Investors Alley
The Dividend Hunter
July 2016 Vol. 3 Issue 2

July Kicks off Another Earnings Season

Fellow Investor,

When the news hit that the British had actually voted to leave the EU, I was expecting the stock markets to drop and to offer some attractive buying opportunities in The Dividend Hunter stock recommendations. In spite of the dire warnings from government, financial, and bureaucrat experts if the UK voted to leave the EU, it appears that this will be one of the most short-lived "financial crises" in memory. Right now, I am looking at brokerage account values that are higher than they were last Thursday when everyone thought that the UK would vote to stay in the European Union.

In This Issue

The events of the last week have highlighted several important lessons. The first is that "experts" are mostly looking out for their own interests. It was in the best interest of the London bankers, UK government officials, and EU bureaucrats for the UK to stay in the Union. So, in their eyes, a vote to leave could be nothing besides a disaster. We also learned that short-term stock market reactions are not good indicators of the future. I wonder how many investors sold on Friday and Monday as the markets dropped and are now regretting those decisions to bail out in a falling market.

The overriding lesson is that The Dividend Hunter strategy to focus on higher dividend yields allows us to more calmly weather stock market volatility. Because we are building a cash dividend income stream, share price volatility only gets our attention as potential opportunities to buy more or new income stocks at lower share prices which means a higher starting yield. The Dividend Hunter strategy does not require, or to a great extent even allow, market timing. To earn dividends, we have to own shares of dividend paying stocks. Selling and going into cash would result in the shutting down of the dividend income stream.

It is my opinion – an opinion based on a lot of research but still an opinion – that the U.S. stock markets are stuck in a multi-year period of low total returns compared to historical standards. My forecast is for average annual returns of about half the 9% long-term average produced by the S&P 500. In this type of market, the Dividend Hunter portfolio average yield of 8.5% gives a good chance of producing well above market average returns. A historic look at the S&P 500 shows that the major market average has been basically flat since early 2015. There have also been two fairly severe corrections in the last 18 months, but those were opportunities to buy. Especially if investing in dividend paying stocks.

The first of July marks the end of the calendar second quarter and the start of stock market earnings season. Most of the companies I watch will report earnings results starting in the last week of July through the first two weeks of August. With no real danger signals on the horizon, earnings and dividend announcements should be positive catalysts for The Dividend Hunter portfolio stocks.

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

Land, Fly or Die,

Tim Plaehn
Editor
The Dividend Hunter

P.S. Returns in my 30 Day Dividends service have been on a tear recently. The last six trades I closed out gave subscribers returns of 48%, 54%, 14%, 17%, 11% and 22% respectively!

And, since launching 30 Day Dividends in June of 2014, my subscribers have closed out an amazing 75% of our trades with positive total returns... even during one of the most volatile markets in five years.

There are still a few open slots remaining for subscribers of The Dividend Hunter to receive the instant 50% discount right now. If you want to start compounding your dividend income with regular trades, I invite you to click the link below.

Click here for more information on compounding your dividend income.

MGM Growth Properties LLC

In April 2016, hotel and gaming company **MGM Resorts International (NYSE:MGM)** spun-off about two-thirds of its hotel properties into a new real estate investment trust (REIT) IPO. MGM structured the new company, called **MGM Growth Properties LLC (NYSE:MGP)**, to have a high level of cash flow safety to pay the planned dividend and with the potential for future growth.

The Properties

At the IPO, MGM Growth Properties received seven properties on the Las Vegas Strip:

- Mandalay Bay
- The Mirage
- Monte Carlo
- New York-New York
- Luxor
- Excalibur
- The Park, a dining and entertainment complex located between New York-New York and Monte Carlo which opened in April 2016.

The Las Vegas properties represent about 24% of total rooms on the Strip and approximately 35% of the privately owned convention and meeting spaces on the Strip. The properties feature over 100 retail outlets, over 200 food and beverage outlets, and approximately 20 entertainment venues.

Outside of Nevada, the REIT will own the MGM Grand in Detroit, the Gold Strike in Tunica, Mississippi and the Beau Rivage in Mississippi.

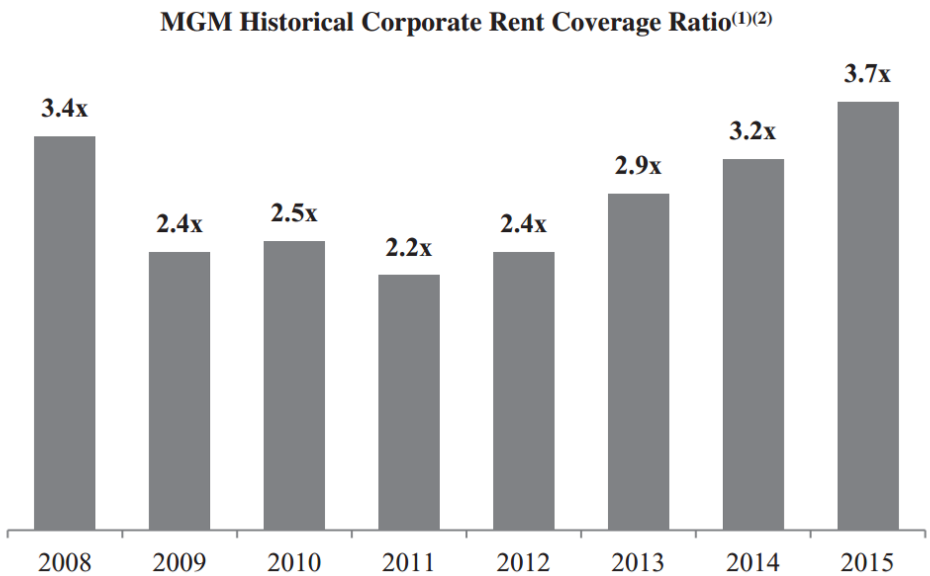
IPO Details

The initial public offering was for 57.5 million Class A shares of MGP, including the 7.5 million available for over allocation, which were all taken. The offering raised about $1.1 billion and the REIT took on debt of $3.2 billion. The net proceeds of $4 billion to the parent company was used by MGM Resorts to pay down outstanding debt. The 57.5 million Class A shares represent 27% of the total equity in MGM Growth Properties. The remaining equity will be owned by subsidiaries of the casino company. MGM Resorts will own a single Class B share with no economic interest, but with 51% of the voting rights.

The Financials

All ten properties will be leased by subsidiaries of MGM under a single, triple-net Master Lease. Under the terms of the Master Lease, MGM will pay MGP a starting annual rent of $550 million per year. The rent consists of a Base Rent of $495 million and $55 million of Percentage Rent. The Base Rent has a 2% annual escalator. The Percentage Rent is fixed for six years, and then will be a percentage of revenue generated by the properties. The Master Lease has an initial lease term of ten years with the potential to extend the term for four additional five-year terms at the option of the tenant. The Master Lease states that any extension of its term must apply to all of the properties under the Master Lease at the time of the extension. The lease has a triple-net structure, which requires the tenant MGM subsidiary to pay substantially all costs associated with each property, including real estate taxes, insurance, utilities and routine maintenance.

MGM has agreed to provide MGP and its subsidiaries with financial, administrative and operational support services. Costs of these services will be reimbursed back to MGM. In 2015, the business operations of the properties to be owned by MGP generated earnings before interest, taxes, depreciation and amortization (EBITDA) to provide 3.7 times rent coverage. Since the



great recession, EBITDA has varied, but has been at least 2.2 times the lease annual rental rate.

Out of the $550 million in annual rent, MGP expects to generate $403 million in adjusted funds from operations (AFFO). This is the free cash flow available to pay dividends. The initial planned dividend rate is $0.3575 per share per quarter, or $1.43 per year. The annual dividend payments will be 80% of the projected AFFO. The IPO prospectus states the initial dividend rate will be in effect for the first year after the public launch of the REIT.

Investment Considerations

In mid-June MGP declared a pro-forma dividend of $0.2632 per share. This dividend was for the period from the IPO until the end of June, so it was about 3 1/2 weeks short of a full quarter. With the smaller than regular dividend, the financial news web sites are reporting the MGP yield at 4.1%. Using the actual dividend to be paid going forward, the current yield is 5.5%. The next dividend announcement may provide a boost to the share price when it shows up at a higher rate.

At the end of May, MGM resorts announced it will purchase a 50% interest in the Borgata Hotel Casino & Spa in Atlantic City, New Jersey from Boyd Gaming. After the transaction closes, the real estate portion of MGM's interest will be sold to MGP and added to the Master Lease. The REIT will pay $1.175 billion for the real estate and $100 million per year will be added to MGM's lease payment to MGP. From the press release:

James Stewart, CEO of MGM Growth Properties - "We expect the transaction to result in high single-digit percentage accretion to AFFO per share."

So it looks like investors already have a built in dividend increase in the not too distant future. More importantly, the acquisition confirms that MGM is committed to using the REIT as a growth vehicle. With the combination of the master lease, which gives a high level of confidence that MGP will generate cash flow to support the dividend, and the early move into acquisitions to generate growth, I am confident that MGM Growth Properties will be an attractive growing income producer for Dividend Hunter subscribers.

Recommendation: Buy and accumulate MGP shares as long as the forward yield stays above 5.0%.

How The Dividend Hunter Recommendations Work

As a Dividend Hunter subscriber, you have access to and receive a lot of information about the different stocks that I recommend to buy, sell or hold. I want to explain and clarify the different stock lists and communications you receive from me.

When you log in to your account on InvestorsAlley.com there is a menu option for "The Dividend Hunter Portfolio." On the portfolio page, you will see recommendations in the list labeled as **Accumulate**.

These are the core positions of the portfolio. I keep this list at about 20 stocks and they are the ones that I currently recommend to buy for a new position or to add to an existing position. I view this list as a balanced, income stock portfolio. Owning them all, or most of them will provide a current high yield and growing dividends over time. If you are looking for new stocks to buy, this is the list to work from.

I also provide a weekly stock recommendation, which will always be one of the stocks on the **Accumulate** list.

You should be receiving these emails every Tuesday except on the weeks when we publish the monthly newsletter. Look for the subject line "The Dividend Hunter Buy of the Week".

Because I watch these stocks constantly, I have a pretty good feel on which may have dropped too far or have a pending news announcements that could boost the share price.

The weekly stock recommendations provide a way for someone to start building a dividend income portfolio one stock at a time. However, it is possible that I will not get to all of the recommended stocks with the weekly stock pick, so be sure to take a look at the entire list. The Accumulate listing also includes the Dividend Hunter issue where I last did a more in depth review of the stock.

So far in 2016, the weekly stock recommendations have been quite timely and share values have done well after the picks were sent out. This weekly email is unique to The Dividend Hunter from stock market newsletters that are in a competitive price range.

The **Hold** list includes stocks that were previously recommended, but are ones that I do not recommend that you start a new position or add to an existing one. These typically are stocks that no longer meet my Dividend Hunter strategy criteria, but that I believe there is some upside to be earned before a position in one of these stocks is closed out. If you are looking for a new stock investment, this list is not the place to find a candidate.

The **Closed Positions** list is stocks that I no longer recommend to Buy or Hold. The list is previous recommendations for which I have sent out notices to sell the stock. I have sold stocks from The Dividend Hunter portfolio both to lock in nice gains and to get rid of losers.

It is possible that a sold stock will be recommended again. I did that with **Ventas, Inc. (NYSE:VTR)** with a Sell recommendation to lock in a 21% profit, and then a few months later I recommended VTR again when the share price was $25 lower. The current, open accumulate position in VTR is up another 30%.

Finally, as part of your Dividend Hunter subscription, you receive a weekly Premium Digest report. This email includes the best free content articles published on the Investors Alley website. This includes articles that I wrote. For these articles, I put out a range of investment ideas, but the stocks discussed are not

Dividend Hunter newsletter recommendations. You may find some interesting investment ideas, but they are not ones that I monitor and track for subscribers.

The Commercial Mortgage REIT Twins

Two Dividend Hunter portfolio companies have very similar business models. In fact, **Blackstone Mortgage Trust Inc (NYSE:BXMT)** and **Starwood Property Trust, Inc. (NYSE:STWD)** are so similar in business operations and investment potential that I cannot pick one as measurably better than the other. So, I have made both of them Dividend Hunter recommended stocks. There is nothing wrong with earning 9% yields from stable, conservatively managed companies. To help you understand how these two finance REITs operate, I am going to list some of their similarities. Then I will cover a couple of differences.

Similarities

The primary business for both BXMT and STWD is to make mortgage loans on commercial properties. They make loans up to $500 million on a single property, which puts them into a small group of financial companies that can write large loans on commercial properties. Both are structured as finance real estate investment trusts (REITs).

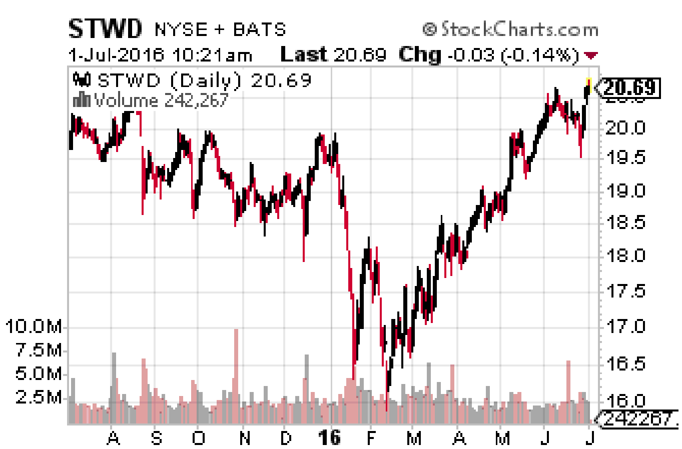
Both have large, financially secure sponsors. **Blackstone Group LP (NYSE:BX)** is a $30 billion market cap asset manager with an extensive commercial real estate portfolio. Starwood Capital is a private investment firm focused on global real estate opportunities with over $50 billion in assets under management. Both sponsors provide personnel, expertise, and leads to their respective commercial lending REITs. These relationships provide very large advantages for BXMT and STWD when they compete in the commercial mortgage space.

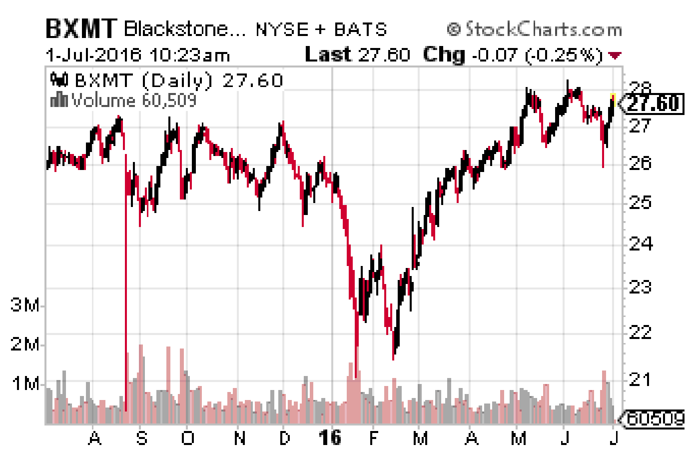
Both companies act conservatively with their loan portfolios. As of the most recent presentations, BXMT has an overall loan to value of 63% and STWD is at 61% LTV. In its history as a public company, Starwood Property Trust has made almost $17 billion in loans and has not lost a single dollar on those loans. Both companies use a moderate amount of leverage to boost realized returns.

Both companies issue almost 100% variable rate loans. This means that if and when interest rates start to rise, so will the profits earned by BXMT and STWD.

Differences

Starwood Property Trust is the older and larger of the two companies. It has been public since 2009 and has a $5 billion market cap. STWD is somewhat more diversified, providing CMBS loan origination and





commercial mortgage loan servicing as well as issuing loans for its own portfolio. Starwood will also use the REIT to buy commercial real estate directly if an opportunity for a long-term investment is found.

Blackstone Group re-purposed the business of BXMT in May 2013 to become a pure-play commercial mortgage lender. Prior to that, it was a semi-dormant company with a few assets left over from the pre-financial crisis days. BXMT seems to be more aggressive in taking advantage of shorter-term opportunities. For example, in 2015 the Blackstone Group purchased a large portfolio of soon-to-mature commercial mortgages from GE Capital.

Investment Potential

Because these two commercial mortgage REITs get lumped in with the REITs that own varies types of residential mortgage securities they tend to get valued similarly. These other companies run much riskier business models than do BXMT and STWD. The result is the high 9% yields we get from the two Dividend Hunter picks. We also sometimes get more share price volatility than the commercial mortgage REITs probably deserve. The best course in times when share prices drop is to buy more. Dividends from BXMT and STWD are rock-solid and should grow slowly over time.

Portfolio Update

Two Dividend Hunter portfolio stocks declared dividends in June:

Williams Companies Inc (NYSE:WMB), declared an unchanged $0.64 per share dividend, with a June 16 ex-dividend date. The payment was made on June 27.

New Residential Investment Corp (NYSE:NRZ) declared a $0.46 dividend, also unchanged from the previous payout. The stock goes ex-dividend on July 5 and the dividend will be paid on July 29.

Investors in **Main Street Capital Corporation (NYSE:MAIN)** earned one of the semi-annual special dividends. An additional $0.275 was paid per share. The current MAIN monthly dividend is $0.18 per share.

In the legal battle over the merger of Williams Companies and **Energy Transfer Equity LP (NYSE:ETE)**, the courts ruled in favor of Energy Transfer and that company has declared the merger agreement terminated. Williams has stated it will continue to pursue a completion of the merger, but the experts seem to be in agreement that there will be no merger. I have stated that since the big drop in share values late in 2015, the best option for WMB investors would be a termination of the merger. We now must wait and see how the company will get itself back on track as a growing dividend payer.

If you haven't yet, read my report on the specialty finance company that pays a 7% and growing yield: Secret Savers 7% Acccount

If you have any questions about the stocks in the portfolio or anything we covered in this month's issue feel free to write to me directly. My personal 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
MGM Growth Properties LLC (MGP)	06/30/16	$26.68	$26.68	Buy	$0.0000	5.5%	0.00%
Communications Sales & Leasing (CSAL)	05/31/16	$24.98	$28.90	Buy	$0.6000	8.5%	2.40%
Lamar Advertising Co. (LAMR)	04/29/16	$62.04	$66.30	Buy	$0.7500	4.5%	1.21%
Chatham Lodging Trust (CLDT)	03/31/16	$20.62	$21.98	Buy	$0.3300	6.0%	1.60%
Easterly Government Properties (DEA)	03/01/2016	$17.50	$19.73	Buy	$0.4500	4.8%	2.57%
VTTI Energy Partners LP (VTTI)	01/04/2016	$20.71	$20.30	Buy	$0.6124	6.1%	2.96%
Jernigan Capital (JCAP)	12/01/2015	$15.37	$13.94	Buy	$0.7000	10.1%	4.55%
Reaves Utility Income Fund (UTG)	11/02/2015	$29.95	$32.47	Buy	$1.2100	5.8%	4.04%
Aircastle Limited (AYR)	9/30/2015	$20.61	$19.56	Buy	$0.7200	4.8%	3.49%
Ventas, Inc. (VTR)	8/31/2015	$55.02	$72.84	Buy	$2.1000	4.2%	3.82%
MLP Distribution Growth Leaders (YGRO)	7/30/2015	$14.60	$11.30	Buy	$0.5305	6.2%	3.63%
Hercules Tech. Growth Capital (HTGC)	4/30/2015	$13.90	$12.42	Buy	$1.5500	9.9%	11.15%
InfraCap MLP ETF (AMZA)	3/31/2015	$21.51	$11.56	Buy	$2.5700	17.9%	11.95%
Blackstone Mortgage Trust (BXMT)	1/31/2015	$41.05	$27.67	Buy	$3.5200	9.0%	12.05%
Stag Industrial (STAG)	12/31/2014	$24.50	$23.81	Buy	$2.0598	6.0%	8.41%
EPR Properties (EPR)	10/30/2014	$55.64	$80.68	Buy	$6.6000	5.0%	11.86%
New Residential Investment (NRZ)**	7/30/2014	$12.16	$13.84	Buy	$2.9400	14.1%	24.18%
Main Street Capital (MAIN)	6/27/2014	$32.51	$32.85	Buy	$5.1200	6.6%	15.75%
Starwood Property Trust (STWD)	5/30/2014	$24.39	$20.72	Buy	$3.8400	9.4%	15.74%
Ship Finance International (SFL)	5/30/2014	$18.52	$14.74	Buy	$3.9700	12.3%	21.44%
Macquarie Infras. Company (MIC)	5/30/2014	$61.48	$74.05	Buy	$8.6100	6.8%	14.00%

Current Portfolio: Hold

Williams Companies (WMB)	5/29/201	$51.10	$21.63	Buy	$3.1500	12.0%	6.16%
Lexington Realty Trust (LXP)	3/02/201	$10.78	$10.11	Buy	$1.0200	7.8%	9.46%
Kinder Morgan (KMI)	1/31/201	$29.20	$18.72	Hold	$1.7300	1.2%	4.21%
Arc Logistics Partners (ARCX)	07/30/14	$25.10	$13.00	Hold	$3.3750	7.0%	13.45%

Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 06/30/16

Closed Positions

Stock	Entry Date	Entry Price	Close Price	Close Date	Div Earned	Total Return	Cash Return
Ventas, Inc. (VTR)	05/30/14	$66.80	$79.81	1/30/2015	$1.45	21.65%	2.17%
Oaktree Capital Group LLC (OAK)	05/30/14	$49.98	$54.14	2/9/2015	$1.17	10.66%	2.34%
Salient Midstream & MLP (SMM)	08/28/14	$31.23	$21.67	3/31/2015	$0.93	-27.64%	2.97%
TCP Capital Corp (TCPC)	10/30/14	$16.51	$16.22	5/29/15	$0.77	2.91%	4.66%
Hannon Armstrong (HASI)	08/28/14	$14.49	$17.46	12/1/2015	$1.26	29.19%	8.70%
Memorial Production Ptns. (MEMP)	09/30/14	$22.02	$3.48	12/1/2015	$2.50	-72.84%	11.35%
Legacy Reserves (LGCY)	09/30/14	$29.68	$2.95	12/1/2015	$2.06	-83.12%	6.94%
LnnCo LLC (LNCO)	04/30/15	$12.75	$1.68	12/1/2015	$0.52	-82.74%	4.09%
CyrusOne Inc (CONE)	06/30/15	$29.45	$45.43	04/01/16	$1.01	57.69%	3.43%
RLJ Lodging Trust (RLJ)	03/31/15	$31.31	$21.76	04/01/16	$1.32	-26.29%	4.22%
ONEOK Partners LP (OKS)	12/01/14	$41.39	$39.06	5/17/16	$4.74	5.82%	11.45%

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 06/30/16. 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.