

# Business

## Outlook so so for stocks, good for preferreds

**T**he "Santa Rally" came Christmas week, but stocks and bonds are still about flat for the year. That is understandable. It's often said that investors don't like uncertainty, not about the economic and profit outlook, and especially



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not about interest rates. They have both now. How many interest rate hikes will there be in 2016? The Fed expects four. Wall Street expects fewer. Most analysts expect the economy to muddle along at its 2 percent growth rate.

For those reasons, Goldman Sachs has a tempered outlook for stocks, expecting the S&P 500 to have a flat year. Bank of America is more optimistic and expects 2200. Morgan Stanley is in the middle, forecasting 2150 and annual returns of only 5 percent for the next decade. Table-pounding bulls are missing.

Citigroup is by far the most negative on the economy. They say the risk of a U.S. recession will reach 65 percent next year as the Fed, by raising short-term rates, creates an inverted yield curve (short-term rates higher than long-term rates).

If these tempered views are correct, then preferred stocks will continue to be in the sweet spot. These outside-the-box securities are often overlooked because they are not liquid enough for large institutional investors.

Plus, brokers don't follow them because people invest in preferreds rather than trade them. This is all to our advantage.

In my October 1 article, I listed some of those that I hold in client accounts. My first selection was Renaissance Re Preferred 'C,' which yields 6 percent. There is very little downside to this security unless interest rates soar. They will not.

Another re-insurer is Partner Re. After being acquired, its Preferred 'D' will not be callable for five years and its coupon will be raised to 7.5%. The Partner Re and Renaissance Re preferreds pay qualified dividends. That's a plus.

Then I recommended two REIT preferreds. Of the two, my favorite is Saul Centers Preferred 'C.' It yields 6.7 percent (not qualified) and will go ex-dividend next week. It doesn't trade a lot so use a limit order.

These and other preferred stocks play a key role in my managed account business. When stocks move sideways as they did in 2015 and are expected to do in 2016, then receiving 6 percent from dividends in securities that don't move much is very attractive.

When it comes to investing, boring can be good. Happy New Year!

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