SPECIAL REPORT

6 "Dividend Darlings" To Compound Your Wealth

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IMPORTANT NOTE: This special report is for information and educational purposes only, based on data as of June 2017, from Mark Skousen and Roger Conrad.

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3 Dividend Darlings To Compound Your Wealth

Dr. Mark Skousen and Roger Conrad together bring more than 60 years of expertise in uncovering the best dividend-paying stocks in the markets. In this limited-time publication, Mark and Roger each select their three favorite dividend-paying investments from their subscribers-only portfolios, and elaborate on some of the special advantages these dividend plays can provide investors.

Dividend Darling # 1:

Main Street Capital Corp. (symbol: MAIN)
Recommended by Mark Skousen

Based in Houston, **Main Street Capital Corp.** (MAIN: 7.0% yield**,** including supplemental dividends) is a business development company (BDC) that makes equity investments and loans money to small and mid-sized companies. Main Street is considered the "best of the breed" in the BDC world. Typically, these businesses are cash flow positive, with revenue between $10 million and $100 million.

Main Street is well diversified. It has investments that exceed its cost basis in each of its three areas of financing, and the company is well positioned to take advantage of new opportunities. At the current rate, counting its monthly dividend of 18.5 cents a share and extra payments twice a year, MAIN's annual total distribution should be $2.77 per share or more, for an outstanding yield.

I agree with Wall Street analysts who consider Main Street Capital the "best dividend stock in America," due to its top management team, insider buying and rising dividend policy. It is one of my largest positions.

Management recently has continued to accumulate more shares of its own stock. Main Street's management team and directors own nearly a tenth of the company. CEO Vince Foster is the largest shareholder in the company. Foster earns roughly $3.8 million in dividends per year on his holdings. That's about eight times as much as his salary.

The company's directors, owners and board members execute transactions to acquire additional shares routinely, nearly every month — all of them at market price. That kind of insider buying affirms my confidence in the company's outlook.

It trades at a premium over the average BDC — and for good reason. It has a low-cost operating structure, where less than 16% of its revenue is consumed by operating expenses (others exceed 35%). It also has profited handsomely from its equity and warrant positions in its portfolio of middle-market companies, which, in turn, generate special dividends every six months for shareholders.

Main Street sells for only 1.8 times book value now. Now is the time to add the shares to your portfolio. 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.

Data as of 2/28/2017 Source: StockCharts

Dividend Darling # 2:

Enterprise Products Partners (EPD)

Recommended by Mark Skousen

A nice way to diversify your holdings and profit from the energy boom is available through **Enterprise Product Partners** (**EPD: 6.10% 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 an MLP, 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 EPD are benefiting from the oil & gas boom in the United States and enjoying a sharp increase in demand for the transportation of energy products. EPD has better metrics than its competitors — higher revenue growth, higher net margins and an enviable rising quarterly dividend policy. What a money machine!

The chart below excludes dividends but still reflects EPD's progress during the past 12 months. Note that EPD experienced a 2:1 split in August 2014.

Data as of 2/28/2017 Source: StockCharts

Dividend Darling # 3:

Omega Healthcare Investors (OHI)

Recommended by Mark Skousen

Omega Healthcare Investors (OHI: 8.10% yield) is a great way to take advantage of the aging of America. This Maryland-based owner of more than 400 nursing and assisted living facilities in 35 states is a real estate investment trust (REIT), and there's plenty of room for further acquisitions of health-related properties.

Omega offers a healthy balance sheet and bottom line. Profit margins exceed 35%, revenues have nearly doubled in two years, earnings are up 47% year over year and the stock is selling for 18 times expected earnings this year. Omega enjoys a current cash flow growth rate of 29%, nearly double the industry average. Return on equity is more than double the industry average.

Omega has had a rising dividend policy for the past 10 years. Today, Omega pays out a 63-cent-per-share quarterly dividend (8.10% annualized yield), the highest among its peers.

In addition, this company is perfectly set up for continued dividend growth. It collects huge rent payments from hospitals all over the country, then passes 90% of its profits on to shareholders.

By paying out 90%, Omega also avoids any income taxes, allowing the company to increase payments at even faster rates. OHI continues to benefit from a continued strength of the healthcare industry, which has only added to its gains over the last year.

And since Omega's fundamentals haven't changed significantly since the original recommendation back in 2013, OHI still remains a buy at market price.

Data as of 2/28/2017 Source: StockCharts

Dividend Darling # 4:

AES Corp (symbol: AES)

Recommended by Roger Conrad

AES Corp (NYSE: AES) trades at less than 10 times forward earnings and yields less than 4.4 percent. By comparison, the Dow Jones Utility Average goes for 17.28 times forward earnings and yields 3.44 percent.

This undemanding valuation fails to reflect AES Corp's progress reducing operating risk, paying down debt and building a leading position in the rapidly growing market for grid-scale energy storage.

The company has completed almost 3,000 megawatts of capacity additions and sold its AES Sul unit in Brazil for $440 million in proceeds. And CFO Tom O'Flynn affirmed debt reduction was on track to "achieve investment-grade credit metrics by 2020."

In the break between earnings announcements, the company has won energy-storage contracts in Arizona and Hawaii and acquired 386.1 megawatts of wind power in Brazil to offset the effects of future droughts on its hydropower capacity.

Meanwhile, the company has eliminated future environmental liabilities, reduced future operating costs, and set the stage for rate base growth by reaching a deal with the Sierra Club and other intervenors to shut down 2,093 megawatts of coal-fired power plants in June 2018.

Ohio regulators will need to approve these closures as part of the state's Energy Security Plan. Other elements include a five-year rider that will eliminate rate lag for investments in smart-grid technologies and the development of 300 megawatts of wind and solar power by 2022. Regulators should render their decision by the end of the first quarter.

AES Corp derives about 85 percent of revenue from contracted generation and regulated utilities, limiting its exposure to commodity prices and economic conditions. About 75 percent of the company's sales are in US dollars, limiting exchange-rate risk.

Management expects the company's construction program to increase the average contract life of its generation capacity to 10 years by 2020. And the company continues to have success rolling over contracts on low-cost generation, including a 20-year deal to repower capacity in California.

AES Corp's portfolio of assets in Chile has an average contract life of 11 years, which should protect the company from the steep drop in power prices at the country's auctions for 2021 and 2022.

Recent expansion efforts have been largely self-financed with sales of noncore assets. The company has also reduced parent-level debt by 28 percent over the past five years.

Why does AES Corp trade at a discount to its peers? Concerns about the company's international exposure and junk credit rating contribute to this valuation gap, while questions about the growth rate of renewable energy under the Trump administration haven't helped.

If the company continues to reduce operating risk, shore up its balance sheet and grow its dividend, this discount will close over time. **AES Corp rates a buy up to $15 per share.**

Dividend Darling # 5:

Western Gas Partners (symbol: WES)
Recommended by Roger Conrad

Western Gas Partners LP (NYSE: WES) offers leveraged exposure to **Anadarko Petroleum Corp's** (NYSE: APC) plans to accelerate drilling and completion activity in the Permian Basin and Niobrara Shale.

The master limited partnership's close association with a sponsor that boasts high-quality acreage, low production costs and ample free cash flow from steady, offshore production gives the pipeline and processing company a competitive advantage.

Further volumetric upside will come in the Eagle Ford Shale, where Anadarko Petroleum sold its acreage to **Sanchez Energy Corp** (NYSE: SN), which plans to step up activity in this area.

The master limited partnership also exchanged $155 million and non-operated interests in two gathering and process systems in the Marcellus Shale for **Williams Partners LP's** (NYSE: WPZ) 50 percent stake in the midstream operators' joint venture in the Delaware Basin. This transaction will lop $32 million off Western Gas Partners' operating cash flow, but increases its upside exposure to Anadarko Petroleum's development plans in the Permian Basin.

The MLP's Series A preferred units will convert to common stock in the first half of the year, tightening distribution coverage but deleveraging the balance sheet.

Management's guidance calls for annual distribution growth of 7 to 9 percent in 2017 and 2018, a slower rate than in previous years. This outlook assumes that Western Gas Partners builds the Mentone I and II processing plants in the Delaware Basin.

In coming years, the MLP aims to create a unified gathering-and-processing system for Anadarko Petroleum in the Permian Basin. **Western Gas Partners LP yields 6.3 percent and rates a buy up to $64 per unit.**

Dividend Darling # 6:

Pembina Pipeline Corp (symbols: NYSE: PBA; TSX: PPL)

Recommended by Roger Conrad

Conservative financial and operating policies, strong execution on new projects, and a blue-chip customer list sustained **Pembina Pipeline Corp** (TSX: PPL, NYSE: PBA) through an energy down-cycle that started even earlier on its home turf in Alberta.

In the first quarter, throughput on the Canada-based midstream operator's conventional oil and gas pipelines increased by 11.4 percent year over year. These gains, coupled with strong results on its oil sands transportation network and infrastructure for handling natural gas liquids, resulted in a 34.9 percent upsurge in operating cash flow.

This month, Pembina Pipeline took an even bigger step forward, announcing the acquisition of **Veresen** (TSX: VSN, OTC: FCGYF) for cash and stock. Veresen has traded at a discount relative to other midstream operators because of its reputation for being big on ideas—for example, the stalled Jordan Cove LNG (liquefied natural gas) export project in Oregon—and light on cash.

Pembina Pipeline's offer amounts to a roughly 20 percent premium to Veresen's pre-deal price, but management's guidance calls for the acquisition to be immediately accretive to earnings and support a 5.9 percent dividend increase.

After the transaction closes, Pembina Pipeline will generate about 85 percent of its cash flow from fee-based businesses and two-thirds from take-or-pay agreements.

With a CA$20 billion (US$14.6 billion) backlog of commercially secured projects, management's guidance for annual cash flow growth of 8 to 10 percent could prove conservative.

Regulatory approval shouldn't be a problem, while Pembina Pipeline's low cost of debt and equity capital should enable the company to finance the transaction at a reasonable price.

Prospective investors should note that Pembina Pipeline's New York-listed shares pay a monthly dividend in Canadian dollars, exposing US investors returns to fluctuations in the exchange rate.

Yielding 4.7 percent, Pembina Pipeline Corp rates a buy up to US$33 per share for those who don't already have a position.

About Roger Conrad and Dr. Mark Skousen

Roger S. Conrad (https://conradsutilityinvestor.com) needs no introduction to individual and professional investors, many of whom have profited from his decades of experience uncovering the best dividend-paying stocks for accumulating sustainable wealth.

Roger built his reputation with Utility Forecaster, a publication he founded more than 20 years ago that The Hulbert Financial Digest routinely ranked as one of the best investment newsletters.

He's also a sought-after expert on master limited partnerships (MLP) and former Canadian royalty trusts.

In April 2013, Roger reunited with his long-time friend and colleague, Elliott Gue, becoming co-editor of Energy & Income Advisor, a semimonthly online newsletter that's dedicated to uncovering the most profitable opportunities in the energy sector.

Although the masthead may have changed, readers can count on Roger to deliver the same high-quality analysis and rational assessment of the best dividend-paying utilities, MLPs and dividend-paying Canadian energy names.

Mark Skousen, Ph.D, is a nationally known investment expert, economist, university professor and author of more than 25 books. Currently, Skousen is a Presidential Fellow at Chapman University. He recently was named one of the 20 most influential living economists (superscholar.org).

He earned his Ph. D. in monetary economics at George Washington University in 1977. He has taught economics and finance at Columbia Business School, Columbia University, Barnard College, Mercy College, Rollins College and Chapman University. He also has been a consultant to IBM, Hutchinson Technology and other Fortune 500 companies.

Since 1980, Skousen has been editor in chief of Forecasts & Strategies, a popular award-winning investment newsletter. He also is editor of four trading services, Five Star Trader, High-Income Alert, Fast Money Alert, and 1600 Alert.

He is the producer of FreedomFest, “the world’s largest gathering of free minds,” which meets every July in Las Vegas. (www.freedomfest.com). FreedomFest attracts several thousand people from around the world.

He is a former analyst for the Central Intelligence Agency, a columnist to Forbes magazine (1997-2001), and past president of the Foundation for Economic Education (FEE) in New York. He has written articles for the Wall Street Journal, Reason, Human Events, the Daily Caller, Christian Science Monitor and The Journal of Economic Perspectives. He has appeared on CNBC, ABC, CNN, Fox News and C-SPAN Book TV. In 2008-09, he was a regular contributor to Larry Kudlow & Co. on CNBC.

His economic bestsellers include “The Structure of Production“ (NYU Press, 1990, 2007, 2015), “Economics on Trial” (Irwin, 1991), “Puzzles and Paradoxes on Economics” (Edward Elgar, 1997), “The Making of Modern Economics” (Routledge, 2001, 2009, 2016), “The Big Three in Economics” (M. E. Sharpe, 2007), “EconoPower” (Wiley, 2008) and “Economic Logic” (2000, 2014), a market-friendly textbook. In 2009, “The Making of Modern Economics” won the Choice Book Award for Outstanding Academic Title.

His financial bestsellers include “The Complete Guide to Financial Privacy,” “High Finance on a Low Budget,” “Scrooge Investing,” “Investing in One Lesson,” and “A Viennese Waltz Down Wall Street.” His latest financial work is “The Maxims of Wall Street” (2011), now in its 4th edition.

In honor of his work in economics, finance and management, Grantham University renamed its business school, “The Mark Skousen School of Business.”

Supplement: 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 are not currently in 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 needs 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 a 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' 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. 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, which could be triggered by 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 a few 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.

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