Investors Alley
The Dividend Hunter
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Letting Ourselves Make Money in Any Market

From years of observation and a lot of communications with investors, I have reached the conclusion that most of us, as investors, can be our own worst enemies. When it comes to making money on our investments rather than losing money many times we fail. Worries and fears about losing money often push investors into decisions that actually result in losing money.

The opposite emotion, greed, can push investors into buying stocks they don't understand, and that often leads to losses. As you can see, it is usually the emotions of fear and greed that lead to losing money in the stock market. To avoid becoming one of the loser herd, we need to approach our investment strategies using our logical minds.

In This Issue

Here are some overriding logic based ideas to keep in mind.

As dividend-focused investors, our focus should be on the dividend income return we generate off a portfolio of stocks. When share prices go up, it does make us feel better, but it is not why we bought the shares. If shares go down, we confirm the companies we own will keep paying the dividends and either not worry about the share price or buy more shares to boost the dividend income stream.

The companies in which we own are managed to produce long-term growth, cash flow and dividend payments. These companies report results just four times a year with the quarterly earnings reports, and their business plans are set to operate for one year, three years, five years or longer. In contrast, most stock market participants focus on very short-term "news" items that are viewed to have meaning today and replaced by something else tomorrow. To make money, we focus on the long-term and practice patience when our emotions push us to do something right now.

There are periods of time when stock prices go down. It is an inevitable fact of investing in stock shares. We invest in individual companies, and if all or almost all stocks are dropping in value, it very likely will have no effect on the companies we own or their ability to keep paying the dividends. These are the core tenents of our investment strategy.

The modern stock market is driven by traders looking to profit from short-term swings. The market is a pure supply and demand mechanism that reacts only to the number of investors and traders who want to buy or sell. In most cases, the market has no predictive ability.

For this month's issue of The Dividend Hunter, I do not have a new stock to add to the recommendations list. I am very happy with the current list of 21 stocks on the Buy/Accumulate list. If you are looking for new stocks to buy, work through the list and pick up one or two that you do not yet own.

There have been a couple that I was considering to replace, and then they came out with really good year-end financial results. A good example is **Lamar Advertising Company (Nasdaq:LAMR)**, which announced a surprise 9% dividend rate increase. What I want to focus on this month is to give you some portfolio management techniques that will help you both protect gains when one of your stocks goes up and at the same time boost your dividend income.

The stock market has been very good to us over the last four months, and it seems that this trend has a ways to run. Just always keep in mind that while we can't predict when a trend will end, over the longer term, the market moves in up and down cycles.

We have updated the Monthly Dividend Paycheck Calendar for March. You can acccess the updated calendar immediately by clicking the link below.

Click here to see the updated Monthly Dividend Paycheck Calendar.

Land, Fly or Die,

Tim Plaehn
Editor
The Dividend Hunter

P.S. My live strategy session from Saturday was a great success. We had many people sign on and ask some thoughtful questions. If you were able to make it and enjoyed the session, thank you!

If not, and I know many people are busy, I have made the recording of the session available for a short amount of time.

Click the link here to watch. http://www.investorsalley.com/future-of-dividend-investing-under-president-trump/

Hercules Capital Inc.

Industrial properties are stealth winners from the growth of online retail sales as well as from growth in the overall economy. Industrial types of commercial properties include warehouses, light manufacturing facilities, logistics facilities, specialty industrial, and cold storage. While demand for industrial space is growing from a wide range of companies that need that kind of space, supply is limited. There is only so much land around airports and seaports that is available for industrial use buildings.

I have included just two Business Development Companies (BDCs) as Dividend Hunter recommended stocks. The rules governing BDCs along with the use of external management companies by the majority of companies in the sector have made it tough to find BDC stocks that meet my criteria for safety of dividend payments and growth prospects.

In the BDC group, **Main Street Capital Corporation (NYSE:MAIN)** has been a stand-out winner, and I regularly express that investors should own **MAIN**. I have put less focus on **Hercules Capital Inc. (NYSE:HTGC)**, but this BDC also is doing very well for investors. Hercules just announced stellar quarterly earnings, so let's review this quality stock with an attractive 8% plus yield.

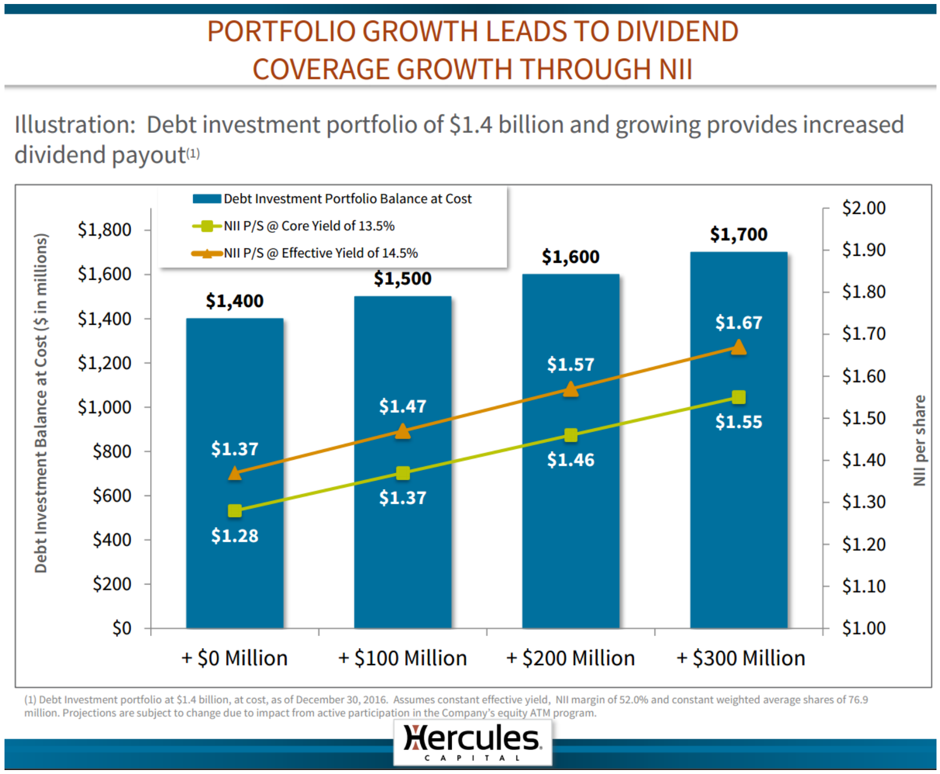
Hercules Technology Growth Capital Has Carved Its Own Niche

HTGC is one of the oldest BDCs, founded in 2003 and into the market with a 2005 IPO. The company is internally managed with a $1.15 billion market cap. In the BDC world, $1.15 billion, with a $1.8 billion enterprise value (market cap plus debt) is one of the larger companies. What sets **HTGC** apart from its peers is its client focus. Hercules works with venture capital and private equity firms to provide funding for companies that are pre-IPO or being groomed for merger or acquisition. The BDC lives up to its name, providing funding primarily to various types of technology related companies.

To assist its client companies and their venture capital backers, **HTGC** makes only senior debt loans with maturities of 3 to 3 1/2 years. About 90% of Hercules' assets are loan with 10% as equity positions that can pay off very well when a client goes public or is acquired.

The loans made by **HTGC** carry an average "core" yield of 13% to 14%. The typical loan has a 10.5% coupon rate, and the core yield is bumped up by commitment and origination fees. Equity profits and early termination fees have increased Hercules average effective returns to above 16%. The company's relationships with over 500 venture capital type firms has allowed **HTGC** to steadily grow its book of business, and also steadily increase its annual dividend. Since 2010, the annual dividend has increased from $0.80 per share to $1.24 paid in 2014. The dividend has been flat for the last two years, but now the company is again in position to grow the per share payout.

Hercules had a large amount of both debt and equity assets mature in 2014 into 2015. The balance of 2015 and 2016 were focused on bringing in new investments to replace the closed deals and to grow the investment portfolio. In 2016 total investment income grew by 21% compared to 2015 and net investment income jumped by 64%. After providing just adequate coverage of the $0.31 quarterly dividend for the past six quarters, the 2016 fourth quarter earnings came in with net investment income of $0.41 per share.



Investment Potential

The **HTGC** share price has gone through a two year swing, dropping in 2015 as the company reloaded its portfolio, but did not increase the dividend. In 2016 the share price recovered all of the previous year decline, and the share value is up 35% over the last 12 months. At this point, I expect the share price to continue to appreciate as **HTGC** again starts to grow its quarterly dividend rate. This chart shows the company's forecast net investment income per share growth as the company continues to grow its debt investments portfolio. For reference, the current dividend is $1.24 per share. Because of the BDC rules, if the cash flow does meet these expectations, **HTGC** must increase the dividend rate to retains its tax-free pass through status.

HTGC currently yields 8.4%. This stock will be a nice addition to an income focused portfolio as long as the yield stays above 8%.

Taking Profits and Growing Income

Let's start this section with some disclaimers. Each of you as an investor has purchased the various Dividend Hunter recommended stocks at different times and different share prices. This discussion is about some strategies you can employ, but you need to analyze your individual stock positions to determine if it works for one or more of your stocks.

I also advise patience, you do not need to rush to sell a number of stocks and then use that cash to buy a number more. I generally use this technique one stock at a time. Then, I wait and watch to see what happens with dividend announcements and share prices.

With a dividend-focused investment strategy, it is not possible to time when to be in and when to be out of the market. You cannot earn dividends unless you own shares of dividend paying stocks. Besides, I have never found a reliable way to determine when the stock market will reach a top or a bottom, or even close to those extremes. The positive benefit of owning higher-yield stocks is that it becomes easier to buy low and sell high on a non-market-timing basis.

If the share price of one of our dividend paying stocks moves down significantly, we analyze that the dividend payments are still secure, and then buy more shares at a lower price and higher yield. If one of our stocks moves up rapidly in price, it can be a prudent move to sell some shares and reinvest the proceeds into another stock that will increase our future dividend income earnings.

To illustrate how this works I will give an example with a couple of Dividend Hunter recommended stocks.

First, I want to list several of what I call "hip pocket" stocks. These are two to three of the highest-yielding stocks I own. They are also stocks that I am always comfortable with buying more shares if I get some extra cash that I want to put to work earning cash income.

For me personally, the three stocks are:

Starwood Property Trust, Inc.(NYSE:STWD), current yield 8.5%

New Residential Investment Corp (NYSE:NRZ), yield 11.5%

InfraCap MLP ETF (NYSE:AMZA), yield 18.4%.

You may want to use these or some different higher-yield stocks that you own and are comfortable with.

Now let's look at a potential “Sell for profits, invest for more yield” example.

Dividend Hunter recommended stock **Lamar Advertising Company (Nasdaq:LAMR)** has had a very nice gain since the election, up 26% since November 11. This is a good example of when I would consider taking some partial profits on a stock I own. The decision trigger is a significant share price gain in a short period of time. For the example, if you purchased 400 **LAMR** share at some point last Fall for $60 per share, which would be an investment of $24,000. Now at $75.64 per share, your investment in LAMR is worth $30,266, a gain of 26%.

When I sell to take a profit, I sell shares up to the amount of my profit in the stock. In this case, the math is easy. My shares are up about 25%, so I will sell 80 or 20% of my shares. That sale puts $6,050 of cash into my brokerage account and I still own 320 shares of LAMR worth $24,200. Note that the percentage math gets a little strange so do some calculations before you enter a sell order with your broker. In this case, a 25% gain means that the profits are now 20% of the value of the shares.

I now have $6,000 in new cash to put to work. At this point in time, I want to add some **STWD** shares to my portfolio. That cash lets me buy 250 shares of **STWD** with a bit left over. Let's see what these two trades have done for our dividend cash flow. The **LAMR** quarterly dividend is $0.83 per share, so the sale reduced our dividend income by $66.40 per quarter. The **STWD** dividend is $0.48 per share, so the new shares will pay $120 per quarter. The bottom line is a nearly doubling of dividend income by taking the share price gains experienced with LAMR and investing those profits into a higher-yield but less growth oriented stock.

There are two points I want to emphasize. This is a strategy you can employ in your own portfolio based on the gains you personally have experienced. Each investor will be different. Second, there is an added benefit to owning some of the more dividend growth focused but lower-yield stocks in the Dividend Hunter portfolio.

Portfolio Update

Earnings reports season for the 2016 fourth quarter is over, and the general take away is that all of the current Dividend Hunter recommended stocks are doing well. In many cases better than expected. Most companies kept their dividends level. Here are the exceptions.

Macquarie Infrastructure Corp. (NYSE:MIC) increased its dividend to $1.31 per share. That's a 2 cent increase over the previous quarter. The **MIC** dividend is up 13.9% over the last year. Management provided 10% dividend growth guidance for 2017.

Lamar Advertising (Nasdaq:LAMR) declared an $0.83 per share quarterly dividend. This is a 9.2% increase from prior dividend of $0.76. This was the second dividend increase from Lamar in the last year.

As announced in January, **New Residential Investment Corp(NYSE:NRZ)** increased its dividend to $0.48 per share, up from $0.46.

Current Portfolio: Buy / Accumulate

Stock	Entry Date	Entry Price	Recent Price	Status	Div. Earned	Current Yield	Cash Return
Gramercy Property Trust (GPT)	01/31/17	$26.34	$27.96	Buy	$0.0000	5.4%	0.00%
Plains GP Holdings LP (PAGP)	12/01/16	$35.00	$32.87	Buy	$0.5500	6.9%	1.58%
LTC Properties Inc. (LTC)	09/28/16	$52.61	$48.24	Buy	$1.1400	4.8%	2.19%
Golar LNG Partners LP (GMLP)	09/01/16	$19.29	$22.54	Buy	$1.1550	9.9%	5.99%
MGM Growth Properties LLC (MGP)	07/01/16	$26.43	$25.42	Buy	$0.7750	6.1%	2.93%
Uniti Group Inc. (UNIT)	05/31/16	$24.98	$28.97	Buy	$1.8000	8.3%	7.21%
Lamar Advertising Co. (LAMR)	04/29/16	$62.04	$75.48	Buy	$1.5100	4.4%	2.43%
Chatham Lodging Trust (CLDT)	03/31/16	$20.62	$20.03	Buy	$1.2100	6.5%	5.87%
Easterly Government Properties (DEA)	03/01/16	$17.50	$20.67	Buy	$0.9200	4.7%	5.26%
VTTI Energy Partners LP (VTTI)	01/04/16	$20.71	$18.30	Buy	$1.5969	7.2%	7.71%
Reaves Utility Income Fund (UTG)	11/02/15	$29.95	$33.47	Buy	$3.384	5.7%	11.30%
Aircastle Limited (AYR)	09/30/15	$20.61	$24.03	Buy	$1.4800	4.4%	7.18%
Hercules Tech. Growth Capital (HTGC)	04/30/15	$13.90	$14.81	Buy	$2.1700	8.3%	15.61%
InfraCap MLP ETF (AMZA)	03/31/15	$21.51	$11.20	Buy	$4.1200	18.5%	19.15%
Blackstone Mortgage Trust (BXMT)	01/31/15	$41.05	$31.14	Buy	$4.7600	8.0%	16.30%
EPR Properties (EPR)	10/30/14	$55.64	$76.96	Buy	$9.2000	5.3%	16.53%
New Residential Investment (NRZ)**	07/30/14	$12.16	$16.87	Buy	$3.8600	11.4%	31.74%
Main Street Capital (MAIN)	06/27/14	$32.51	$36.99	Buy	$7.0450	6.0%	21.67%
Starwood Property Trust (STWD)	05/30/14	$24.39	$22.86	Buy	$5.2800	8.4%	21.65%
Ship Finance International (SFL)	05/30/14	$18.52	$14.77	Buy	$4.9700	12.4%	26.84%
Macquarie Infras. Company (MIC)	05/30/14	$61.48	$76.63	Buy	$11.150	6.9%	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 02/28/17

Current Portfolio: Hold

Stock	Entry Date	Entry Price	Recent Price	Status	Div. Earned	Current Yield	Cash Return
Williams Companies (WMB)	05/29/15	$51.10	$28.34	Hold	$3.3500	2.8%	6.56%
Lexington Realty Trust (LXP)	03/02/15	$10.78	$11.16	Hold	$1.3700	6.5%	12.71%
Kinder Morgan (KMI)	01/31/15	$29.20	$21.88	Hold	$1.9800	2.2%	4.82%
Stag Industrial (STAG)	12/31/14	$24.50	$25.83	Hold	$2.8980	6.0%	11.83%

Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 02/28/17.

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.