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# THE WALL STREET TRANSCRIPT

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## Latest Comments

*"I still see a softer landing from an economic perspective, even though we're contracting. But inflation is trending down. So the need for the Fed to raise interest rates is no longer there."*

*Joseph Rinaldi,*
*Quantum Financial Advisors*

## Investing Strategies

In this issue of *The Wall Street Transcript*, seasoned money managers discuss navigating today's uncertain market and playing the trends for the longer term.

Joseph Rinaldi is President and CEO at Quantum Financial Advisors.

"Utility stocks offer a high dividend at this juncture. And anytime you can earn 5% qualified dividends, which are more tax-friendly than regular CDs or bonds, it's a great place to be. And if you look at the utility sector, stocks have come down quite a bit; some of them are close to their 52-week low.

"We are enamored with Duke Energy. That's a five-star utility that has performed very well. And we've been adding in the high-$80s, offering a dividend close to 5%. We also like FirstEnergy for the same reason. And Dominion Energy, which is a great add at this juncture; their dividend yield is over 5%."

P. Ross Taylor III is a Partner with ARS Investment Partners.

# Increasing Exposure to High Dividend Utility Stocks and Bank CDs

JOSEPH RINALDI, QUANTUM FINANCIAL ADVISORS, INC.

**JOSEPH RINALDI** is President and Chief Investment Officer at Quantum Financial Advisors, Inc. Mr. Rinaldi worked in capital markets for nearly three decades for companies such as Dimes Savings Bank, Morgan Stanley, Maryland National Bank — now Bank of America — and The Resolution Trust Corporation. His career has encompassed asset securitization, risk management and trading. During the S&L debacle, he traded over $40 billion worth of assets from banks he took over for the government. Afterward, he started his own SEC investment advisory firm that has a successful 20-plus-year track record. In addition, he teaches "Futures, Options, and Derivatives" class at the Robert H. Smith School of Business at the University of Maryland, the Carey School of Business at Johns Hopkins and the Stern School of Business at New York University to both graduate and undergraduate students. He also co-authored *A Beginning Guide to Alternative Assets* with Dr. Howard Lodge. Mr. Rinaldi graduated from Hofstra University with a BBA and received an MBA from Pace University.

**SECTOR — GENERAL INVESTING**

**(AHV540) TWST: Please start with a brief introduction to Quantum and your role there?**

**Mr. Rinaldi:** We've been around since 1996. Basically, our focus is asset allocation and sector rotation. We utilize a proprietary model called Delta Vega to overlay a risk management model on our client portfolios.

**TWST: What are you monitoring most closely now that is impacting any of the subsectors and companies you follow? Anything causing significant impacts?**

**Mr. Rinaldi:** Yes. Basically, the mile high view is we're monitoring inflation levels, which, at 3% for the last 12 months, is only 1% above the target rate. It is coming down. So we're very optimistic that, although there is talk that the Fed is going to raise interest rates again this month, I'm optimistic that rate hikes are over. I don't believe that the Fed should raise again.

And I also think that we're still in a mild contraction/recession that will continue to contract the economy for the next two to three months.

**TWST: Are you seeing significant impacts related to things like the infrastructure spend, or the Inflation Reduction Act?**

**Mr. Rinaldi:** The challenging thing that I see is that monetary policy and fiscal policy have pulled out a double barrel shotgun and have increased expansionary efforts, the largest since probably World War II, where both monetary and fiscal policy have ballooned. And the stimulus has ballooned the federal deficit.

So, the challenge is where those monies are finding their home. And the infrastructure arena is a good area to focus on from an investment perspective. There are some ETFs that focus on that area. First Trust is one that has performed very well and that we use.

**TWST: Any other names you like benefitting from the infrastructure spend? Or areas you would avoid or advise caution?**

**Mr. Rinaldi:** While not advising caution, we are avoiding new positions in speculative equities. We are avoiding small-cap stocks right now. And we are sticking with the large-cap tech companies, like **Apple** (NASDAQ:AAPL), **Amazon** (NASDAQ:AMZN), **Microsoft** (NASDAQ:MSFT) and **Google** (NASDAQ:GOOG). Those have an AI component, and we feel comfortable investing in large-cap techs that are kind of quasi-monopolies.

Over the next 12 months, we believe earnings from large cap technology stocks will be more stable than their small-cap counterparts. The latter have been touted as a place to invest because of their emphasis on AI. However, some of those smaller companies can come and go quickly, so investors need to be careful.

**TWST: Can you share a closer look at your favorite names looking into the second half?**

**Mr. Rinaldi:** With everybody concerned about the Fed's tightening again this month, I'm on the sidelines. Over the summer, we're not adding to any more tech or equity-like investment. We are focused on trading options to minimize volatility. Selling calls is a logical strategy at this juncture if we're at a 52-week high, which we are, and the NASDAQ is up over 35% year-to-date.

Also, because interest rates have skyrocketed so quickly, utility stocks offer a high dividend at this juncture. And anytime you can earn 5% qualified dividends, which are more tax-friendly than regular CDs or bonds, it's a great place to be. And if you look at the utility sector, stocks have come down quite a bit; some of them are close to their 52-week low.

*"We are enamored with Duke Energy. That's a five-star utility that has performed very well. And we've been adding in the high-$80s, offering a dividend close to 5%. We also like FirstEnergy for the same reason. And Dominion Energy, which is a great add at this juncture; their dividend yield is over 5%."*

**TWST: Any other names that look like they're good buys now — possibly near a yearly low?**

**Mr. Rinaldi:** We are enamored with **Duke Energy** (NYSE:DUK). That's a five-star utility that has performed very well. And we've been adding in the high-$80s, offering a dividend close to 5%. We also like **FirstEnergy** (NYSE:FE) for the same reason. And **Dominion Energy** (NYSE:D), which is a great add at this juncture; their dividend yield is over 5%.

**TWST: Are these companies ESG conscious? Are they making an effort to reduce their carbon footprint?**

**Mr. Rinaldi:** Today, there's political sensitivity around ESG. These companies are focused more on producing energy — wind, solar, natural gas, etc. So they are doing their best to transition to ESG.

And we are careful about investing in ESG. Companies like **Duke**, **Dominion**, and **FirstEnergy** are transitioning their origination and power grid toward ESG-sensitive sources like wind. For example, **Dominion** had their own natural gas origination arm up until recently because they are trying to produce cleaner energy. So these companies are ESG sensitive at this time.

**TWST: Can you walk us through some examples of how you have most successfully overlaid derivatives and options to mitigate against volatility and to capture the uptrends?**

**Mr. Rinaldi:** Recently we've been buying and adding to tech companies, **Microsoft**, **Apple**, **Amazon**, **Google**. And we've been doing that since February of this year. We've enjoyed an increase of 35% in the last six months.

Realistically, that momentum cannot continue. Especially without the Fed reducing rates, as they're still potentially increasing rates. So now is a great time at their 52-week high from an intrinsic level of fundamental value, where they're at or slightly above their intrinsic value.

And we love tech, intermediate and long term. So I would not be an outright seller, but I do believe the asset and bear market levels will stall here. So I'm a natural seller of call options at this juncture on tech.

On the flip side, I love utilities, because of their high qualified dividend and tax sensitivity. So we are big buyers of the utility sector because of that. And from a price/earnings perspective, their p/e ratios declined considerably. They're all in the high teens to 20s. So they're cheaper. They discounted cash flow or intrinsic value. They're all below their intrinsic value. So we're buyers.

We've been adding to that sector the last 30 days for that reason. This is where our Delta Vega model comes in, selling puts to buy that sector at or slightly below their market level. So we're increasing income and adding to our positions. So **Duke** is on the top of the list, followed by **FirstEnergy** and **Dominion**.

**TWST: Give us a closer look at the firm's Nostradamus corner and how it's done so far in 2023. What do you see ahead in 2024? And how might you be positioning for the coming presidential election?**

**Mr. Rinaldi:** That's a real challenge because there are so many mixed currents in addition to the presidential election. There's the Russia-Ukraine war, there's faltering relations between the U.S. and China, there is a political backdrop here in the U.S. that is really concerning to me. And the presidential election around the corner is an additional risk.

So we are overlaying every client account with Delta Vega, generating extra income. So this means participating in the upside, while protecting our clients' capital over time. So we're cautious because of our risk management.

We still can participate in the upside, but we are protecting our downside, due to all of these uncertainties and mixed currents and because of the uncertainty, volatility increases. And we use that extra high volatility to generate extra current income for our clients to offset any depreciation of capital.

**1-Year Daily Chart of Duke Energy Corp.**

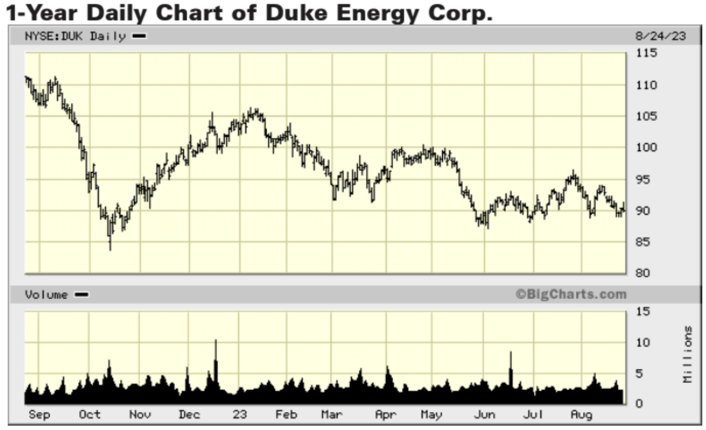


Chart provided by www.BigCharts.com

**TWST: Who are your average clients? Can you share a typical client profile?**

**Mr. Rinaldi:** Our average account size is between $1 million and $2 million. We have opened up an area of our business where we are promoting other advisers that come to us to overlay our risk management model for their clients. We've been approached to launch a hedge fund utilizing Delta Vega.

I'm an educator; I teach derivatives at some of the top business schools here in the U.S. and in China. So we're big proponents of promoting financial inclusion in education. So