Dr. Mark Skousen's

SPECIAL REPORT

For *Forecasts & Strategies* Subscribers Only

3 Dividend Plays with Sky High Returns

IMPORTANT NOTE: This special report is for information and educational purposes only based on data as of February 2014. Do not buy or sell any investments until you have read the current issue of *Forecasts & Strategies*, a current Hotline, or an email update from Mark Skousen.

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3 Dividend Plays with Sky High Dividends

Introduction

In my 30-plus years of experience in buying income funds, I've learned some pretty important lessons. There are several key rules to obey when it comes to investing in high-income vehicles. Failure to follow these rules could be costly.

In this special report, I want to highlight three income fund investments that have been recommended in my *Forecasts & Strategies* portfolio and I also will be examining some of the special advantages that these funds can provide investors.

Main Street Capital Corp. (MAIN)

Based in Houston, **Main Street Capital Corp.** (**MAIN: $31.84, 6.2% yield**) is a business development company (BDC) that makes equity investments and loans money to small- and mid-sized companies. Typically, these businesses are cash flow positive, with revenue between $10 million and $100 million.

Main Street is well diversified. It had investments in 62 Lower Middle Market for a fair market value of $635.8 million, with a total cost basis of $504.3 million, at the end of the third quarter of 2013. The company also had invested in 83 Middle Market companies, with a fair market value of $391.1 million and a total cost basis of $388 million, as of September 2013. In addition, the company had issued private loans to 13 companies, totaling $87.3 million in fair market value with a cost basis of $86.6 million. Those numbers show that Main Street has investments that exceed its cost basis in each of its three areas of financing.

Main Street's dividend is paid monthly. It has only been cut once since the 2008 financial crisis and, in fact, the company raised its dividend twice in 2013 alone. The company is well positioned to take advantage of new opportunities. (Note: At the time of this writing, Q4 figures were not available.)

At the end of the third quarter of 2013, the company had $17.6 million in cash and $20 million in marketable securities. Main Street also amassed third quarter 2013 net investment income of $18.8 million, or $0.51 per share, to mark a 21% increase from the third quarter of 2012, after excluding $1.3 million of non-recurring, non-cash share-based compensation expense due to the acceleration of a retiring employee's restricted shares.

Management continued to accumulate more shares of its own stock through 2013. Main Street's management team and directors own more than 9% of the company. CEO Vince Foster alone owns 1.41 million shares or 4.2% of total shares outstanding. The company's President Todd Reppert owns at least

359,000 shares. These two executives are the largest shareholders in the company. Foster earns roughly $2.5 million in dividends per year on his holdings. That's more than five times as much as his paycheck. Reppert is positioned to earn about $700,000 in annual dividends, more than twice his salary.

In December 2013, no fewer than 12 company directors, owners or board members executed 26 separate transactions to acquire additional shares – all of them at market price. That kind of insider buying affirms my confidence in the company's outlook. The management team's interests are clearly aligned with shareholders. If the business does well, and management is able to increase the dividend, that puts more money directly back into their pockets, the way it should be.

It is rare to find a stock with a high yield, growing dividend, a very solid management team, insider buying and bright prospects for the future. But that favorable situation is exactly what Main Street Capital offers. That's why I still recommend that you pick up shares of MAIN at market, and look to the most recent issue of *Forecasts & Strategies* for our exit price.

The chart below excludes dividends but still shows MAIN's recent rise.

Date as of 1/28/2014 Source: Yahoo Finance

MAIN has underperformed the market over the last year, since it is only up about 9% compared to the market's rise of more than 20%. But with a dividend payment, MAIN remains an attractive investment.

Enterprise Products Partners Fund (EPD)

A nice way to diversify your holdings and profit from the energy boom is available through the **Enterprise Product Partners (EPD: $61.68, 4.4% yield),** a Houston-based pipeline company that is America's largest pipeline operator. It has a track record of acquiring new companies and additional natural gas assets, as well as a rising dividend policy.

This master limited partnership (MLP) provides a range of services to producers and consumers of natural gas, natural gas liquids (NGLs), crude oil, refined products and petrochemicals in the continental United States, Canada and Gulf of Mexico. This MLP has raised distributions for more than a decade and is a member of the dividend achievers index. As a master limited partnership, most profits flow straight through to unit holders untaxed as distributions. Investors then are responsible for paying the taxes on their share of MLP income, which involves a lot of paperwork. But it may be worth it.

The MLP provides midstream energy services throughout the Midwestern United States and is highly recommended for income seekers. EPD only pays out about 80% of its distributable cash flow, a conservative policy that leaves a comfortable cushion to grow distributions and re-invest for growth. Pipeline companies such as Enterprise are benefiting from the oil & gas boom in the United States, and enjoying a sharp increase in demand for the transportation of energy products. Enterprise has better metrics than its competitors — higher revenue growth, higher net margins and an enviable rising quarterly dividend policy. What a money machine. I have it in my portfolio and you should, too. The chart below excludes dividends but still reflects EPD's advance during the past 12 months.

Date as of 1/28/2014 Source: Yahoo Finance

KeyCorp. (KEY)

KeyCorp. (KEY: $12.86, 1.7% yield), of Cleveland, Ohio, has more than 1,000 retail banking branches in 14 states. This regional commercial bank makes money on the spread — the difference between what it pays on deposits and what it charges to lend money.

The banking company's fundamentals look good and its cost-cutting "Fit for Growth" efficiency program is working — saving $171 million in one recent quarter alone. KEY's dividend is small (1.7% yield) but it has adopted a rising dividend policy since the 2009 banking crisis. A rising dividend always is a positive sign. The company also has a $426-million share buyback program in force, to be completed by the first quarter of 2014. With profit margins exceeding 21%, earnings and revenues are rising, and so is the company's cash position of $2.2 billion.

CEO Beth Mooney was named #1 on *American Banker*'s "The 25 Most Powerful Women in Banking" list. In addition, CFO Donald Kimbell and other insiders bought shares recently. Plus, Cliff Asness's AQR Capital Management disclosed that it recently acquired 11 million shares of KeyCorp. Asness is considered one of the most astute hedge fund managers in the country.

As Oppenheimer analyst Terry McEvoy wrote, "Management's success on reducing expenses above our forecast supports the view that sentiment on Key is improving, as investors reassess the prospects from more consistent growth led by a management team that is proving to being more disciplined on multiple fronts." Oppenheimer rates KEY an "outperform." If you have not done so already, add **KeyCorp (KEY)** to your portfolio. The chart below does not include the modest dividend that KEY pays to enhance its appeal as an investment.

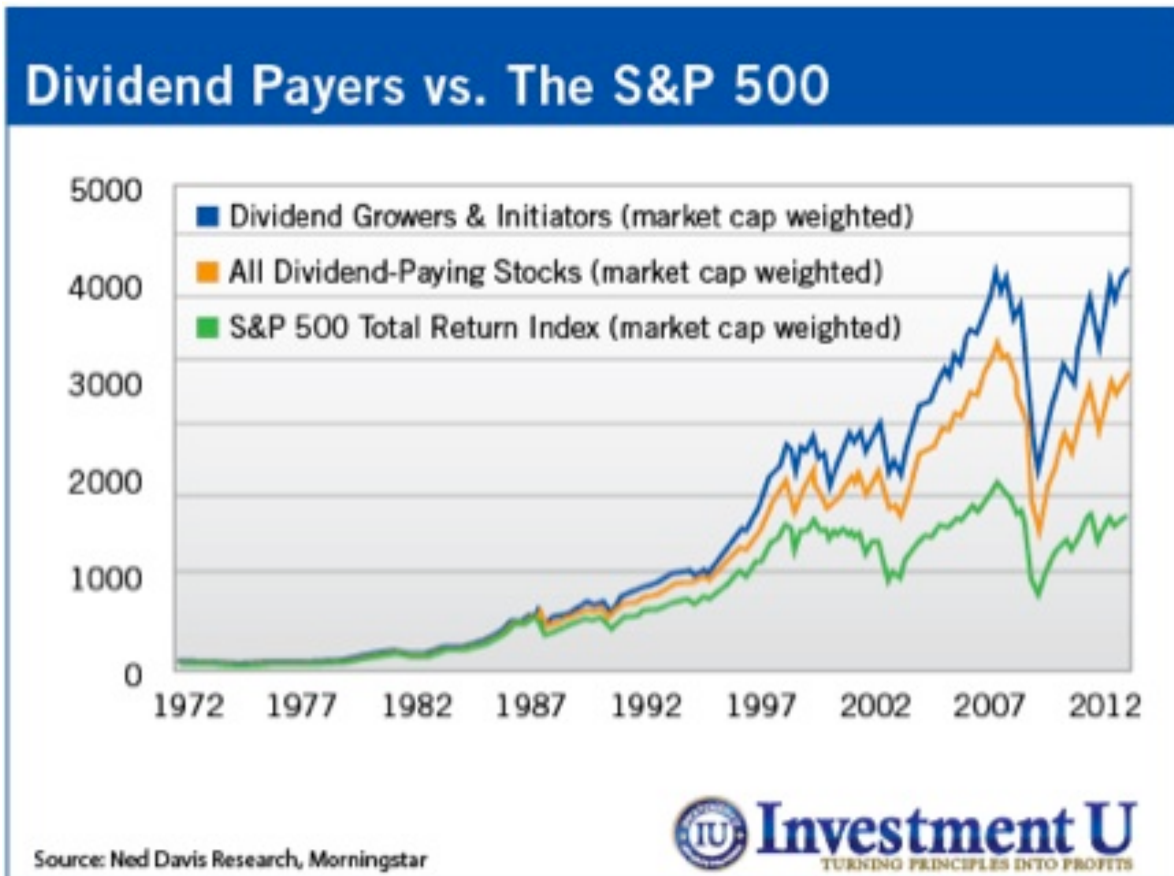
Date as of 1/28/2014 Source: Yahoo Finance

The Special Advantages of Dividend-Paying Equities

Dividend-paying equities have been found to outperform their non-dividend paying counterparts historically. Jeremy Siegel, a distinguished finance professor at the University of Pennsylvania's Wharton School, has championed research about long-term stock and bond returns to help investors enhance their performance. He has authored a best-selling book, "Stocks for the Long Run," that supports the advantages of long-term investing.

Keep in mind that the Federal Reserve Bank is in the driver's seat. Monetary policy is far more important than fiscal policy (taxes, regulations and deficits) in the short run, and we're profiting. However, due to comparatively limited upside right now in long-term bonds, interest-bearing investments only represent 10% of our portfolio. The vast majority of my *Forecasts & Strategies* recommendations are in high-dividend-paying stocks and funds.

Take a look at the chart below to see the results of investing in dividend-paying stocks. The Fed's easy-money policies have offered many good opportunities for investors in dividend-paying equities that tend to hold their value, compared to growth stocks that typically do not pay dividends. The management of dividend-paying companies also need to stay disciplined in investing capital in new projects, since a certain amount of cash must go to investors each year, if not quarterly or even monthly.



"Standard Oil's high dividend yield made a huge difference in boosting its return," Professor Siegel wrote when comparing its superior returns to those of IBM for the same period of time. Despite lower sales and earnings than IBM, Standard Oil's regular dividend payments more than made up for the company's other shortcomings in its return to investors when measured against IBM. Studies show that 97% of stock appreciation comes from dividends.

There is mounting evidence that public companies that pay regular dividends produce better long-term growth prospects and lower risk patterns than do non-dividend-paying growth companies. Since those dividend-paying companies tend to be large and mid-market cap stocks that have been around for many years, they are not normally vulnerable to the extreme valuations that affect growth and technology companies. Dividend payers stay married to their mission of providing a return to investors.

Show Me the Money

A cash dividend is the only real evidence that a company is doing its job of working for you, the shareholder, and not just for its executives and employees. Think about all of the corporate scandals, accounting schemes and fictitious earnings reports of the recent past. Now consider the satisfaction of receiving check in the mail or a deposit directly into your brokerage account. It is comforting to know that a company actually earned enough money to pay you, the shareholder. Cash dividends are not subject to revisions, unlike corporate earnings. Revenues can be booked in one year or spread across several years. Capital assets can be sold and listed as ordinary income. Liabilities can be accounted for during a single year or spread out for several years. But cash paid into your account is a litmus test for true corporate earnings.

There have been a few dividend scandals but they are extremely rare. The reality is that dividends must be paid out of earnings, so there is no corporate trickery. To quote the title of Geraldine Weiss's classic book, "Dividends Don't Lie."

A corporate requirement to pay regular dividends instills the same kind of discipline on the management as a mortgage payment does on someone who is paying off a home loan. A company that pays a dividend is similar to an investor who commits to a 401(k) or a savings plan. The money that pays dividends naturally is not available to be squandered on risky projects that a disciplined management team would forgo.

In addition, dividend stocks beat the market. Research has shown that dividend-weighted indexes surpass market-weighted indexes by 300 basis points each year over the long run. A diversified portfolio of dividend-oriented stocks tends to outperform a portfolio of non-dividend paying stocks both domestically and internationally. Seldom do you find a high-flying stock that has a large market capitalization and pays a sizable dividend.

Studies also show that dividend-paying stocks are less risky than non-dividend payers. By investing in stable companies, you avoid the high-wire ventures of aggressive growth stocks. Remember the technology bubble of the late 1990s? When you invest in dividend-paying stocks, you avoid buying shares of public companies such as Enron and eToys. Both of those companies flamed out, with Enron's accounting scandal bringing the company to an embarrassing end.

It is during bear markets when dividend-paying stocks really shine. The dividend payout provides a cushion when growth stocks are faltering. The prospect of a dividend payment helps to buoy a stock, while a non-dividend payer is vulnerable to a deep fall since it lacks a cash payment to keep investors from selling their shares. To be clear, dividend payers can lose value but they tend not to fall as much as aggressive growth stocks that do not make payments to their shareholders.

Be sure to use "stop" orders to protect your capital gains when investing. Generally, I suggest a "stop" order within 10-15% of your buying price. In my newsletter and hotline, I will inform you when we receive a "stop" order on an income investment. For example, we have taken profits on dividend-paying equities, "junk" bond funds, municipal bond funds, and real estate investment trusts (REITs) after they hit our "stop" orders. Finally, try to buy after a big sell-off, due to a new government policy, change in the direction of interest rates, insiders buying shares, etc. Since even dividend-oriented investments can fall in value, the use of stops can save you from the risk of harrowing market drops.

Conclusion: You Can Earn High Income In a Low Interest Environment

We have covered several good dividend-paying investments in this special report. Because high-yielding investments are inherently risky, you must be careful in your approach. To survive and prosper in this dangerous arena, remember the rules:

—Diversify into a number of investments.

—Watch your investments closely and use a "stop" order to protect your principal.

—Wait patiently to buy after a big sell-off, due to a new government policy, change in the direction of interest rates, large investors bailing out, etc.

Good luck!

Yours for freedom & prosperity, AEIOU,

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