



Stock Of The Week

## High-Income Junkie

John Dobosz, 07.08.04, 12:45 PM ET

Dr. **Marvin Appel**, co-editor of [Gerald Appel's Systems and Forecasts](#) with his father, **Gerald Appel**, recommends buying **Northeast Investors Trust**, one of the oldest high-yield bond mutual funds. The \$1.57 billion fund holds bonds, preferreds, dividend-paying common stocks, convertibles and warrants--many below investment grade--and has an expense ratio of 0.65%. Northeast Investors currently yields 8.26% and has gained 5.79% year-to-date. As of yesterday's close, the fund's net asset value was \$7.55 per share. Two generations of the **Monrad** family have managed the fund since its inception in 1950.

Appel's recommendation of Northeast Investors ( [NTHEX](#)) is based largely on technical analysis of total return history. "The past 48 months' return has averaged less than 5% per year, but is rising. Previous cycles have suggested that it has been relatively safe to buy when returns are on an upswing and at the current level," says Appel. Longer term, NTHEX broke out of a trading range that mired the entire high-yield group from 1998 to 2002. Says Appel: "The implication is that if high-yield cycles remain similar as they were in the past, Northeast Investors Trust could enjoy a prolonged period of attractive gains."

Forbes gurus just released a new free special report, "12 Stocks for the Summer of 2004." [Click here to download.](#)

**Special Offer: In 2003, Forbes bond guru Richard Lehmann delivered 47% in total return to investors in his highest-yielding model portfolio. To find out which preferreds, convertibles and utility stocks he's recommending today, [click here.](#)**

Based on 40 years of price data, Appel notes that it has been "more profitable and less risky to invest in NTHEX only when its six-to-19-week [moving average convergence-divergence of total return] has been positive, compared to buying and holding continuously. This favorable MACD condition is currently in place." He also points out the series of higher lows in the MACD each year since 2001--a sign of rising momentum.

Default rates are on the decline, and NTHEX, although it is a high-yield fund, maintains a fairly conservative investment posture (underweighting telecom debt) and keeps its maturities short. Appel assumes a stable outlook for interest rates through the end of the year, in the wake of extreme oversold conditions in May. "This fund, and high-yield bond funds generally," says Appel, "appear to be in the accelerating phase of a long-term profit cycle."



[Click here for a video with more information on Marvin Appel's recommendation of Northeast Investors Trust.](#)

Northeast Investors Trust is recommended in [Gerald Appel's Systems and Forecasts](#). For updates and more in-depth analysis from Gerald and Marvin Appel, please [click here.](#)

The investment above was recommended in Forbes Newsletters' free Stock of the Week e-mail. To receive Stock of the Week next Monday morning, [click here.](#)

*Send comments and questions to [investingnewsletters@forbes.net](mailto:investingnewsletters@forbes.net).*

[More Stock Of The Week Columns](#)

[Learn more/subscribe to Forbes Newsletters.](#)