Minutes
AAII Orange County Chapter
Monthly Meeting, March 11, 2011
Balearic Community Center
1975 Balearic Dr.
Costa Mesa, CA 92626

President Bob Welge brought the meeting to order shortly after 6:30 pm. Beginning with preliminary announcements, Bob drew members' attention to the availability of Chapter contact information and handouts for today's talk on the side table, and of coffee at the back table. Bob acknowledged the efforts of the Chapter's leaders: Facilities Chair Craig Stoddard, Treasurer Dave McMillin, and Bill Phillips, Hospitality Chair, for putting up signs and setting up the room.

Bob next announced the schedule of future chapter meetings. There will be no meeting in April. The next meeting will be on Saturday May 14th (usual date and time), when Peter Miller, Statistics Director of *Barron's* will make a presentation on *Predicting Market Trends with Barron's*. Remarkably, Bob has already set up the meeting schedule for the remainder of the year: June 4th, Robert Trommler presents *Reverse Mortgages as an Alternative Asset*; July, no meeting; August 20th, Benjamin Shepherd presents *Time-tested Mutual Fund Managers and Investment Strategies*; September 17th (special time 1pm), Matthew McCall presents *Economic Indicators, the Market and ETFs*; October, no meeting; November, Herb Farrington presents *Federal and State Income Tax Law Update*; and December, no meeting. Good job, Bob! Further details on these future events and other Orange County Chapter information can be viewed on Bob's website http://www.robertsgeneral.com.

Bob then introduced today's speaker, Roger S. Conrad, who gave a presentation entitled *Beating the Yield Chasers: Scoring High Yields for 2011 and Beyond*. Since 1986 Roger has published a stock advisory letter Utility Forecaster, which has top risk-adjusted performance according to the Hulbert newsletter advisory service. Roger also electronically publishes a second advisory letter, *Canadian Edge*, which focuses on companies headquartered there, and is the author of the book *Power Hungry: Strategic Investing in Telecommunications, Utilities and Other Essential Services*. By a show of hands, ca. 1/5th of the audience indicated he/she subscribes to one of Mr. Conrad's publications.

As to whether the market may yield a third year of gains, on the one hand, (1) corporate rates are still very low and companies have done so much refinancing that there is little risk of them having to borrow if the economy goes bad, (2) companies generally turned in good 4th quarter 2010 results, (3) dividend growth has returned and (4) the prices of many dividend-paying stocks are lower than their early 2008 highs. On the other hand, (1) investors have higher expectations, so there's less room for disappointment, (2) some industries (natural gas producers, banks) are still weak, (3) there's some risk of inflation, or more likely (4) risk of deflation. The risk to utilities is their requests for rate increases may be denied because rate-payers have to spend their money on gasoline and fuel instead.

It's time to manage yield: (1) focus on total return, (2) stick to stocks and avoid bonds, (3) shop for dividend growth as the best insurance against *both* inflation and deflation, (4) focus on company fundamentals (know who's writing the [dividend] checks), (5) buy quality when others are disappointed, and (6) avoid the highest yielding securities.

Factors favoring the electric power industry are (1) the substantial amount of deleveraging recently accomplished, (2) low stock prices relative to the DJUA, (3) increased capital spending and favorable regulation will result in big total returns, and (4) the long-term trend of demand for electricity is up. Conrad recommends Exelon (EXC) and Integrys Energy Group (TEG), is cautious about Southern California Edison (SCE) and would avoid PG&E (PCG).

Conrad is bullish on natural gas producers, including Canadian firms. He noted (1) they yield 5-8%, (2) increased production from shale, (3) contracts are typically signed by customers before new projects are begun, (4) dividend growth is accelerating, and (5) master limited partnerships (MLP's) are tax advantaged. Among the Canadian firms, he likes Provident Energy (PVX) and Pembina (PBNPF). The situation with Canadian Income Trusts is that, because the Canadian government destroyed their tax advantages, most have now converted to corporations, yet they have cut their dividends very little or not at all. They are also attractive because (1) of [prices lowered by] uncertainty over their conversion to corporations, (2) their dividends are now growing again, and (3) their payouts are in Canadian dollars.

Conrad recommends energy 'super producers.' These are energy companies that yield 5-8%, have increased production of oil and natural gas liquids, improved refining margins, and have acquired cheap natural gas reserves. Three recommended companies: Enersis (ENI), Enerplus (ERF) and Chevron (CVX).

For diversification, Conrad favors high-yielding telecom companies. These should yield 6-9%, be participating in the global connectivity explosion, and have large cash flows to support their high yields. Because investors fear government intervention, both prices and earnings expectations are low. Recommended are Verizon (VZ), Frontier (FTR) and the Australian firm Telstra (TLSYY).

Conrad would avoid investing in (1) long-term bonds, (2) carried interest master limited partnerships, (3) mortgage REITs, (4) most closed-end bond funds, (5) municipal bonds unless you know the issuer well, and (6) securities with very high yields.

More information on Conrad's publications can be found on their respective websites: Utility Forecaster (utilityforecaster.com), Canadian Edge (canadianedge.com), and two additional websites – mlpprofits.com and mapleleafmemo.com.

Following the conclusion of Mr. Conrad’s presentation, President Bob Welge adjourned the meeting at 8 pm.