Investors Alley

The Dividend Hunter

December 2016 Vol. 3 Issue 7

Expect and Plan for The Unexpected

I think we might agree that the last month has generated one of the most unexpected news outcomes in recent memory. Almost every political expert and pollster got it wrong with their assertions that Hilary Clinton was an almost sure thing to become the next President of the U.S. When it started to become clear that Trump was going to pull an upset and win, the financial experts started to warn about big value losses in the financial markets.

In This Issue

Those markets had been anticipating a Clinton win and "everybody" knew the markets would not like the uncertainty posed by a Trump administration. The overnight futures markets did experience a massive but short-lived drop, but by the morning after the election, investor sentiment turned positive. Since the election, the market has marched to new record highs for days in a row.

Nobody predicted that.

Now, we have the same financial experts predicting what will happen in 2017. I think the last month has clearly show us that expert forecasts are mostly a way to get your face on TV. There is no follow up and no one says anything about how wrong one of these forecasters was the last time around. In reality, predicting the future in the financial markets seems to be an impossible task, which is why I gravitate to dividend-focused investment strategies. Here are some of the core ideas behind my strategies and individual stock selection:

- The share prices of companies that grow their revenues, profits and cash flows will go up over time. This is the core of buying shares of stock as ownership stakes in businesses.
- Business management teams focus on building for the long term, with multi-year business plans. The stock market focus is very short-term. This leads to share prices that are not in line with the underlying value of the businesses. In the short term, a lower share price tells us nothing about how the company is actually doing.
- I stick with companies that have policies of sharing profits with share holders in the form of regular dividends. A focus on generating the cash needed to pay dividends to shareholders keeps management's attention on the side of shareholders.

- Earning a high dividend yield gives investors flexibility. Dividends can be invested into more shares to continue to grow the dividend income stream or they can be taken with cash income to pay living expenses.
- Investing in companies that regularly increase their dividends gives a cushion against both inflation and rising interest rates.

If you understand that a company can continue to support and grow its dividend through strong business operations, it becomes easier to buy more shares when prices are down, rather than panic sell to lock-in losses.

It is my assertion that few people can accurately predict stock price directions for the short to intermediate term. The "experts" on the financial news outlets get it wrong as often, or more often, than they get it right. No one back checks them and the networks are always happy to have them on over and over. Listening to the financial news is interesting, but the opinions expressed should not be viewed as truth or in any way possibly accurate.

I'll close this section with a "thank you" to all of you subscribers. It is your feedback and questions that help me continue to work to make The Dividend Hunter the best investing newsletter in the under $250 category. From the feedback I receive, it is just that and my goal is to continue to make it an even better source for stock investing information.

Which brings me back around to one big reason why we invest in higher yield, dividend paying stocks. Dividends are the one factor in the mess that is the stock market that I have found can be predicted with a pretty high degree of certainty. Dividends give us a cash return, no matter what is happening with share prices. Dividends also give us the investment foundation that continued dividend payments will result in share price recovery if the market falls into one of its periodic steep declines.

Land, Fly or Die,

Tim Plaehn
Editor
The Dividend Hunter

P.S. I will be hosting a live strategy session and webinar on **Saturday December 10th at 2:00 pm ET** that goes over my investing strategies for 2017. I will also share my streategies for how I find the most promising dividend stocks in the market for total returns.

I'm giving my newsletter subscribers a first chance to register before we open it up to the public as there are strictly 500 spots available. You can use the link below to reserve your spot.

Click here to register for my 'Best Investing Strategies for 2017" live strategy session.

Plains GP Holdings LP

Quite a few changes and events had to come together to finally allow me to add **Plains GP Holdings LP (NYSE: PAGP)** as a Dividend Hunter recommended stock.

With the crash of energy prices that started in late 2014, the entire energy infrastructure industry faced severe challenges and the companies in this group had to figure out how first to survive and then to thrive in a new energy price reality. It has taken close to two years for the MLP sector to stabilize and show that the best companies in the industry can maintain dividend rates in the current environment and start to again grow dividends when energy prices and drilling activity again move higher.

PAGP came to market with a late 2013 IPO to provide investment exposure to the general partner interests of **Plains All American Pipeline, L.P. (NYSE: PAA)**. The investment thesis behind investing in the general partner, PAGP, of an MLP like PAA is that the cash payments to the GP grow at a faster rate than the distribution growth rate for the MLP units.

When the MLP is able to generate steady cash flow growth to fund distribution growth, investors in the general partner company will see dividend growth rates that are two to three times the growth rate of the MLP distributions. However, when the price of crude oil crashed, the growth of North American oil production reversed. This reversal caused the growth engine to fire up and propel higher revenue generation for PAA.

Without growth, the MLP incentive payments to the general partner became a significant financial burden. As the company operated and planned through 2016, it became apparent that crude production would not soon resume a growth trajectory. PAA was not generating enough cash flow to support both the current distribution rate paid on the MLP units and the payments to the general partner.

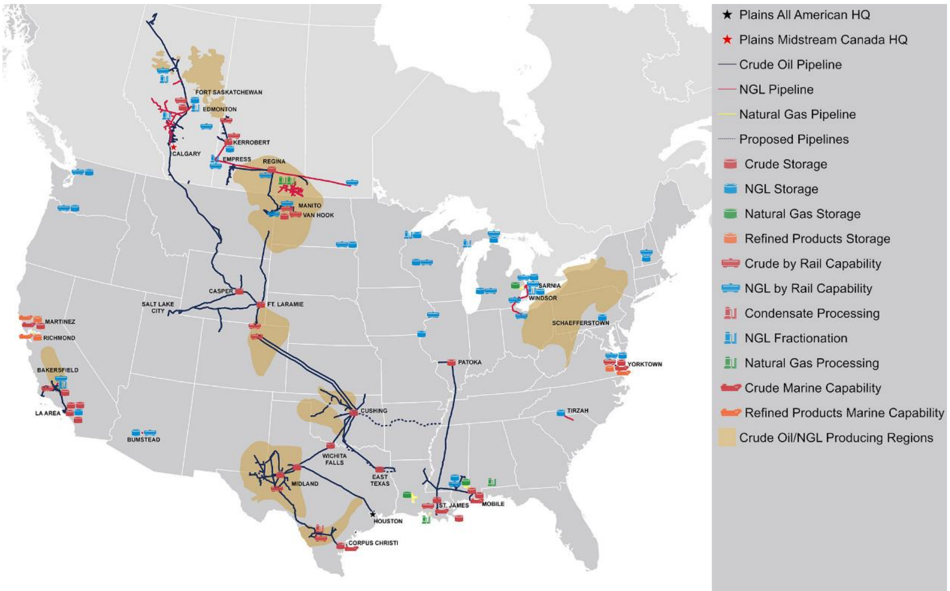
In July 2016, the Plains companies announced a plan to simplify the partnership structure with the goal of strengthening the overall finances of the two companies. Distribution rates were reduced and normalized so that PAA and PAGP were paying essentially the same dividend. In exchange for the general partner rights, PAA units were issued to PAGP.

As a result, PAA will no longer make and PAGP will not receive any general partner payments. Following a reverse split in November, each PAGP share is now backed by one PAA unit. Going forward, PAA and PAGP will pay the same dividend rate. The difference is that PAA is a Schedule K-1 reporting partnership and PAGP has elected to file as a corporation and sends out Forms 1099 to shareholders.

The Plains All American Pipeline Business

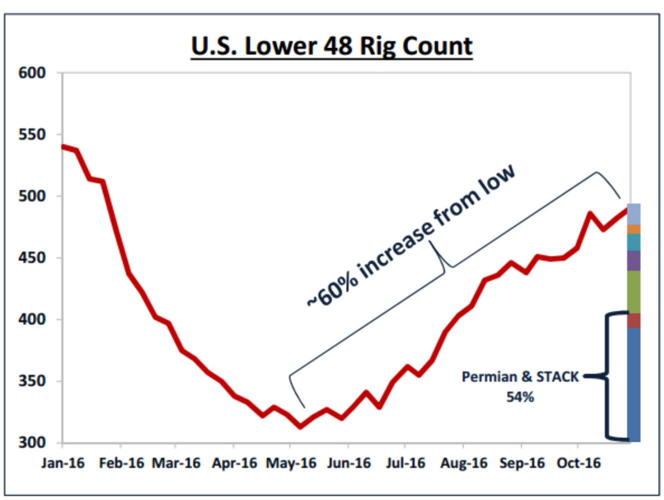
Plains All American Pipeline LP primarily provides wellhead to end user transport, storage and logistics services for producers and users of crude oil. The company also provides services in the natural gas and natural gas liquids, NGLs, spaces. PAA is a large-cap MLP with an investment grade credit rating. This chart shows the Plains network of pipelines, storage terminals and processing facilities:

The Plains network gives the company the most integrated U.S. crude oil pipeline and terminal system in the U.S. This network allows Plains to often earn several different fees on a barrel of oil as it is gathered, transported, stored and delivered to the end user refinery. Plains is a dominant company in gathering and pipeline transport of crude oil in the Permian, Mid-Continent and Williston oil production regions. The company is very well positioned to pick up a lot of the added barrels when North American onshore oil production again starts to grow.



With its financial restructuring over the last six months, Plains has positioned itself to be able to pay the currect dividend rate in a low price, low production level crude oil environment. With the growth projects that came online this year and the ones that will come next year, PAA now has a much brighter investment potential. PAA just released 2017 EBITDA guidance of $2.3 billion, compared to $2.125 billion for 2016. Next year's guidance will result in distributable cash flow of $1.6 billion, which will just cover distributions at the current rate.

The real benefit of investing in PAA or PAGP will come as U.S. crude production again starts to increase. This chart shows how the number of operating drill rigs has climbed nicely since the low in May 2016.



Plains has significant free takeaway capacity on its pipelines out of the Permian and Stack energy plays. These are the areas where the upstream oil production companies are focusing their additional drilling plans. Transporting more oil on owned pipelines plus Plains ability to earn several fees from each barrel of oil means that as oil production increases, the PAA revenues and cash flow will grow at a compounded rate. Management has indicated it believes annual EBITDA can grow by up to an additional $1 billion (compared to $2.3 billion 2017 guidance) on volume and margin recovery without additional growth project spending when crude oil production gets back on a growth trajectory.

Buying PAGP currently gives us a very nice yield of 6.3%. But what I am most excited about is the potential for a resumption in dividend growth. Before the energy sector crash, PAA had an extended history of about 8% annual dividend growth. At some point in the next few years, this stock will again become a dividend growth investment.

Recommendation: Buy or add shares of PAGP when the yield is above 6.0%.

Note: Schedule K-1 reporting PAA currently trades at about a 10% discount to PAGP and thus has a yield of about 7.4%. It is my policy to not recommend K-1 *reporting stocks to Dividend Hunter subscribers. However, if you are familiar with MLP investing and K-1 reporting, PAA is an alternative you might want to consider. I also recommend against owning K-1 reporting stocks in IRA type accounts. As a 1099 reporting stock, PAGP is OK to buy in IRA's and other qualified money accounts.*

Update on AMZA

I receive quite a few subscriber questions about the MLP focused ETF, the **InfraCap MLP ETF (NYSE: AMZA)** with its 19% dividend yield. I have AMZA in The Dividend Hunter recommendations list as a high-yield way to invest in the energy infrastructure master limited partnerships, MLPs, sector. I recently communicated with the fund management team, so I think it is a good time to give you an update on the fund. To start here is an overview of the fund's investment goals and strategies.

AMZA is the first actively managed ETF in the MLP focused funds space. Here is how the InfraCap MLP ETF is designed to operate. The fund owns the same MLPs as the ones tracked by the Alerian MLP Infrastructure Index, with the following possible enhancements to the index:

- The fund manager can weight individual MLPs holdings different than the index. The AMZA is strictly market cap weighted, tracking the 25 largest midstream MLPs, with bigger MLPs having a greater weight on fund performance.
- AMZA will weight these same MLPs based on the return potential from the management team's proprietary algorithm.
- The fund can own the publicly traded general partner companies of the index component MLPs. The general partner of an MLP can generate an accelerated level of cash flow growth compared to the limited partnership it manages. The GP companies can produce extra capital gains for the fund and a faster growing distribution cash flow stream.
- The fund can sell call options (covered call strategy) to generate extra cash income from the portfolio.
- Fund managers can use a moderate amount of leverage (up to 33% of the portfolio). Leverage in an MLP fund helps offset a portion of the corporate income tax drag.

This week, I contacted Ed Ryan, one of the portfolio managers, with a few questions about AMZA. It is good news to see that fund assets have grown tremendously this year, currently $135 million, compared to about $19 million at the start of 2016. The rapid growth in assets provides some challenges for the fund managers, but is very good news for us investors for the long-term. The growth in assets has affected the dividend coverage, with a lot of the new money coming in just before dividend payments. That money does not get invested in time to generate cash earnings, yet the fund still pays the dividends on the new shares. Ed stated they currently do not think they will have to change the dividend rate since net capital gains (which have to be paid out at some point anyway) have been enough to support the current dividend.

Of more interest to me is the fund managers' belief that MLPs are still greatly undervalued. They view the BBB bond yield as a benchmark for the midstream sector yield. That bond yield is now at about 4%, and midstream energy stocks are priced to yield an average of about 8%. That spread is expected to narrow, and even if bond yields rise, MLP prices should also rise to help close the rate spread between the two asset classes. So even in a rising interest rate environment, MLPs and the AMZA share prices are poised to gain in value. In the meantime, we will continue to collect the 18% dividend yield the fund currently pays.

I use AMZA as an investment idea that puts extra amounts of cash in my brokerage account to work. With the big dividend, you can buy shares after the ex-dividend dates and build a nice ongoing cash income stream from this fund.

Fear Sells, But Smart Investors Don't

Fear is an emotion that drives a large portion of the investing public. These are the investors who lose money in the stock market. While our logical brain tells us we are investing to earn positive returns, generate income from our investments, and, over time, grow the value of our portfolios, fear can push logic right off the bus. Then causing investors to take actions that results in avoidable losses rather than the desired profits.

I have numerous opportunities to talk about stocks with a very large number of investors, and I see first-hand the strength of fear when it starts to pull on our thoughts about how our investments are performing. Here are some thoughts to keep in mind about investing in the stock market with the goal of actually making money.

Marketers know fear is a powerful emotion that causes individuals to immediately take action to quell the fear. As a result, many players in the financial information industry make heavy use of headlines and marketing articles that tell you to be very afraid of some unavoidable, pending disaster that will destroy your investment values, savings, etc. These marketing pieces use heavily massaged "data" to "prove" their assertions.

Remember, the goal of these companies is not to warn you to save your money, but instead to motivateyou by fear to sign up and pay them. Their goal is to use fear to separate you from your hard earned money.

As an owner of shares of stock, you need to understand, and hold close in your memory, the fact that there will be periods of time when share prices go down. Possibly down a lot. The finance industry calls these periods corrections and bear markets. To be a stock market investor, you must understand that share prices of quality companies have always recovered from every bear market and correction. That is the one part of stock investing where you must take on faith. Faith that businesses can continue to operate profitably and hopefully grow through the different cycles of the overall economy. As share owners focused on dividend income, we are investing in companies and their ability to stay profitable enough to pay and grow those dividend payments. Our analysis focuses on a company's ability to operate and be profitable. Often times, the share price has little correlation with the business operations of the actual company.

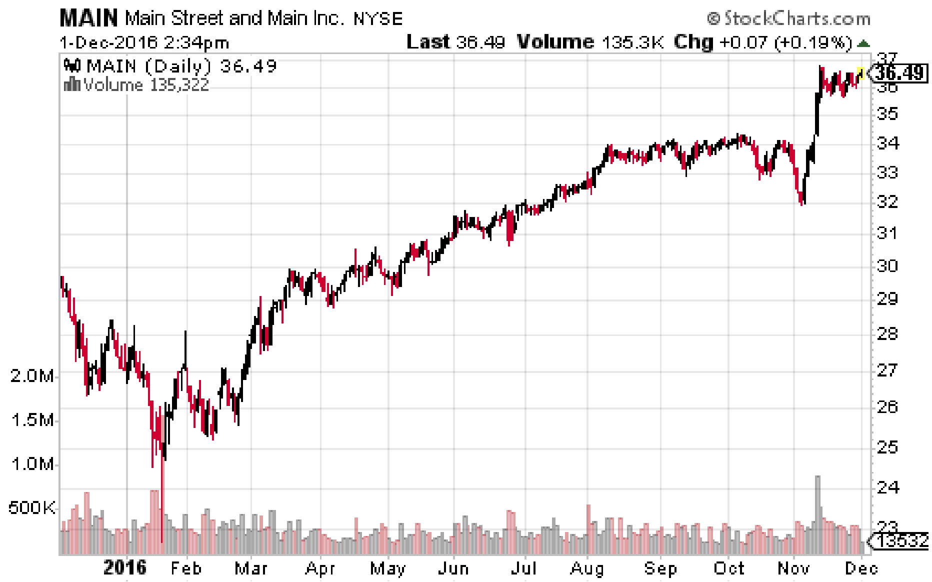
We all know that to profit from stock prices you want to buy low and sell higher. Yet when prices fall, the fear kicks in and investors are driven to sell shares, forgetting that this drop might be short lived and have nothing to do with the business fundamentals.

This here is where you become a winning investor. When one of my stocks declines by a significant amount, I go through this quick mental checklist:

1. Is the company's business still sound and on track to meet my expectations? This is usually the case, so I go to the next step. If there has been a fundamental deterioration of the business, then it will be time to sell.
2. At the lower share price, is the stock attractive enough to buy more? If yes, and if I have cash available I will add to my position.
3. From the lower share price, the stock value will either go up or down. If it falls further, I again look to see if I want to buy shares. This is especially true if I did not buy it earlier. If the share price moves back up, the world is OK.

Over time, this philosophy will allow you to average down your per share cost and increase your average yield.

Since I am earning a nice cash dividend yield, I am willing to be patient and wait for share prices to recover.



I consider selling for a profit if a stock price has moved up a lot in a short period of time. This will drive down the current yield. If that yield is low compared to other stocks I like, I can sell the now high priced shares to lock in the profits and reinvest in higher yielding stocks to boost my dividend income. I use relative yield, compared to a stock's history, and other income stocks to trigger selling high to lock in profits.

Share prices can swing a lot over relatively short periods of time. Look at **Main Street Capital Corp. (NYSE: MAIN)**, one of the most stable dividend payers in The Dividend Hunter recommendations list. The MAIN share price has varied from $24.21 to $36.95 over the past 12 months. That's a 50% swing based on the low-end price. At one point during the last year, MAIN was down 25% compared to the most recent high.

The point is you must understand that owning a stock that is down 15%, 20% or 25% is something that can happen. If the company remains solid, the share price will recover.

I am often asked about using stop loss orders as a way to avoid big losses in share prices. My view is that stop losses most often end up producing guaranteed losses. As dividend investors, we need to own shares of stock to earn the payments. Letting stop loss orders take us out of stocks stops the dividend stream. As I discussed above, lower share prices are to be viewed as buying opportunities rather than as the time to let fear drive us to sell and lock in losses.

I hope this discussion has helped you formalize your thoughts about having a stock market investing strategy and applying that strategy to not give in to the fear that affects us all when times get tough in the stock market.

Portfolio Update

2016 third quarter earnings results were released through November and the last week of October. Results across the board were as expected. There were also plenty of dividend announcements.

Stocks Announcing Dividends at the Current Rate:

- **Starwood Property Trust, Inc. (NYSE: STWD)**, current yield: 8.6%
- **Ship Finance International Limited (NYSE: SFL)**, current yield: 12.4%
- **Hercules Capital Inc. (NYSE: HTGC)**, current yield: 9.0%
- **Communications Sales & Leasing Inc. (Nasdaq: CSAL)**, current yield: 9.6%
- Stocks Announcing Higher Dividend Rates:
- **Macquarie Infrastructure Corp (NYSE: MIC)**, current yield: 6.3%
- **Aircastle Limited (NYSE: AYR)**, current yield: 4.8%

- **Easterly Government Properties Inc. (NYSE: DEA)**, current yield: 4.9%

These dividend announcements show that the Dividend Hunter strategy of secure, high current yields combined with moderate dividend growth is a stock market strategy that works through the different, unpredictable cycles of the stock market.

Now that the newsletter is about two and a half years old, the recommendations list includes stocks from the first issue in June 2014 to ones that have been on the list for just a month or two. On the portfolio page, I calculate the cash return, which is based on the total dividends earned since a stock was added to the portfolio, and a total return, which includes share price changes. The fact that the numbers are very close, with the total return average at 11.6% and cash return average at 10.9% gives a good picture of how the strategy I use for these stock recommendations will perform over time.

Current Portfolio: Buy / Accumulate

Stock	Entry Date	Entry Price	Recent Price	Status	Div. Earned	Current Yield	Cash Return
Plains GP Holdings LP	12/01/16	$35.00	$35.00	Buy	$0.0000	6.3%	0.00%
LTC Properties Inc. (LTC)	09/28/16	$52.61	$45.82	Buy	$0.3800	5.0%	0.73%
Golar LNG Partners LP (GMLP)	09/01/16	$19.29	$21.33	Buy	$0.5775	10.5%	2.99%
MGM Growth Properties LLC (MGP)	07/01/16	$26.43	$25.04	Buy	$0.3875	6.2%	1.47%
Communications Sales & Leasing (CSAL)	05/31/16	$24.98	$25.53	Buy	$1.2000	9.4%	4.80%
Lamar Advertising Co. (LAMR)	04/29/16	$62.04	$66.27	Buy	$1.5100	4.6%	2.43%
Chatham Lodging Trust (CLDT)	03/31/16	$20.62	$19.65	Buy	$0.8800	6.7%	4.27%
Easterly Government Properties (DEA)	03/01/16	$17.50	$19.49	Buy	$0.4500	4.9%	2.57%
VTTI Energy Partners LP (VTTI)	01/04/16	$20.71	$17.75	Buy	$0.9328	7.4%	4.50%
Reaves Utility Income Fund (UTG)	11/02/15	$29.95	$29.60	Buy	$1.9837	6.5%	6.62%
Aircastle Limited (AYR)	09/30/15	$20.61	$22.42	Buy	$1.2200	4.6%	5.92%
Hercules Tech. Growth Capital (HTGC)	04/30/15	$13.90	$13.85	Buy	$2.1700	9.0%	15.61%
InfraCap MLP ETF (AMZA)	03/31/15	$21.51	$10.88	Buy	$3.6100	19.0%	16.78%
Blackstone Mortgage Trust (BXMT)	01/31/15	$41.05	$30.01	Buy	$4.1400	8.3%	14.18%
Stag Industrial (STAG)	12/31/14	$24.50	$23.57	Buy	$2.6388	5.9%	10.77%
EPR Properties (EPR)	10/30/14	$55.64	$69.32	Buy	$8.2000	5.5%	14.74%
New Residential Investment (NRZ)**	07/30/14	$12.16	$15.29	Buy	$3.4000	12.0%	27.96%
Main Street Capital (MAIN)	06/27/14	$32.51	$36.54	Buy	$6.2150	6.1%	19.12%
Starwood Property Trust (STWD)	05/30/14	$24.39	$22.18	Buy	$4.8000	8.7%	19.68%
Ship Finance International (SFL)	05/30/14	$18.52	$14.05	Buy	$4.4200	12.8%	23.87%
Macquarie Infras. Company (MIC)	05/30/14	$61.48	$82.53	Buy	$11.150	6.3%	18.14%

Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 11/30/16

Current Portfolio: Hold

Stock	Entry Date	Entry Price	Recent Price	Status	Div. Earned	Current Yield	Cash Return
MLP Distribution Growth Leaders (YGRO)	07/30/15	$14.60	$10.42	Hold	$0.9842	6.3%	6.74%
Williams Companies (WMB)	05/29/15	$51.10	$30.09	Hold	$3.3500	2.8%	6.56%
Lexington Realty Trust (LXP)	03/02/15	$10.78	$10.49	Hold	$1.1950	6.3%	11.09%
Kinder Morgan (KMI)	01/31/15	$29.20	$21.81	Hold	$1.8550	1.2%	4.52%
Arc Logistics Partners (ARCX)	07/30/14	$25.10	$14.71	Hold	$4.2550	7.0%	16.95%

Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 11/30/16

Closed Positions

Stock	Entry Date	Entry Price	Close Price	Close Date	Div Earned	Total Return	Cash Return
Jernigan Capital (JCAP)	12/01/15	$15.37	$18.29	07/26/16	$0.35	22.39%	2.30%
Ventas, Inc. (VTR)**	08/31/15	$55.02	$72.33	08/31/16	$2.10	35.28%	3.82%
Ventas, Inc. (VTR)	05/30/14	$66.80	$79.81	01/30/15	$1.45	21.65%	2.17%
Oaktree Capital Group LLC (OAK)	05/30/14	$49.98	$54.14	02/09/15	$1.17	10.66%	2.34%
Salient Midstream & MLP (SMM)	08/28/14	$31.23	$21.67	03/31/15	$0.93	-27.64%	2.97%
TCP Capital Corp (TCPC)	10/30/14	$16.51	$16.22	05/29/15	$0.77	2.91%	4.66%
Hannon Armstrong (HASI)	08/28/14	$14.49	$17.46	12/01/15	$1.26	29.19%	8.70%
Memorial Production Ptns. (MEMP)	09/30/14	$22.02	$3.48	12/01/15	$2.50	-72.84%	11.35%
Legacy Reserves (LGCY)	09/30/14	$29.68	$2.95	12/01/15	$2.06	-83.12%	6.94%
LnnCo LLC (LNCO)	04/30/15	$12.75	$1.68	12/01/15	$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	05/17/16	$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. 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 the time 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.

** There have been two separate trades for VTR, one recommended in May of 2014 and closed on January 30th, 2015 and the second which was opened on September 1st 2015 and closed on August 31st 2016.