

Sure Retirement Newsletter

HIGH YIELD, HIGH QUALITY INVESTMENTS

May 2017 Edition

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Table of Contents

Opening Thoughts - Improvements at Sure Retirement-	3
The Retirement Top 10 – May 2017	4
Analysis of Top 10 Securities	5
Energy Transfer Partners (ETP).....	5
Genesis Energy, LP (GEL)	7
Enterprise Products Partners (EPD).....	9
Buckeye Partners, LP (BPL).....	11
Omega Healthcare Investors (OHI)	13
Macy’s Inc. (M)	15
AmeriGas Partners, L.P. (APU).....	17
Sunoco L.P. (SUN)	19
Kohl’s Corporation (KSS)	21
AT&T (T).....	23
Bonus: Stage Stores (SSI).....	25
Closing Thoughts – Do MLPs Make Good Investments? –	27
List of Investments by Sector	28
List of Investments by Rank	29
List of Past Recommendations & Ranking Criteria	30
Portfolio Building Guide	31
Examples.....	31
Tax Guide	32
Corporations.....	33
Master Limited Partnerships (MLPs).....	34
Real Estate Investment Trusts (REITs).....	35
Business Development Companies (BDCs)	36

Opening Thoughts

- Improvements at Sure Retirement-

We will be greatly expanding the Sure Retirement database of stocks over the next few months. The criteria for inclusion *in the database* will remain having a forward dividend yield of 5% or greater. The requirement that a stock have 5 years of consecutive dividend increases will be waived for entry into the database.

The problem with our use of the dividend history metric at Sure Retirement is that it screens out many high quality businesses that *do not* have 5+ years of rising dividends.

There is nothing magical about 5+ years of consecutive dividend increases. For example, a company that held its dividend steady for 1 year instead of raising it, but otherwise had a long history of dividend increases, would not have been in the database before.

This does not mean dividend history will stop being used in Sure Retirement, quite the contrary. A long history of steady or rising dividends is evidence of:

1. A durable competitive advantage
2. Ability to generate relatively stable cash flows
3. A corporate history of prioritizing payments to shareholders

In short, a long dividend history is perhaps the single best metric to use to identify high quality, shareholder friendly businesses.

Instead of a hard-and-fast rule that stocks must have 5+ consecutive years of dividend increases for inclusion, stocks in the Sure Retirement database will be ranked on their dividend history (among other metrics that matter using The 8 Rules of Dividend Investing).

All of this month's Top 10 Sure Retirement stocks have 5+ years of rising dividends, with an average dividend history among the top 10 of over 16 years of consecutive increases. The Top 10 also has an average yield of 7.5%. This is a unique collection of high quality, high yield stocks that are likely to provide both high current income and rising dividend income in the future that *at least* matches inflation.

The goal of the changes in this month's newsletter are to provide a more comprehensive database for better analysis and stronger selections going forward.

The metrics and processes used at Sure Retirement change infrequently by design. Compare this newsletter's Top 10 to last month's. You will see the same type of businesses are recommended (high yield dividend growth stocks). As we grow our reader base, we will continue to improve our services and improve our processes without raising our prices to provide the absolute best value we can for you.

The Retirement Top 10 – May 2017

Name	Price	Score	Yield	Payout	Dividend Streak	Growth	Beta
Energy Transfer Partn. (ETP)	\$23	1.00	9.4%	88%	15	12.0%	1.13
Genesis Energy (GEL)	\$31	0.96	9.3%	95%	14	12.5%	1.17
Enterprise Prod. (EPD)	\$27	0.81	6.2%	77%	19	10.0%	0.90
Buckeye Partners (BPL)	\$66	0.81	7.4%	93%	20	8.5%	1.27
Omega Healthcare (OHI)	\$32	0.79	7.8%	74%	12	9.0%	0.54
Macy's (M)	\$29	0.72	5.2%	74%	6	3.0%	0.78
AmeriGas Partners (APU)	\$45	0.70	8.4%	93%	14	2.5%	0.33
Sunoco L.P. (SUN)	\$30	0.69	11.0%	114%	5	10.0%	0.57
Kohl's Corporation (KSS)	\$40	0.68	5.1%	63%	6	7.0%	1.13
AT&T (T)	\$39	0.65	5.1%	94%	33	4.8%	0.37

Notes: The 'Score' column shows how close the composite rankings are between the top 10. The highest ranked stock will always have a score of 1. The 'Price' column shows the price as of the date the newsletter was published. The 'Payout' column uses either earnings, funds from operations, or cash available for distribution in the denominator. The numerator is dividends. 'Dividend Streak' measures how many years the company has raised its dividend without a reduction.

Several new companies were added to the Top 10 this month due to previously discussed changes (see opening thoughts for more). The Top 10 now consists of 6 MLPs, 3 Corporations (M, KSS, T), and a healthcare REIT (OHI).

The stability of the top 10 list (with the exception of this month) shows the ranking method is consistent, not based on rapid swings. Remember: **Stocks that fall out of the Top 10 are holds, not sells.**

Note: Dividend yield is used for comparing valuations in the individual company analysis below instead of P/E ratios. P/E ratios are not meaningful for MLPs and REITs. Dividend yield is a better comparative metric for high payout investments.

An equal weighted portfolio of the Top 10 has the following characteristics:

Payout Ratio: 86.5%
Dividend Yield: 7.5%
Growth Rate: 7.9%

Analysis of Top 10 Securities

Energy Transfer Partners (ETP)

Key Statistics, Ratios, & Metrics

Dividend Yield: 9.4%	10 Year Dividend Growth Rate: 14.7%
Most Recent Annual Dividend Increase: 9.4%	Sector: Energy
Dividend History: 15 years of increases	Business Type: MLP
Ex-Dividend Date: 5/7/17	Payment Date: 5/15/17

Overview, Current Events, & Growth Prospects

Sunoco Logistics (SXL) recently (4/28/17) closed on its merger with Energy Transfer Partners (ETP).

The mechanics of the merger are a bit complicated. ‘Old’ ETP shareholders received 1.5 shares of ‘old’ SXL (now called ETP) for every 1 share they held of ‘old’ ETP. On May 1, SXL began trading on the NYSE under the ticker ETP. ‘Old’ SXL shareholders will only see dividend growth and will benefit from improved growth prospects. ‘Old’ ETP shareholders will take an initial yield haircut of ~25%, but the growth prospects of the new company are robust and the new dividend is much safer.

By merging with SXL, ETP has spread its debt over a larger cash flow base and prevented a possible dividend cut. The merger is expected to be immediately accretive to the new ETP’s distributable cash flow. It is also expected to provide *low double-digit distribution growth* over the next several years.

The merger has created a business with a market cap of ~\$17 billion. For context, ‘old’ SXL had a market cap of \$7.8 billion just prior to the completion of the merger. The combined company should be able to meaningfully increase margins by eliminating duplicate expenses. The merger is expected to make ETP the largest midstream MLP by EBITDA, and the second largest based on enterprise value.

The new ETP recently (5/3/17) reported earnings for the first quarter of 2017, providing financial statements for ‘old’ SXL, ‘old’ ETP, and the new, combined company. The new ETP saw adjusted EBITDA increase by 1.4% and distributable cash flow decrease by 2.3% from the same period a year ago, driven by higher results in midstream and liquids and partially offset by costs associated with the merger and increased marketing activities. On a per-unit basis, adjusted distributable cash flow decreased by 16.7% year-on-year driven by a substantial, merger-based increase in the number of units outstanding. Looking ahead, I expect ETP’s performance to improve considerably over the next year as synergies from the merger are identified and cost savings initiatives are executed in earnest. ETP also recently (4/28/17) announced a quarterly distribution of \$0.535 per share, a 2.9% sequential increase and a 9.4% increase over the same period a year ago (using SXL’s previous distributions).

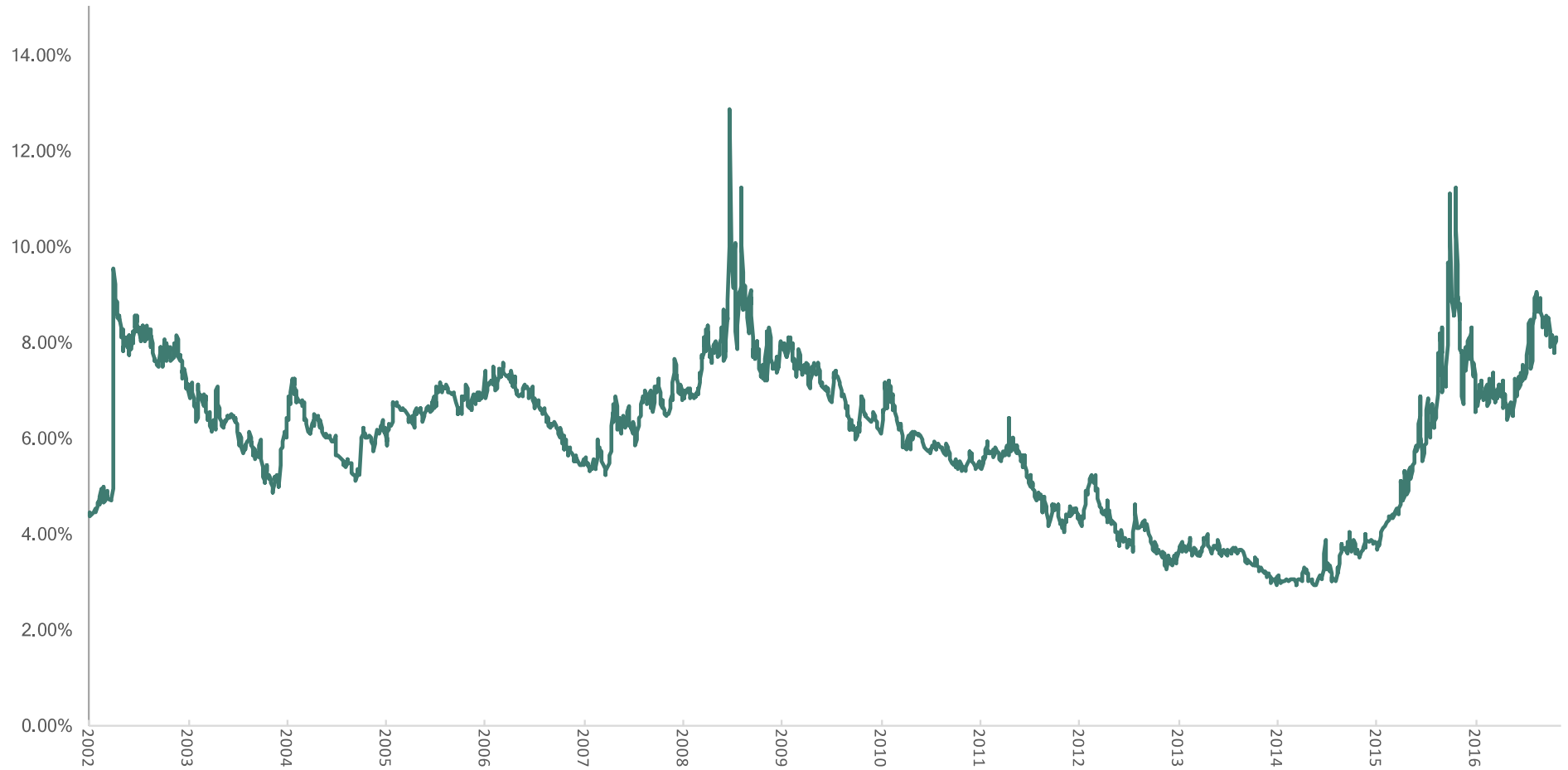
Safety

Prior to the merger, ‘old’ Sunoco had increased its distributions for 47 consecutive *quarters*. In the recently announced first quarter earnings report, the company announced a distribution coverage ratio of 1.13x, down from 1.27x during the same period a year ago. ETP’s current dividend is adequately covered, and the combined company will likely slowly deleverage itself to reduce risk further.

Valuation

Prior to the merger, SXL had a median dividend yield of 6.1% and ETP had a median dividend yield of 5.9% (both since inception). Regardless of which parent company the new ETP is compared to, the current 9.3% dividend yield is priced at a *substantial* discount to historical levels. This is likely because of short-term uncertainty resulting from the recently completed merger.

Energy Transfer Partners Dividend Yield History



Note: Dividend yield history is for the legacy Sunoco Logistics (SXL) security.

Genesis Energy, LP (GEL)

Key Statistics, Ratios, & Metrics

Dividend Yield:	9.3%	10 Year Dividend Growth Rate:	13.9%
Most Recent Annual Dividend Increase:	7.1%	Sector:	Energy
Dividend History:	13 years of increases	Business Type:	MLP
Ex-Dividend Date:	7/25/17 (estimated)	Payment Date:	8/15/17 (estimated)

Overview

Genesis Energy is a midstream oil and gas MLP formed in 1996. The company currently has a ~\$3.8 billion market cap. Genesis Energy handles delivery of crude oil to and from refineries. It also provides sulfur removal and other services inside refineries. The company delivers these services through a network of rail, truck, terminal, marine, and pipeline assets. Over half of the company's earnings come from its offshore pipelines in the Gulf of Mexico, which service deepwater production.

The company has 580 miles of onshore oil pipelines, 270 miles of onshore CO₂ pipelines, 2,500 miles of offshore pipelines, 83 barges, 43 push boats, 1 offshore oil tanker, ~3.3 million barrels of storage, and a land fleet composed of ~200 trucks, ~400 trailers, and ~525 railcars.

Current Events

Genesis Energy recently (5/4/17) reported financial results for the first quarter of 2017. Performance was better than expected – the company saw distributable cash flow decrease by 4.5% from the same period a year ago, largely driven by increased capital reinvestment and a notable gain on derivative transactions in the year-ago period. Adjusted EBITDA decreased by 1.9%.

Genesis Energy recently (4/11/17) announced a 1.4% distribution increase to \$0.72 which is a 7.1% increase from the same period a year ago.

Safety

Genesis Energy has an adjusted debt to EBITDA ratio of 5.25x. The company will slowly deleverage itself over the next several years. Genesis Energy is targeting a debt to EBITDA ratio of 3.75x. The company has a distribution coverage ratio of 1.05 using distributable cash flow. The MLP is expected to continue paying rising dividends. Genesis Energy has paid increasing distributions *for 47 consecutive quarters*, showing its ability (and willingness) to put its shareholders first.

Growth Prospects

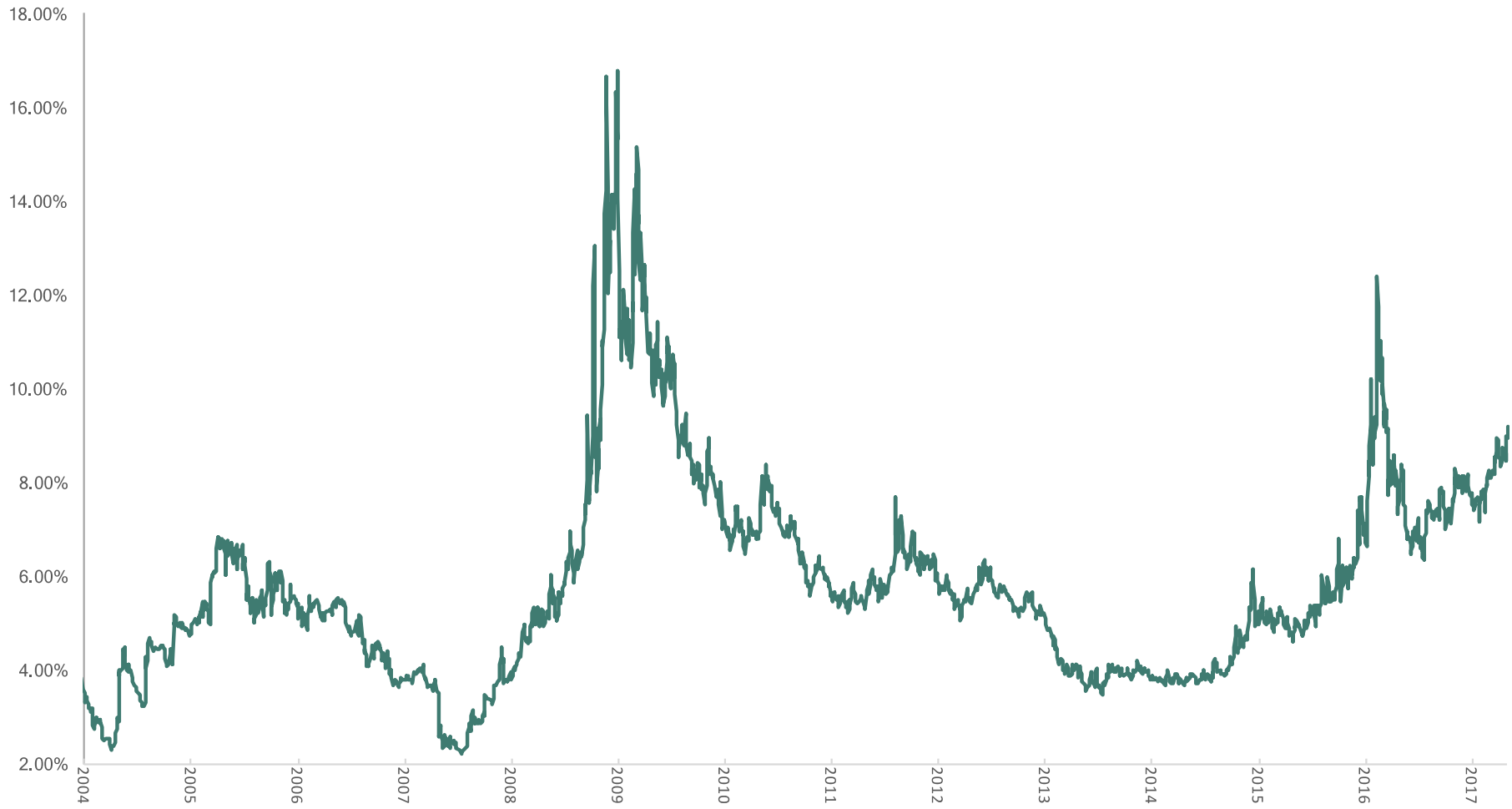
Genesis often executes small acquisitions to improve and grow its asset base. In the most recent quarter, the company identified and contracted for ~\$100 million of bolt-on acquisitions, with the majority focused in the Baton Rouge corridor area. The company also actively harvests capital from existing assets when third parties value them in excess of Genesis' perception of intrinsic value.

Genesis Energy has delivered excellent distribution growth of ~14% a year over the last decade. I expect growth of ~8% a year over full economic cycles. Importantly, Genesis Energy has no general partner incentive distribution rights, meaning growth will accrue directly to unit holders.

Valuation

Genesis Energy's average dividend yield over the past five years is 5.6%. The stock is currently trading for a dividend yield of 9.2%. Genesis Energy appears significantly undervalued at current prices relative to its historical average.

Genesis Energy Dividend Yield History



Enterprise Products Partners (EPD)

Dividend Yield: 6.2%

Most Recent Annual Dividend Increase: 5.1%

Dividend History: 19 years of increases

Ex-Dividend Date: 7/28/17 (estimated)

10 Year Dividend Growth Rate: 13.8%

Sector: Energy

Business Type: MLP

Payment Date: 8/8/17 (estimated)

Overview

Enterprise Products Partners has increased its distributions for 51 consecutive *quarters* and 19 consecutive years. This MLP is one of the largest midstream energy businesses in the United States with its ~\$58 billion market cap. The MLP has no general partner incentive distribution rights, giving it one of the lowest management overhead costs in the industry. Enterprise Products Partners is an integrated midstream business with ~49,000 miles of pipeline, 250 million barrels of storage capacity, 26 processing plants, 22 fractionators, 10 condensate distillate facilities, and several export facilities. Aside from pipelines and storage facilities, the bulk of these assets are in Texas and Louisiana.

Current Events

Enterprise Products Partners recently released (5/2/17) positive financial results for the first quarter of 2017. The MLP saw distributable cash flow increase by 7.1% and adjusted EBITDA increase by 6.6% over the same period a year ago. On a per-unit basis, Enterprise Products Partners saw distributable cash flow increase by 2.4%, partially offset by a 4.6% increase in the number of units outstanding.

This positive performance is welcome, coming after the MLP reported a 3.6% decline in distributable cash flow per share in 2016 (after adjusting for asset sales). Enterprise Product Partners' results are expected to continue improving significantly in 2017 due to new growth projects.

Safety

Enterprise Products Partners is among the safest and best capitalized MLPs. The company has a BBB+/Baa1 credit rating, better than the majority of MLPs. The company currently has a reasonably safe 1.3x distribution coverage ratio and total available liquidity of \$4.1 billion. The MLP's streak of distribution increases shows the ability and willingness to grow distributions even in challenging environments. With that said, the company's debt to EBITDA ratio of 4.4x is the highest it has been in several years. The partnership expects to slow its growth and de-leverage over the next few years.

Growth Prospects

Enterprise Products Partners is expanding its capabilities to fuel further growth, just as it has done in the past. The company has grown distributions per unit at 13.8% a year over the last decade. Several new projects are coming online in 2017 which will spur growth. Further, \$8.4 billion of growth projects are currently under construction and expected to be completed by 2020 while the company expects to invest an additional \$2.7-\$3.0 billion in 2017. The company will likely continue to deliver strong growth over full economic cycles, but at a slower clip than the last decade. I expect 8% to 10% overall distribution growth on a per-unit basis.

Valuation

Enterprise Products Partners' 5 year historical average dividend yield is 4.9%. The company's dividend yield is 6.2%. The company appears undervalued due to low oil prices.

Enterprise Products Partners Dividend Yield History



Buckeye Partners, LP (BPL)

Dividend Yield: 7.4%

10 Year Dividend Growth Rate: 4.6%

Most Recent Annual Dividend Increase: 4.2%

Sector: Energy

Dividend History: 19 years of increases

Business Type: MLP

Ex-Dividend Date: 5/13/17

Payment Date: 5/22/17

Overview

Buckeye Partners' primary business is the transportation of gasoline, jet fuel, and petroleum. Buckeye's assets are located across the U.S., primarily in the east and northeast. Buckeye has ~6,000 miles of pipelines, 120 liquid petroleum terminals, and storage capacity of more than 115M barrels. Buckeye Partners can trace its roots back to Standard Oil and has a current market cap of \$9.3 billion.

The company's pipelines generated 50% of EBITDA in its most recent quarter, and its Global Marine Terminals segment generated 47% of EBITDA (the small Merchant Services segment generated the remainder). Recently, Buckeye Partners has expanded internationally with the acquisition of VTTI.

Current Events

Buckeye Partners recently (5/5/17) reported financial results for the first quarter of 2017. The partnership saw adjusted EBITDA increase by 13.4% and distributable cash flow increase by 6.6% over the same period a year ago. On a per-unit basis, distributable cash flow actually decreased by 1.6% due to an increase in the number of units outstanding used to fund the VTTI investment.

The partnership also increased its quarterly cash distribution to \$1.25 during the same announcement, a 4.2% increase over last year's quarter. Buckeye typically increases its distributions every quarter.

Buckeye Partners recently completed (1/4/17) its acquisition of 50% of VTTI B.V. for \$1.15 billion, adding 14 terminals in 12 countries over 5 continents to the company's portfolio. The acquisition helps Buckeye increase its terminals and storage business and diversify away from pipelines. VTTI's revenue is 100% fee-based, reducing exposure to commodity prices. Buckeye has consistently grown operations over the past 5 years, and this acquisition bolsters the partnership's growth prospects.

Safety

Buckeye Partners has a distribution coverage ratio of 1.08x in the first quarter of 2017, meaning its distribution is adequately covered by cash flows. The company focuses on fee-based revenue to provide consistent cash flows. As a midstream company, Buckeye is also insulated from oil price fluctuations. The partnership's distributions are safe at this time and for the foreseeable future.

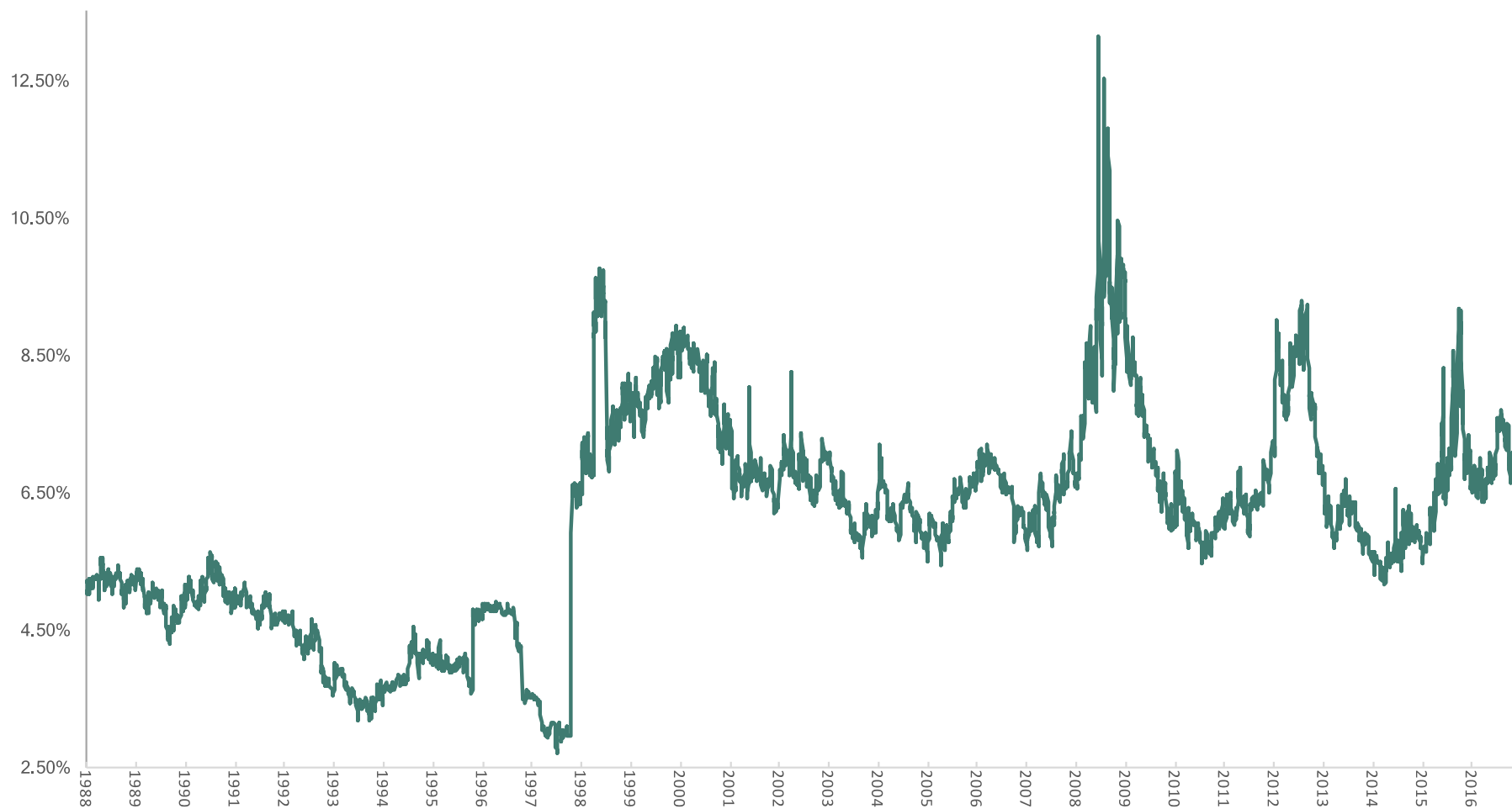
Growth Prospects

Terminal revenue now makes up ~70% of total revenue for Buckeye Partners, up from 30% in 2010. The recently announced VTTI acquisition gives the company global operations. Buckeye Partners has grown its distributions at 4.6% a year over the last decade. Growth on a per-share basis over the next several years is expected to increase significantly to around 9% a year due to the VTTI acquisition.

Valuation

Buckeye Partners' average historical dividend yield over the past 5 years has been 6.7%. The company's units are currently trading for a yield of 7.5%. Buckeye Partners is slightly undervalued versus its historical average dividend yield, especially considering its improved growth prospects.

Buckeye Partners Dividend Yield History



Omega Healthcare Investors (OHI)

Key Statistics, Ratios, & Metrics

Dividend Yield: 7.8%	10 Year Dividend Growth Rate: 9.9%
Most Recent Annual Dividend Increase: 8.6%	Sector: Real Estate
Dividend History: 14 years of increases	Business Type: REIT
Ex-Dividend Date: 4/28/17 (already passed)	Payment Date: 5/15/17

Overview

Omega Healthcare is a triple-net healthcare REIT focused on skilled nursing facilities with over 980 locations in both the U.S and the U.K. Skilled nursing facilities are ~90% of the trust's revenues and Omega's customer base is diversified across 79 third party operators in 42 states plus the U.K. Altogether, Omega has more than \$8.9 billion in real estate investments. Omega has shareholder-friendly management and has increased its distribution for 19 consecutive quarters.

Current Events

Omega Healthcare recently (5/3/17) reported financial results for the first quarter of 2017. The company saw adjusted funds from operations per share increase by 3.6% over the same period a year ago. Although this represents low single digit growth, it is still a welcome result since the company is expecting flat adjusted funds from operations per share in 2017 versus 2016. Omega Healthcare's weak guidance is due to changes in government reimbursement for skilled nursing facilities.

Omega recently (4/13/17) announced its 19th consecutive *quarterly* dividend increase to \$0.63 per share. This is a 1.6% sequential increase and an 8.6% increase over the same period a year ago.

Safety

Omega Healthcare's current quarterly dividend payment of \$0.63 equates to a payout ratio of 74% of 2017's expected adjusted funds from operations. This is low for a REIT, and gives investors confidence in the trust's ability to continue raising its quarterly distribution. In addition, the company has no debt maturities over the next 2 years, and ~61% of total debt maturities occur after 2022. Omega operates in the recession-resistant healthcare real estate industry. People need skilled nursing facilities, regardless of economic conditions. This bodes well for Omega Healthcare.

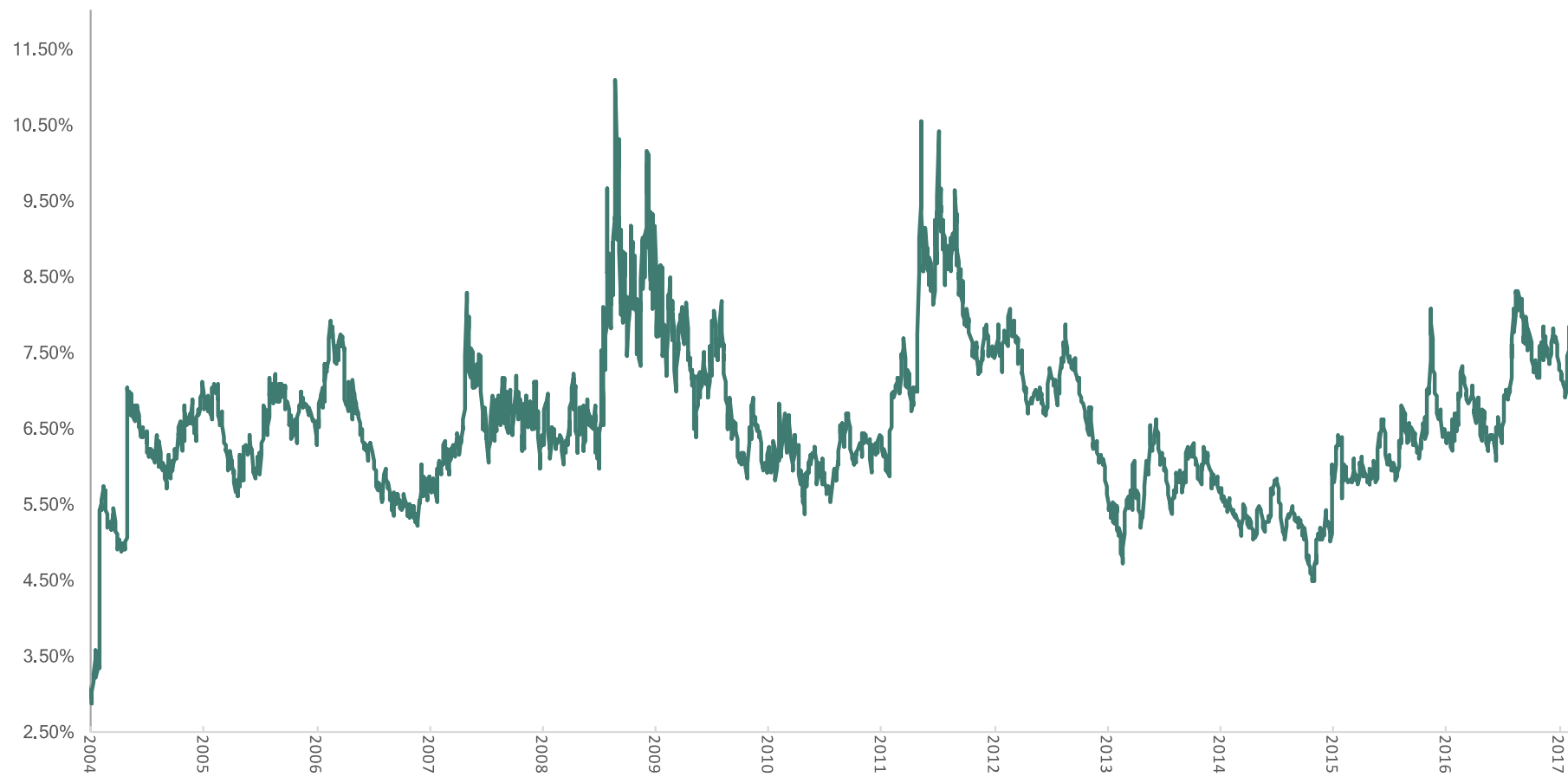
Growth Prospects

Omega Healthcare has grown its dividend payments at nearly 10% a year over the last decade. The company is benefiting from favorable macroeconomic tailwinds. The population of 85+ year old people in the United States is expected to grow by around 50% in the next 15 years. Additionally, Certification of Need government regulatory programs reduce the amount of new facilities being built. This increases occupancy rates at existing facilities, which is beneficial for Omega Healthcare. Omega Healthcare is the 4th largest publicly traded company in the industry with a market capitalization of \$6.4 billion, and is well-poised to execute on strategic acquisitions. With that said, growth will be sluggish in 2017. The company should continue to grow at a good clip beyond the current fiscal year.

Valuation

Omega's average dividend yield over the past 10 years is 6.7%, and its average dividend yield over the past 5 years is 6.3%. Based on its current 7.8% dividend yield, the company's stock appears undervalued. Now is a historically good time to start or add to a position in Omega Healthcare considering today's low interest rate environment and Omega's macroeconomic tailwinds.

Omega Healthcare Investors Dividend Yield History



Macy's Inc. (M)

Dividend Yield: 5.2%

10 Year Dividend Growth Rate: 11.2%

Most Recent Annual Dividend Increase: 4.9%

Sector: Retail

Dividend History: 5 years of increases

Business Type: Corporation

Ex-Dividend Date: 6/13/17 (estimated)

Payment Date: 6/25/17 (estimated)

Overview

Macy's was founded in 1858 and has since grown to be one of the nation's largest retailers with fiscal 2016 sales of \$26 billion, a market capitalization of \$9 billion, and ~140,000 employees. The company operates more than 700 stores under the Macy's and Bloomingdale's brands, as well as ~125 specialty stores under the Bloomingdale's The Outlet, Bluemercury, and Macy's Backstage brands.

Current Events

Macy's stock price suggests the company is fighting for its life, as it has declined by ~20% over the past year. This stock price decline is partially driven by sentiment – Macy's saw revenues decline by 5% and earnings-per-share decline by 18% in fiscal 2016. Both fundamental metrics declined by less than the company's share price. Looking ahead, the company's adjusted earnings-per-share is expected to decline by just 2.7% in 2017 (using the midpoint of the guidance range).

Macy's is set to report first quarter earnings on 5/11/17. Investors will be watching closely for signs of a turnaround in the company's sales trend.

Safety

Macy's competitive advantage comes from its profitability in the highly competitive retail space. While many of its competitors are bleeding cash, Macy's generated \$1.2 billion of free cash flow in 2016 with a return on invested capital of 18.5%.

Macy's managed to remain profitable throughout the global financial crisis of 2008-2009, though it saw adjusted earnings-per-share decrease by 41% and cut its dividend by 38%. Macy's saw a new level of peak profitability (and improved dividend income) three years later.

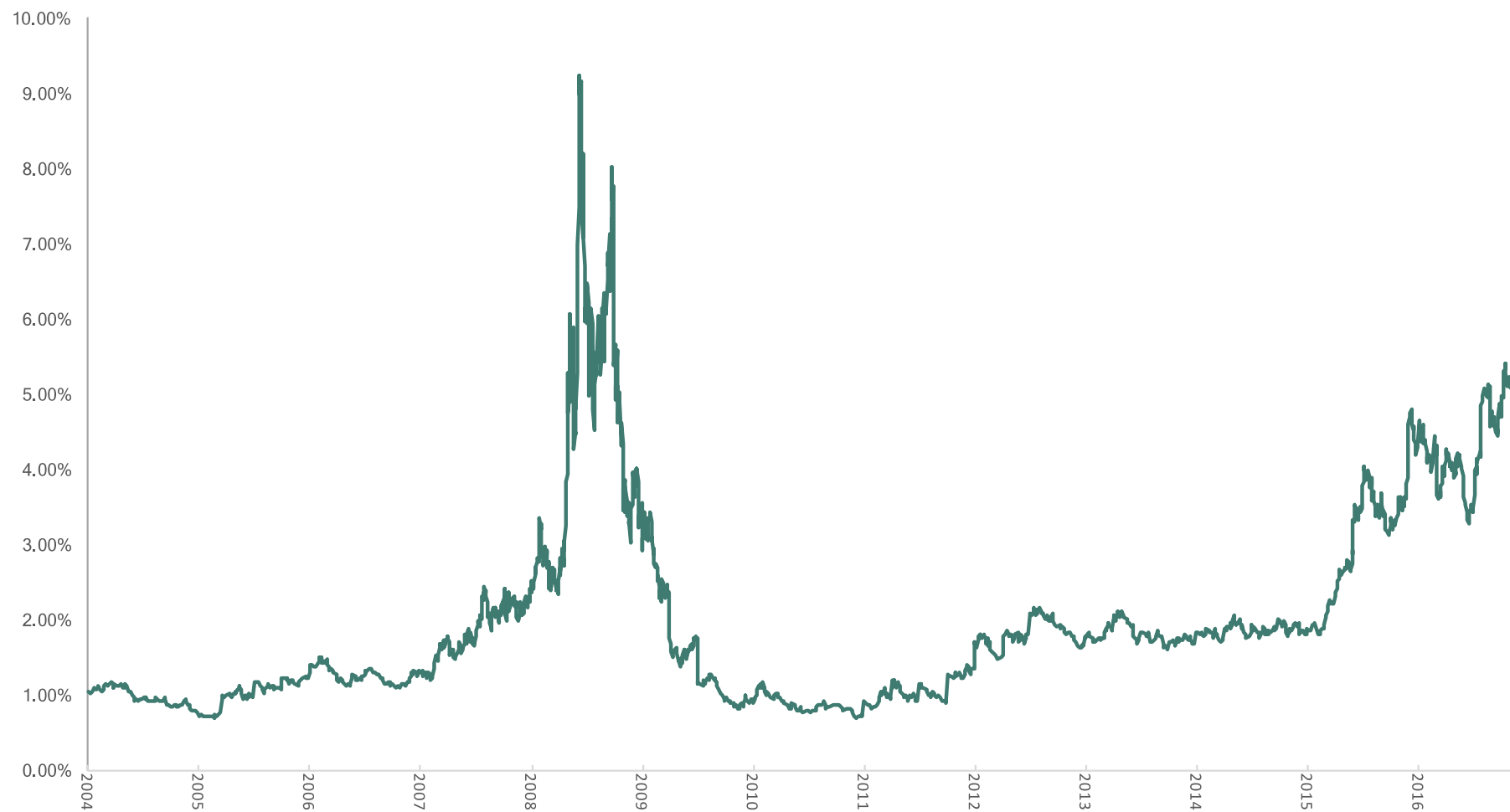
Growth Prospects

Quantitatively, Macy's is currently trading at a remarkably low valuation (9.7x 2017's expected earnings) based on fears that its business model will be permanently disrupted. A more reasonable price-to-earnings ratio of 13 (in-line with historical averages) results in a fair value estimate of \$39. Macy's value proposition extends beyond earnings - activist investment firm Starboard Value believes Macy's real estate alone is worth \$21 billion (more than twice its current market value and significantly higher than its enterprise value of ~\$14 billion). Macy's is leveraging this real estate to optimize its cash flow by closing less productive stores and selling the underlying real estate (\$673 million of sales in 2016). Proceeds are used to repurchase stock and improve Macy's best-performing locations.

Valuation

Macy's presents a compelling value opportunity right now – based on either earnings or assets, the company is trading well below its intrinsic value. Further, Macy's is generating substantial current income for its shareholders. Investors who rely on Macy's for income need not worry about the safety of its dividend, as the current payout is just 49% of 2016's adjusted earnings-per-share.

Macy's Dividend Yield History



AmeriGas Partners, L.P. (APU)

Key Statistics, Ratios, & Metrics

Dividend Yield:	8.3%	10 Year Dividend Growth Rate:	5.0%
Most Recent Annual Dividend Increase:	2.7%	Sector:	Energy
Dividend History:	13 years of increases	Business Type:	MLP
Ex-Dividend Date:	5/8/17	Payment Date:	5/18/17

Overview

AmeriGas is the largest propane distributor in the United States. The company has ~15% market share. In total, AmeriGas has ~54,000 retail exchange locations, ~1,900 distribution locations, and serves ~1.9 million customers. The company currently has a \$4.2 billion market cap. AmeriGas' sole General Partner is UGI Corporation (UGI), which also owns 26% of AmeriGas.

Current Events

AmeriGas posted disappointing results in its recently announced (5/1/17) second quarter earnings release. The company saw adjusted EBITDA decrease by 8.2% and volumes decrease by 5.9% from the same period a year ago. Poor operating results were caused by warmer temperatures (the 2nd warmest Q2 on record for AmeriGas) which drives propane sales downwards.

More importantly, the company also revised full-year EBITDA guidance to \$550-\$580 million (down from \$660-\$700 million – though this assumed normal weather). The midpoint (\$565 million) is a 4.1% increase from 2016's EBITDA and an 8.7% decrease from 2015's EBITDA.

Safety

AmeriGas has a scale based competitive advantage in the highly fragmented propane distribution industry in the United States. The company is targeting a distribution coverage ratio of 1.1x to 1.2x and a debt to EBITDA range of 3.5x to 4.0x. AmeriGas has no significant debt maturing until 2024 and continues to refinance debt at more attractive interest rates. For instance, last quarter AmeriGas redeemed ~\$525 million of 7.00% notes due 2022 and issued the same dollar value of 5.75% notes due 2027. AmeriGas' recent efforts have reduced its average interest rate by more than 100 basis points.

AmeriGas has increased distributions for 13 straight years. EBITDA is expected to rise year-over-year in 2017, though still remains depressed from 2015 levels. Continued distribution growth is very likely.

Growth Prospects

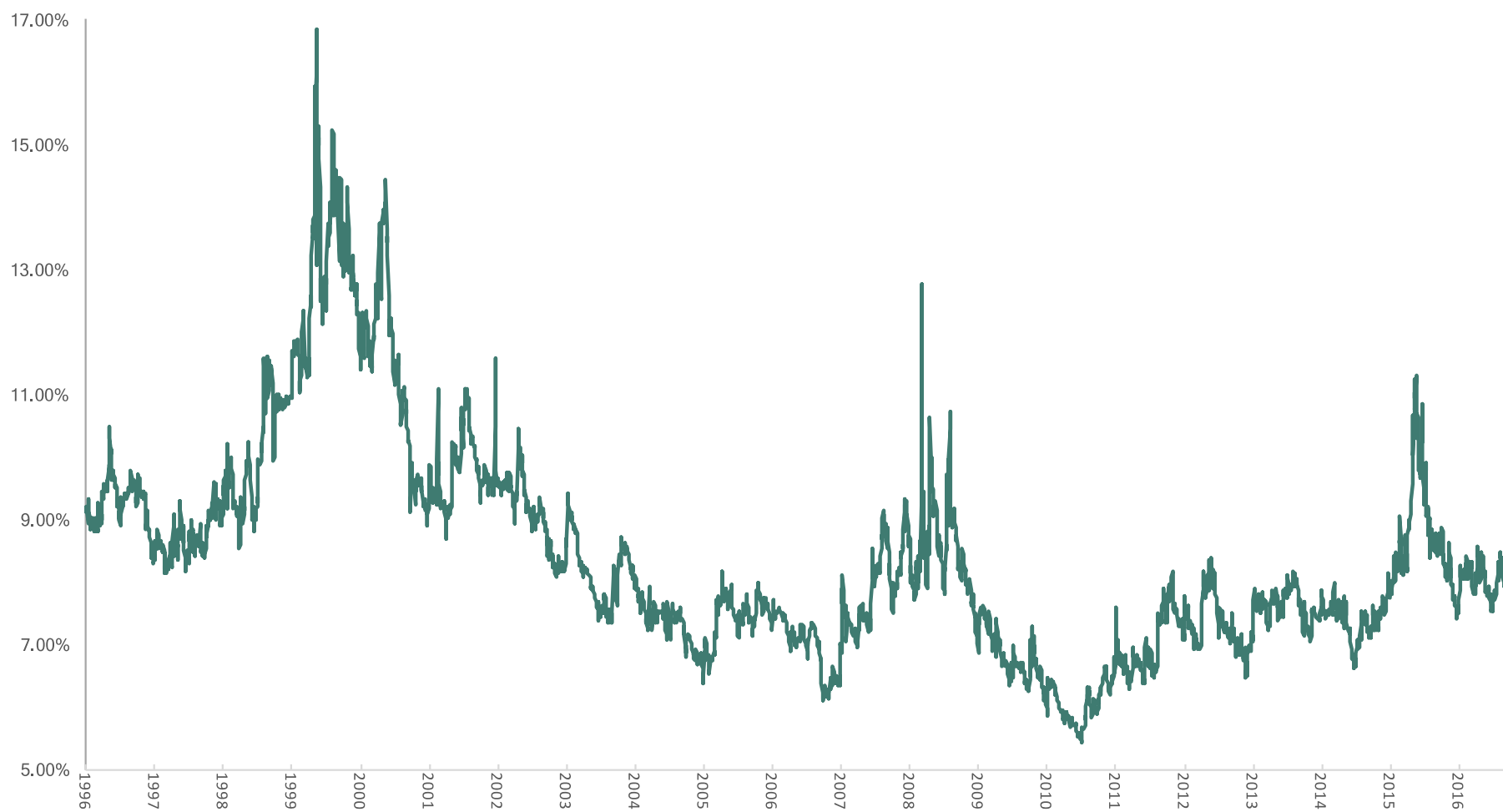
AmeriGas Partners' long-term growth driver is to slowly consolidate the fragmented propane distribution industry. The company made 15 bolt-on acquisitions in the last 2 years, and 2 in the last quarter. AmeriGas estimates there are around 3,500 *potential* acquisition candidates in the United States propane market. This gives the company a long growth runway.

The company is expecting growth of 3% to 4% a year over the long run. While this growth isn't particularly impressive, investors can still expect total returns of around 11% to 12% a year given the company's ~8% dividend yield.

Valuation

AmeriGas Partners' median dividend yield over the last decade is 7.5%. The company is currently trading for a dividend yield of 8.3%. Based on this, AmeriGas appears undervalued.

AmeriGas Partners Dividend Yield History



Sunoco L.P. (SUN)

Key Statistics, Ratios, & Metrics

Dividend Yield: 11.0%	10 Year Dividend Growth Rate: N/A
Most Recent Annual Dividend Increase: 19.1%	Sector: Energy
Dividend History: 5 years of increases	Business Type: MLP
Ex-Dividend Date: 5/5/17 (already passed)	Payment Date: 5/16/17

Overview

Sunoco is an MLP that operates retail fuel sites and convenience stores. The company also distributes wholesale motor fuel to other convenience stores, independent dealers, and commercial customers. Sunoco owns ~1,345 retail fuel sites and has distribution arrangements with ~6,900 third-party sites located in more than 30 states. Sunoco's general partner is a wholly-owned subsidiary of Energy Transfer Equity (ETE). ETE owns a 2% Limited Partner (LP) interest in Sunoco, and Energy Transfer Partners (ETP) – another company featured in this newsletter - owns a 46% LP interest in Sunoco.

Sunoco L.P was spun-off from Susser Holdings as Susser Petroleum Partners in 2012, and changed its name to Sunoco L.P. (and ticker to SUN) in October of 2014.

Current Events, Safety, & Growth Prospects

Sunoco recently announced (5/3/17) financial results for the first quarter of fiscal 2017. Performance was strong – revenues increased 36.7% from the same period a year ago, driven by the higher average selling price of gasoline, increased wholesale distribution volumes, and superior merchandise sales. The company also maintained its \$0.8255 quarter distribution, which is a 1.0% increase from the same period a year ago. Sunoco has not increased its distribution during the last three quarters.

Sunoco has a bit more investment risk than the typical security featured in the Sure Retirement newsletter. The MLP had an unsustainable distribution coverage ratio of 0.74 in its most recent quarter and 0.88 over the trailing twelve months, and its current debt to adjusted EBITDA ratio is 6.31.

With that said, the partnership is taking measures to improve its capital structure. In the first quarter Sunoco completed a private placement for \$300 million of preferred equity, sold to GP owner Energy Transfer Equity. More importantly, Sunoco also entered into an agreement for the sale of the majority of its convenience stores. The acquirer is 7-Eleven. The transaction will leave Sunoco with approximately 200 convenience stores in North & West Texas, New Mexico, and Oklahoma, for which a second sale marketing process is already underway. Sunoco plans to retain its 54 Hawaii locations.

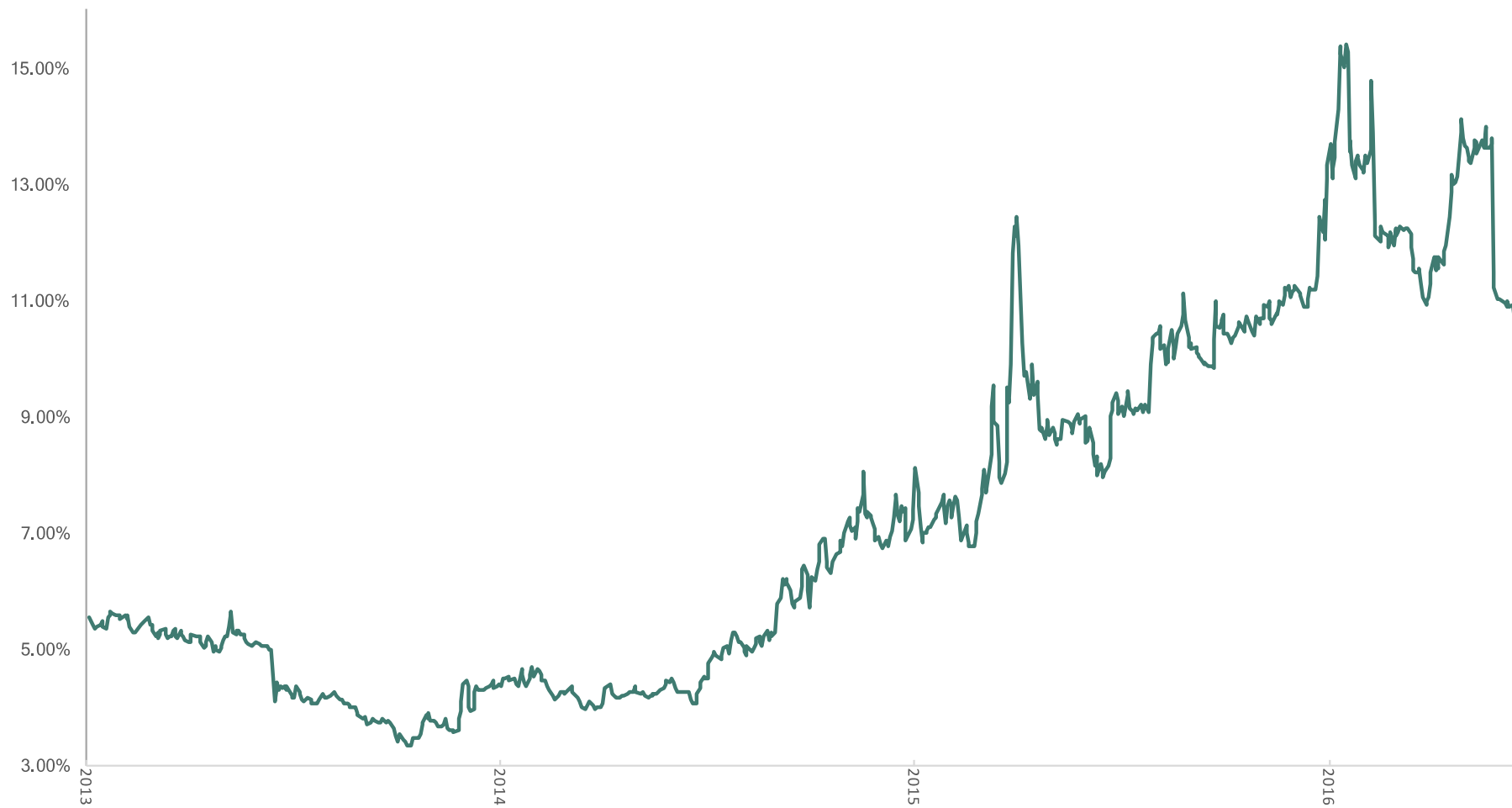
The proceeds of the transaction total \$3.3 billion in cash plus fuel, merchandise, and other inventories. The transaction will see Sunoco enter into a 15-year take-or-pay fuel supply agreement with 7-Eleven, under which the partnership will deliver approximately 2.2 billion gallons of fuel annually.

Sunoco's current restructuring means the company will likely look dramatically different in a year's time. Wholesale fuel – Sunoco's new focus - is attractive in many ways, benefitting from reliability of demand, less capital-intensive operations, and long-term contracts with creditworthy counterparties. However, investors should acknowledge that this restructuring comes with substantial execution risk.

Valuation

Sunoco's average dividend yield since inception is 7.3%. The company's current yield of 11.1% indicates that the partnership is significantly undervalued, likely caused by uncertainty from the MLP's recent M&A activity.

Sunoco L.P. Dividend Yield History



Kohl's Corporation (KSS)

Key Statistics, Ratios, & Metrics

Dividend Yield: 5.1%	10 Year Dividend Growth Rate: N/A
Most Recent Annual Dividend Increase: 10.0%	Sector: Retail
Dividend History: 5 years of increases	Business Type: Corporation
Ex-Dividend Date: 6/5/17 (estimated)	Payment Date: 6/22/17 (estimated)

Overview

Kohl's owns and operates family-focused department stores in every U.S. state excluding Hawaii. Kohl's was founded in 1927 and has grown to a market capitalization of \$6.6 billion, annual sales of \$19 billion, and 138,000 employees. Today, Kohl's operates more than 1,100 stores.

Current Events

Kohl's recently (2/23/17) reported earnings for the fourth quarter and full-year of 2016. Although the company beat analyst expectations on the bottom line, net income decreased by 15% from the same period a year ago. Kohl's is experiencing pressure in comparable same store sales, which decreased 2.4% for the year.

Looking further back, Kohl's has seen a 27% decline in adjusted earnings-per-share over the past two years. With that said, the future looks brighter, at least in the short term. The company is expecting earnings-per-share of \$3.50-\$3.80 for fiscal 2017. This represents an increase of 12.5% to 22.2% over 2016's number of \$3.11.

Kohl's next earnings release is scheduled for Thursday, May 11. Investors will be watching closely for progress towards 2017's improved guidance number.

Safety

Although Kohl's stock has been beaten down as comparable store sales suffer, the company is a safe dividend investment. Kohl's ended 2016 with \$1.1 billion of cash and cash equivalents, an increase of \$367 million over the previous year. The company's dividend is also well covered, as Kohl's generated \$1.3 billion in free cash flow for 2016 (giving a free cash flow yield of ~20%) and had a payout ratio of 64% for 2016.

Growth Prospects

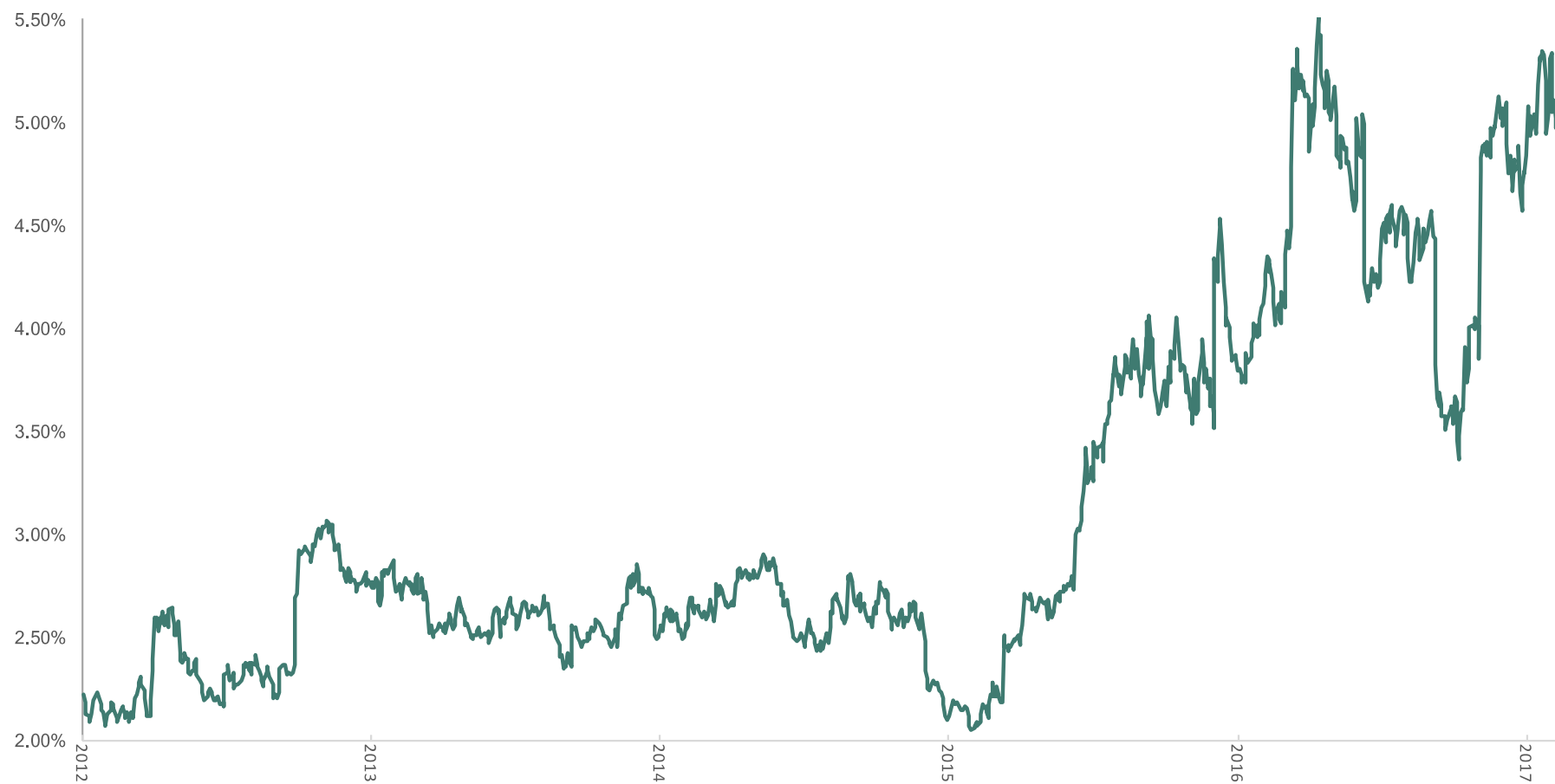
Kohl's has been opening smaller stores in a new 35K square foot format, hoping to deliver an 'omni-channel' shopping experience (rather than focusing exclusively on digital sales). Key to this initiative is the company's ship-from-store and pickup-from-store online shopping capabilities, which simultaneously boosts online sales and reduces the capex required to build external fulfillment centers.

Kohl's is also shareholder-friendly, buying back 13.3 million shares in 2016 and recently approving a 10% increase to its dividend. Management intends to repurchase \$300 million to \$400 million of company stock in 2017, which represents 5%-6% of the company's current market capitalization.

Valuation

Kohl's valuation is one of the key reasons it makes an attractive investment right now. The current price of \$39 represents a 12.5x multiple of 2016's earnings and a 10.7x multiple of 2017's expected earnings (at the midpoint). For context, Kohl's has traded at an average price-to-earnings ratio of 16 over the past ten years. Using 2017's midpoint of \$3.65 and a price-to-earnings ratio of just 13 gives a fair value estimate of \$47, ~21% upside from the current price before accounting for dividends.

Kohl's Dividend Yield History



AT&T (T)

Key Statistics, Ratios, & Metrics

Dividend Yield: 5.1%	10 Year Dividend Growth Rate: 3.7%
Most Recent Annual Dividend Increase: 2.1%	Sector: Telecommunication Services
Dividend History: 33 years of increases	Business Type: Corporation
Ex-Dividend Date: 06/07/17 (estimated)	Payment Date: 08/01/17 (estimated)

Overview

AT&T is the largest domestic telecommunications company in the United States based on its ~\$239 billion market cap. The company's only competitor with similar size is Verizon (VZ). AT&T provides wireless data plans, wireline internet and phone plans, and satellite television through DirecTV. AT&T also generates revenue through mobile advertising. AT&T operates primarily in the United States, but has expanded into Mexico and Latin America through recent bolt-on acquisitions.

Current Events

AT&T recently (4/25/17) announced financial performance for the first quarter of fiscal 2017. The company saw adjusted earnings-per-share increase by 2.8% over the same period a year ago despite a 2.7% decrease in consolidated revenues. AT&T also reaffirmed 2017 guidance for mid-single digit growth in adjusted earnings-per-share.

AT&T's pending acquisition of Time Warner (TWX) announced last fall (10/22/16) continues to proceed as planned. Time Warner's shareholders recently (2/15/17) approved the transaction, with 78% of outstanding shares voting in favor. Of the shares that were actually voted, 99% gave approval for the merger. The transaction is expected to be closed by the end of calendar 2017.

Safety

AT&T is likely the single safest stock available today with a yield above 5%. The company's long dividend history – 33 years of consecutive increases - shows it is capable and willing to raise dividend through a variety of environments. AT&T has very stable cash flows, and its services are a necessity in today's connected world. This gives AT&T a utility-like business model, with substantial barriers to entry that limit competition and create a durable competitive advantage.

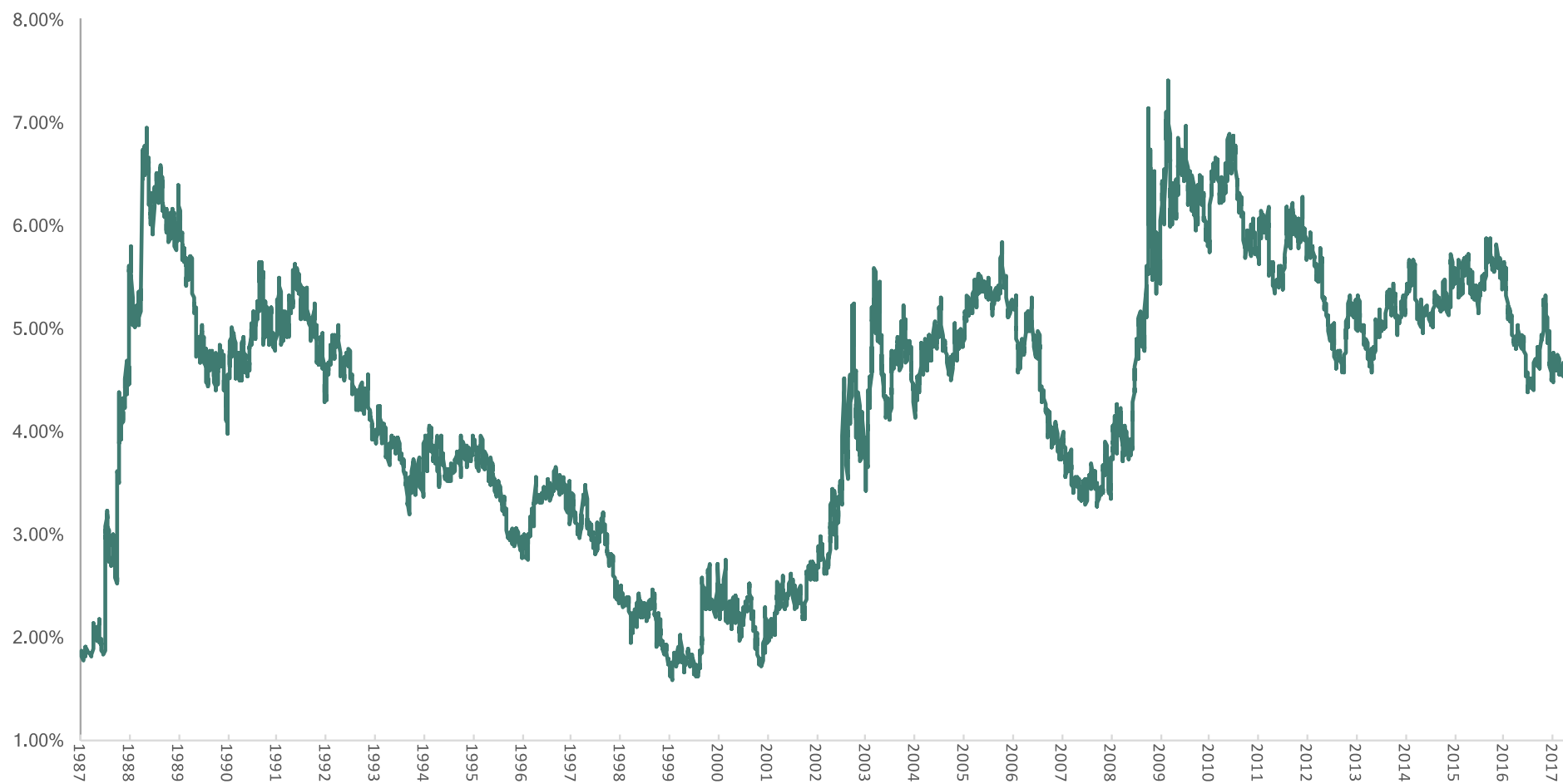
Growth Prospects

AT&T's earnings-per-share have grown at 2.0% a year over the last decade, and its dividend payments have grown at 3.7% per year over the same period. I expect similar levels of growth going forward. Growth in the short-term will come from an expected \$1 billion in annual synergies from the pending Time Warner acquisition. While certainly not a high-flying growth stock, AT&T is very likely to deliver inflation-beating dividend growth over long periods of time.

Valuation

AT&T is currently the only Dividend Aristocrat with a dividend yield north of 5%, and by a wide margin. This gives AT&T a unique combination of income and safety. AT&T's stock price has declined by nearly 9% over the past month, presenting a compelling buying opportunity for income investors. AT&T currently trades at a valuation of 13.4x 2016's earnings and 12.9x 2017's expected earnings (using adjusted earnings – the GAAP equivalent is 20.3x 2016's earnings). For context, the company's average price-to-earnings ratio over the past decade is 14.8. Right now is historically a good opportunity to initiate or add to a position in AT&T.

AT&T Dividend Yield History



Bonus: Stage Stores (SSI)

A Unique Inclusion for Sure Retirement

From a dividend perspective, Stage Stores is a poor investment. However, the stock may still have merit as a value or turnaround play and has been included as a bonus analysis for this month.

This month, Stage Stores ranked highly using the new ranking system, yet we decided to exclude it from our 'Top 10' stocks because it has a tremendous amount of risk that is not reflected in its dividend history. Sure Retirement identifies high yield dividend growth stocks trading at reasonable prices.

With that goal in mind, Stage Stores is a poor recommendation – the stock has declined ~90% since April of 2013 and currently pays a 21% dividend yield, helping to it rank well (*quantitatively*) using our system. Unfortunately, Stage Stores will almost certainly cut its dividend in the near future, which would trigger an automatic sell using The 8 Rules of Dividend Investing.

With that said, the company does have appeal as a high risk, high reward investment. Stage Stores traded for around \$20/share in 2013. It is currently trading for under \$3/share. *If* (and it's a very big if) the company can return to profitability and growth, its share price could increase by as much as 7x. The more likely outcome is the company cannot regain its profitability and falls into bankruptcy.

Business Overview

Stage Stores operates more than 750 specialty department stores in 38 states and has a *small* market cap of \$75M. The company operates under the Bealls, Goody's, Palais Royal, Peebles and Stage brands. The company also offers a direct-to-consumer purchasing channel through its eCommerce platform.

Dividend Safety (or Lack Thereof)

On the surface, Stage Stores looks like it might be a solid dividend investment. The company has raised its quarterly payout 9 times since it initiated its dividend in 2005, and managed to maintain a steady payout during the global financial crisis. The company's dividend growth rate has been quite spectacular, as shareholder income has increased by nearly 25% per year, on average, over the past 10 years mostly due to an increasing payout ratio.

However, a closer look at Stage's current financials shows that the company's dividend is too good to be true. Stage currently pays an annual dividend of \$0.60 per share, which yields ~21% on today's price of ~\$2.86. Generally speaking, such a high dividend yield is almost always unsustainable.

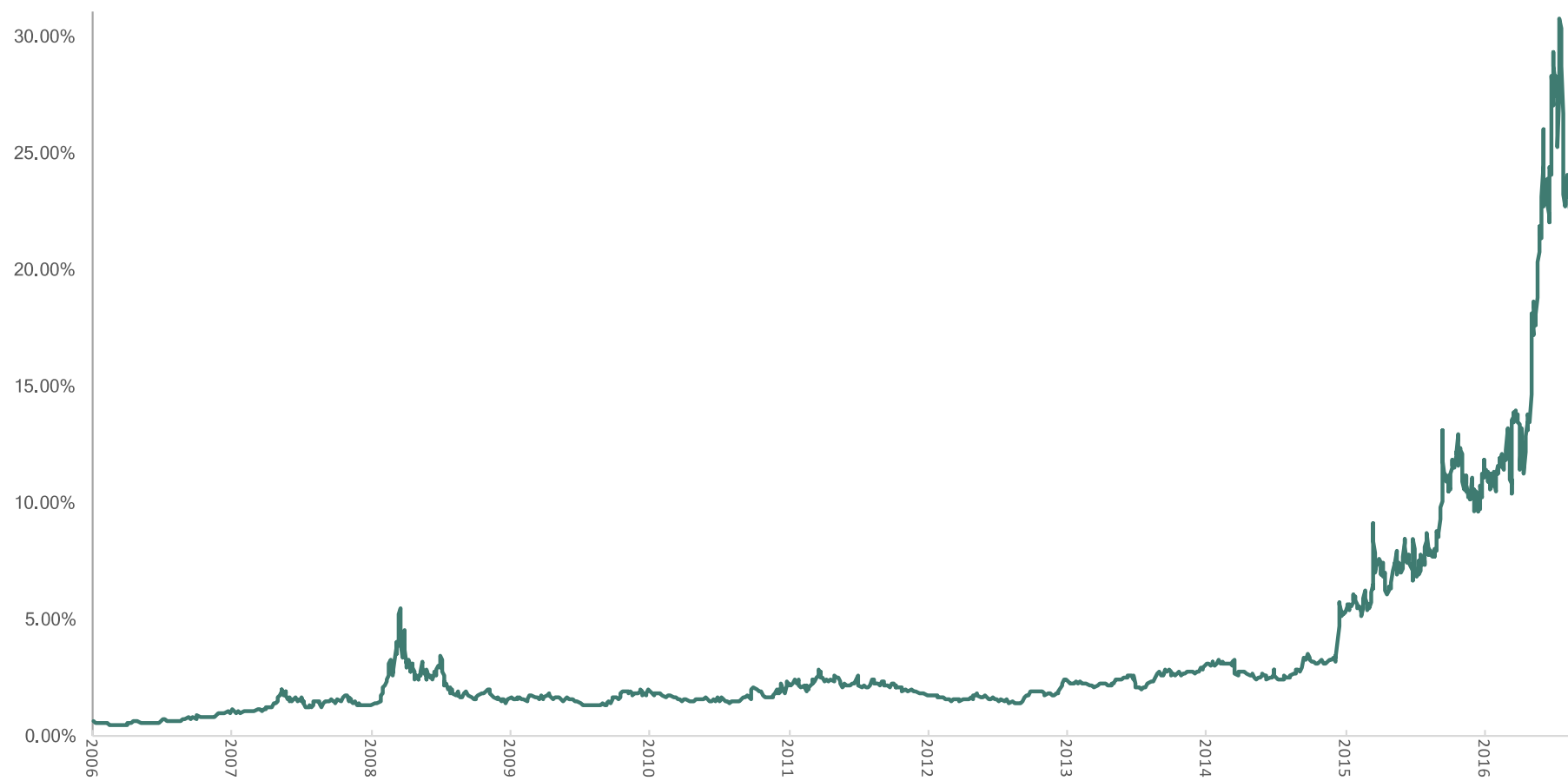
This is indeed the case for Stage Stores. The company has negative earnings, so any dividend payment is unsustainable from that regard. From a free cash flow perspective, the outlook is slightly better. Stage Stores generated free cash flow of \$11.6 million in 2016 and paid \$16.6 million in total dividends for a free cash flow payout ratio of 143%.

In any case, a dividend cut from Stage Stores is almost inevitable unless the business experiences a substantial turnaround in the very near future. This is a *big* 'if' - income investors should look elsewhere for sources of steady, rising dividend payments.

Catalyst & Expected Total Returns

Investors are waiting for any kind of catalyst to drive Stage Stores upwards. If the company can report positive sales growth during their earnings release in early June, Stage's stock will react accordingly.

Stage Stores Dividend Yield History



Closing Thoughts

– Do MLPs Make Good Investments? –

MLP stands for Master Limited Partnership. MLPs have dominated the rankings of the Sure Retirement Newsletter, both this month and in past months thanks to their high yields and (in general) strong historical growth.

In practice, most MLPs pay out nearly all of their cash flows as distributions. This leaves little room for reinvestment into growth. MLPs tend to raise capital through debt and equity offerings.

How have MLPs performed over the last decade? From 2007 through 2016, MLPs as an asset class averaged returns of 8% a year – higher than any other major asset class.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Annualized
Commodities 32.7%	Bonds 5.2%	MLPs 78.4%	MLPs 35.9%	Utilities 15.9%	REITs 18.0%	Small Cap 38.8%	Utilities 29.0%	REITs 6.6%	Small Cap 21.3%	MLPs 8.0%
Utilities 29.4%	Utilities -29.0%	Non-US 11.8%	Small Cap 26.9%	MLPs 13.9%	Non-US 17.3%	S&P 500 32.4%	REITs 28.7%	S&P 500 1.4%	MLPs 18.3%	Small Cap 7.2%
MLPs 12.7%	Small Cap -23.8%	REITs 27.8%	REITs 26.7%	REITs 9.6%	Small Cap 36.5%	MLPs 27.6%	S&P 500 11.7%	Bonds 0.5%	Utilities 18.3%	Utilities 7.0%
Non-US 11.2%	MLPs -36.9%	Small Cap 27.2%	S&P 500 15.1%	Bonds 7.8%	S&P 500 16.0%	Non-US 22.8%	Bonds 6.0%	Non-US -0.8%	S&P 500 12.0%	S&P 500 6.9%
Bonds 7.0%	S&P 500 -37.0%	S&P 500 26.5%	Commodities 9.0%	S&P 500 -2.1%	MLPs 4.8%	Utilities 33.2%	Small Cap 4.9%	Small Cap -4.4%	Commodities 11.4%	REITs 4.5%
S&P 500 5.5%	REITs -22.8%	Commodities 11.5%	Non-US 7.8%	Commodities -1.2%	Bonds 4.2%	REITs -8.3%	MLPs 4.8%	Utilities -4.8%	REITs 3.3%	Bonds 4.3%
Small Cap -1.8%	Non-US -4.4%	Utilities 11.9%	Bonds 6.5%	Small Cap -4.2%	Utilities 1.3%	Commodities -1.2%	Non-US -4.9%	MLPs -12.5%	Bonds 2.6%	Non-US 0.7%
REITs -21.3%	Commodities -46.5%	Bonds 5.9%	Utilities 5.5%	Non-US -12.1%	Commodities 0.1%	Bonds -2.0%	Commodities -33.0%	Commodities -32.8%	Non-US 1.0%	Commodities -8.3%

Source: [Alerian](#)

MLPs provide a unique mix of high current income and distribution growth. Many are currently undervalued thanks to low oil prices – and make attractive investments for those willing to undergo extra hassle at tax time.

Thanks,

Ben Reynolds

The next newsletter publishes on Sunday June 4th, 2017

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this newsletter should be construed as a recommendation to follow any investment strategy or allocation. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Retirement/Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in securities. Past performance is not a guarantee of future performance.

List of Investments by Sector

Each of the 45 stocks with long histories of dividend increases and 5%+ dividend yields is sorted by rank below in order based on The 8 Rules of Dividend Investing (highest to lowest) based on its GICS sector. Dividend yield is included next to each stock's ticker symbol.

Communication Services

1. AT&T Inc. (T) - 5.1%
2. Vodafone Group plc (VOD) - 5.7%

Consumer Cyclical

1. Stage Stores, Inc. (SSI) - 22.6%
2. Macy's, Inc. (M) - 5.2%
3. Kohl's Corporation (KSS) - 5.1%
4. GameStop Corp. (GME) - 6.3%
5. Ford Motor Company (F) - 5.4%

Consumer Defensive

1. Vector Group (VGR) - 7.2%

Energy

1. Energy Transfer Partners (ETP) - 9.4%
2. Genesis Energy, LP (GEL) - 9.3%
3. Enterprise Product Partners (EPD) - 6.2%
4. Buckeye Partners, LP (BPL) - 7.4%
5. Sunoco, LP (SUN) - 11%
6. Energy Transfer Equity, LP (ETE) - 6.4%
7. Western Gas Partners, LP (WES) - 6.3%
8. TC PipeLines, LP (TCP) - 6.5%
9. Holly Energy Partners, LP (HEP) - 7.2%
10. Spectra Energy Partners, LP (SEP) - 6.1%
11. Transmontaigne Partners, LP (TLP) - 6.8%
12. EnLink Midstream, LLC (ENLC) - 5.8%
13. Tesoro Logistics, LP (TLLP) - 7.2%
14. EnLink Midstream, LP (ENLK) - 9%
15. Targa Resources Corp. (TRGP) - 7.2%

Financial Services

1. PennantPark Floating Rate (PFLT) - 8.3%
2. Waddell & Reed (WDR) - 10.9%
3. Gladstone Investment (GAIN) - 7.9%

Industrials

1. Macquarie Infrastructure (MIC) - 6.5%

Real Estate

1. Omega Healthcare Investors (OHI) - 7.8%
2. Ramco-Gershenson Prop. (RPT) - 6.8%
3. W.P. Carey, Inc. (WPC) - 6.4%
4. Sabra Health Care REIT (SBRA) - 6.3%
5. STAG Industrial, Inc. (STAG) - 5.4%
6. Chesapeake Lodging Trust (CHSP) - 6.7%
7. EPR Properties (EPR) - 5.8%
8. DDR Corp. (DDR) - 7.7%
9. Arbor Realty Trust, Inc. (ABR) - 7.9%
10. Hospitality Properties Trust (HPT) - 6.5%
11. Urstadt Biddle Properties Inc. (UBA) - 5.5%
12. Select Income REIT (SIR) - 8.4%
13. Medical Properties Trust (MPW) - 7.4%
14. One Liberty Properties, Inc. (OLP) - 7.3%
15. Spirit Realty Capital, Inc. (SRC) - 9.6%
16. LaSalle Hotel Properties (LHO) - 6.2%
17. The GEO Group, Inc. (GEO) - 5.9%

Utilities

1. AmeriGas Partners, LP (APU) - 8.4%

List of Investments by Rank

Each of the 45 stocks with long histories of dividend increases and 5%+ dividend yields is sorted by rank below in order based on The 8 Rules of Dividend Investing. Dividend yield is included next to each stock's ticker symbol.

- | | |
|--|---|
| 1. Stage Stores, Inc. (SSI) - 22.6% | 35. Select Income REIT (SIR) - 8.4% |
| 2. Energy Transfer Partne. (ETP) - 9.4% | 36. Medical Properties (MPW) - 7.4% |
| 3. Genesis Energy, LP (GEL) - 9.3% | 37. GameStop Corp. (GME) - 6.3% |
| 4. Enterprise Product Par. (EPD) - 6.2% | 38. EnLink Midstream (ENLK) - 9% |
| 5. Buckeye Partners, LP (BPL) - 7.4% | 39. One Liberty Properties (OLP) - 7.3% |
| 6. Omega Healthcare Inv. (OHI) - 7.8% | 40. Targa Resources (TRGP) - 7.2% |
| 7. Macy's, Inc. (M) - 5.2% | 41. Gladstone Investment (GAIN) - 7.9% |
| 8. AmeriGas Partners, LP (APU) - 8.4% | 42. Spirit Realty Capital (SRC) - 9.6% |
| 9. Sunoco, LP (SUN) - 11% | 43. LaSalle Hotel Propert. (LHO) - 6.2% |
| 10. Kohl's Corporation (KSS) - 5.1% | 44. Ford Motor Company (F) - 5.4% |
| 11. AT&T Inc. (T) - 5.1% | 45. The GEO Group, Inc. (GEO) - 5.9% |
| 12. Vector Group (VGR) - 7.2% | |
| 13. Energy Transfer Equity (ETE) - 6.4% | |
| 14. Ramco-Gershenson (RPT) - 6.8% | |
| 15. Western Gas Partners (WES) - 6.3% | |
| 16. TC PipeLines, LP (TCP) - 6.5% | |
| 17. Holly Energy Partners (HEP) - 7.2% | |
| 18. Spectra Energy Partners (SEP) - 6.1% | |
| 19. W.P. Carey, Inc. (WPC) - 6.4% | |
| 20. Sabra Health Care (SBRA) - 6.3% | |
| 21. STAG Industrial, Inc. (STAG) - 5.4% | |
| 22. PennantPark Floating (PFLT) - 8.3% | |
| 23. Vodafone Group plc (VOD) - 5.7% | |
| 24. Transmontaigne Partn. (TLP) - 6.8% | |
| 25. Macquarie Infrastructu. (MIC) - 6.5% | |
| 26. Chesapeake Lodging (CHSP) - 6.7% | |
| 27. EPR Properties (EPR) - 5.8% | |
| 28. EnLink Midstream (ENLC) - 5.8% | |
| 29. Waddell & Reed (WDR) - 10.9% | |
| 30. DDR Corp. (DDR) - 7.7% | |
| 31. Arbor Realty Trust (ABR) - 7.9% | |
| 32. Hospitality Properties (HPT) - 6.5% | |
| 33. Urstadt Biddle Proper. (UBA) - 5.5% | |
| 34. Tesoro Logistics, LP (TLLP) - 7.2% | |

List of Past Recommendations & Ranking Criteria

The ranking criteria and requirements for the Sure Retirement newsletter are derived from The 8 Rules of Dividend Investing.

The sell criteria are below:

- Yield falls below 4%
- Dividend is cut or eliminated

Performance of securities currently in the Top 10 are shown below:

Name & Ticker	Recommend Date	Status	Total Return
Buckeye Partners, LP (BPL)	November 2016	Hold	7.4%
Enterprise Products Par. (EPD)	November 2016	Hold	12.1%
Omega Healthcare Inv. (OHI)	November 2016	Hold	9.6%
Genesis Energy LP (GEL)	November 2016	Hold	-1.6%
AT&T (T)	November 2016	Hold	7.2%
Energy Transfer Partners (ETP) ¹	January 2017	Hold	N/A ²
AmeriGas Partners, LP (APU)	January 2017	Hold	-2.3%
Macy's (M)	May 2017	Hold	New
Sunoco L.P. (SUN)	May 2017	Hold	New
Kohl's Corporation (KSS)	May 2017	Hold	New

Past Recommendations (which are holds, not sells) not currently in Top 10 are below:

Name & Ticker	Recommend Date	Status	Total Return
Energy Transfer Equity (ETE)	November 2016	Hold	28.2%
Urstadt Biddle (UBA)	November 2016	Hold	-6.4%
Magellan Midstream (MMP)	November 2016	Hold	15.4%
Waddell & Reed (WDR)	November 2016	Hold	11.0%
Spectra Energy Partners (SEP)	November 2016	Hold	12.1%
Holly Energy Partners (HEP)	December 2016	Hold	12.2%
TC PipeLines (TCP)	December 2016	Hold	14.9%
Gladstone Investment (GAIN)	February 2017	Hold	10.2%
W.P. Carey, Inc. (WPC)	February 2017	Hold	1.8%

There have been no sells in the Sure Retirement Newsletter.

¹ Recommended as SXL which changed its ticker to ETP

² Performance unavailable this month due to recent merger. Data available next month.

Portfolio Building Guide

The process of building a high yield dividend portfolio is straightforward: **Each month invest in the top ranked stock in which you own the smallest dollar amount out of the Top 10.**

Over time, you will build a well-diversified portfolio of quality businesses purchased when they yield 5% or more. If your portfolio has 25% or more allocated to one sector, buy the highest ranked stock not in that sector. Alternatively, the top 10 list is also useful as an idea generation tool for those with a different portfolio allocation plan.

Examples

Portfolio 1		
Ticker	Name	Amount
ETP	Energy Transfer Partners	\$ 1,002
GEL	Genesis Energy, LP	\$ -
EPD	Enterprise Product Part.	\$ -
BPL	Buckeye Partners, LP	\$ -
OHI	Omega Healthcare	\$ -
M	Macy's, Inc.	\$ -
APU	AmeriGas Partners, LP	\$ -
SUN	Sunoco, LP	\$ -
KSS	Kohl's Corporation	\$ -
T	AT&T Inc.	\$ -

Portfolio 2		
Ticker	Name	Amount
ETP	Energy Transfer Partners	\$ 4,374
GEL	Genesis Energy, LP	\$ 4,878
EPD	Enterprise Product Part.	\$ 5,374
BPL	Buckeye Partners, LP	\$ 4,353
OHI	Omega Healthcare	\$ 7,312
M	Macy's, Inc.	\$ 2,799
APU	AmeriGas Partners, LP	\$ 2,952
SUN	Sunoco, LP	\$ 6,660
KSS	Kohl's Corporation	\$ 2,367
T	AT&T Inc.	\$ 2,818

- If you had portfolio 1, you would buy GEL, the top ranked stock you own least.
- If you had portfolio 2, you would buy KSS, the top ranked stock you own least.

If you have an existing portfolio or a large lump sum to invest, switch over to the Sure Retirement strategy over 20 months. Each month, take 1/20 of your initial portfolio value, and buy the top ranked stock you own the least out of the Top 10 (as long as that sector makes up less than 25% of your portfolio). When you sell a stock use the proceeds to purchase the top ranked stock you own the least.

This simple investing process will build a diversified portfolio of high quality dividend stocks over a period of less than 2 years. There's nothing magical about 20 months. A period of 15 months or 30 months will yield similar results.

If your portfolio grows too large to manage comfortably (for example, you are not comfortable holding 40+ stocks – which would happen after around 4 years of the Sure Dividend system), you will need to sell holdings. I recommend eliminating positions that have the lowest yields.

You can combine recommendations from the Sure Retirement Newsletter with the Sure Dividend Newsletter by targeting a specific yield for your overall portfolio. When you need your portfolio yield to increase, invest from the Sure Retirement Newsletter. If less yield is required (and growth is preferred), invest from the Sure Dividend Newsletter.

Tax Guide

There are 4 broad types of investment vehicles covered in the Sure Retirement Newsletter:

1. Corporations
2. Master Limited Partnerships (MLPs)
3. Real Estate Investment Trusts (REITs)
4. Business Development Companies (BDCs)

The organization form is important for tax purposes because it determines how efficiently a company can return money to shareholders. An example is below.

Imagine a company makes \$10, pre-tax, and distributes 100% to investors. The image below shows how much of the \$10 would go to investors using standard assumptions for the 3 investment vehicles:

Note: Tax treatment for BDCs and REITs is similar. BDCs have been omitted from the images below because of this.

Corporation	
Income	\$10.00
Corporate Income Tax @ 39%	\$3.90
Personal Dividend Tax @ 20%	\$1.22
Dividend After Tax	\$4.88

MLP	
Distributable Cash	\$10.00
% Return of Capital	80%
Ordinary Income Tax @ 39.6%	\$0.79
Accrued Cost Basis Reduction Tax @ 20%*	\$1.84
Distribution After Tax	\$7.37
*Due when MLP is sold, not in year accrued	

REIT	
Funds from Operations	\$10.00
% Ordinary Income	70%
% Capital Gains	15%
% Return of Capital	15%
Ordinary Income Tax @ 39.6%	\$2.77
Personal Capital Gains Tax @ 20%	\$0.30
Accrued Cost Basis Reduction Tax @ 20%*	\$0.30
Distribution After Tax	\$6.63
*Due when REIT is sold, not in year accrued	

- \$4.88 in after-tax income from Corporation
- \$6.63 in after-tax income from REIT
- \$7.37 in after-tax income from MLP

The image below gives an overview of the different organizational forms:

	Corp.	MLP	REIT
Tax Form	1099	K-1	1099
Taxed at Organization Level	Yes	No	No
Distributions Taxed at Individual Level	Yes	Yes	Yes
Hold In Retirement Account	Yes	Yes*	Yes
Hold In Regular Account	Yes	Yes	No**

*Under the condition that you stay up to date with form 990-T.

**REIT income is largely subject to personal income tax rates as ordinary income, making it better suited for retirement accounts, depending on your personal tax rate.

Corporations

Corporations are taxed on income at the corporate level. They then pay out this after-tax income to shareholders. Shareholders are then taxed again at the individual level.

Note: The United States corporate tax rate (including the state and federal levels) is 39%. *This is the 3rd highest in the world.* The global average is 23%, for comparison.

Corporations issue a 1099 to track dividend payments to shareholders. They are the simplest and most common type of investment. They are also the least tax advantaged.

Given the choice, corporations should be held in a retirement account to minimize taxes. Of course, owning them in a taxable account is fine, one will just be paying taxes on dividends received. Capital gains taxes are only triggered when a common stock is sold, making it tax advantageous to buy and hold.

Capital gains taxes are divided into two types: short-term and long-term. Short-term capital gains tax applies to investments held for less than a year. The short-term capital gains rate is your ordinary income tax rate. It ranges between 10% and 39.6% depending on your income bracket.

Long-term capital gains applies to most types of investments (including Corporations, REITs, and MLPs) held longer than 1 year. The maximum long-term capital gains tax rate is 20%. The minimum is 0%. Most investors will fall into the 15% long-term capital gains tax bracket.

Dividend taxes are also divided into two types: ordinary and qualified. Most dividends paid from blue-chip dividend stocks are 'qualified'. The requirements for a dividend to be classified as 'qualified' are below:

- The company must be a U.S. corporation, or a foreign corporation that readily trades on major U.S. exchanges, or be incorporated in a U.S. territory
- The investor must have held the stock for 60+ days before the ex-dividend date

Qualified dividends are taxed at the same rate as long-term capital gains; between 0% and 20% (though most investors will be in the 15% bracket). Ordinary dividends are dividends that do not meet the criteria to be 'qualified'. Ordinary dividends are taxed at the ordinary income tax rate.

Master Limited Partnerships (MLPs)

MLPs are the most tax efficient vehicle for returning money to investors. They avoid the double taxation issues of Corporations. *MLPs are not taxed at the organization level.* Unfortunately, *MLPs are also the most complicated.*

Typically somewhere around 80% to 90% of MLP distributions are considered a 'return of capital' because of depreciation. You don't pay taxes immediately on 'return of capital' distributions.

Returns of capital *reduce your cost basis* in the MLP. You are not taxed until you sell the units.

For example, imagine you buy 10 units of an MLP at \$100 a unit for a total investment of \$1,000. Now imagine you hold for 5 years.

The MLP unit price has increased to \$120. Your investment is now worth \$1,200. It also paid out \$37.50 per unit in distributions over this time, with 80% of that being a return of capital ($\$37.50 \times 80\% = \30 return of capital).

The 20% of distributions that *were not* returns of capital would be taxed at your ordinary income tax rate, which is up to 39.6%. These taxes would be due the year they are accrued.

Your cost basis would be \$700 (initial investment amount of \$1,000 less return of capital of \$30 per unit or \$300 total). The amount of long-term capital gains tax you owe (assuming you are in the 20% tax bracket) is \$100.

Math Behind Example: Sale price of \$1,200 less cost basis of \$700 = \$500 in capital gains. \$500 in capital gains x 20% tax bracket = \$100.

As a caveat, if the cost basis ever falls below 0 (which will only happen after holding for around a decade or more), you will owe long-term capital gains tax on the amount the cost basis is below 0 every year.

Return of capital and other issues discussed above *do not matter* when MLPs are held in a retirement account.

There is a different issue with holding MLPs in a retirement account, however. This includes 401(k), IRA, and Roth IRA accounts, among others.

When retirement plans conduct or invest in a business activity, they must file separate tax forms to report **Unrelated Business Income (UBI)**, and may owe **Unrelated Business Taxable Income (UBTI)**. UBTI tax brackets go up to 39.6% (the top personal rate).

MLPs issue K-1 forms for tax reporting. K-1s report business income, expense, and loss to owners. Therefore, MLPs held in retirement accounts may still qualify for taxes.

If UBI for *all holdings* in your retirement account is over \$1,000, you must have your retirement account provider (typically, your brokerage) file Form 990-T. You will want to file form 990-T as well if you have a UBI loss to get a loss carryforward for subsequent tax years. Failure to file form 990-T and pay UBIT can lead to severe penalties. Fortunately, UBIs are often negative. *It is a fairly rare occurrence to owe taxes on UBI.*

The subject of MLP taxation can be complicated and confusing. Hiring a tax professional to aid in preparing taxes is a viable option for dealing with the complexity.

The bottom line is this: *MLPs are tax advantaged vehicles* that are suited for investors looking for current income. It is fine to hold them in either taxable or non-taxable (retirement) accounts. Since retirement accounts are already tax-deferred, holding MLPs in taxable accounts allows you to ‘get credit’ for the full effects of their unique structure.

Real Estate Investment Trusts (REITs)

Like MLPs, REITs avoid double taxation. *REITs are not taxed at the organization level.* REITs are in between MLPs and Corporations in terms of both complexity and tax-advantages. REITs are required to pay out 90%+ of their income.

REITs are organized as trusts. As a result, ‘shareholders’ are actually unit holders.

REITs issue 1099 forms (just like corporations) instead of K-1 forms (like MLPs do). Unit holders receive distributions, not dividends (just like MLPs). REIT distributions fall into 3 categories:

- Ordinary income
- Return of capital
- Capital gains

Ordinary income is taxed at your ordinary income tax rate; up to 39.6%. Return of capital reduces your cost basis (just as it does with MLPs). Capital gains are taxed at either short-term or long-term capital gains rate.

The percentage of distributions from these 3 sources varies by REIT. In general, ordinary income tends to be the majority of the distribution. Expect around 70% of distributions as ordinary income, 15% as a return of capital, and 15% as capital gains.

REITs are best suited for retirement accounts because the majority of their payments are taxed as ordinary income. Retirement accounts remove this negative and make REITs very tax advantageous.

This doesn't mean you should never own a REIT in a taxable account. A good investment is a good investment, regardless of tax issues. If you have the choice, REITs should definitely be placed in a retirement account.

Business Development Companies (BDCs)

Much like REITs, business development companies must pay out 90%+ of their income as distributions. Additionally, business development companies must derive 90% of their gross income from interest, dividends, or capital gains on securities.

BDCs pay their distributions as a mix of:

- Ordinary income & non-qualified dividends
- Qualified dividends
- Return of capital
- Capital gains

Just as with MLPs, Returns of capital reduce your tax basis. Qualified dividends and long-term capital gains are taxed at lower rates, while ordinary income and non-qualified dividends are taxed at your personal income tax bracket.

Unfortunately, 70% to 80% of BDC income is typically derived from ordinary income. Because of this, they make excellent vehicles for tax advantaged retirement accounts.

Please email me at ben@suredividend.com with any questions you have on taxes regarding retirement accounts, MLPs, and REITs. Frequently asked questions will be added to this tax guide.

As a newsletter provider, I can't provide specific personal investment advice, only general information.