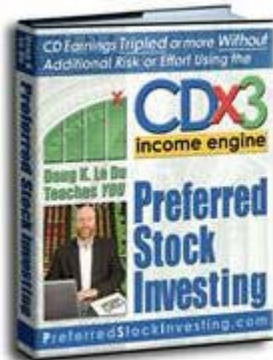


To: CDx3Newsletter@PreferredStockInvesting.com

Subject: CDx3 Newsletter: July 2007



CDx3 Newsletter

Respectable Returns At CD-Like Risk

Subscribe For Free | View As: [PDF](#) [WebPage](#)

July 2007

IN THIS ISSUE

- ▶ Last Month's CDx3 Investor Results
- ▶ Special Announcement
- ▶ CDx3 Company Spotlight
- ▶ CDx3 Question Of The Month
- ▶ FREE Special Offer
- ▶ Next Month's Sneak Peek

With the announcement of the paperback version of **Preferred Stock Investing** in [last month's CDx3 Newsletter](#), things have been very busy. So first, let me thank those of you who have taken the time to purchase the **Preferred Stock Investing** paperback over the last few weeks. Your congratulatory comments and great questions are very much appreciated.

Click on the **Preferred Stock Investing** cover image at the top of this CDx3 Newsletter to see current pricing and purchasing offers for both the paperback and eBook versions from your favorite

retailers.

In the Last Month's CDx3 Investor Results section below, I use the activity from June to illustrate an example of what economists call "rational expectations." June was an interesting month in that, even though there was no change in prevailing interest rates in the U.S. economy by the Federal Reserve Board, the market behaved as if there was - simply because they expected it to be so. The effects of a group of people creating their own reality were on display during June and it made for an interesting month for CDx3 Investors.

In the Special Announcement section, special attention is given to two limited time offers that you can find on **Preferred Stock Investing's** web site at <http://www.PreferredStockInvesting.com>. There are two chances for you to receive a Shell Gift Card, good for gas and/or store merchandise at any of the 13,000 U.S. Shell stations.



And the CDx3 Company Spotlight this month is on Public Storage, Inc. Public Storage is probably the most prolific issuer of CDx3 Preferred Stocks. The last CDx3 Preferred Stock issued during 2005 was from Public Storage; of the 25 CDx3 Preferred Stocks issued during 2006, 4 of them were from Public Storage; and, the very first CDx3 Preferred Stock issued during 2007 was from, you guessed it, Public Storage. Public Storage is also one of the companies used throughout **Preferred Stock Investing** (pages 54 and 71) to illustrate various aspects of the CDx3 Income Engine at work.

CDx3 Preferred Stocks produce a mix of dividend income plus capital gain income. As interest rates in the U.S. economy change, so does this mix. But are CDx3 Investors better off when interest rates are going up or going down? The CDx3 Question Of The Month uses data from **Preferred Stock Investing** to illustrate how interest rates in the U.S. economy affect CDx3 Investors.

And don't forget that you, as a reader of this CDx3 Newsletter, are entitled to my FREE Special Offer. See details below.

▶ Last Month's CDx3 Investor Results

As you saw in this section of the CDx3 Newsletters for [January](#), [February](#), [March](#), [April](#) and [May](#), CDx3 Investors have been selling their CDx3 Preferred Stocks all year, and on the exact day that the CDx3 Income Engine said they should, for great returns.

In June, the CDx3 Income Engine told CDx3 Investors to hold onto their CDx3 Preferred Stocks, rather than sell them. And here's why:

THE RULE OF RATE/PRICE OPPOSITION

With CDx3 Preferred Stocks, you make two streams of income - regular *dividend income* plus *capital gain income* when you sell your CDx3 Preferred Stocks for a higher market price than you originally paid. Depending on the direction of prevailing interest rates in the U.S. economy, you will make more of one than the other.

If there is upward pressure on the prevailing interest rates in the U.S. economy, the dividend rate being paid by new

fixed-income investments, such as bank CDs, bonds and CDx3 Preferred Stocks, will also tend to increase ("fixed-income investments" are those that make fixed, periodic payments to you).



So, during a period of increasing interest rates, CDx3 Investors look forward to increasing dividend income on newly purchased CDx3 Preferred Stocks.

But also as interest rates increase, the market price of older, lower dividend paying fixed-income investments falls - if you want someone to buy your older, lower dividend paying fixed-income investment, you'll have to give them a darn good price, right?

This inverse relationship between the interest rates and market prices of fixed-income investments is what **Preferred Stock Investing** refers to as the "Rule of Rate/Price Opposition."

Therefore, during periods of *increasing* interest rates, the CDx3 Income Engine produces more dividend income, but less capital gain income. Conversely, during periods of *decreasing* interest rates, the opposite is true - less dividend income, since interest (dividend) rates are lower, but more capital gain income, since market prices go higher.

This is why, regardless of the direction of interest rates in the U.S. economy, the CDx3 Income Engine continues to provide solid returns for CDx3 Investors, always trading one type of income for another. The interesting thing about last month was that, even though interest rates remained stable, the market prices of fixed-income investments went down anyway - at least for a couple of weeks.

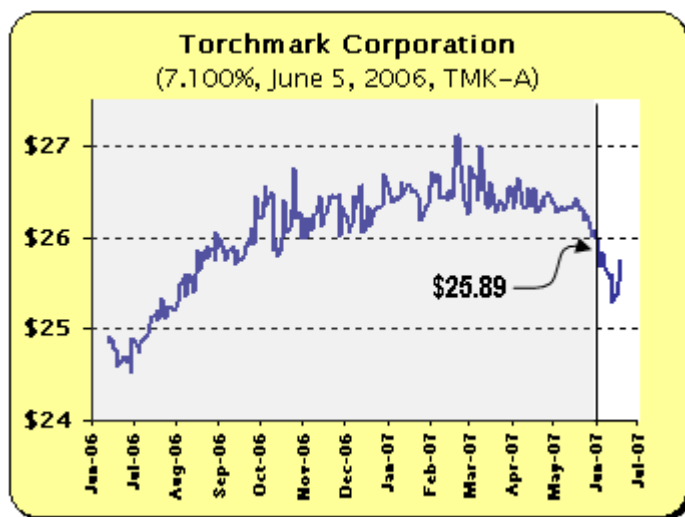
RATIONAL EXPECTATIONS

Economists describe a phenomenon called "rational expectations." The idea behind rational expectations is that a market will behave the way people, collectively, expect it to behave, regardless if their expectations are grounded in reality or not. Last month, June, provided an excellent example of rational expectations at work.

Through May of this year, investors had been expecting the Federal Reserve Board (the "Fed") to lower interest rates. Consequently, Wall Street has been behaving as if an interest rate reduction was already happening. With the expectation that interest rates would be going down, the dividend rate on newly issued fixed-income investments, such as CDx3 Preferred Stocks, has been slightly lower than it would have been otherwise (the 3-month moving average dividend rate of CDx3 Preferred Stocks fell from 7.0% in April to 6.9% during May). Even though the Fed has left interest rates unchanged since August 2006, the market has been behaving as if there has been a reduction, *because the market expected there to be one*.

THE CDx3 INCOME ENGINE SIGNALS CDx3 INVESTORS- "HOLD 'EM"

Last month, however, it became clear that an interest rate reduction was not imminent after all. Interest rates in several foreign markets actually increased during June. With its hopes dashed, Wall Street shifted its behavior away from the idea that interest rates were going to be going down. Rather, investors started to behave as if interest rates on fixed-income investments were going to go up and, correspondingly, the market prices of such investments went down (including the market prices of CDx3 Preferred Stocks) - even though the Fed left interest rates unchanged, and has since August 2006.



Here's an example of how rational expectations caused the price of a CDx3 Preferred Stock to drop during June, using the Series A CDx3 Preferred Stock from Torchmark (TMK-A). See how the market price of TMK-A suddenly dropped in June? Wall Street was expecting an interest rate increase, so prices dropped (the Rule of Rate/Price Opposition).

The CDx3 Income Engine set the Target Sell Price for TMK-A at **\$25.89**, so CDx3 Investors are looking for a market price at that level or higher before they consider selling.

As long as the market price is below the Target Sell Price set by the CDx3 Income Engine (\$25.89), CDx3

Investors will hold onto their shares of TMK-A, and rack up more dividend income, rather than selling. In this way, the CDx3 Income Engine tells CDx3 Investors to hold their CDx3 Preferred Stocks until conditions are more favorable.

Special Announcement



Many Happy Returns



Special Announcement #1- Signed Preferred Stock Investing paperback:

You will receive a special **signed edition** when you order the paperback version of **Preferred Stock Investing** directly off of the book's web site. Also, you will automatically become eligible for a free \$20 Shell Gift Card when you open a new account at TD Ameritrade ([why TD Ameritrade?](#)). Click here to see details of my [\\$20 Shell Gift Card Offer](#).

Even if you don't end up opening a TD Ameritrade account, you're still getting **Preferred Stock Investing** for the same low price (\$19.95) as the other retailers are charging, plus yours will be **signed**.

This offer is valid only for paperback orders placed at <http://www.PreferredStockInvesting.com>.

Special Announcement #2- \$30 Shell Gift Card For New CDx3 Notification Service Subscribers:

The [CDx3 Notification Service](#) is an email notification service for those who would prefer to receive a simple email message whenever there is a buying or selling opportunity for CDx3 Preferred Stocks, rather than looking it up themselves.

New subscribers to the CDx3 Notification Service who open a new account at TD Ameritrade ([why TD Ameritrade?](#)) will receive a \$30 Shell Gift Card. Click here to see details of my [\\$30 Shell Gift Card Offer](#).

▶ CDx3 Company Spotlight

Who are these companies that issue CDx3 Preferred Stocks?



One of my favorite CDx3 Preferred Stock companies is Public Storage, Inc.

It always amazes me how much money Public Storage can make from people who just cannot part with their old couch and lawn chairs.

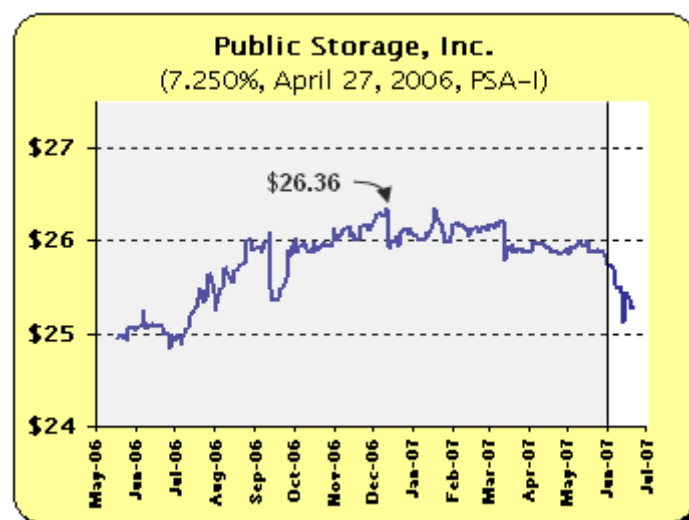
Public Storage (NYSE: PSA) is a \$13.6 billion real estate investment trust headquartered in Glendale, California. As of December 31, 2006, the company had interests in 2,003 self-storage facilities with approximately 125 million net rentable square feet in 38 states; and 166 self-storage facilities with approximately 8.7 million net rentable square feet in 7 western European nations. It also had direct and indirect equity interests in approximately 20 million net rentable square feet of commercial space located in 11 states.

Public Storage is a frequent issuer of CDx3 Preferred Stocks and, historically, their CDx3 Preferred Stocks have performed quite well for CDx3 Investors.

On April 27, 2006 Public Storage issued their Series I CDx3 Preferred Stock (PSA-I), paying a 7.25% annual dividend.

CDx3 Investors generally purchase CDx3 Preferred Stocks for about \$25. The CDx3 Income Engine set the Target Sell Price for PSA-I at **\$26.36**.

The following daily high market price chart for PSA-I illustrates a couple of interesting features of the CDx3 Income Engine.



First, last December, the CDx3 Income Engine told CDx3 Investors to look for the Target Sell Price, \$26.36, on December 12. As indicated on the above chart, on that day, the market price of PSA-I hit **\$26.36**, exactly, producing an effective annual return of 18.27% for CDx3 Investors who sold PSA-I on that day. In April 2006, bank CDs were paying about 4.5% interest, so CDx3 Investors made over quadruple (4.06x) what they would have made had they invested in bank CDs.

Secondly, the above PSA-I market price chart provides another example of the "rational expectations" described in the above Last Month's CDx3 Investor Results section; note the price drop in June, 2007. CDx3 Investors who chose not to sell PSA-I last December held onto it in June and, thereby, collected additional dividend income rather than capital gain income.

The next opportunity to sell PSA-I will present itself in mid-September.

▶ CDx3 Question Of The Month

Question:

From StephanieH: Does the CDx3 Income Engine produce more income for me when interest rates are going up or when they are going down?

Answer:

This is a great question and one that I get asked fairly often. As I mentioned in the Last Month's CDx3 Investor Results section above, the CDx3 Income Engine continually produces both dividend income and capital gain income for CDx3 Investors.

As prevailing interest rates in the U.S. economy fluctuate, so does the mix of dividend income and capital gain income produced by your CDx3 Preferred Stocks. When interest rates increase, your dividend income goes up and your capital gain income goes down (since the market price that you can sell your CDx3 Preferred Stocks for

decreases when interest rates go up).

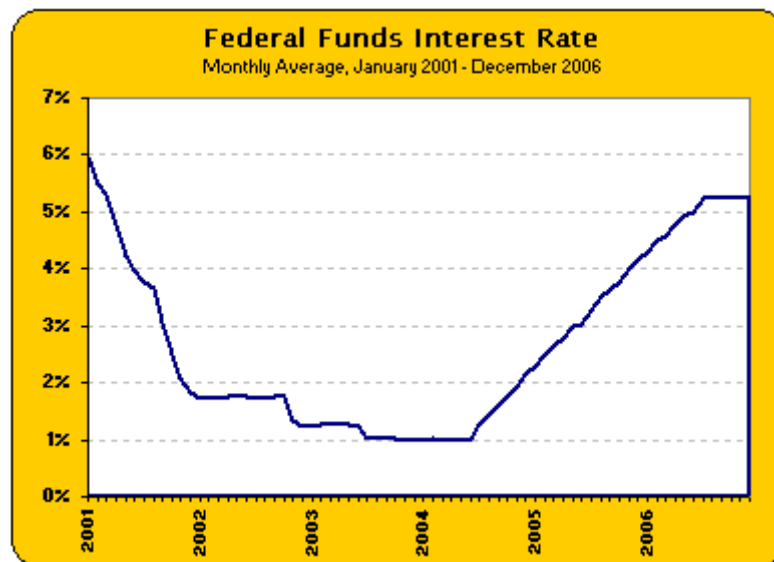
Conversely, when interest rates go down, the dividend income from new CDx3 Preferred Stock is reduced accordingly, but the market price of your older, higher dividend paying CDx3 Preferred Stocks goes up, so your capital gain income increases.

So, to StephanieH's question, are CDx3 Investors better off when interest rates are increasing or decreasing?

Let's look at the data. **Preferred Stock Investing** presents the investment results for every CDx3 Preferred Stock issued between January 2001 and December 2006 (plus free downloadable updates). This time period is important, since it includes a historically long period of continually *decreasing* interest rates (January 2001 through mid-2003), and a similarly historically long period of continually *increasing* interest rates through July 2006.

Here's a chart from page 46 of **Preferred Stock Investing** of what is perhaps the most watched interest rate in the U.S. economy - the Federal Funds Rate.

2001: Notice how this key interest rate steadily decreased, then steadily increased. CDx3 Preferred Stocks that were issued during 2001 were bought and sold by CDx3 Investors during a period of *decreasing* interest rates and produced an average effective annual return for 2001 CDx3 Preferred Stocks of **12.2%**.

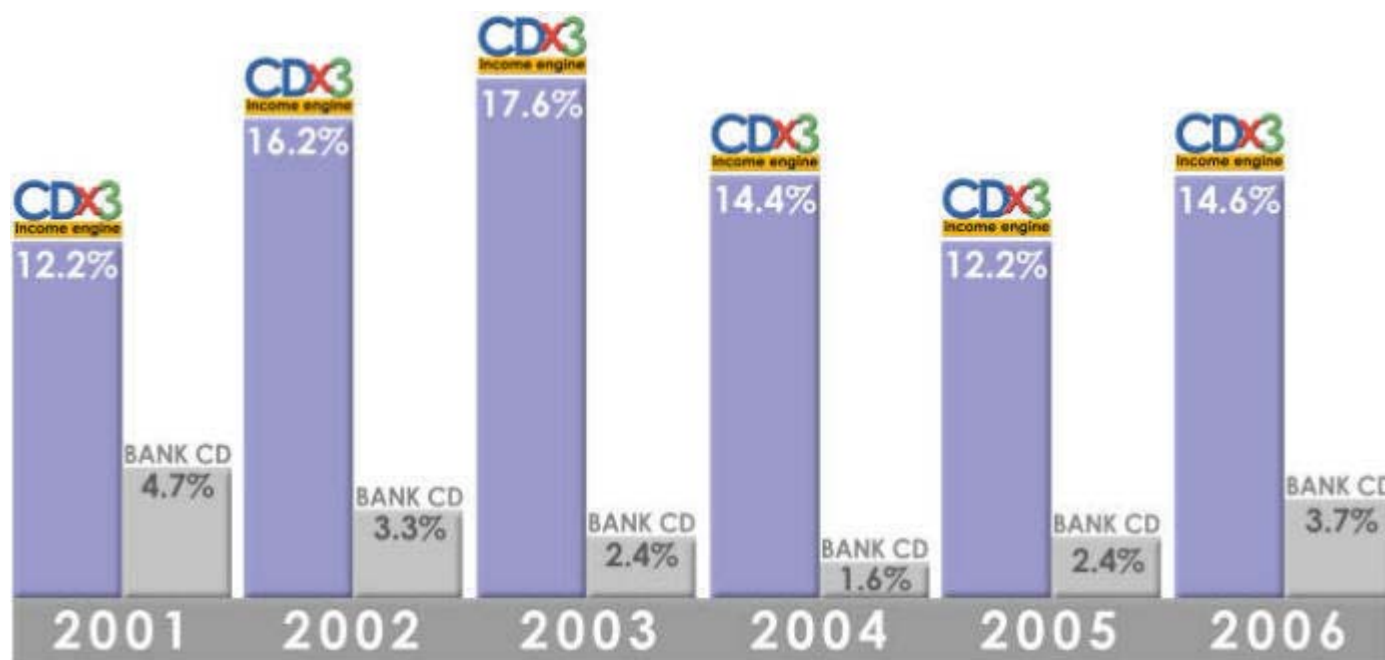


2005: Conversely, CDx3 Preferred Stocks that were issued during 2005 were bought and sold during a period of *increasing* interest rates. What was the average effective annual return for 2005 CDx3 Preferred Stocks? **12.2%**.

The CDx3 Income Engine produced the same overall results for CDx3 Investors during a period of decreasing interest rates as it did during a period of increasing interest rates - trading dividend income for capital gain income as interest rates fell (and prices rose) and vice versa as interest rates went back up (and prices dropped).

CDx3 Preferred Stocks issued during 2002 and 2003 were sold, primarily, during 2003 and 2004, respectively, after interest rates had stopped decreasing. Therefore, CDx3 Preferred Stocks issued during 2001 must be used for this comparison.

Here's the average effective annual return for all CDx3 Preferred Stocks issued between January 2001 and December 2006 compared to average bank CDs:



Notice how the average effective annual return produced by the CDx3 Income Engine in 2001 and 2005 is the same - 12.2%. So, I conclude that there is nothing in this data to suggest that the CDx3 Income Engine produces more, or less, income for CDx3 Investors when interest rates are going up or down. The CDx3 Income Engine simply trades one type of income for another.

Thanks to StephanieH for the great question. You will receive a complementary copy of the CDx3 Special Report *Dividend Accounting*.

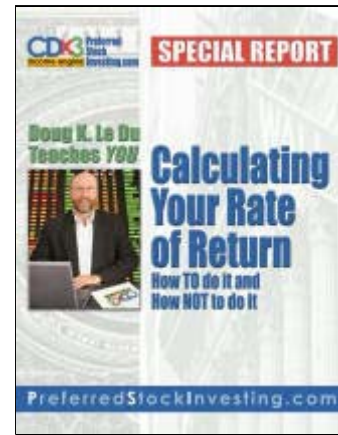
If you have a question regarding the CDx3 Income Engine, just send an email message to FAQ@PreferredStockInvesting.com or visit the Preferred Stock Investing [Google Group](http://groups.google.com/group/preferred-stock-investing) (<http://groups.google.com/group/preferred-stock-investing>), join the group (using an anonymous nick name) and post your question there for others to see.

▶ FREE Special Offer

As a recipient of this monthly CDx3 Newsletter, you are entitled to a FREE copy of the CDx3 Special Report titled "Calculating Your Rate Of Return."

This CDx3 Special Report shows you how to correctly calculate your effective annual rate of return on this type of investment, complete with the Microsoft Excel cell functions - **FREE**.

To download your free copy, just click on the following email address (or just send an email message to): CDx3Newsletter@PreferredStockInvesting.com. No need to type anything in the body of the message, just click the Send button. You will receive an auto-reply email message with download instructions for your free CDx3 Special Report.



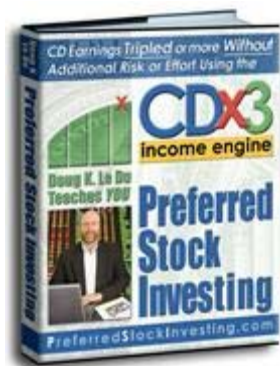
To see the entire library of useful and educational CDx3 Special Reports, including three sample pages from each one, [click here](#).

▶ Next Month's Sneak Peek

In next month's CDx3 Newsletter we will see if Wall Street's rational expectations produce market prices for CDx3 Preferred Stocks that are closer to where reality (stable, unchanging interest rates) sets them. If Wall Street stops behaving as if interest rates are heading up, CDx3 Investors will return to the selling (capital gain) mode that they have been in for almost a year now.

A bell weather CDx3 Preferred Stock to watch is the Series C CDx3 Preferred Stock from Bank of America (BAC-C). On Friday, July 27, CDx3 Investors who own BAC-C will be looking to sell it if the market price reaches, or exceeds, \$25.43.

Remember, I'm not a stock broker; I'm not trying to sell preferred stocks to you; I'm not a financial advisor; and I don't sell investment advice. I'm an investment researcher with a data analysis and statistics background who has developed a simple way to earn a respectable return at "CD-like" risk. And I've written it down in **Preferred Stock Investing**. I'm hopeful that you find these monthly CDx3 Newsletters interesting, and will consider learning more by purchasing my book, **Preferred Stock Investing**.



Please take a look at <http://www.PreferredStockInvesting.com>. And don't forget about my **FREE SPECIAL OFFER**.

Know someone who might be interested in simple, low-risk investing for non-investment experts? Have them send an email message to CDx3Newsletter@PreferredStockInvesting.com and they will automatically begin receiving this monthly CDx3 Newsletter next month (plus a CDx3 Special Report) - all FREE. Then they can make up their own mind.

Many Happy Returns,

Doug K. Le Du

P.S.: If you do not want to receive news regarding **Preferred Stock Investing**, just send an email message to OptOut@PreferredStockInvesting.com and you will be automatically removed from my address list. Best wishes to you.

Copyright (c) 2007 by Doug K. Le Du

CD Times 3, CDx3, CDx3 Income Engine, CDx3 Investor, CDx3 Portfolio, CDx3 Preferred Stock are trademarks of Doug K. Le Du. All rights reserved. Company logos are trademarks of the indicated companies. Service Marks (SM) are service marks of the indicated companies.

This CDx3 Newsletter is formatted for computer screens with a minimum of 1024 horizontal pixels as required for display on Google Groups.