Investors Alley
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The Dividend Hunter

Times like These are Why You Subscribe

Fellow Investor,

Stock market investing is easy when share prices are going up. It's when prices drop that it becomes tougher to hang in there and let your logical side stay in control against the emotional pain that comes with watching your investment values drop. As I write this, many higher yield stocks are in correction territory –greater than 10% decline– and the dividend paying energy stock values can only be described as a bear market, with many values down more than 25% and a large portion of those declines happening over the last month.

In This Issue

An important concept to understand is that shares prices often do not accurately reflect the value of the business of which they are small pieces of ownership. The large swings a stock price can take in a short period of time show that the share price is not a good indicator the underlying value of a company. Consider the extreme example of **Netflix Inc. (NASDAQ:NFLX)**. Over the past year, the NFLX share price has ranged between $45 and $118 per share. That's a 162% swing for a company that is doing the same thing this year as it was last year and you would never guess from the share price increase that net income per share has fallen over the last four quarters.

Staying with the NFLX illustration. When the stock was at $45, few investors wanted to own it, fearing that it would fall further. Once it got above $100, there were lots of investors who wanted to own NFLX, afraid that they would miss the next big move, never thinking that they may have already missed their chance. We all know the simple concept of buy low and sell high to make money. Yet for most investors and the fear and greed driven market it is one of the hardest ideas to actually practice. I get a lot more emails asking, "XYZ is dropping rapidly, should I sell my shares?" compared to, "EYZ is hitting new highs, should I sell and take a profit?"

Which brings us to the beauty and strength of being dividend focused investors. We continue to collect quarterly or monthly cash dividend payments even as the market goes through big downswings that make one's stomach hurt each time we log into our brokerage accounts. Consider The Dividend Hunter recommendation **STAG Industrial (NYSE:STAG)**. The STAG share price is down over 20% from when I first recommended the stock in January 2015. STAG is not unique and has fallen with the rest of the REIT sector. Yet, an investor who bought in January continues to earn a 5.6% yield with dividends coming every month. If you can buy in or add shares now, the current yield is 7.2%. As extra good news, the dividend rate is going up in August. At some point the

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correction in REITs will end, share prices will recover, and STAG will continue to grow its dividend rate. Dividend investors do not need to give in to the fears when the market is falling. If you own quality, higher-yield stocks, the hope is you can add shares at lower prices and increase your average yield.

When I research stocks to add to The Dividend Hunter recommendations list, my primary focus is that companies will be able to sustain their current dividend rates and have a high probability of growing those dividends over time. Even though most of the recommendations in the portfolio have been in the list and tracked for less than one year, over half have already increased their dividend rates at least once.

If you're following the Monthly Dividend Paycheck Calendar be sure to get the August update; just **CLICK HERE to get a copy**.

Land, Fly or Die,

Tim Plaehn
Editor
The Dividend Hunter

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Linn Energy and LinnCo – Where To From Here

On July 30, **Linn Energy LLC (NASDAQ:LINE)** released its second quarter earnings report and notified investors that the monthly distributions would be suspended after the third quarter. **LinnCo LLC (NASDAQ:LNCO)** is a subsidiary of Linn Energy, with each LNCO unit backed by one LINE unit. LinnCo tax reports using IRS Form 1099, instead of the K-1 LINE investors receive. The distribution suspension was a shock, and as I write this LINE and LNCO units have fallen another 25% on top of about 50% declines as crude price fell over the last two months. I reviewed the earnings release information and tuned in to the analyst conference call. Let me break down some of the real facts about Linn Energy.

Good Q2 Numbers

Results for the second quarter were above expectations and much better than those of Q1 2015. Average daily production was 1.5% higher than in Q1. Lease operating expenses were reduced by 18.5% compared to the first quarter. At the bottom line, distributable cash flow (as defined in Linn's unique way) came in at $179 million, giving 1.6 times coverage on the $108 million of distributions paid in the quarter. In the first quarter, cash flow was $67.7 million, coming up well short of the $105 million paid out to investors. For the first half of 2015, cash flow coverage was 1.16 times the distributions paid.

Over the last year and a half, Linn has been shifting to a focus on natural gas production. In the second quarter, gas production was up 35% compared to a year ago, and crude oil production was down 13%. These are volume numbers and not affected by commodity prices.

If Linn had not suspended the distributions, the Q2 results would probably have been viewed as good news and sparked a rally in the LINE and LNCO unit prices.

So What's Linn's Play?

With 100% of its natural gas production hedged through 2017 and crude oil hedged 90% for the rest of 2015 and 70% for 2016, Linn has good cash flow visibility for the next year and a half. After the end of 2016, and without any significant changes, a continuation of low energy prices would wipe out cash flow for the company. Linn management has taken an early step to stop paying distributions and use the cash to strengthen the balance sheet. Here is what I picked up from the conference call.

In the second quarter, Linn brought in $600 million of senior long term debt at a 35% discount to par. The goal is to reduce debt by $800 million at the end of 2015 compared to 2014. The debt reduction will save over $50 million per year in interest expense.

The company plans to work to sell non-operating assets, such as un-developed production properties. The process involves drilling some test wells and proving the production potential of the assets. Any capital realized from asset sales could go to either reducing debt or developing new wells in the production areas where Linn wants to continue to operate.

The current distribution rate represents $450 million in cash flow that can be used for other purposes. Total cost reductions including LOE, G&A expenses and interest are forecast to be $225 million per year. The result will be over $600 million of free cash flow from operations.

For the upstream MLP sector, I have been preaching that to survive the low crude and natural gas price environment, companies need to make meaningful acquisitions that are profitable in the current environment. Several of the major upstream MLPs have made meaningful moves to add cheap production assets. To date, Linn has not been able to ink that type of deal.

What's Linn Worth?

With no distributions to support a yield, valuing Linn becomes a different task. As a starting point, the current $4.07 unit price gives a $1.61 billion market cap. LNCO units are all backed by LINE units, so would be included in the $1.61 billion total. Here are some values to consider:

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From the balance sheet: oil and natural gas properties (successful efforts method) are valued at $17.9 billion. Subtracting accumulated depletion and amortization and adding in other property and the value of the derivatives book gives total assets of $15.5 billion. Total debt is $10.3 billion. On an assets basis, Linn has equity of about $5 billion.

Annual free cash flow, under the current hedging coverage is $500 to $600 million per year.

At this point LINE is valued at about 40% of my rough "book value" and at just four times annual free cash flow. Flipped around, that cash flow is a 25% return on equity. The low valuation is the result of a market view that Linn will be in trouble as high value hedges start to roll off the books.

Investment Considerations

First, the suspension of distributions blows up the idea of owning LINE or LNCO for the income. That stinks! However, Linn is not going out of business in the near future. The company has through at least next year to complete some combination of debt reduction and production increases through either drilling or acquisition. Earlier this year, Linn signed a couple of agreements that bring in up to $1.5 billion of outside money to fund drilling and/or acquisition projects. These agreements give most of the early cash flow of any projects to the outside partners, but could generate long term benefits to Linn. Management needs to find some opportunities that fit into the agreement parameters. One big disappointment from Linn is the failure to find opportunities to put this outside capital to work.

With no distributions, LINE and LNCO are almost pure plays on energy prices for the short to intermediate term. If natural gas, and especially crude prices, start to increase I would expect the unit prices to move up even faster. I also expect some price recovery after the big, post-announcement sell off runs its course. There are large numbers of investors that took a chance on LINE or LNCO based on the yield and that are now bailing out. It seems probable that unit prices could recover somewhat over the next few weeks to months. Now that the bad news is out about Linn, I am inclined to hang onto LINE or LNCO at least through the end of the year to see what happens.

Final note: From my reading of the materials, unit holders will receive monthly distributions for August and September. A small consolation, I know, but you will get paid to see if any type of price recovery happens between now and the end of Q3.

Recommendation: Hold LNCO at this time to see how everything works out.

Position: Long LNCO

How the Market Works When Prices Get Ugly

At the end of May, the values of most of The Dividend Hunter recommendations were above the entry prices in effect when the stocks were first recommended. I was feeling pretty good at that time. June and July were not kind to high yield share prices, with typical declines of about 10% over the two month period and more than a few of The Dividend Hunter high yield stocks dropping even further. As I noted in my intro, there is a widely held misconception that a short term change in a company's share price shows that something good or bad is happening with the company. The truth is that absent any real news about or from the company, share price changes are a function of how stock markets function to fill buy and sell orders.

A stock exchange operates to match buyers and sellers, so that every time an investor wants to buy or unload shares, there is another investor to take the other side of the trade. This is an important concept to grasp: Each stock trade involves someone who doesn't want or like a stock for whatever reason and a counterparty who thinks the stock is a good investment. The market's auction system operates to make sure that there is

always a counter party whenever someone wants to buy or sell a particular stock.

A share price changes when there is an imbalance of buyers or sellers. If more investors want to buy than there are sellers at the current price, the share price will increase until more existing share owners are willing to sell at the new higher price. However, a higher price can entice more even buyers and share owners can become more reluctant to sell because they see the price going up. These factors can continue to push the share price even higher. Higher share prices bring out greed on both sides, buyers don't want to miss out on the price run-up and share owners don't want to sell. As a result, the share price can continue to move higher, fueled only by the fact that the price is moving up.

The same thing happens when prices are falling. Share owners see the price dropping, get scared and want to sell. Potential buyers see a falling price and are reluctant to buy. The share price goes lower to attract buyers, but the lower price scares more share owners into placing sell orders and potential buyers hold out for even lower prices. The result is a share value that can fall much further than logic would indicate. To illustrate how extreme fear selling can affect share prices, I use an example from the last bear market. During the 2008-2009 stock market crash, I watched **Aircastle Limited (NYSE:AYR)** fall to under $3.00 per share. At that time, AYR was generating $4.00 per share per year in free cash flow. At that point in the fear cycle, Aircastle was valued at less than the amount of free cash it was generating every year. Within a year of the market bottom, AYR was trading around $12.

A fear-driven selling cycle in an individual stock or a market sector or the overall stock market becomes a completely mechanical response to investors trying to get out of a stock for the sole reason that the share price is falling. Think about this result of the market's continuous auction system. Lower prices bring out more sellers than buyers and higher prices give more buyers than sellers. The natural result is a greater number of investors will buy when prices are high and greater numbers will sell when share prices fall. The majority of emotion driven investors are pushed by those emotions to buy high and sell low. Not a recipe for investment success.

Your understanding of how the stock market process works should allow you to stick with your investments when prices are falling. It will also make it easier for you to logically, and unemotionally watch market declines and make future share purchases at lower share prices.

RBC Yorkville MLP Distribution Growth Leaders ETN

Consider this investment opportunity: A stock that pays an OK yield, but increases its dividend rate by 4% to 5% or more *every single quarter*. The result is high teens to 20% plus dividend or distribution growth each year. From a pure mathematical perspective, for the stock's yield to stay level, the share price must increase by the rate of dividend growth. For example, if a stock has a current yield of 3% and dividends are growing by 20% per year, an investor can expect a 23% (20% growth plus 3% yield) average annual returns. Which brings us to this month's new income recommendation: The **RBC Yorkville MLP Distribution Growth Leaders ETN (NYSE:YGRO)**.

YGRO is an exchange traded note –ETN– that tracks a high distribution growth MLP index that was developed by Yorkville Capital Management. I have had extensive discussions with the folks at Yorkville about the index and this fund. Let's breakdown what the different terms and parties bring to the table.

Yorkville Capital Management is a top ranked investment manager. The company was in the top one percent of all U.S. equity separate account managers. Yorkville's MLP Core Income Strategy ranked number four out of 1,731 managers with a 24.1% average annual return for the five years ending on March 31, 2015. The Yorkville MLP Distribution Growth Leaders Liquid Index was developed to put Yorkville's investment strategy into an index form that could be tracked by an index fund or note.

Legally, an ETN is a promissory note backed by the issuer. The Royal Bank of Canada is a leading sponsor of ETNs. While YGRO is officially just an obligation of RBC, I

was informed that the ETN values are matched up to an actual portfolio of holdings that match the index. With MLPs as the tracked investment class, exchange traded funds –ETFs– that own MLP units run into a corporate tax issue that reduces investor returns by about one-third compared to the index results. With an ETN, investors realize returns that match the index, minus the 0.90% management fee charged by RBC.

The Yorkville MLP Distribution Growth Leaders Liquid Index includes 25 high distribution growth MLPs and publicly traded general partner company. Through June 30, the distributions of the index component companies had increased 17.1% over a year earlier. The index rules require an MLP to be public for a seasoning period of at least four full quarterly distributions (not prorated) before it can be considered for the index. That rule excludes some very high growth MLPs with IPOs during the last year and a half. However, the index components list still looks like a wish list for a serious, total return focused MLP investor. Since about mid-2013 large energy companies like Phillips 66, Dominion Resources, and Royal Dutch Shell have been spinning off MLPs to monetize their energy infrastructure assets. Fast growth is of great benefit to the parent company, and investors just go along for the ride. Newer, high-growth MLPs will work their way onto the index as they meet the qualifications. I expect the average distribution growth rate to increase over the next year or so.

Investment Consideration.

The MLP sector is in a bear market, with the main sector indexes down over 25% since this time last year. The decline has been fueled by the drop in the price of crude oil. The kinds of MLPs tracked by YGRO declined along with the rest of the sector. Yet these MLPs have

Ticker	Name	Sector	GP/LP	%
AHGP	ALLIANCE HOLDINGS GP LP	Other MLPs	GP	0.9%
EEP	ENBRIDGE ENERGY PARTNERS LP	Midstream	LP	4.5%
ENLK	ENLINK MIDSTREAM PARTNERS LP	Midstream	LP	3.8%
EQM	EQT MIDSTREAM PARTNERS LP	Midstream	LP	6.9%
ETE	ENERGY TRANSFER EQUITY LP	Midstream	GP	6.2%
ETP	ENERGY TRANSFER PARTNERS LP	Midstream	LP	6.1%
GEL	GENESIS ENERGY L.P.	Midstream	LP	3.7%
GLP	GLOBAL PARTNERS LP	Other MLPs	LP	1.1%
GMLP	GOLAR LNG PARTNERS LP	Other MLPs	LP	1.2%
MMP	MAGELLAN MIDSTREAM PARTNERS	Midstream	LP	9.5%
MPLX	MPLX LP	Midstream	LP	1.5%
NGLS	TARGA RESOURCES PARTNERS LP	Midstream	LP	11.2%
PAA	PLAINS ALL AMER PIPELINE LP	Midstream	LP	8.9%
PAGP	PLAINS GP HOLDINGS LP-CL A	Midstream	GP	6.1%
PSXP	PHILLIPS 66 PARTNERS LP	Midstream	LP	1.5%
RRMS	ROSE ROCK MIDSTREAM LP	Midstream	LP	1.1%
SEP	SPECTRA ENERGY PARTNERS LP	Midstream	LP	2.7%
SMLP	SUMMIT MIDSTREAM PARTNERS LP	Midstream	LP	6.9%
SUN	SUNOCO LP	Other MLPs	LP	0.7%
SXL	SUNOCO LOGISTICS PARTNERS LP	Midstream	LP	2.2%
TEP	TALLGRASS ENERGY PARTNERS LP	Midstream	LP	1.8%
TLLP	TESORO LOGISTICS LP	Midstream	LP	4.5%
VLP	VALERO ENERGY PARTNERS LP	Midstream	LP	1.1%
WES	WESTERN GAS PARTNERS LP	Midstream	LP	4.6%
WGP	WESTERN GAS EQUITY PARTNERS	Midstream	GP	1.3%

growth rates that are not tied to energy commodity prices. Many will actually do better in a low energy environment when more infrastructure is needed to support growing energy demand brought on by the low prices. These MLPs either have long track records of superior distribution growth and/or high visibility of future growth potential.

I am no longer making direct MLP recommendations to The Dividend Hunter subscribers. The extra paperwork and complications of filing with the schedule K-1s sent by partnerships are not something I want to subject subscribers to without good reason. YGRO provides the total investment return opportunity of the high growth MLPs and reports taxes using the IRS Form 1099. NOTE: If you are a high tax bracket investor that would benefit from the tax advantages of owning MLPs, contact me about my new Tax-Smart Income Hunter at my email address tim.plaehn@investorsalley.com, which will provide deep dive analysis and recommendations out of the MLP sector.

YGRO currently yields 5.15%. Dividend rates will vary from quarter to quarter as index components change out. We may see slightly lower distributions at times if lower yield, higher growth MLPs are added to the index and replace higher yield/slower growth units. Dividend income from YGRO will be fully taxable. This ETN would be a very good IRA choice.

I want you to view YGRO as a total return investment. The 5% yield is great, but it should also come with mid-teens or better annual share price appreciation. As noted the MLP sector is currently in bear market territory, so you may see price volatility (that's code for share prices might go down before they go up).

Recommendation: Buy YGRO as long as the current yield is above 4.5%.

Position: Long YGRO

Portfolio Update

I covered the **STAG Industrial (NYSE:STAG)** earnings conference call. This REIT has developed a unique property acquisition model that will pay off handsomely in the long run. Second quarter results were disappointing for the short term. STAG shares are a nice pick-up under $20.

The STAG monthly dividend increased by 2.22% starting with the August payment. The last increase was just 6 months ago.

Blackstone Mortgage Trust (NYSE:BXMT) earnings: GE loan portfolio acquisition completed early. Company will realize full cash flow results in Q3. Dividend announcement to come in September with good potential for an increase.

Kinder Morgan Inc. (NYSE:KMI) reported in line Q2 results and boosted the dividend by 2% over the first quarter rate. Management has stated it will pay $2.00 per share in 2015. $0.97 has been declared, leaving $1.03 to be earned between now and January. That gives a 5.9% forward yield on a quality energy infrastructure company that is managed to provide 10% annual dividend growth.

The **InfraCap MLP ETF (NYSE:AMZA)** again increased its dividend by 1% over the previous quarter. The MLP sector decline has lifted the AMZA yield up to 10.8%.

An equal weighted portfolio of The Dividend Hunter recommended holdings declined by 3.5% in July. The average cash dividend return since inception has been 5.54%. Most of the holdings have been in the portfolio for less than one year. The recommendations that were in The Dividend Hunter recommendations list on 12/31/14 have produced an average 5.14% total return, year-to-date. For a comparison, the S&P 500 has generated a 2.42% return, YTD.

I am reading all of the Q2 earnings reports and logging into the earnings conference calls to make sure all of

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The Dividend Hunter recommendations stay on track for their projected dividend growth potential. Those that show the biggest declines are to me the most attractive current investment candidates. If you have money to put to work, take close looks at KMI, STAG and AMZA. Also, pick up some YGRO to start a position in this growth focused ETN.

Drop me an email note if you any questions concerning any of The Dividend Hunter portfolio holdings. My email address is tim.plaehn@investorsalley.com.

Current Portfolio: Buy / Accumulate

Stock	Entry Date	Entry Price	Recent Price	Status	Div. Earned	Current Yield	Cash Return
MLP Distribution Growth Leaders (YGRO)	07/30/15	$14.76	$14.76	Buy	N/A	5.2%	N/A
CyrusOne (CONE)	06/30/15	$29.45	$30.33	Buy	N/A	4.2%	N/A
Williams Companies (WMB)	05/29/15	$51.10	$52.99	Buy	$0.5900	4.5%	1.15%
Hercules Tech. Growth Capital (HTGC)	04/30/15	$12.75	$4.41	Buy	$0.3126	22.3%	2.45%
RLJ Lodging Trust (RLJ)	03/31/15	$21.51	$18.74	Buy	$1.0150	10.8%	4.72%
InfraCap MLP ETF (AMZA)	03/31/15	$31.31	$29.85	Buy	$0.3300	4.3%	1.05%
Lexington Realty Trust (LXP)	03/02/15	$10.78	$8.62	Buy	$0.3400	7.8%	3.15%
Kinder Morgan (KMI)	01/31/15	$41.05	$35.03	Buy	$0.9700	5.6%	2.36%
Blackstone Mortgage Trust (BXMT)	01/31/15	$29.20	$29.06	Buy	$1.0400	7.2%	3.56%
Stag Industrial (STAG)	12/31/14	$24.50	$19.39	Buy	$0.7900	7.1%	3.22%
EPR Properties (EPR)	10/30/14	$55.64	$56.20	Buy	$2.6875	6.4%	4.83%
New Residential Investment (NRZ)**	07/30/14	$12.16	$15.74	Buy	$1.5600	11.4%	12.83%
Main Street Capital (MAIN)	06/27/14	$32.51	$30.60	Buy	$2.7750	6.8%	8.54%
Macquarie Infras. Company (MIC)	05/30/14	$24.39	$21.71	Buy	$2.4000	8.9%	9.84%
Ship Finance International (SFL)	05/30/14	$18.52	$16.71	Buy	$2.0800	10.1%	11.23%
Starwood Property Trust (STWD)	05/30/14	$61.48	$84.58	Buy	$4.0200	5.0%	6.54%

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Current Portfolio: Hold

LinnCo LLC (LNCO)	04/30/15	$12.75	$4.41	Hold	$0.3126	22.3%	2.45%
ONEOK (OKS)	12/01/14	$41.39	$32.62	Hold	$2.3700	8.7%	5.73%
Memorial Production (MEMP)	09/30/14	$22.02	$10.97	Hold	$1.6500	10.0%	7.49%
Legacy Reserves (LGCY)	09/30/14	$29.68	$8.49	Hold	$1.9200	4.7%	6.47%
Hannon Armstrong Sustainable	08/28/14	$14.49	$19.81	Hold	$1.0000	7.2%	6.90%
Arc Logistics Partners (ARCX)	07/30/14	$25.10	$18.17	Hold	$1.6300	6.5%	6.49%

Closed Positions

Stock	Entry Date	Entry Price	Close Price	Close Date	Div Earned	Total Return	Cash Return
TCP Capital Corp. (TCPC)	10/30/14	$16.51	$16.22	05/29/15	$0.77	2.91%	4.66%
Ventas (VTR)	05/30/14	$66.80	$80.52	01/30/15	$1.45	22.71%	2.17%
Oaktree Capital Group (OAK)	05/30/14	$49.98	$54.14	02/09/15	$1.17	10.66%	2.34%
Salient Midstream & MLP Fund (SMM)	08/28/14	$31.23	$21.67	03/31/15	$0.93	-27.64%	2.97%

Notes:

Entry price is determined by the last "Ask" price at the closing of the market on the day before publication. Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 07/31/15. Status denotes whether you should continue to accumulate shares, listed as “Buy” or should hold but not accumulated any more shares, listed as “Hold”. Annual Div is the dividend payment as declared by the company and made publicly available. It is as of the closing of the market on the day before publication. Current yield reflects the yield of the regular annual dividend payments (monthly or quarterly depending on the stock) in relation to its share price at thetime of publication. We make no guarantee that any company in the portfolio will continue dividend payments. For a more detailed look at the portfolio, log on at www.investorsalley.com.

** NRZ entry price adjusted for 1 for 2 split on 10/20/14. Original entry price on 07/30/14 was $6.08.