
American Water Works	M	+	A2	Energy Corp	M	+	Baa1	Progress Energy Inc	M	+	A1
Avista Corp	M	+	Baa1	Exelon Corp	M	+	Baa1	Puget Energy Inc	M	+	Baa1
Berkshire Hathaway	M	+	A2	FirstEnergy Corp	M	+	Baa1	Sirius XM Radio Inc	S	+	CCC+
Black Hills Corp	M	+	A3	Fortune Brands Inc	M	-	Baa3	Snap-On Inc	M	-	Baa1
Buckeye Technologies	M	+	B1	Huntsman Corp	M	-	B3	Westar Energy Inc	M	+	Baa1
CMS Energy Corp	M	+	A3	Laclede Group Inc	M	+	A2	Xcel Energy Inc	M	+	A2
Centerpoint Energy	M	+	Baa1	Liz Claiborne Inc	M/S	-	Caa1/B-				
Citizens Republic	M	-	Caa2	Manpower Inc	M	-	Baa3				
Coso Geothermal Pwr	M	-	Ba1	Mosaic Co/The	M	+	Baa2				

+ : upgrade; - : downgrade;  
Alrt - : possible downgrade; Alrt + : possible upgrade

## Rating Changes

Issuer	Agency	Action	Rating
AES Corp	S	+	BB
Abbey National PLC	M	-	Baa3
Ameren Corp	M	+	Ba2
American Elec Power	M	-	Baa3
Bank of America Corp	M	Alrt+	
Citizens Republic	M	-	Caa2
Colonial BancGroup	M	-	C
Developers Divers	M	Alrt-	
Georgia-Pacific LLC	S	Alrt+	
Markel Corp	S	+	BBBu
Puget Energy Inc	M	+	Baa1
Westar Energy Inc	M	+	Baa1
iStar Financial Inc	M/S	-	C/CCC-

## New Preferreds Issued in August

Issuer	Symbol	Issue	Moody/S&P Ratings	Par Value
Weingarten Realty In	WRD	8.100%	Baa2/BBB	20.00

cv = convertible

## FAQs

- Q. *Why are some recommended securities no longer listed on pages 5-7?*
- A. We have limited space in the newsletter, so when new recommendations are made some of the older recommendations have to be dropped. This does not mean they have been sold; we will always have an explicit sell recommendation on page two before removing a security. All previously recommended securities are on the web site.

## For Investors Seeking Steady Monthly Income

### Low-risk Portfolio

This investment-grade portfolio comprises securities with ratings of BBB or better. It will be the lowest yielding, but also the most secure. Capital appreciation is not a goal. Principal protection is primary.

Symbol	Issuer	Coupon Series	Price	Qty	Rpt Date
(KTBC)	BellSouth Corp (CorTS)	7.000	23.00	600	05/09
(XVG)	Boeing Corp (CBTCS)	6.050	24.02	500	11/08
(DKM)	Dow Chemical (SATURNS)	6.375	23.90	500	01/09
(GEC)	General Elec Cptl Corp	6.100	22.75	500	11/08
GS B	Goldman Sachs Gp	6.200	24.64	500	01/09
PRE C	PartnerRe Ltd	6.750	23.00	600	06/09
PSA K	Public Storage Inc	7.250	23.97	600	08/08
(KOS)	Sherwin-Williams (CorT)	7.250	25.06	500	05/09
(WCO)	Wells Fargo Capital XI	8.625	26.73	500	09/08

#### Summary Statistics

Monthly Payout Average:	\$703
Current yield on portfolio:	7.31%
Inception Value: (1/1/09)	\$106,205
Last month's value:	\$112,610
Current value of portfolio	\$115,532
Current value + year to date income:	\$121,156
<b>Year to Date Total Return</b>	<b>14.08%</b>

### Medium-risk Portfolio

Some of the securities are rated below BBB. Capital appreciation is not a goal in this portfolio, but rather high current income. Safety of principal and yield are given equal weight.

Symbol	Issuer	Coupon Series	Price	Qty	Rpt Date
(UTF)	Cohen & Steers Select	NA	13.28	700	09/09
(HJT)	Cummins Inc (SATURNS)	7.375	24.92	500	08/09
HCN F	Health Care REIT Inc	7.625	23.53	600	08/08
(JBN)	J.C.Penney (CBTCS)	7.000	20.95	700	01/09
(XFJ)	Motorola Inc (CBTCS)	8.375	21.95	700	01/09
NXY B	Nexen Inc	7.350	22.45	600	08/09
(PYS)	R.R.Donnelley (PPLUS)	6.300	16.56	700	10/08
(TDA)	Telephone & Data Syste	7.600	22.19	600	06/09
(KCC)	UnumProvident (CorTS)	8.200	22.99	600	01/09
(KTX)	Xerox Cap (CorTS)	8.000	24.05	600	01/09

#### Summary Statistics

Monthly Payout Average:	\$1,006
Current yield on portfolio:	9.37%
Inception Value: (1/1/09)	\$100,132
Last month's value:	\$123,208
Current value of portfolio	\$128,775
Current value + year to date income:	\$136,823
<b>Year to Date Total Return</b>	<b>36.64%</b>

## For Investors Seeking Income and Growth

### High-risk Portfolio

These securities are all below investment grade, and some are not rated. High current income is the primary goal, but capital appreciation can also be expected. Safety of principal is secondary to yield.

Symbol	Issuer	Coupon Series	Price	Qty	Rpt Date
(PKM)	Allmerica Fncl (PPLUS)	8.000	18.90	800	06/08
BMR A	BioMed Realty Trust In	7.375	21.85	800	01/08
(ERF)	Enerplus Resources Fd	NA	21.01	500	02/09
HCP F	HCP Inc	7.100	22.44	700	11/08
(BTO)	Hancock Bk & Thrift O	NA	13.97	1000	10/08
(JQC)	Nuveen Mlti-St Inc&Gw	NA	6.72	2000	05/08
OHI D	Omega Hlthc Inv Inc	8.375	23.68	600	01/09
(PWE)	Penn West Energy Tr	NA	12.83	600	02/09
SLM A	SLM Corp	6.970	34.41	600	01/09

#### Summary Statistics

Monthly Payout Average:	\$933
Current yield on portfolio:	8.45%
Inception Value: (1/1/09)	\$96,545
Last month's value:	\$128,949
Current value of portfolio	\$132,504
Current value + year to date income:	\$139,968
<b>Year to Date Total Return</b>	<b>44.98%</b>

### Multi-driver Portfolio

The Multiple Driver Portfolio includes diverse income generating sources (drivers).

Symbol	Issuer	Coupon Series	Price	Qty	Rpt Date
ADM A	Archer-Daniels-Midland	6.250	38.81	300	07/08
BAC H	Bank of America Corp	8.200	22.05	500	08/09
(UTF)	Cohen & Steers Select	NA	13.28	900	09/09
(ERF)	Enerplus Resources Fd	NA	21.01	500	02/09
FCX M	Freeport-McMoRan C&G	7.000	95.50	300	06/08
GS B	Goldman Sachs Gp	6.200	24.64	500	01/09
HCN F	Health Care REIT Inc	7.625	23.53	500	08/08
(NIE)	Nich-Apple Eqty & Conv	NA	14.86	700	09/09
(JPC)	Nuveen Mlti-St Inc & G	NA	6.44	2000	05/09
(PWE)	Penn West Energy Tr	NA	12.83	900	02/09

#### Summary Statistics

Monthly Payout Average:	\$960
Current yield on portfolio:	8.68%
Inception Value: (1/1/09)	\$101,952
Last month's value:	\$131,057
Current value of portfolio	\$132,689
Current value + year to date income:	\$140,369
<b>Year to Date Total Return</b>	<b>37.68%</b>

**Symbol:** symbols in parentheses require no preferred designation, all others require a preferred designation. \*15% Taxable Dividend

## Comparative Current Yields

Security Type	Yields 8/31/09	Net Change Month	Net Change Y.T.D.	Spread 12/31/08	Spread 8/31/09
<b>U.S. TREASURIES &amp; EURO BENCHMARKS</b>					
Ten Year	3.40	-8	119	2.21	
Inflation Indexed	1.73	-1	-26	1.99	-167
Ten Year Euro(1)	3.26	-4	31	2.95	-14
Euro Spot Rate	1.433	49	258	1.397	

<b>CORPORATE BONDS<sup>2</sup></b>					
AAA	3.73	-29	-136	5.09	33
A	4.95	-27	-249	7.44	155
BBB	6.10	-44	-353	9.63	270
BB	9.11	-12	-549	14.60	571
B	10.74	-41	-738	18.12	734
CCC	16.64	30	-1447	31.11	1324

<b>PREFERRED STOCKS<sup>3</sup></b>					
AA & A	7.28	-78	-169	8.97	388
BBB	7.27	-150	-472	11.99	387
BB	9.32	-145	-594	15.26	592
B	11.25	-119	-1790	29.15	785

<b>QUALIFIED DIVIDEND INCOME (QDI) PFDS<sup>4</sup></b>					<b>— Yields —</b>	
Invstmt. Grade	6.86	9	-95	7.81	172%	
Below Inv. Grade	9.41	155	182	7.59	235%	

<b>MUNICIPAL BONDS<sup>5</sup></b>					<b>— Yields —</b>	
AAA (Insured)	3.24	-8	-67	3.91	95%	
A	4.30	-11	-22	4.52	126%	
BBB	4.92	-15	-96	5.88	145%	

<sup>1</sup>Rate for ten-year German government bonds.

<sup>2</sup>Per Merrill Lynch.

<sup>3</sup>Per the Income Securities Advisor Index.

<sup>4</sup>Eligible for 15% tax rate. Yields shown at after tax % of US Treasuries rate.

<sup>5</sup>Per Bloomberg. Yields shown at after tax % of US Treasuries rate.

### EXPLANATION OF INTEREST RATE TABLE

The monthly table displays **Current Yields** for ten-year maturities of various debt instruments compared to the benchmark ten-year Treasuries. Note that preferred stocks often have no maturity or are callable in less than ten years.

The **Net Change** for the month- and year-to-date shows the change in basis points (100 basis points equals 1% in yield). A change in the U.S. Treasury rate is considered a change in the risk-free interest rate. The changes for the other securities reflect this same change plus whatever other risks investors perceive at the time.

The change in **Spreads** represents the difference between risk-free ten-year U.S. Treasuries and each security. A widening of spreads means an increased concern about credit quality. A sudden widening of spreads is considered a flight to quality. Spreads identify which securities are out of line with historical relationships and represent buying opportunities.

Since **Municipal Bonds** are tax exempt, their **yields** should be looked at in terms of their percentage of Treasury yields. Thus, if a muni yields 87% of Treasuries, it means it should be considered by anyone whose incremental tax rate is higher than the reciprocal of that number, or 13%. Hence, the higher the yield percentage, the lower your incremental tax needs to be, to make munis attractive or to look at them another way, more of their income is retained after taxes.

not being prepared is very high. Hence, being early will in retrospect be the lesser cost.

I know it is depressing to have to worry about adverse events in the near future after having suffered through the recent financial meltdown, but we know that as far back as biblical times, the good years and the bad years had a habit of coming in waves; seven being a particular favorite. While we are all aware of how costly the housing bubble has been, this financial crisis burst an even bigger bubble in our economy, the consumption bubble. People have become aware they need to save more, which means they will be spending less on everything. It will take the economy a few years to crank down to the new level of ongoing consumption. While this more directly affects equity than income investors, there is an increased concern for risk, so market volatility in fixed income markets will continue for a while. Such a situation leads to many investors stretching for yield through assuming greater risk. Now, while our medium and high risk portfolios are showing the best returns this year (see model portfolios on page 9), they are still quite vulnerable given the fragility of the economy. I advise focusing on the multi-driver portfolio which tracks the performance of the medium and high risk portfolios without the same level of risk.

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