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Opening Thoughts
-Dollar Cost Averaging vs. Lump Sum Investing-

Imagine you just received a lump sum of money. I’m not talking about the normal amount you may have saved every month. Instead, think about receiving an inheritance, or the proceeds from selling a business. Should you invest this money over time (dollar cost average), or go “all in” at one time (lump sum investing)?

Mathematically, it is a very simple answer. The stock market had positive returns 74% of the time over rolling 12-month periods from 1926 through 2017. It turns out that lump sum investing generates better returns the majority of the time.

The act of not investing the lump sum is in effect a bet that cash will outperform stocks over the period you choose to not invest. Historically, that has been a lousy bet.

But there’s more to this issue than getting the most out of your funds over the next 12 months…

Imagine you invested a lump sum at the start of 1929, or 1999, or 2007. Suddenly going “all in” right away looks much more foolish. Even in these cases, if you bought and held through the drawdown, your investment would generate positive returns over the long run.

The problem is the immense psychological difficulty of investing a large chunk of newly acquired money and then seeing a good portion of it evaporate. It’s hard to imagine someone entering the market in 2007 and being perfectly fine holding through Great Recession lows. The normal response (and the wrong one, I will add) would be to sell when you see your account down 20%, 30%, or 40% and then move to a less risky asset class. And that’s exactly what we want our readers to avoid at Sure Dividend.

Dollar cost averaging (DCA) is worse from a strictly total return perspective. But it has appeal from a behavioral investing perspective. Investing a lump sum by ‘dollar cost averaging’ over a period of 1 to 2 years allows you to take advantage of any potential market correction.

It’s much easier to keep investing through a recession when you have dry powder and can buy stocks at steep discounts versus watching your account value bleed red day after day. If a recession doesn’t occur, and you did dollar cost average over a period of 1 to 2 years, then you will have lost out on some gains. But that’s all the more encouragement to continue investing; few people would stop investing in stocks because their account value was up only 30% instead of 40%.

In the final analysis, if you are a perfectly rational investing machine (and have demonstrated this ability to yourself through the Great Recession), lump sum investing is the way to go as it maximizes expected future returns. If, on the other hand, you are more human and think there’s a good chance that going ‘all in’ and then seeing your account decline by 50% would cause you to panic sell, then dollar cost averaging is the preferable allocation strategy for a lump sum of money.

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1 Source: Should You Dollar-Cost Average? by Newfound Research
Special Report
Enbridge (ENB) to Acquire Spectra Energy Partners (SEP) in Stock Deal Valued at $3.3 Billion

On August 24th, Enbridge Inc. (ENB) announced a definitive agreement to acquire all of past newsletter recommendation, Spectra Energy Partners. The purpose of this special report is to provide you with the details of the transaction as well as guidelines for how existing SEP shareholders should handle the acquisition.

First, the details. Spectra Energy Partners unitholders are set to receive 1.111 common shares of Enbridge for each common unit of SEP. The previous proposal, which was announced on May 17th, called for a 1.0123 exchange ratio, so this new conversion figure represents a 9.8% increase to the prior bid. The transaction is valued at US$3.3 billion using stock prices from the time of announcement.

The acquisition is being proposed due to the recent weakness in MLP markets. From the original press release:

“Significant weakening of the US Master Limited Partnership (MLP) capital markets has adversely affected the growth opportunities for MLPs, including SEP. MLPs are dependent on consistent access to the capital markets at a reasonable cost of capital to grow their distributions. If SEP were to continue as a stand-alone entity in such an environment, it would be required to transition to a self-funding model using internally generated cash flow. SEP’s priority would be to strengthen its balance sheet thereby limiting future distribution growth.”

There is essentially no current difference in price between the current SEP units and the 1.111 common units of Enbridge that will be received in turn. Using closing prices from September 6th, Spectra Energy Partners investors will be trading US$38.00 of SEP for US$38.03 of Enbridge common stock. So how should investors handle this acquisition?

We believe that Enbridge’s common stock is undervalued and has excellent prospects for both capital appreciation and dividend growth. Enbridge currently yields 6.0% and is expected to generate 10% annual dividend growth through 2020. The company’s dividend coverage is also superior to Spectra Energy Partners. For these reasons, we are recommending that SEP investors hold Enbridge’s common stock after the acquisition is complete.

If you have any questions about this transaction (or other past newsletter recommendations), please contact us at support@suredividend.com.
The Retirement Top 10 – September 2018

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
<th>Price</th>
<th>Fair Value</th>
<th>Yield</th>
<th>Payout</th>
<th>Growth</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buckeye Partners (BPL)</td>
<td>MLP</td>
<td>$36</td>
<td>$47</td>
<td>14.0%</td>
<td>75%</td>
<td>6.0%</td>
<td>1.87</td>
</tr>
<tr>
<td>L Brands (LB)</td>
<td>Stock</td>
<td>$27</td>
<td>$44</td>
<td>8.9%</td>
<td>93%</td>
<td>5.0%</td>
<td>0.31</td>
</tr>
<tr>
<td>Owens &amp; Minor (OMI)</td>
<td>Stock</td>
<td>$18</td>
<td>$29</td>
<td>5.8%</td>
<td>52%</td>
<td>8.0%</td>
<td>1.82</td>
</tr>
<tr>
<td>Sunoco LP (SUN)</td>
<td>MLP</td>
<td>$27</td>
<td>$33</td>
<td>12.3%</td>
<td>80%</td>
<td>4.7%</td>
<td>2.01</td>
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<td>Invesco (IVZ)</td>
<td>Stock</td>
<td>$24</td>
<td>$41</td>
<td>5.0%</td>
<td>41%</td>
<td>6.0%</td>
<td>0.71</td>
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<tr>
<td>Altria Group (MO)</td>
<td>Stock</td>
<td>$61</td>
<td>$65</td>
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<td>80%</td>
<td>7.0%</td>
<td>0.93</td>
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<tr>
<td>Vector Group (VGR)</td>
<td>Stock</td>
<td>$16</td>
<td>$17</td>
<td>10.0%</td>
<td>95%</td>
<td>4.0%</td>
<td>-0.28</td>
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<td>Omega Healthcare (OHI)</td>
<td>REIT</td>
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<td>87%</td>
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<td>Enterprise Products (EPD)</td>
<td>MLP</td>
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<td>$30</td>
<td>5.9%</td>
<td>67%</td>
<td>4.0%</td>
<td>1.11</td>
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<tr>
<td>AmeriGas Partners (APU)</td>
<td>MLP</td>
<td>$39</td>
<td>$43</td>
<td>9.7%</td>
<td>72%</td>
<td>5.4%</td>
<td>0.82</td>
</tr>
</tbody>
</table>

Notes: The ‘Price’ column shows a recent price of the security. The ‘Fair Value’ column shows our estimate of the company’s per-share fair value. True fair value is unknowable. The ‘Payout’ column uses earnings, funds from operations, or distributable cash flow in the denominator. The numerator is the security’s payment to its owners.

One recommendation changed from last month. Invesco (IVZ) replaced AT&T (T) and returns from the July edition of the newsletter. Remember: Securities that fall out of the Top 10 are holds, not sells.

Notes: Dividend or distribution yields are used for valuation in some of the individual company analyses below instead of price-to-earnings (P/E) ratios, which are not meaningful for MLPs and REITs. The ranking criteria for the Top 10 list and requirements for inclusion in The Sure Retirement Newsletter are derived from The 8 Rules of Dividend Investing and The Sure Analysis Research Database.

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

- **Payout Ratio:** 74%
- **Dividend or Distribution Yield:** 8.5%
- **Growth Rate:** 5.5%

Growth estimates are our analyst forecasts from The Sure Analysis Research Database.
Analysis of Top 10 Securities

Buckeye Partners LP (BPL)

Key Statistics, Ratios, & Metrics

| Distribution Yield: 14.0% | 10 Year Distribution Growth Rate: 3.9% |
| Most Recent Annual Distribution Increase: 4.1% | Sector: Energy |
| Distribution History: 19 years of increases | Business Type: MLP |
| Ex-Distribution Date: 11/10/18 (est.) | Payment Date: 11/20/18 (est.) |
| Fair Value: $47 | Payout Ratio: 75.3% |

Overview & Current Events

Buckeye Partners is a master limited partnership with a market capitalization of $5.3 billion. It operates in the midstream segment, which includes the operation of storage and transportation assets. Buckeye’s network of assets includes 6,000 miles of pipelines, and more than 135 liquid petroleum product terminals with over 176 million barrels of total storage capacity. Its pipelines and terminals are located in the East Coast, Midwest, and Gulf Coast regions of the U.S. It also has an international presence through its 50% interest in VTTI, which operates oil storage terminals on five continents.

In early August, Buckeye reported (8/3/18) second-quarter financial results. Revenue of $940.84 million increased 16% and beat analyst expectations by $123 million. However, adjusted EBITDA declined 5.2% for the quarter, while adjusted EBITDA-per-share declined 12%. The EBITDA decline was mostly due to the issuance of new units, as well as an 8.4% decline in EBITDA for the Global Marine Terminals segment. Buckeye’s distributable cash flow declined by 4.9% for the quarter.

Growth Prospects & Safety

The key to an MLP’s future growth is new projects. Buckeye recently closed an agreement with oil giant BP to support a 480 million-barrel expansion of its storage capacity in Chicago. Another project set to ramp up for Buckeye in the near-term is the Michigan/Ohio expansion project. The company has secured 10-year commitments from oil customers, totaling 50,500 barrels per day. Phase two of the project, expected to be completed by the end of 2018, is projected to add another 40,000 barrels per day of capacity. For 2018, Buckeye will spend $335 to $385 million in growth capital expenditures.

Buckeye will need to expand EBITDA and cash flow to boost the security of its hefty distribution. The company maintained a distribution coverage ratio of 0.87 for the second quarter, down from 0.91 in the first quarter. The company did not generate enough distributable cash flow to pay its distribution in the first half of 2018, which is unsustainable over the long-term. As a result, Buckeye announced it will undergo a review of its business strategy and capital structure. The company acknowledged the need for continued access to capital on its recent earnings call. Buckeye management is sending a subtle message to investors that its distribution policy may be altered (reduced) at some point in the future.

Valuation

We expect Buckeye will generate EBITDA-per-unit of $6.77 in 2018. As a result, the units trade for a price-to-EBITDA ratio of just 5.3. We believe fair value for Buckeye is a price-to-EBITDA ratio of 7.0, which means a rising valuation multiple could result in 5.7% annual returns over the next five years. In addition, the 14.0% distribution yield and 6% annual EBITDA growth could result in total annual returns of 25.3% over the next five years. However, investors should closely monitor the company’s future financial results for any developments regarding the distribution. A distribution cut would negatively affect future expected returns for Buckeye investors.
L Brands Inc. (LB)

Key Statistics, Ratios, & Metrics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Yield</td>
<td>8.9%</td>
</tr>
<tr>
<td>Most Recent Annual Dividend Increase</td>
<td>20.0%</td>
</tr>
<tr>
<td>Dividend History</td>
<td>No increases since ‘16</td>
</tr>
<tr>
<td>Ex-Dividend Date</td>
<td>11/23/18 (est.)</td>
</tr>
<tr>
<td>Fair Value</td>
<td>$44</td>
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<tr>
<td>10 Year Dividend Growth Rate</td>
<td>14.9%</td>
</tr>
<tr>
<td>Sector</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>Business Type</td>
<td>Corporation</td>
</tr>
<tr>
<td>Payment Date</td>
<td>12/7/18 (est.)</td>
</tr>
<tr>
<td>Payout Ratio</td>
<td>93.0%</td>
</tr>
</tbody>
</table>

Overview & Current Events

L Brands is a diversified specialty retailer that operates a variety of brands, including Victoria’s Secret, PINK, Bath & Body Works, La Senza, and Henri Bendel. L Brands operates 3,069 company-owned specialty stores in the United States, Canada, the United Kingdom, and Greater China. Its brands are sold in more than 800 additional franchised stores around the world. L Brands was founded in 1963 and currently trades with a market capitalization of $7.3 billion.

In late August, L Brands reported (8/22/18) financial results for the second-quarter of fiscal 2018. In the quarter, L Brands generated net sales of $2.984 billion, which increased by 8.3% over the same period a year ago. On the bottom line, L Brand’s earnings-per-share of $0.36 decreased by 25% over the $0.48 generated last year but still managed to beat analyst expectations by $0.02. Perhaps more importantly, L Brands made a significant guidance revision with the publication of its second-quarter earnings report. The company now expects to generate full-year earnings-per-share between $2.45 and $2.70, which is a significant decline from prior guidance for $2.70 to $3.00 of earnings-per-share. L Brands’ stock has declined by nearly 20% since the publication of its earnings release.

More recently, the company reported (9/6/18) sales for the month of August. In the 31-day reporting period, total sales increased by 1.7% to $856.3 million while comparable sales increased by 1% during the month, which beat consensus estimates for 0.3% growth in comparable sales. The comparable sales growth includes a 15% increase at Bath & Body Works and a 5% drop for Victoria’s Secret.

Growth Prospects & Safety

L Brands has been expanding its eCommerce capabilities while also opening new stores – especially in international markets. China in particular is an attractive international market. The company has 7 stores in China right now and plans to build an additional 10 during the remainder of 2018. Due to the tailwinds presented by expansion into China and the company’s eCommerce efforts, we believe that L Brands should be capable of delivering ~5% earnings-per-share growth over full economic cycles.

L Brands currently pays $2.40 per year in per-share dividend payments and is guiding for $2.58 in earnings-per-share in fiscal 2018 at the midpoint. This implies a payout ratio of 93.0% (using earnings). The company’s dividend is barely covered by its earnings, so income investors should monitor the firm’s financial performance closely moving forward.

Valuation

Using the midpoint ($2.58) of L Brands’ 2018 financial guidance, the company is currently trading at a price-to-earnings ratio of 10.2. L Brands has traded at an average price-to-earnings ratio of 17.0 over the last decade. The company is extremely undervalued today, and our fair value estimate on the stock is $44 (note that this is lower than our estimate in last month’s newsletter to reflect the company’s guidance reduction). Between valuation expansion, dividend payments, and some modest business growth, we believe that L Brands has a chance of delivering 20%+ total returns moving forward.
L Brands (LB) Dividend Yield History
Owens & Minor Inc. (OMI)

Key Statistics, Ratios, & Metrics

- **Dividend Yield:** 5.8%
- **10 Year Dividend Growth Rate:** 11.5%
- **Most Recent Annual Dividend Increase:** 0.8%
- **Sector:** Healthcare
- **Dividend History:** 20 years of increases
- **Business Type:** Corporation
- **Ex-Dividend Date:** 9/14/18
- **Payment Date:** 10/1/18
- **Fair Value:** $29
- **Payout Ratio:** 52%

Overview & Current Events

Owens & Minor is a healthcare distribution, transportation, and logistics company. It provides healthcare products for hospitals and other medical centers. In all, Owens & Minor distributes approximately 220,000 different medical and surgical supplies to roughly 4,400 hospitals. Its other clients include group purchasing organizations, product manufacturers, the federal government, and at-home healthcare patients.

In early August, Owens & Minor reported (8/7/18) financial results for the second-quarter of fiscal 2018. In the quarter, the company generated consolidated revenues of $2.46 billion, which represents an 8.5% increase over the $2.27 billion generated in the same period a year ago. Contributors to this strong revenue growth include $128 million from the acquisition of Byram Healthcare and two months of revenue contribution from Halyard Health’s Surgical & Infection Prevention (S&IP) business. Moving down the income statement, Owens & Minor generated adjusted consolidated operating income of $46.6 million, a 12.6% increase year-on-year. Adjusted net income was $19.4 million, or $0.32 per share, which compares poorly to the $0.43 in earnings-per-share generated in the second-quarter of 2017.

Owens & Minor also provided some very disappointing guidance for the remainder of the fiscal year. The company now expects to generate adjusted earnings-per-share between $1.40 and $1.50. This is well below our prior estimate of $2.00. Likely due to this weak guidance, Owens & Minor’s shares fell by as much as 17% on the first trading day following the earnings release.

Growth Prospects & Safety

We continue to believe in Owens & Minor’s long-term growth potential, due to a very simple fact. The U.S. is an aging population, and healthcare demand in the U.S. is only going to grow moving forward. One risk for Owens & Minor’s future growth is price deflation in the healthcare industry. However, we believe Owens & Minor can withstand the industry challenges. We expect Owens & Minor can achieve an average earnings growth rate of 8% per year, over the next five years.

Valuation

After reading the company’s recently-revised financial guidance, we now expect Owens & Minor to generate earnings-per-share of $1.45 in 2018. As a result, the stock trades for a price-to-earnings ratio of just 12.1. We believe the stock deserves a price-to-earnings ratio of 18, near its 10-year average valuation. This is because Owens & Minor has strong customer relationships and management expects 10%+ adjusted earnings-per-share growth in fiscal 2019.

If the share price rose back to our fair value estimate in five years, buyers at the current price would earn a return of approximately 8% per year just from an expanding valuation multiple. In addition to the 5.8% dividend yield and our expected annual earnings growth rate of 8%, expected annualized total returns for Owens & Minor are around 22%.
Owens & Minor (OMI) Dividend Yield History
Sunoco LP (SUN)

Key Statistics, Ratios, & Metrics

**Distribution Yield:** 12.3%
**Distribution Growth Rate:** 13%
**Most Recent Annual Distribution Increase:** 19%
**Distribution History:** 15 years of increases
**Sector:** Energy
**Ex-Distribution Date:** 11/6/18 (est.)
**Payment Date:** 11/14/18 (est.)
**Business Type:** MLP
**Fair Value:** $33
**Payout Ratio:** 79.5%

Overview & Current Events

Sunoco is a master limited partnership that distributes fuel products through its wholesale and retail business units. The wholesale unit purchases fuel products from refiners and sells those products to its dealers as well as independently-owned dealers. Its products are sold to customers in more than 30 U.S. states at approximately 9,900 sites. The retail unit operates stores where fuel as well as other products are sold. Sunoco’s General Partner is owned by Energy Transfer Equity LP (ETE).

In early August, Sunoco announced (8/8/18) strong second-quarter financial results. Revenue of $4.6 billion jumped 59% from the same quarter a year ago and beat analyst expectations by $570 million. The increase came from a higher average selling price for fuel, and the benefit of a new fuel distribution deal with 7-Eleven. Adjusted EBITDA declined 36%, as increases in fuel distribution and marketing were more than offset by declines in the “all other” segment. The company also amended its credit facility. The size of the credit facility stays at $1.5 billion, but now provides flexibility to increase up to $750 million more. This adjustment gives the company a cushion to invest in growth.

Growth Prospects & Safety

Sunoco’s main growth strategy is acquisitions of new distribution sites. In April 2018, Sunoco acquired 26 retail sites from 7-Eleven. It also acquired the wholesale fuel distribution business and terminal assets from Superior Plus Corporation for $40 million. The wholesale fuels business sells approximately 200 million gallons of fuel annually through multiple channels, and the acquired terminals have a combined 17 tanks with 429,000 barrels of storage capacity. And in the second quarter, Sunoco purchased the wholesale business of Sandford Oil for approximately $66 million. The business distributes approximately 115 million gallons of fuel annually. Over the next five years, we expect Sunoco to generate EBITDA-per-unit growth of approximately 4.7% per year.

The moves Sunoco has made over the past year have strengthened its distribution coverage. Sunoco’s distribution coverage ratio for the second-quarter was 1.24x and stands at 1.14x in the trailing four quarters. It has also strengthened its balance sheet by paying down debt. As of the end of the second quarter, Sunoco had long-term debt of $2.3 billion, down from $3.5 billion at the end of 2017. Interest expenses declined 38% last quarter. Sunoco’s distribution appears to be secure.

Valuation

We expect Sunoco will generate EBITDA-per-unit of $4.15 for 2018. Using this estimate, the stock trades for a price-to-EBITDA ratio of 6.5. We believe the stock deserves a price-to-EBITDA ratio of 8.0 over the next five years. Expansion of the valuation multiple could provide annual returns of 4.2% through 2023. Combining valuation changes with 4.7% annual EBITDA growth and the 12.3% distribution yield, we expect total returns of 21.2% per year for Sunoco over the next five years. As long as the distribution remains secure, Sunoco is an attractive high-yield MLP for income investors.

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3 Since 2013 (Sunoco’s IPO was in late 2012).
Sunoco LP (SUN) Dividend Yield History
Invesco Ltd (IVZ)
Key Statistics, Ratios, & Metrics

<table>
<thead>
<tr>
<th>Dividend Yield: 5.0%</th>
<th>10 Year Dividend Growth Rate: 11.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Recent Annual Dividend Increase: 3.4%</td>
<td>Sector: Financials</td>
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<tr>
<td>Dividend History: Steady or increasing since ‘08</td>
<td>Business Type: Corporation</td>
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<tr>
<td>Ex-Dividend Date: 11/14/18 (est.)</td>
<td>Payment Date: 12/4/18 (est.)</td>
</tr>
<tr>
<td>Fair Value: $41</td>
<td>Payout Ratio: 41.4%</td>
</tr>
</tbody>
</table>

Overview & Current Events

Invesco is an investment management firm. It serves retail, institutional, and wealth management customers around the world. It has more than 7,000 employees, overseas approximately $970 billion in assets under management (AUM), and serves clients in more than 150 countries. The company has a market capitalization of $10.9 billion and is headquartered in Atlanta, Georgia.

In late July, Invesco reported (7/26/18) financial results for the second-quarter of fiscal 2018. In the quarter, operating revenues increased by 8.5% while operating income increased by 4.1%. Adjusting for one-time accounting charges and nonrecurring expenses, Invesco’s financial performance was even better. Adjusted operating revenues increased by 7.5% while adjusted operating income rose 5.8%. On the bottom line, Invesco generated adjusted diluted earnings-per-share of $0.66, which rose 3.1% over the $0.64 generated in the same period a year ago. The company’s growth was primarily attributable to rising assets under management. The company’s average AUM averaged $970 billion in the quarter, which was 15% higher than 2017’s comparable period. Invesco’s second-quarter earnings release was well-received by the markets and shares rose by 5% on the first trading day following earnings (although the stock retraced its gains in the weeks following the report).

Growth Prospects & Safety

Invesco is pursuing growth through acquisitions. In early April, Invesco completed (4/6/18) the acquisition of Guggenheim Investments’ ETF business for $1.2 billion. This acquisition is enhancing Invesco’s product offerings in exchange-traded funds, an important asset class that is growing rapidly due to favorable fee structures and impressive liquidity. Invesco is also investing in financial technology platforms. In early June, Invesco acquired (6/6/18) Intelliflo, a leading U.K. technology platform for financial advisors. Intelliflo supports approximately 30% of financial advisors in the U.K., and assists with client relationship management, financial planning, reporting, and valuation.

Invesco has credit ratings of A2 and A from Moody’s and Standard & Poor’s, respectively, which are critical for a financial services firm. Strong credit ratings allow it to uphold a reputation of financial integrity, which helps retain and grow the client base. Invesco has generated nine consecutive years of positive long-term net inflows. In addition, Invesco should have a payout ratio below 50% in 2018, which indicates a highly sustainable dividend payout, with room for dividend increases each year.

Valuation

We continue to expect Invesco to generate earnings-per-share of $2.90 in 2018. Based on this, Invesco stock trades for a price-to-earnings ratio of 8.6. We believe a fair valuation for Invesco is a price-to-earnings ratio of 14. As a result, our fair value price estimate for Invesco shares is approximately $41. Compared with a current share price of $24, the stock is significantly undervalued. Over the next five years, a rising valuation could add approximately 10% to total returns. In addition, we believe Invesco can reasonably generate annual earnings growth of 6%. Total returns could exceed 20% per year, based on the combination of a rising valuation, earnings growth, and dividends.
Invesco (IVZ) Dividend Yield History
## Altria Group Inc. (MO)

**Key Statistics, Ratios, & Metrics**

<table>
<thead>
<tr>
<th><strong>Dividend Yield:</strong> 5.3%</th>
<th><strong>10 Year Dividend Growth Rate:</strong> 9.2%</th>
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</thead>
<tbody>
<tr>
<td><strong>Most Recent Annual Dividend Increase:</strong> 14.8%</td>
<td><strong>Sector:</strong> Consumer Staples</td>
</tr>
<tr>
<td><strong>Dividend History:</strong> 52 increases in 49 years</td>
<td><strong>Business Type:</strong> Corporation</td>
</tr>
<tr>
<td><strong>Ex-Dividend Date:</strong> 9/13/18</td>
<td><strong>Payment Date:</strong> 10/10/18</td>
</tr>
<tr>
<td><strong>Fair Value:</strong> $65</td>
<td><strong>Payout Ratio:</strong> 80.2%</td>
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### Overview & Current Events

Altria Group is a tobacco company that operates as the parent company of Philip Morris USA, John Middleton Co., U.S. Smokeless Tobacco Co. LLC, Sherman Group Holdings LLC, Nu Mark LLC, Ste. Michelle Wine Estates Ltd, and Philip Morris Capital Corp. The company is responsible for selling the Marlboro cigarette brand in the United States as well as a number of non-smokable brands, including Skoal, Copenhagen, and the Ste. Michelle brand of wine. Altria also has a 10% ownership stake in the global beer giant manufacturer Anheuser Busch Inbev.

In late July, Altria released (7/26/18) mixed second-quarter earnings. Revenue net of excise taxes declined 5.4% and missed analyst expectations by $140 million. However, adjusted earnings-per-share of $1.01 increased by 19% from the same quarter a year ago and beat expectations by $0.01 per share. The revenue decline was due primarily to the continued decline in smoking rates. After adjusting for trade inventory movements, Altria’s cigarette shipment volume declined by 5%, worse than the industry decline of 3.5%. This caused smokable products revenue to decline by 4.8% net of excise taxes. Fortunately, earnings still grew thanks to cost cuts, share repurchases, and a lower tax rate.

More recently, Altria announced (8/23/18) a 14.3% increase to its dividend. Due to three dividend hikes over the last year, the new payout of $0.80 per share represents a remarkable 31.1% increase over the dividend paid in 3Q2017. Using the midpoint of the company’s earnings-per-share guidance, Altria is on pace for a dividend payout ratio of approximately 80% for fiscal 2018.

Separately, Altria sent two executives – their CFO and General Counsel – to present (9/5/18) at the Barclays Global Consumer Staples Conference in Boston, Massachusetts. The company reaffirmed its 2018 financial guidance for earnings-per-share between $3.94 and $4.03. Altria also made headlines by stating that the company is “exploring its options” with respect to cannabis products.

### Growth Prospects & Safety

We believe that Altria’s non-combustible portfolio is the key to the company’s future. The company is awaiting regulatory approval from the Food & Drug Administration for its new reduced-risk product line called IQOS. Altria is prepared to roll out the product line nationwide once approval is received.

Altria has robust competitive advantages that make it one of the safest stocks in this month’s Top 10. It operates in a highly regulated industry, which discourages new competitors. In addition, Altria has compelling brand recognition and strong economies of scale. Altria operated with a gross margin of 47% in 2017. Its dividend is also safe, with a targeted payout ratio of 80% of adjusted earnings.

### Valuation

Altria expects to generate between $3.94 and $4.03 in earnings-per-share in 2018. Using the midpoint of this guidance band ($3.99), the company is trading at a price-to-earnings ratio of 15.2. The company traded at an average price-to-earnings ratio of 16.2 over the past decade, which gives a fair value estimate of $65. We believe that through a combination of 6%-8% earnings growth, the ~5% dividend yield, and 2%-3% gains from valuation expansion, Altria could generate returns of 13%-15% per year.
Altria Group (MO) Dividend Yield History
Vector Group Ltd (VGR)

Key Statistics, Ratios, & Metrics

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Yield</td>
<td>10.0%</td>
</tr>
<tr>
<td>Most Recent Annual Dividend Increase</td>
<td>5.0%</td>
</tr>
<tr>
<td>Dividend History</td>
<td>19 increases since 1995</td>
</tr>
<tr>
<td>Ex-Dividend Date</td>
<td>9/17/18</td>
</tr>
<tr>
<td>Fair Value</td>
<td>$17</td>
</tr>
<tr>
<td>10 Year Dividend Growth Rate</td>
<td>4.5%</td>
</tr>
<tr>
<td>Sector</td>
<td>Consumer Goods</td>
</tr>
<tr>
<td>Business Type</td>
<td>Corporation</td>
</tr>
<tr>
<td>Payment Date</td>
<td>9/27/18</td>
</tr>
<tr>
<td>Payout Ratio</td>
<td>95.3%</td>
</tr>
</tbody>
</table>

Overview & Current Events

Vector Group is a unique company. It operates two unrelated but complimentary businesses in the real estate and tobacco industries. More specifically, Vector owns tobacco subsidiaries including Liggett Group LLC and Vector Tobacco Inc., along with the New Valley LLC real estate business. The company’s total revenue mix is roughly 60% tobacco, and 40% real estate. Vector’s niche in tobacco is discount cigarettes. Liggett was founded all the way back in 1873. Tobacco brands include Eve, Grand Prix, Pyramid, Liggett Select and Eagle 20’s. In real estate, Vector’s New Valley business owns 70.59% of Douglas Elliman Realty, a diversified real estate company.

In early August, Vector Group reported (8/6/18) second-quarter earnings. Revenue of $481.5 million increased 2% from the same quarter a year ago, while earnings-per-share declined 37% year-over-year. Both revenue and earnings-per-share missed analyst expectations. Tobacco revenue increased 1% for the quarter, due primarily to a 1.7% increase in unit volumes over the first half of the year. Real estate revenue increased 3.5% last quarter.

Growth Prospects & Safety

Vector Group’s growth catalyst in tobacco is rising market share for its core niche, discount tobacco. Liggett’s retail market share increased to 4.1% last quarter, compared with 3.8% in the same quarter last year. In addition, Liggett has bucked the broader industry trend of declining shipment volumes. Liggett’s retail shipments increased 4.3% last quarter, while the overall industry’s retail shipments declined by 2.7% according to the company. In real estate, Vector’s major growth catalyst is the continued rise of home prices and overall health of the housing industry.

Vector Group does not rank highly in terms of safety. The company has a debt-to-EBITDA ratio of approximately 7.0x, and a dividend payout ratio near 100%. The high level of debt is a concern, given that interest rates are rising. Investors should take note that there is an above-average likelihood Vector Group will cut its dividend over the next year or two. That said, the company does have durable competitive advantages, namely its brand recognition and top industry positioning, particularly in tobacco. Cigarettes are a highly recession-resistant business, which should help Vector’s financial results hold up well if another recession were to occur.

Valuation

We expect Vector Group to generate earnings-per-share of $0.60 in 2018. Based on this forecast, the stock has a price-to-earnings ratio of 26.3, which is below its long-term average valuation. In the past 10 years, the stock held an average price-to-earnings ratio of 33.7, which is our estimate of fair value. As a result, an expanding valuation could add 5.1% to annual shareholder returns over the next five years. In addition, the 10.0% dividend yield and 4% expected annual earnings growth, could result in expected returns of 19.1% per year over the next five years. This also does not include Vector Group’s annual 5% stock dividend. However, with a high level of debt and weak dividend coverage, Vector Group is a high-risk dividend stock that may cut its dividend if its fundamentals do not improve.
Vector Group (VGR) Dividend Yield History
Omega Healthcare Investors Inc. (OHI)

Key Statistics, Ratios & Metrics

<table>
<thead>
<tr>
<th>Distribution Yield:</th>
<th>8.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Year Distribution Growth Rate:</td>
<td>8.2%</td>
</tr>
<tr>
<td>Most Recent Annual Distribution Increase:</td>
<td>6.4%</td>
</tr>
<tr>
<td>Sector:</td>
<td>Healthcare Real Estate</td>
</tr>
<tr>
<td>Distribution History:</td>
<td>16 years of increases</td>
</tr>
<tr>
<td>Business Type:</td>
<td>REIT</td>
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<tr>
<td>Ex-Distribution Date:</td>
<td>10/30/18 (est.)</td>
</tr>
<tr>
<td>Payment Date:</td>
<td>11/15/18 (est.)</td>
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<tr>
<td>Fair Value:</td>
<td>$38</td>
</tr>
<tr>
<td>Payout Ratio:</td>
<td>86.8%</td>
</tr>
</tbody>
</table>

Overview & Current Events

Omega Healthcare Investors is the largest publicly-traded REIT in the U.S. dedicated to owning and operating skilled nursing facilities (SNFs). Approximately 83% of its portfolio consists of skilled-nursing, with the remaining 17% from senior housing. As of June 30th, Omega’s portfolio consisted of 923 operating facilities, spread over 41 U.S. states and the United Kingdom.

Last year was difficult for Omega, as the company recorded $198.2 million in impairment charges due to problems related to two tenants, most notably Orianna Health Systems. Omega announced on March 7th that certain affiliates of Orianna will pursue Chapter 11 bankruptcy. This is a concerning development, but Omega does not believe the bankruptcy filing materially affects the fair value of the facilities in question.

In early August, Omega reported (8/3/18) second-quarter earnings. Revenue of $219.2 million beat expectations by $2.92 million. Funds from operations (FFO) increased 2.7% from the same quarter a year ago, and also beat expectations by $0.02 per share. Adjusted FFO-per-share declined 12.6% for the quarter. The company made $131 million of new investments last quarter to drive growth.

Growth Prospects & Safety

Omega is not entirely out of the woods; 2018 is expected to be a difficult year as well. Omega expects adjusted FFO-per-share in a range of $3.03 to $3.06, compared with $3.30 in 2017. That said, we expect the company to return to growth over the long-term. It continues to reshape its property portfolio, selling 47 assets last quarter and transitioning 14 Orianna facilities to existing operators.

Despite Omega’s portfolio issues, the company should deliver satisfactory growth over the long run. Growth will be driven by industry tailwinds, specifically the aging U.S. population. The population of 85-year-old people in the United States is expected to grow by ~50% in the next 15 years. According to Omega, skilled nursing facilities are expected to enjoy rising demand, with limited supply. Occupancy rates are rising at such a strong pace, that by 2025 Omega’s occupancy will be at 100%.

Omega continues to cover its dividend with sufficient cash flow. We expect Omega will generate FFO-per-share of $3.04 in 2018. The company currently pays an annual dividend of $2.64 per share. Even when including the potential FFO decline for 2018, the forward dividend payout ratio is approximately 87%. This is a manageable payout ratio, particularly if OHI returns to growth.

Valuation

Omega Healthcare Investors’ average dividend yield over the past 10 years has been 6.8%. The current dividend yield is 8.1%, which indicates the high level of negative sentiment and potential undervaluation. In addition, shares of Omega trade for a price-to-FFO ratio of 10.9, a valuation that we believe is too low. Our fair value estimate is a price-to-FFO ratio of 12.4, which means an expanding valuation could add 2.6% to annual shareholder returns. In addition, we estimate Omega will generate FFO growth of 4.5% per year over the next five years. Valuation changes, FFO growth, and dividends result in 15.2% expected annual returns for Omega over the next five years.
Omegaya Healthcare Investors (OHI) Dividend Yield History

0.00% 10.00% 20.00% 30.00% 40.00% 50.00% 60.00% 70.00% 80.00%
## Enterprise Products Partners LP (EPD)

### Key Statistics, Ratios & Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution Yield</td>
<td>5.9%</td>
</tr>
<tr>
<td>Most Recent Annual Distribution Increase</td>
<td>2.4%</td>
</tr>
<tr>
<td>Distribution History</td>
<td>20 years of increases</td>
</tr>
<tr>
<td>Ex-Distribution Date</td>
<td>10/30/18 (est.)</td>
</tr>
<tr>
<td>Fair Value</td>
<td>$30</td>
</tr>
<tr>
<td>10 Year Distribution Growth Rate</td>
<td>5.3%</td>
</tr>
<tr>
<td>Sector</td>
<td>Energy</td>
</tr>
<tr>
<td>Business Type</td>
<td>MLP</td>
</tr>
<tr>
<td>Payment Date</td>
<td>11/7/18 (est.)</td>
</tr>
<tr>
<td>Payout Ratio</td>
<td>66.7%</td>
</tr>
</tbody>
</table>

### Overview & Current Events

Enterprise Products Partners is an energy master limited partnership. It operates in the midstream segment, with services including storage and transportation of oil and gas. The company’s assets include approximately 50,000 miles of pipelines, 260 million barrels of storage capacity for NGLs, crude oil, and other refined products; and 14 billion cubic feet of natural gas storage capacity.

In early August, the company reported (8/1/18) financial results for the second-quarter. Revenue of $8.47 billion increased 28% from the same quarter last year. Distributable cash flow increased 36% last quarter, to $1.43 billion. Adjusted EBITDA rose 32% to a record $1.8 billion for the quarter. By segment, the NGL Pipelines & Services division generated 20% operating profit growth for the quarter, due mostly to higher volumes and improved fees. Elsewhere, the Petrochemical & Refined Products Services segment reported 50% operating profit growth.

### Growth Prospects & Safety

Enterprise Products’ growth catalysts are new projects, and exports. Enterprise Products has $4.9 billion of growth projects currently under construction, including the Shin Oak NGL Pipeline in the Permian, which is scheduled to be placed into service in the second quarter of 2019. The Shin Oak NGL Pipeline is expected to have a total capacity of 600,000 barrels per day.

Exports are also a key growth catalyst. Demand for liquefied petroleum gas and liquefied natural gas, is growing at a high rate across the world, particularly in the emerging markets. Enterprise Products states that between 2012 and 2017, Chinese and Indian LPG demand grew at 17% and 8% per year, respectively. The company’s total crude oil, NGL, petrochemical, and refined products exports currently exceed 1.6 million barrels per day. Enterprise Products recently announced its Galveston export terminal is expected to receive permits within two years. The terminal would be able to load more than 2 million barrels per day once completed.

In terms of safety, Enterprise Products Partners is among the safest MLPs in our investment universe. The company has an investment-grade credit rating of BBB+ from Standard & Poor’s and Ba1 from Moody’s, which are higher than most MLPs. The distribution coverage ratio was 1.5x in the first half of 2018, which represents excellent coverage.

### Valuation

We expect Enterprise Products to generate EBITDA-per-unit of $2.64 in 2018. As a result, the security trades for a price-to-EBITDA ratio (an appropriate equivalent to earnings-per-share for an MLP) of 10.9. Enterprise Products Partners seems to be fairly valued, and perhaps slightly undervalued. Our fair value estimate is a price-to-EBITDA ratio of 11.2. Expansion of the price-to-EBITDA ratio could add 0.5% to Enterprise Products Partners’ annual returns. Total expected returns could reach roughly 10.4% annually, comprised of a 0.5% annual return from valuation changes, the 5.9% distribution yield, and 4% annual EBITDA growth. Enterprise Products is not the highest yield among MLPs, but it provides a highly-secure payout and is much safer than the average MLP.
Enterprise Products Partners (EPD) Dividend Yield History
AmeriGas Partners LP (APU)

Key Statistics, Ratios, & Metrics

- **Distribution Yield:** 9.7%
- **10 Year Distribution Growth Rate:** 3.9%
- **Most Recent Annual Distribution Increase:** 14.8%
- **Sector:** Utilities
- **Distribution History:** 52 increases in 49 years
- **Business Type:** MLP
- **Ex-Distribution Date:** 11/9/18 (est.)
- **Payment Date:** 11/17/18 (est.)
- **Fair Value:** $43
- **Payout Ratio:** 72.3%

Overview & Current Events

AmeriGas Partners is a master limited partnership (MLP) that distributes propane nationwide to both residential and commercial customers. It also sells related equipment and supplies to customers in all 50 states. AmeriGas Partners is the largest propane distributor in the United States, and trades with a market capitalization of $3.7 billion. UGI Corporation (UGI) is AmeriGas’ general partner and owns approximately 26% of the partnership’s common units.

In early August, AmeriGas Partners reported (8/1/18) financial results for the third-quarter of fiscal 2018 (which ended on June 30, 2018). In the quarter, the company’s revenue grew 13.0%, driven by cooler temperatures in the MLP’s operating geographies. Indeed, heating degree days for the quarter were 10% colder than normal and 21% colder than last year. More specifically, April was 36% colder than normal, but the April benefits were partially offset by significantly warmer weather in May.

Further down the income statement, AmeriGas generated adjusted EBITDA of $67.2 million, a 15% increase over the prior year’s period and the highest level of third-quarter EBITDA since fiscal 2013.

AmeriGas Partners also updated its fiscal 2018 (which ends on September 30th) financial guidance with the release of third-quarter earnings. The company now expects to generate adjusted EBITDA between $610 million and $620 million for the twelve-month reporting period. For context, the partnership generated $551.3 million of adjusted EBITDA in fiscal 2017. The midpoint ($615 million) of its new guidance band represents growth of 11.6% over last year’s comparable period.

Growth Prospects & Safety

AmeriGas Partners’ three main growth catalysts are its recent cylinder exchange program, customer account growth, and acquisitions – the last of which is perhaps the most compelling opportunity. AmeriGas made 2 bolt-on acquisitions through the first nine months of 2018, 5 acquisitions in fiscal 2017, and more than 80 acquisitions over the last decade.

AmeriGas has struggled over the last several years as temperatures (when measured by heating degree days) have been noticeably higher than normal. This has impacted the partnership’s distribution safety. Still, AmeriGas’ exceptionally high distribution yield is covered by cash flows. The partnership has generated $556 million of EBITDA over the last four reporting periods and paid $402 million in shareholder distributions during that time.

Valuation

AmeriGas Partners looks well-positioned to generate EBITDA of $5.90 per share in fiscal 2018. For context, the partnership traded at an average price-to-EBITDA multiple of 7.3 over the last decade. This gives a fair value estimate of $43. Shares trade at under $40 today. Between the partnership’s high single-digit distribution yield, its mid-single-digit growth potential and a small tailwind from valuation expansion, we believe that AmeriGas Partners’ total returns should be in the high double-digits (around 19% per annum) moving forward.

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4 Using EBITDA as the denominator.
Closing Thoughts  
– Yield & Low Expected Returns –

Low interest rates and rising asset values have pushed down long-term expected total returns for stocks and bonds. More optimistic forecasts call for real (after inflation) total returns from stocks of around 4% annually. Pessimistic forecasts call for flat or even negative real returns over the next decade. It would be unwise to expect the broad market to generate the same type of returns it did historically.

We are at a point where it’s very unlikely stock market returns over the next 10 years are going to average 10% a year. This is due primarily to higher valuations. Market valuations are high because a greater number of people participate in the market (increasing demand) thanks to a strong bull market and indexing, and also because of low interest rates which push up valuation multiples.

This is not a ‘stock only’ problem. Bonds are in a similar situation, offering little in the way of expected future returns after factoring in inflation. Simply put, investors aren’t likely to get paid much for taking on risk.

This has real implications for the ‘4% Rule.’ We can’t count on our assets to rise at the rate we’ve enjoyed historically. This means the 4% Rule of withdrawal may not be as applicable as it used to be; if assets are not rising in value, you can’t safely sell off 4% every year.

But that’s where yield comes in. High-yield portfolios do not require liquidation. Even if asset values were to stay flat for a decade (and we don’t think that will be the case with our recommendations), a portfolio yielding 5% will provide that 5% yield, without forcing investors to be at the whims of market volatility.

Low expected returns mixed with regular expected volatility makes income investing more important than ever. If we can’t rely on our assets to appreciate in value as much as in the past, we can still rely on them to produce income. Many of the recommendations in this newsletter have yields far above 5%. And, many have a long history of raising their dividend every year.

In the final analysis, expected future returns for the broader market aren’t applicable to individual securities. Expected future return projections matter for index investors much more than for investors willing to tailor their portfolio to invest in high-yield individual securities. The ability to invest in higher income securities will likely be an important part of retirement investing going forward.

Thanks,
Ben Reynolds

The next newsletter publishes on Sunday, October 14th, 2018
List of Investments by Sector

Each of the securities with 4%+ yields in The Sure Dividend Database are sorted by rank below in order based on The 8 Rules of Dividend Investing (highest to lowest) and based on its GICS sector. Dividend or distribution yield is included next to each security’s ticker symbol.

### Basic Materials
1. Compass Minerals Intl. Inc. (CMP) - 4.7%
2. Westlake Chemical Partners LP (WLKP) - 6.4%
3. SunCoke Energy Partners LP (SXCP) - 10.4%
4. Ciner Resources LP (CINR) - 8.2%
5. Enviva Partners LP (EVA) - 7.7%

### Communication Services
1. Vodafone Grp. plc (VOD) - 8.4%
2. BCE Inc. (BCE) - 5.8%
3. AT&T Inc. (T) - 6.3%
4. Verizon Communications Inc. (VZ) - 4.4%
5. CenturyLink Inc. (CTL) - 10%
6. Consolidated Communications Hldgs. Inc. (CNSL) - 13.3%
7. IDT Corp. (IDT) - 6.8%

### Consumer Cyclicals
1. L Brands Inc. (LB) - 9.1%
2. Cedar Fair LP (FUN) - 6.9%
3. GameStop Corp. (GME) - 9.4%
4. Meredith Corp. (MDP) - 4.2%
5. Macy's Inc. (M) - 4.2%
6. Ford Motor Co. (F) - 6.3%
7. Las Vegas Sands Corp. (LVS) - 4.8%
8. National CineMedia Inc. (NCMI) - 7.7%
9. New Media Inv. Grp. Inc. (NEWM) - 9.3%
10. Bowl America Inc. (BWLA) - 4.5%
11. Cato Corp./The (CATO) - 6.2%
12. General Motors Co. (GM) - 4.3%
13. Barnes & Noble Inc. (BKS) - 12.1%
14. Gannett Co. Inc. (GCI) - 6.4%

### Consumer Defensive
1. Altria Grp. Inc. (MO) - 5.3%
2. Vector Grp. Ltd (VGR) - 10.2%
3. Philip Morris Intl. Inc. (PM) - 5.8%
4. Kraft-Heinz Co./The (KHC) - 4.4%
5. Universal Corp. (UVV) - 5%
6. General Mills Inc. (GIS) - 4.3%
7. Newell Brands Inc. (NWL) - 4.2%
8. Coty Inc. (COTY) - 4.1%

### Energy
1. Buckeye Partners LP (BPL) - 14.1%
2. Enterprise Product Partners LP (EPD) - 5.9%
3. Energy Transfer Partners LP (ETP) - 9.9%
4. ONEOK Inc. (OKE) - 5%
5. Royal Dutch Shell plc (RDS.A) - 5.8%
6. Holly Energy Partners LP (HEP) - 8.9%
7. Royal Dutch Shell plc (RDS.B) - 5.6%
8. Sunoco LP (SUN) - 12.1%
9. Enbridge Inc. (ENB) - 5.9%
10. Exxon Mobil Corp. (XOM) - 4%
11. Energy Transfer Equity LP (ETE) - 6.9%
12. TC PipeLines LP (TCP) - 7.5%
13. Helmerich & Payne Inc. (HP) - 4.4%
14. Western Gas Partners LP (WES) - 7.6%
15. Magellan Midstream Partners LP (MMP) - 5.4%
16. CrossAmerica Partners LP (CAPL) - 11.4%
17. Transmontaigne Partners LP (TLP) - 8%
18. Spectra Energy Partners LP (SEP) - 8%
19. Andeavor Logistics LP (ANDX) - 8.5%
20. TOTAL S.A. (TOT) - 4.8%
21. Western Gas Equity Partners LP (WGP) - 6.8%
22. NuStar Energy LP (NS) - 8.7%
23. Phillips 66 Partners LP (PSXP) - 5.7%
24. EnLink Midstream Partners LP (ENLK) - 8.4%
25. DCP Midstream LP (DCP) - 7.6%
26. PBF Logistics LP (PBFX) - 9.1%
27. Targa Resources Corp. (TRGP) - 6.7%
28. EnLink Midstream LLC (ENLC) - 6.2%
29. BP plc (BP) - 5.8%
30. Delek Logistics Partners LP (DKL) - 9.6%
31. Sprague Resources LP (SRLP) - 10.4%
32. GasLog Partners LP (GLOG) - 8.8%
33. MPLX LP (MPLX) - 6.9%
34. USA Compression Partners LP (USAC) - 12.8%
35. Summit Midstream Partners LP (SMLP) - 14%
36. Green Plains Partners LP (GPP) - 12.2%
37. SemGroup Corp. (SEMG) - 7.9%
38. Vermilion Energy Inc. (VET) - 6.9%
39. Enable Midstream Partners LP (ENBL) - 8.1%
40. Black Stone Minerals LP (BSM) - 7.3%
41. Cheniere Energy Partners LP (CQP) - 5.8%
42. Kinder Morgan Inc. (KMI) - 4.5%
43. Williams Companies Inc./The (WMB) - 4.6%

This information is not personalized advice. It is for informational purposes only. Please see disclaimer at end of newsletter for more.
### Financial Services

1. Bank of Nova Scotia/The (BNS) - 4.6%
2. Invesco Ltd (IVZ) - 4.9%
3. Canadian Imperial Bank of Commerce (CM) - 4.5%
4. Western Union Co./The (WU) - 4.1%
5. Main Street Capital Corp. (MAIN) - 5.9%
6. Mercury General Corp. (MCY) - 4.7%
7. Westpac Banking Corp. (WBK) - 7%
8. Banco Latinoamericano de Comercio (BLX) - 8%
9. Waddell & Reed Financial Inc. (WDR) - 4.9%
10. Hercules Capital Inc. (HTGC) - 9.2%
11. HSBC Holdings plc (HSBC) - 4.6%
12. Ares Capital Corp. (ARCC) - 9%
13. AmTrust Financial Srvcs. Inc. (AFSI) - 4.7%
14. Westwood Holdings Grp. Inc. (WHG) - 4.7%
15. BGC Partners Inc. (BGCP) - 5.8%
16. Gladstone Inv. Corp. (GAIN) - 6.7%
17. Golub Capital BDC Inc. (GBDC) - 6.7%
18. Goldman Sachs Bdc Inc. (GSBD) - 8.3%
19. Artisan Partners Asset Mgmt. Inc. (APAM) - 7.3%
20. Virtu Financial Inc. (VRTG) - 4.4%
21. FS Inv. Corp. (FSIC) - 10.1%
22. New York Community Bancorp Inc. (NYCB) - 6.2%
23. Navient Corp. (NAVI) - 4.6%

### Healthcare

1. Owens & Minor Inc. (OMI) - 5.9%
2. AbbVie Inc. (ABBV) - 4%
3. Patterson Companies Inc. (PDCO) - 4.4%

### Industrials

1. Golar LNG Partners LP (GMLP) - 17.6%
2. R.R. Donnelley & Sons Co. (RRD) - 8%
3. Iron Mountain Inc. (IRM) - 6.4%
4. Compass Diversified Holdings LLC (CODI) - 8.2%
5. Macquarie Infra. Corp. (MIC) - 8.5%
6. Nielsen Holdings plc (NLSN) - 5.3%
7. USD Partners LP (USDP) - 14.4%
8. Höegh LNG Partners LP (HMLP) - 9.5%
9. Icahn Enterprises LP (IEP) - 10.4%
10. KNOT Offshore Partners LP (KNOP) - 9.7%
11. Fortress Transport. & Infra. Investors LLC (FTAI) - 7.4%
12. Dynagas LNG Partners LP (DLNG) - 11.1%
13. Costamare Inc. (CMRE) - 5.9%

### Real Estate

1. Omega Healthcare Investors Inc. (OHI) - 8%
2. W.P. Carey Inc. (WPC) - 6.2%
3. Welltower Inc. (WELL) - 5.2%
4. Realty Income Corp. (O) - 4.5%
5. Senior Housing Properties Trust (SNH) - 8.2%
6. Starwood Property Trust Inc. (STWD) - 8.6%
7. Lexington Realty Trust (LXP) - 8%
8. Arbor Realty Trust Inc. (ABR) - 8.3%
9. National Health Investors Inc. (NHI) - 5.1%
10. Tanger Factory Outlet Centers Inc. (SKT) - 6%
11. HCP Inc. (HCP) - 5.6%
12. Hospitality Properties Trust (HPT) - 7.2%
13. LTC Properties Inc. (LTC) - 5%
14. Simon Property Grp. Inc. (SPG) - 4.4%
15. Taubman Centers Inc. (TCO) - 4.1%
16. National Retail Properties Inc. (NNN) - 4.4%
17. Kimco Realty Corp. (KIM) - 6.5%
18. Select Income REIT (SIR) - 9.9%
19. Urdstadt Biddle Properties Inc. (UBA) - 4.8%
20. EPR Properties (EPR) - 6.2%
21. New Residential Inv. Corp. (NRZ) - 10.7%
22. CorEnergy Infra. Trust Inc. (CORR) - 7.9%
23. Preferred Apartment Communities Inc. (APTS) - 5.8%
24. STAG Industrial Inc. (STAG) - 5%
25. Sabra Health Care REIT Inc. (SBRA) - 7.6%
26. Mackerich Co. (MAC) - 5.2%
27. American Campus Communities Inc. (ACC) - 4.4%
28. Apollo Comm. Real Estate Finance Inc. (ARI) - 9.4%
29. Venta, Inc. (VTR) - 5.3%
30. Life Storage Inc. (LSI) - 4.1%
31. The GEO Grp. Inc. (GEO) - 7.4%
32. VEREIT Inc. (VER) - 7%
33. Kite Realty Grp. Trust (KRG) - 7.3%
34. Urdstadt Biddle Properties Inc. (UBP) - 5.3%
35. Chesapeake Lodging Trust (CHSP) - 4.8%
36. One Liberty Properties Inc. (OLP) - 6.4%
37. Ares Comm. Real Estate Corp. (ACRE) - 7.9%
38. Bixmor Property Grp. Inc. (BRX) - 6.1%
39. Hannon Armstrong Sust. Infra. Capital Inc. (HASI) - 6.1%
40. Medical Properties Trust Inc. (MPW) - 6.7%
41. DDR Corp. (DDR) - 10.9%
42. Gladstone Comml. Corp. (GOOD) - 7.6%
43. Armada Hoffler Properties Inc. (AHH) - 5.1%
44. Brookfield Property Partners LP (BHP) - 6.5%
45. Chatham Lodging Trust (CLDT) - 6.2%
46. Landmark Infra. Partners LP (LMRK) - 11.2%
47. Spirit Realty Capital Inc. (SRC) - 5.9%
48. RLJ Lodging Trust (RLJ) - 6%
49. Pennsylvania Real Estate Inv. Trust (PEI) - 8.2%
50. Community Healthcare Trust Inc. (CHCT) - 5.2%
51. Government Properties Income Trust (GOV) - 10.2%
52. Granite Real Estate Inv. Trust (GRP.U) - 5%
53. InfraREIT Inc. (HIFR) - 4.8%
54. Hershia Hospitality Trust (HT) - 4.8%
55. Brandywine Realty Trust (BDN) - 4.3%
56. Ashford Hospitality Trust Inc. (AHT) - 7.4%
57. Redwood Trust Inc. (RWT) - 7.1%
58. MGM Growth Properties LLC (MGP) - 5.7%
59. City Office REIT Inc. (CIO) - 7.3%
60. Independence Realty Trust Inc. (IRT) - 7%
61. Apple Hospitality REIT Inc. (APLE) - 6.8%
62. Xenia Hotels & Resorts Inc. (XHR) - 4.6%
63. Northstar Realty Europe Corp. (NRE) - 4.5%
64. Global Net Lease Inc. (GNL) - 9.8%
65. New Senior Inv. Grp. Inc. (SNR) - 14.8%
66. Uniti Grp. Inc. (UNIT) - 12%
67. Outfront Media Inc. (OUT) - 7.2%
68. Franklin Street Properties Corp. (FSP) - 4.2%

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Technology
1. International Business Machines Corp. (IBM) - 4.3%
2. Seagate Technology plc (STX) - 5.1%

Utilities
1. AmeriGas Partners LP (APU) - 9.6%
2. Southern Co. (SO) - 5.4%
3. Dominion Energy Inc./VA (D) - 4.6%
4. Duke Energy Corp. (DUK) - 4.5%
5. PPL Corp. (PPL) - 5.4%
6. Brookfield Renewable Partners LP (BEP) - 6.4%
7. NRG Yield Inc. (NYLD.A) - 6.5%
8. Entergy Corp. (ETR) - 4.2%
9. Pattern Energy Grp. Inc. (PEGI) - 8.4%
10. NRG Yield Inc. (NYLD) - 6.4%
List of Investments by Rank

Each of the securities with 4%+ yields in The Sure Dividend Database are sorted by rank below in order based on The 8 Rules of Dividend Investing (highest to lowest). Dividend or distribution yield is included next to each security’s ticker symbol.

1. Altria Grp. Inc. (MO) - 5.3%
2. Vector Grp. Ltd (VGR) - 10.2%
3. Omega Healthcare Investors Inc. (OHI) - 8%
4. Enterprise Product Partners LP (EPD) - 5.9%
5. AmeriGas Partners LP (APU) - 9.6%
6. Buckeye Partners LP (BPL) - 14.1%
7. Vodafone Grp. plc (VOD) - 8.4%
8. Owens & Minor Inc. (OMI) - 5.9%
9. Golar LNG Partners plc (GMLP) - 17.6%
10. L Brands Inc. (LB) - 9.1%
11. Energy Transfer Partners LP (ETP) - 9.9%
12. ONEOK Inc. (OKE) - 5%
13. Royal Dutch Shell plc (RDS.A) - 5.8%
14. BCE Inc. (BCE) - 5.8%
15. Holly Energy Partners LP (HEP) - 8.9%
16. Bank of Nova Scotia/The (BNS) - 4.6%
17. Royal Dutch Shell plc (RDS.B) - 5.6%
18. Invesco Ltd (IVZ) - 4.9%
19. Sunoco LP (SUN) - 12.1%
20. Southern Co. (SO) - 5.4%
21. Philip Morris Intl. Inc. (PM) - 5.8%
22. AT&T Inc. (T) - 6.3%
23. Enbridge Inc. (ENB) - 5.9%
24. Kraft-Heinz Co./The (KHC) - 4.4%
25. Universal Corp. (UVV) - 5%
26. W.P. Carey Inc. (WPC) - 6.2%
27. Exxon Mobil Corp. (XOM) - 4%
28. AbbVie Inc. (ABBV) - 4%
29. Dominion Energy Inc./VA (D) - 4.6%
30. International Business Machines Corp. (IBM) - 4.3%
31. Welltower Inc. (WELL) - 5.2%
32. Realty Income Corp. (O) - 4.5%
33. Canadian Imperial Bank of Commerce (CM) - 4.5%
34. General Mills Inc. (GIS) - 4.3%
35. Energy Transfer Equity LP (ETE) - 6.9%
36. Senior Housing Properties Trust (SNH) - 8.2%
37. TC PipeLines LP (TCP) - 7.5%
38. Starwood Property Trust Inc. (STWD) - 8.6%
39. Lexington Realty Trust (LXP) - 8%
40. Arbor Realty Trust Inc. (ABR) - 8.3%
41. R.R. Donnelley & Sons Co. (RRD) - 8%
42. National Health Investors Inc. (NHI) - 5.1%
43. Tanger Factory Outlet Centers Inc. (SKT) - 6%
44. Cedar Fair LP (FUN) - 6.9%
45. HCP Inc. (HCP) - 5.6%
46. Western Union Co./The (WU) - 4.1%
47. Helmerich & Payne Inc. (HP) - 4.4%
48. Western Gas Partners LP (WES) - 7.6%
49. Duke Energy Corp. (DUK) - 4.5%
50. GameStop Corp. (GME) - 9.4%
51. Magellan Midstream Partners LP (MMP) - 5.4%
52. PPL Corp. (PPL) - 5.4%
53. Brookfield Renewable Partners LP (BEP) - 6.4%
54. Verizon Communications Inc. (VZ) - 4.4%
55. Hospitality Properties Trust (HPT) - 7.2%
56. CrossAmerica Partners LP (CAPL) - 11.4%
57. Iron Mountain Inc. (IRM) - 6.4%
58. LTC Properties Inc. (LTC) - 5%
59. Transmontaigne Partners LP (TLP) - 8%
60. Spectra Energy Partners LP (SEP) - 8%
61. Simon Property Grp. Inc. (SPG) - 4.4%
62. Taubman Centers Inc. (TCO) - 4.1%
63. National Retail Properties Inc. (NNN) - 4.4%
64. Compass Minerals Intl. Inc. (CMP) - 4.7%
65. Kimco Realty Corp. (KIM) - 6.5%
66. Main Street Capital Corp. (MAIN) - 5.9%
67. Compass Diversified Holdings LLC (CODI) - 8.2%
68. Meredith Corp. (MDP) - 4.2%
69. Macquarie Infra. Corp. (MIC) - 8.5%
70. Select Income REIT (SIR) - 9.9%
71. Uristad Biddle Properties Inc. (UBA) - 4.8%
72. Patterson Companies Inc. (PCDO) - 4.4%
73. Andeavor Logistics LP (ANDX) - 8.5%
74. EPR Properties (EPR) - 6.2%
75. TOTAL S.A. (TOT) - 4.8%
76. Mercury General Corp. (MCY) - 4.7%
77. Westpac Banking Corp. (WBK) - 7%
78. Nielsen Holdings plc (NLSN) - 5.3%
79. Macy's Inc. (M) - 4.2%
80. New Residential Inv. Corp. (NRZ) - 10.7%
81. Western Gas Equity Partners LP (WGP) - 6.8%
82. NuStar Energy LP (NS) - 8.7%
83. Westlake Chemical Partners LP (WLKP) - 6.4%
84. CorEnergy Infra. Trust Inc. (CORR) - 7.9%
85. Preferred Apartment Communities Inc. (APTS) - 5.8%
86. Banco Latinoamericano de Comercio (BLX) - 8%
87. STAG Industrial Inc. (STAG) - 5%
88. Sabra Health Care REIT Inc. (SBRA) - 7.6%
89. Macerich Co. (MAC) - 5.2%
90. Waddell & Reed Financial Inc. (WDR) - 4.9%
91. Ford Motor Co. (F) - 6.3%
92. American Campus Communities Inc. (ACC) - 4.4%
93. Apollo Comm. Real Estate Finance Inc. (ARI) - 9.4%
94. Hercules Capital Inc. (HTGC) - 9.2%
95. NRG Yield Inc. (NYLD.A) - 6.5%
96. Ventas, Inc. (VTR) - 5.3%
97. Life Storage Inc. (LSI) - 4.1%
98. Phillips 66 Partners LP (PSXP) - 5.7%
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List of Past Recommendations & Ranking Criteria

The ranking criteria for the Top 10 list and requirements for inclusion in The Sure Retirement Newsletter are derived from The 8 Rules of Dividend Investing and The Sure Analysis Research Database.

The sell criteria are below:

- The security trades at 2/3 or less of historical average dividend or distribution yield
- Dividend or distribution is cut or eliminated (except in special situations)

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

<table>
<thead>
<tr>
<th>Name &amp; Ticker</th>
<th>1st Recommend Date</th>
<th>Total Return(^5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buckeye Partners LP (BPL)</td>
<td>November 2016</td>
<td>-31.4%</td>
</tr>
<tr>
<td>Enterprise Products Part. (EPD)</td>
<td>November 2016</td>
<td>29.8%</td>
</tr>
<tr>
<td>Omega Healthcare Inv. (OHI)</td>
<td>November 2016</td>
<td>25.6%</td>
</tr>
<tr>
<td>AmeriGas Partners LP (APU)</td>
<td>January 2017</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Sunoco LP (SUN)</td>
<td>May 2017</td>
<td>3.8%</td>
</tr>
<tr>
<td>Vector Group Ltd (VGR)</td>
<td>August 2017</td>
<td>-14.0%</td>
</tr>
<tr>
<td>Owens &amp; Minor Inc. (OMI)</td>
<td>November 2017</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Altria Group Inc. (MO)</td>
<td>May 2018</td>
<td>11.8%</td>
</tr>
<tr>
<td>Invesco Ltd (IVZ)</td>
<td>May 2018</td>
<td>-15.3%</td>
</tr>
<tr>
<td>L Brands (LB)</td>
<td>August 2018</td>
<td>-11.3%</td>
</tr>
</tbody>
</table>

Continue to the next page to see performance of past recommendations not currently in the Top 10, as well as sells and pending sells.

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\(^5\) Total returns start with the market close price of the first trading day after the newsletter recommendation. Prior to March 2018, this was the first trading day after the first Sunday of the month. As of March 2018, and later, this is the first trading day after the second Sunday of the month. Closing price data is from mid-day 9/7/18.
**Past recommendations (which are holds, not sells) not currently in Top 10:**

<table>
<thead>
<tr>
<th>Name &amp; Ticker</th>
<th>Recommend Date</th>
<th>Total Return 6</th>
<th>Current Yield</th>
<th>Sell Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urstadt Biddle Prop. (UBA)</td>
<td>November 2016</td>
<td>15.7%</td>
<td>4.8%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Magellan Midstream (MMP)</td>
<td>November 2016</td>
<td>12.7%</td>
<td>5.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Spectra Energy Part. (SEP)</td>
<td>November 2016</td>
<td>3.8%</td>
<td>8.0%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Energy Transfer Equity (ETE)</td>
<td>November 2016</td>
<td>38.7%</td>
<td>7.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>AT&amp;T Inc. (T)</td>
<td>November 2016</td>
<td>-4.4%</td>
<td>6.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Holly Energy Partners (HEP)</td>
<td>December 2016</td>
<td>0.9%</td>
<td>6.8%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Energy Transfer Part. (ETP)(^7)</td>
<td>January 2017</td>
<td>12.4%</td>
<td>10.2%</td>
<td>9.2%</td>
</tr>
<tr>
<td>W.P. Carey Inc. (WPC)</td>
<td>February 2017</td>
<td>15.6%</td>
<td>6.2%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Kohl’s Corp. (KSS)</td>
<td>May 2017</td>
<td>119.8%</td>
<td>2.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Macy’s Inc. (M)</td>
<td>May 2017</td>
<td>33.4%</td>
<td>4.2%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Occidental Petroleum (OXY)</td>
<td>June 2017</td>
<td>35.8%</td>
<td>4.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Royal Dutch Shell (RDS.B)</td>
<td>July 2017</td>
<td>27.4%</td>
<td>5.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Target Corp. (TGT)</td>
<td>November 2017</td>
<td>55.7%</td>
<td>2.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>ONEOK Inc. (OKE)</td>
<td>January 2018</td>
<td>21.4%</td>
<td>4.7%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Welltower Inc. (WELL)</td>
<td>January 2018</td>
<td>11.2%</td>
<td>5.2%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Senior Housing Prop. (SNH)</td>
<td>February 2018</td>
<td>22.5%</td>
<td>8.3%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

**Sells & pending sells are below:**

<table>
<thead>
<tr>
<th>Name &amp; Ticker</th>
<th>Recommend Date</th>
<th>Status</th>
<th>Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waddell &amp; Reed Fin. Inc. (WDR)</td>
<td>November 2016</td>
<td>Sold 11/6/17</td>
<td>34.4%</td>
</tr>
<tr>
<td>Gladstone Inv. Corp. (GAIN)</td>
<td>February 2017</td>
<td>Sold 7/9/18</td>
<td>49.7%</td>
</tr>
<tr>
<td>R.R. Donnelly (RRD)</td>
<td>June 2018</td>
<td>Sold 8/13/18</td>
<td>-28.2%</td>
</tr>
<tr>
<td>Genesis Energy LP (GEL)</td>
<td>November 2016</td>
<td>See notes(^8)</td>
<td>-15.4%</td>
</tr>
<tr>
<td>TC PipeLines LP (TCP)</td>
<td>December 2016</td>
<td>See notes(^9)</td>
<td>-25.6%</td>
</tr>
<tr>
<td>Suburban Propane Part. LP (SPH)</td>
<td>July 2017</td>
<td>See notes(^10)</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

---

\(^6\) Total returns start with the market close price of the first trading day after the newsletter recommendation. Prior to March 2018, this was the first trading day after the first Sunday of the month. As of March 2018, and later, this is the first trading day after the second Sunday of the month.

\(^7\) Recommended as SXL which changed its ticker to ETP.

\(^8\) Sell at historical average yield of 6.5%, currently at 8.9%

\(^9\) Sell at historical average yield of 7.1%, currently at 7.6%

\(^10\) Sell at historical average yield of 8.7%, currently at 10.5%
Portfolio Building Guide

The process of building a high-yield dividend portfolio is straightforward: **Each month invest in the top-ranked security 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 4% 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

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Name</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPL</td>
<td>Buckeye Partners</td>
<td>$1,002</td>
</tr>
<tr>
<td>LB</td>
<td>L Brands</td>
<td>$</td>
</tr>
<tr>
<td>OMI</td>
<td>Owens &amp; Minor</td>
<td>$</td>
</tr>
<tr>
<td>SUN</td>
<td>Sunoco LP</td>
<td>$</td>
</tr>
<tr>
<td>IVZ</td>
<td>Invesco</td>
<td>$</td>
</tr>
<tr>
<td>MO</td>
<td>Altria Group</td>
<td>$</td>
</tr>
<tr>
<td>VGR</td>
<td>Vector Group</td>
<td>$</td>
</tr>
<tr>
<td>OHI</td>
<td>Omega Healthcare</td>
<td>$</td>
</tr>
<tr>
<td>EPD</td>
<td>Enterprise Products</td>
<td>$</td>
</tr>
<tr>
<td>APU</td>
<td>AmeriGas Partners</td>
<td>$</td>
</tr>
</tbody>
</table>

- If you had portfolio 1, you would buy LB, the top ranked security you own least.
- If you had portfolio 2, you would buy EPD, the top ranked security 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 security you own the least out of the Top 10 (if that sector makes up less than 25% of your portfolio). When you sell a security, use the proceeds to purchase the top-ranked security you own the least.

This simple investing process will build a diversified portfolio of high-quality dividend or distribution securities 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+ securities – 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, The Sure Dividend, and The Sure Dividend International Newsletters 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. The Sure Dividend International Newsletter can be used for international diversification.

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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 unit or 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 three investment vehicles:

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

<table>
<thead>
<tr>
<th>Corporation</th>
<th>REIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$10.00</td>
</tr>
<tr>
<td>Corporate Income Tax @ 26%</td>
<td>$2.60</td>
</tr>
<tr>
<td>Personal Dividend Tax @ 20%</td>
<td>$1.48</td>
</tr>
<tr>
<td>Dividend After Tax</td>
<td>$5.92</td>
</tr>
<tr>
<td>Funds from Operations</td>
<td>$10.00</td>
</tr>
<tr>
<td>% Ordinary Income</td>
<td>70%</td>
</tr>
<tr>
<td>% Capital Gains</td>
<td>15%</td>
</tr>
<tr>
<td>% Return of Capital</td>
<td>15%</td>
</tr>
<tr>
<td>Ordinary Income Tax @ 37%</td>
<td>$2.59</td>
</tr>
<tr>
<td>Personal Capital Gains Tax @ 20%</td>
<td>$0.30</td>
</tr>
<tr>
<td>Accrued Cost Basis Reduction Tax @ 20%*</td>
<td>$0.30</td>
</tr>
<tr>
<td>Distribution After Tax</td>
<td>$6.81</td>
</tr>
</tbody>
</table>

*Due when MLP is sold, not in year accrued

Note: Pass through entities including REITs and MLPs now benefit from a 20% qualified income distribution deduction, which is not shown in the tables above and further improves their tax-advantaged status.

- $5.92 in after-tax income from Corporation
- $6.81 in after-tax income from REIT
- $7.41 in after-tax income from MLP

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

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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 26% after the Tax Cuts and Jobs Act. 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 37% depending on your income bracket.

Long-term capital gains apply 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 x 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 37%. 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 37% (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 three categories:

- Ordinary income
- Return of capital
- Capital gains

Ordinary income is taxed at your ordinary income tax rate; up to 37%. 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 rates.

The percentage of distributions from these three 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 such as an IRA or 401k.
**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 rate.

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 such as an IRA or 401k.

*Please email us at support@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, we can’t provide specific personal investment advice, only general information.*
Glossary of Common Terms & Acronyms

Adjusted Funds From Operations (AFFO): A term used to describe Funds From Operations (FFO), plus non-recurring items that do not impact the long-term fundamentals of the business. See FFO in this glossary for more.

Cash Available for Distribution (CAD): This term is also referred to as funds available for distribution (FAD). It is the cash available to be distributed to unitholders. It is most commonly seen with REITs. CAD is calculated by subtracting recurring capital expenditures from funds from operations.

Distributable Cash Flow (DCF): A non-GAAP (Generally Accepted Accounting Principles) financial metric frequently utilized by Master Limited Partnerships as an alternative to earnings-per-share. Expresses cash available for unitholder distributions, after payments to the General Partner. Calculated by adding non-cash items, such as depreciation and one-time expenses, to net income. Viewed as a better gauge of financial health than earnings-per-share, as MLPs operate asset-heavy business models with significant depreciation expenses.

Dividend Yield: The annual dividend returns from an investment, expressed as a percentage. The dividend yield is calculated from the annual dividend per share, divided by the stock price per share. MLPs and REITs pay distributions, not dividends. Distribution yield is used for them instead of dividend yield, though some companies (notably REITs) call it a dividend for ease of understanding by the public.

Dividend Payout Ratio: The percentage of earnings paid to shareholders as a dividend. The payout ratio is calculated from the annual dividend per share, divided by annual earnings-per-share. For MLPs and REITs, this is typically expressed as the distribution coverage ratio.

EBITDA: Earnings before interest, taxes, depreciation, and amortization. Used by companies with high levels of depreciation and interest costs, such as MLPs, to indicate the financial health of a business. A similar metric to operating cash flow. Frequently used as part of leverage ratios such as debt-to-EBITDA.

Funds From Operations (FFO): A non-GAAP financial metric frequently utilized by Real Estate Investment Trusts, as an alternative to earnings-per-share. FFO is calculated by adding depreciation and amortization expenses to net income, minus any gains on asset sales. REITs view FFO as a more accurate gauge of financial health, since earnings-per-share are heavily impacted by depreciation and amortization expenses.

GAAP: Generally accepted accounting principles. These are legally required, standardized accounting rules and procedures used when preparing financial statements.

If you read a term in The Sure Retirement Newsletter not on this list with which you are unfamiliar, please email support@suredividend.com. We will explain the term and add it to the glossary in next month’s edition.