GREENWICH INVESTMENT MANAGEMENT

October 12, 2018

# *2018 THIRD QUARTER REVIEW*

## USEABLE WEALTH

Greenwich Investment Management (GIM) actively manages customized portfolios focusing on tangible cash income for our clients. The table below shows that in the first three quarters of 2018 GIM clients received approximately $19,046,955 in tax-exempt income and $1,848,823 in taxable income from the fixed income portfolio. Clients received approximately $6,476,279 in dividends from the common and preferred stock portfolio.

Cash income is evidence that your wealth returns something valuable to you. The return is not contingent upon your assets rising in price. This income flows into client portfolios on market up days and market down days. Our strategy is to enable your assets to generate cash income surplus to your requirements so that you may not need to invade principal to access money. Reinvestment of surplus income allows GIM clients to purchase new assets that in turn produce more income. Compound income is a powerful engine of growth.

As of the end of the third quarter, the current yield on GIM's tax-exempt bonds is 6.8% and the current yield on GIM's taxable bonds is 7.1%. For comparison, the current yield of the Barclays Long Term Municipal Index is 4.5%. Current yield is defined as cash income divided by market value. Clients who wish to understand more about bond mathematics should call Dan Laflamme (203-625-5316).

The current yield on the GIM common and preferred stock portfolio as of September 30, 2018 is 6.8%. The S&P 500 has a current yield of 1.7%. GIM clients expect to receive four times the current yield offered by an S&P 500 fund.

GIM complies with Global Investment Performance Standards ("GIPS"). We submit our performance data to PSN Enterprise, a database of investment managers. Each quarter PSN awards its Top Guns designation to the top 10 performers in each investment universe. In the PSN Municipal Fixed Income Universe, comprised of 98 managers and 203 strategies, GIM has won the Top Guns award for the trailing three-year period for sixteen consecutive quarters. A copy of the latest Top Guns report (second quarter 2018) is attached to this letter.[6]

The Financial Times (FT), a well known economic and business publication, placed GIM as one of their Top 300 registered investment advisers (RIAs) in the US. FT selects from over 2000 RIAs based on advisers' SEC compliance record, AUM, asset growth, company's age, industry certifications of key employees and online accessibility when inviting RIAs to compete for a spot on this elite list. GIM is one of 5 RIAs from Connecticut selected for this honor[7].

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[1] Tax-exempt bonds represent 66.6 percent of the GIM master composite as of September 30, 2018.
[2] Taxable bonds represent 9.5 percent of the GIM master composite as of September 30, 2018.
[3] Equities represent 16.0 percent of the GIM master Composite as of September 30, 2018.

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## THE DIVIDEND GROWTH MONITOR (DGM) and THE EARNINGS GROWTH MONITOR (EGM)

The DGM and the EGM seek to handicap the possibilities of achieving a return, the objective of owning a financial asset such as common stock. We arbitrarily divide the assets of interest to GIM into those that pay the owner money, i.e., dividends and those that promise to pay no money, i.e., pay no dividends. The assets that we place in the DGM are often described as "value" stocks. The assets that we place in the EGM are often described as "growth" stocks.

The separation of the equity assets into the named groups is arbitrary. The word "value" suggests that there is a group of stocks that we can describe as "valueless." Though more than a handful of stocks may lack value, we know of no category named "The Valueless Universe." Similarly to designate a group as "growth equities" suggests that the value stocks have no potential for growth. The names that we use are normative terms that reflect the observer's bias as well as the extant common vocabulary of the financial community.

Clients of GIM and interested parties will have the opportunity to receive twice a month a publication that includes the DGM and EGM. We will explore the arithmetic of asset valuation. Be assured that reading our letter will not require mathematical training. We will attempt to inform and in equal measure to entertain. If one perceives our effort as a certain cure for insomnia, we will endeavor to enliven the dialogue.

### THE DGM EXPLAINED

Many common stocks pay a dividend. The decision to pay a dividend is made by the board of directors. Not many years ago most corporations were owned by their management. There was no reason to pay a dividend. During the 20th century management and ownership separated. Today most corporations are owned by shareholders who have no management role or responsibility. The payment of dividends is a reward to shareholders whom management hopes will remain anonymous.

Many successful corporations do not pay a dividend. Berkshire Hathaway and Amazon pay no dividend. The high repute of those corporations leads many investors to reject dividend paying corporations. Corporations operating in rapidly growing businesses retain all earnings to fuel growth. Amazon is such a company. Berkshire Hathaway is a conglomerate whose management proclaims the ability to manage corporate money to achieve results superior to what the unwashed masses could achieve on their own advice.

GIM's Equity Unit focuses our analytical resources on common stocks that produce cash flow, i.e., dividends. Those equities frequently have a special tax status that effectively compels dividend payments. REIT's, BDC's and closed end investment companies are examples of equities that distribute essentially all of their profits to shareholders. Doing so allows the entities to escape federal income taxation of their profits.

In our next quarterly report we will analyze the usefulness of the DGM and EGM.

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[6] Working with a Top Guns Manager or any wealth manager is no guarantee as to future investment success, and the inclusion of a wealth manager on the Top Guns list should not be construed as an endorsement of the manager by PSN. For more information on the Top Guns award and the research/selection methodology, please see the attached information.

[7] The Financial Times 300 Top Registered Investment Advisers is an independent listing produced annually by the *Financial Times* (June 2018). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. The listing reflected each practice's performance in six primary areas: assets under management, asset growth, compliance record, years in existence, credentials and online accessibility. This award does not

## NOTICES

- History Report has been updated to include Average Capital Base (ACB). ACB is the dollars that management has had to work with over the management horizon.

- Please let us know if you want to receive your Quarterly Reports in electronic format via our secure website.

- If you have had a change in circumstances that would alter your Statement of Investment Objectives, please contact our service team at Greenwich Investment Management.

- Thank you for continued support of Greenwich Investment Management. We appreciate your loyalty. Many GIM clients have been clients (of GIM or predecessor firms) for 5, 10, 20 or even 30 years. Although performance has varied, they have experienced the continuous flow of income throughout those years.

- A referral is the best compliment you can give. If you think someone you know could benefit from our work, then please ask them to contact our office. We are available for conversation or meetings to determine if we are a match for their investment goals.

*Disclosures:*
*Performance presented here represents past performance, which cannot guarantee future results. Investment return and principle value will fluctuate so that an investor's account value, at some future date, may be greater than or less than its value at inception. Current performance may be higher or lower than the performance quoted here. All investments involve risk, including loss of principal.*

*The performance numbers in this letter reflect actual returns of all equities and tax-exempt bonds held by all GIM portfolios during the period indicated. Not all clients hold the same securities and performance will be different for each client based on securities held, the length of time held, and expenses incurred. Net performance results reflect the deduction of actual advisory fees at rates up to 1% per annum and include the reinvestment of dividends and income. Clients may also incur other transaction costs such as custodial fees and other expenses. Please refer to the Investment Advisor Agreement for a full disclosure of the applicable fee schedule. The volatility of the indices may be materially different from that of the performance of the Composite. In addition, the Composite's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare the Composite's performance, but rather are disclosed to allow for comparison of the Composite's performance to that of well-known and widely recognized indices.*

*The return of principal for bonds is not guaranteed. Bonds are subject to interest rate, inflation, and credit risks. Income from municipal bonds may be subject to state and local income taxes and/or the federal alternative minimum tax. Clients may receive other income such as capital gains that is taxable.*
*This material is for informational purposes only and should not be used or construed as recommendation regarding any security or be used as the sole basis for any investment decision. Not all GIM clients hold the same securities; therefore, a client's percentage held, and income earned may be different from the information presented in the first paragraph of this letter.*

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