Sure Retirement Newsletter

HIGH YIELD, HIGH QUALITY INVESTMENTS

April 2017 Edition

By Ben Reynolds & Nicholas McCullum

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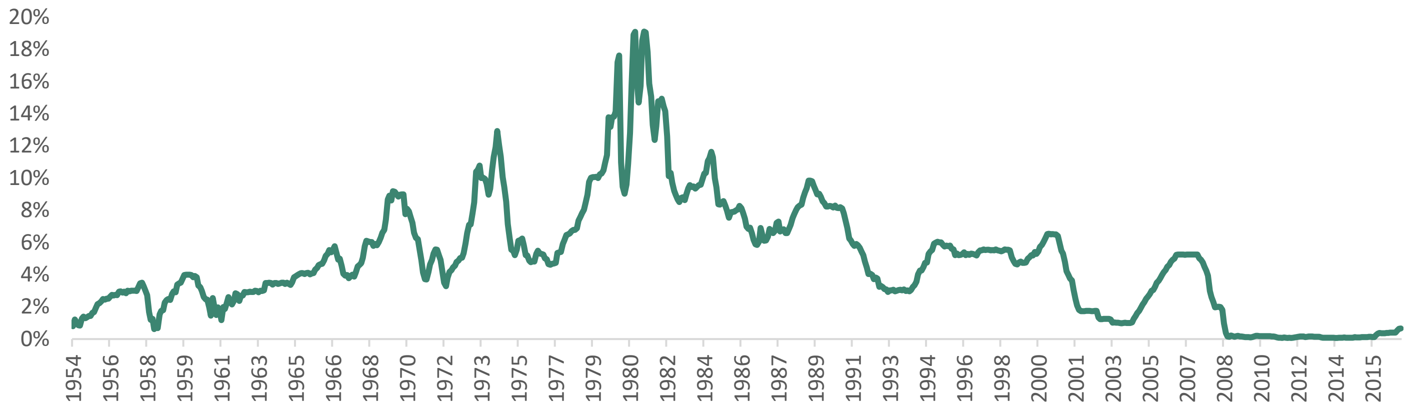
Opening Thoughts
- On Rising Interest Rates-

On March 15, 2017, the United States Federal Reserve increased their benchmark interest rate by 0.25%. This is the third time (with the others being December of 2015 & 2016) that the central bank has hiked rates since the financial crisis. The long-term trend for the Fed Funds effective interest rate is shown below.



Source: Quandl

These recent rate hikes are blips considering the long-term context. Rates remain at historically low levels. Despite this, many investors are expressing concern about how rising rates will affect their investments.

At the security level, rising interest rates will hurt highly leveraged companies as they will pay more interest on maturing debt that is refinanced.

The same holds true for government debt. Just like corporations, the U.S. government will be forced to refinance debt at a higher capital cost in this new interest rate environment – and it can't afford to do so. The federal government is highly leveraged, approaching *$20 trillion* in debt outstanding. For context, the country's GDP was ~$18.5 trillion in 2016, which means the U.S has a debt-to-GDP ratio exceeding 100%. The country spends ~14% of tax revenues just on interest on debt.

The high debt level of the U.S. government provides a ceiling for how high interest rates can go, at least until the federal debt situation changes. The Federal Reserve is not a government agency. However, it does work closely with the government. Investors can rest assured that the Fed will not make decisions that harm the government's financial situation – which includes big rate hikes. This means the effect of rising rates on the portfolios of individual investors should be minimal.

Although they have increased slightly, interest rates are still extremely low from a historical perspective. They will likely remain low for the foreseeable future.

The Retirement Top 10 – April 2017

Name	Price	Score	Yield	Payout	Dividend Streak	Growth	Volatility
Buckeye Partners (BPL)	$69	1.00	7.1%	91%	19	4.6%	27.0%
Enterprise Prod. (EPD)	$28	0.96	5.9%	82%	19	13.8%	26.4%
TC PipeLines (TCP)	$60	0.93	6.3%	80%	16	4.2%	26.8%
Omega Healthcare (OHI)	$33	0.91	7.5%	69%	14	9.9%	35.8%
Spectra Energy (SEP)	$44	0.88	6.3%	94%	9	8.9%	25.8%
W.P. Carey (WPC)	$62	0.85	6.4%	82%	19	7.9%	27.1%
Gladstone Investment (GAIN)	$9	0.83	8.3%	56%	6	15.3%	52.7%
Sunoco Logistics (SXL)	$24	0.82	8.5%	64%	15	14.4%	32.1%
Waddell & Reed (WDR)	$17	0.80	10.8%	81%	8	11.1%	43.7%
Holly Energy Partners (HEP)	$36	0.76	6.8%	63%	13	6.1%	32.4%

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 consecutive years the company has raised its dividend.*

Energy Transfer Equity (ETE) fell out of the Top 10 this month. It was replaced with TC Pipelines (TCP). Energy Transfer Equity is a *hold*, not a sell.

The top 10 is now composed of 6 MLPs (BPL, EPD, TCP, SEP, SXL, HEP), 2 REITs (OHI, WPC), a BDC (GAIN), and a Corporation (WDR).

The stability of the top 10 list 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: 76.2%
Dividend Yield: 7.4%
Growth Rate: 9.6%

Analysis of Top 10 Securities

Buckeye Partners, LP (BPL)

Key Statistics, Ratios, & Metrics

Dividend Yield: 7.1%	10 Year Dividend Growth Rate: 4.6%
Most Recent Annual Dividend Increase: 4.2%	Sector: Energy
Dividend History: 19 Years of consecutive increases	Business Type: MLP
Ex-Dividend Date: 5/12/17 (estimated)	Payment Date: 5/16/17 (estimated)

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.

The company's pipelines generated 56% of EBITDA over the last 12 months, and its Global Marine Terminals segment generated 41% of EBITDA over the same time period. Buckeye Partners has expanded internationally with the acquisition of VTTI.

Buckeye Partners can trace its roots back to Standard Oil (through numerous mergers, acquisitions, and spin-offs). Today, the company has a market cap of $9.5 billion.

Current Events

Buckeye Partners posted solid results to end fiscal 2016. The partnership realized distributable cash flow per unit growth of 14.8% versus 2015. Buckeye Partners also announced a 4.2% distribution increase versus last quarter. The partnership 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 price fluctuations. Buckeye has consistently grown operations over the past 5 years, and this acquisition bolsters the partnership's growth prospects.

Safety

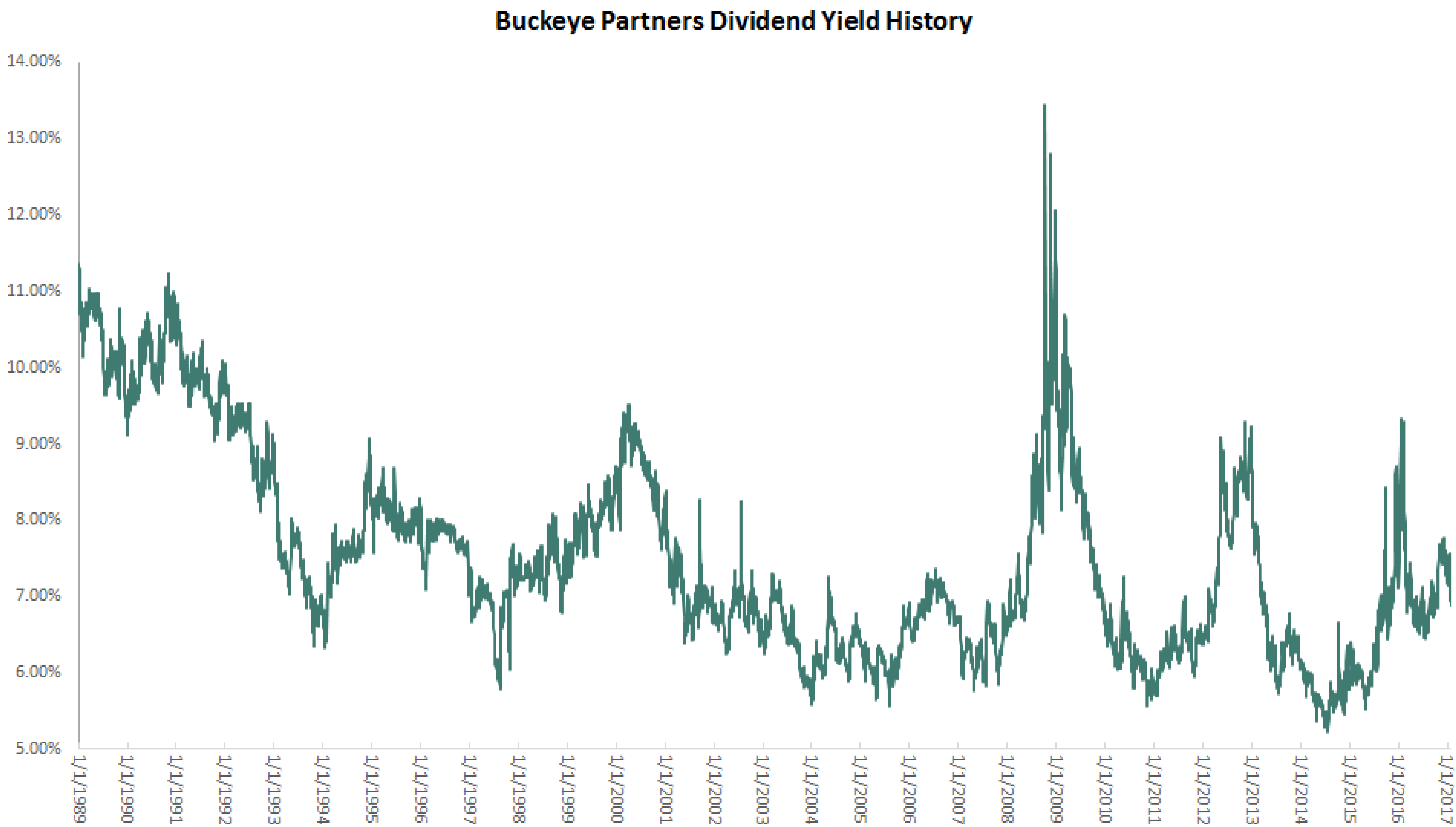
Buckeye Partners has a distribution coverage ratio of 1.1x. The company focuses on fee-based revenue to provide consistent cash flows. As a midstream company, Buckeye is also insulated from oil price fluctuations. The partnership's distributions are safe at this time and for the foreseeable future.

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' historical dividend yield since 2010 has been around 6.5%. The company's stock is currently trading for a yield of 7.1%. Buckeye Partners is slightly undervalued versus its historical average dividend yield, especially considering its improved growth prospects.


Buckeye Partners Dividend Yield History
14.00%
13.00%
12.00%
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
1/1/1989
1/1/1990
1/1/1991
1/1/1992
1/1/1993
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1/1/2012
1/1/2013
1/1/2014
1/1/2015
1/1/2016
1/1/2017

Enterprise Products Partners (EPD)

Key Statistics, Ratios, & Metrics

Dividend Yield: 5.9%	10 Year Dividend Growth Rate: 13.8%
Most Recent Annual Dividend Increase: 5.1%	Sector: Energy
Dividend History: 19 Years of consecutive increases	Business Type: MLP
Ex-Dividend Date: 4/27/17 (estimated)	Payment Date: 4/29/17

Overview

Enterprise Products Partners has increased its distributions for 50 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 (1/30/17) fiscal 2016 results. The company saw distributable cash flow per share (after adjusting for asset sales) decline 3.6% in fiscal 2016. Overall, the company posted decent results in a challenging environment. Enterprise Product Partners' results are expected to improve significantly in 2017 due to new growth projects.

The MLP recently (3/15/17) announced the acquisition of the midstream assets of Azure Midstream Partners LP in a bankruptcy auction for $189 million. The acquisition is expected to be immediately accretive to EPD's distributable cash flow, and improves the partnership's near-term growth prospects.

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 1.2x distribution coverage ratio. Enterprise Product Partners' 50 consecutive quarter streak of distribution increases shows the ability to grow even in challenging low oil 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 of capital expenditures and de-leverage over the next few years.

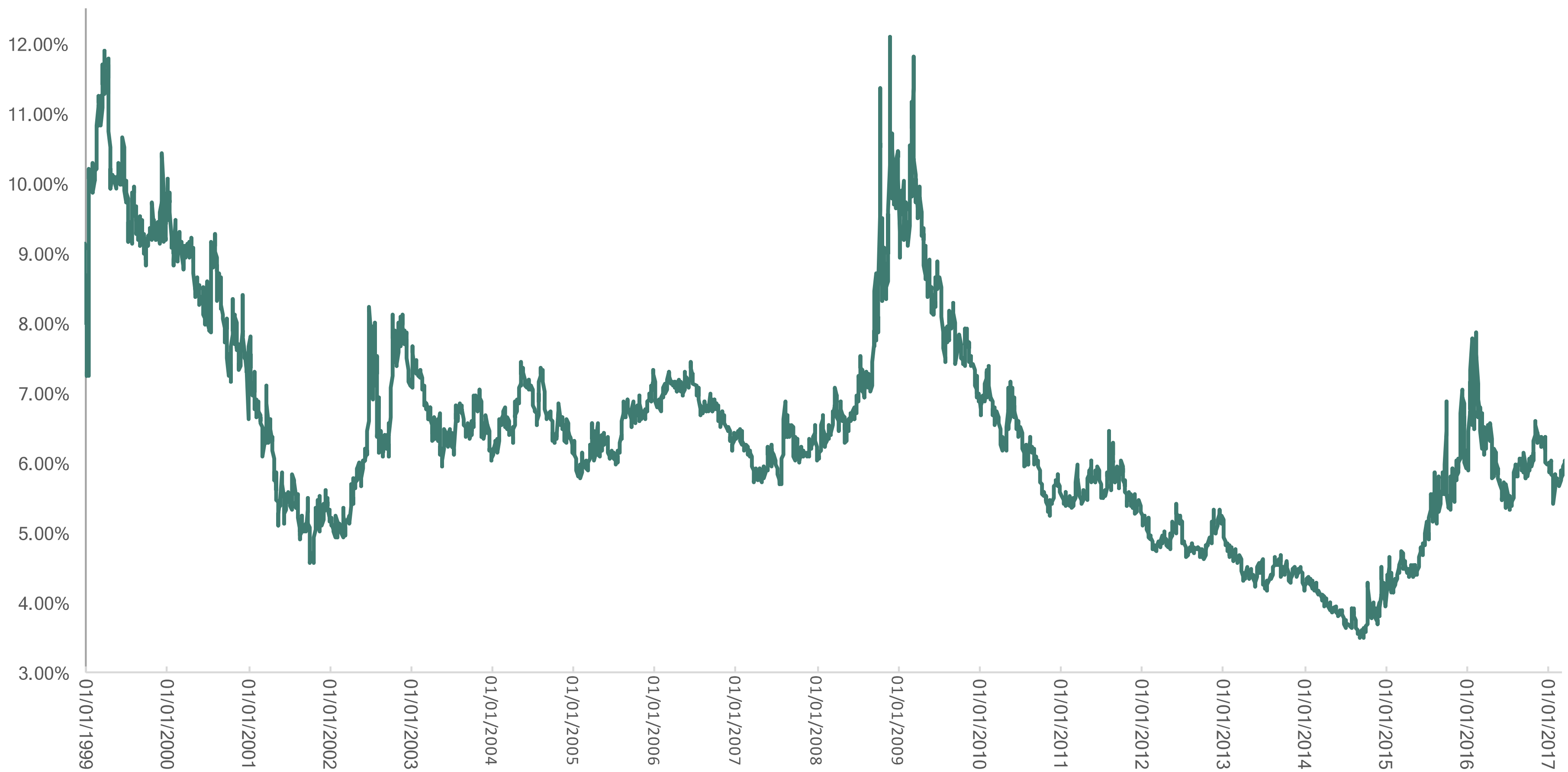
Growth Prospects

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. I expect the company to 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 is currently trading for a dividend yield of 5.9%. The company appears undervalued at current prices due to low oil prices. As oil prices rise, the partnership's price will rise as well.

Enterprise Products Partners Dividend Yield History



TC PipeLines (TCP)

Key Statistics, Ratios, & Metrics

Dividend Yield: 6.3%	10 Year Dividend Growth Rate: 4.6%
Most Recent Annual Dividend Increase: 5.8%	Sector: Energy
Dividend History: 17 Years of consecutive increases	Business Type: MLP
Ex-Dividend Date: 5/2/2017 (expected)	Payment Date: 5/16/17 (expected)

Overview

TC PipeLines owns 7 natural gas pipelines in the United States. TC PipeLines' general partner is TransCanada (TRP). TransCanada (together with TC PipeLines) transports ~27% of North America's natural gas. TC PipeLines has a dividend yield of 6.3% versus 3.6% for TransCanada. TC PipeLines is also much smaller, with a market cap of $4.0 billion versus $40.1 billion for the parent company.

Current Events

Full-year distributable cash flow per unit increased by 3.0% in TC's recently-announced (2/27/2017) fiscal 2016 earnings. Distributable cash flow increased by more than that (7.9%), but this was offset by an increase in the number of units outstanding. TC Pipelines' fourth quarter was weak, and saw distributable cash flow per unit decline by 13.6% driven by higher capex and interest expenses as well as an increase in the number of units outstanding.

In the same release, TC PipeLines announced that TransCanada (the general partner) has offered for purchase a 49.3% interest in the Iroquois Gas Transmission System (which operates 375 miles of natural gas pipelines in the northeastern U.S.), as well as 11.8% of the PNGTS system. Price was not specified, but the transaction is expected to close in mid-2017 and will be funded with debt and equity.

Safety

TC PipeLines enjoys a reasonable payout ratio of 80% of distributable cash flows over its last 4 quarters. The company generates 92% of cash flow from long-term contracts. This makes TC PipeLines' cash flows very stable. In addition, the company has no commodity price exposure. TC PipeLines is a well-managed MLP with a reasonable payout ratio and a long history of paying rising dividends. It is very likely the company continues to pay rising dividends over the long run.

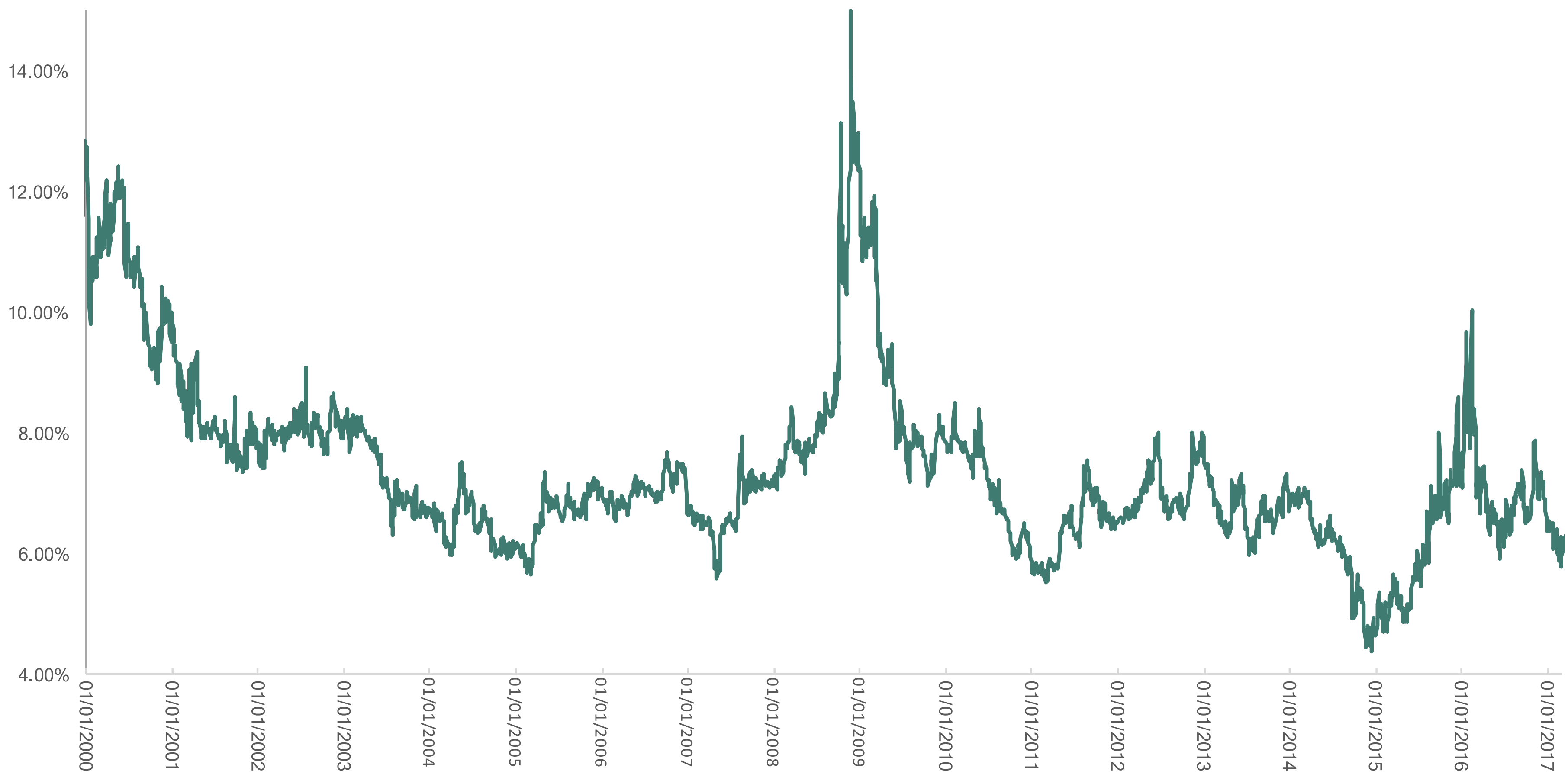
Growth Prospects

TransCanada (the general partner) has a capital program of $25 billion from 2016 through 2020. This is beneficial for TCP unitholders. TCP will benefit from TransCanada's expansion through dropdown offers. This means TCP will purchase some of TransCanada's pipeline projects, resulting in growth for TC PipeLines. In addition, natural gas demand is expected to grow at around 2% a year over the next decade. I expect growth of 5% to 7% a year over the next several years, a bit above its historical rate.

Valuation

TC PipeLines currently has a 6.3% dividend yield. The company's historical median dividend yield since inception is 7.0%. The company appears to be trading around fair value when we consider its bolstered growth prospects from the partial ownership of two new pipelines via TransCanada dropdown deals, which increases the total number of pipelines owned by the MLP from 7 to 9.

TC Pipelines Dividend Yield History



Omega Healthcare Investors (OHI)

Key Statistics, Ratios, & Metrics

Dividend Yield: 7.5%
Most Recent Annual Dividend Increase: 8.8%
Dividend History: 14 Years of consecutive increases
Ex-Dividend Date: 4/28/17 (estimated)
10 Year Dividend Growth Rate: 9.9%
Sector: Real Estate
Business Type: REIT
Payment Date: 5/2/17 (estimated)

Overview

Omega Healthcare is a triple-net healthcare REIT focusing on skilled nursing facilities with over 950 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 operators in 42 states plus the U.K. Omega has shareholder-friendly management and has increased its distribution for 18 consecutive quarters.

Current Events

Omega Healthcare realized 8.6% adjusted funds from operations per share growth in its most recent quarter (announced 2/9/2017) versus the same quarter a year ago. The company is expecting flat adjusted funds from operations per share in fiscal 2017 versus 2016. Omega Healthcare's weak guidance is due to changes in government reimbursement for skilled nursing facilities.

Safety

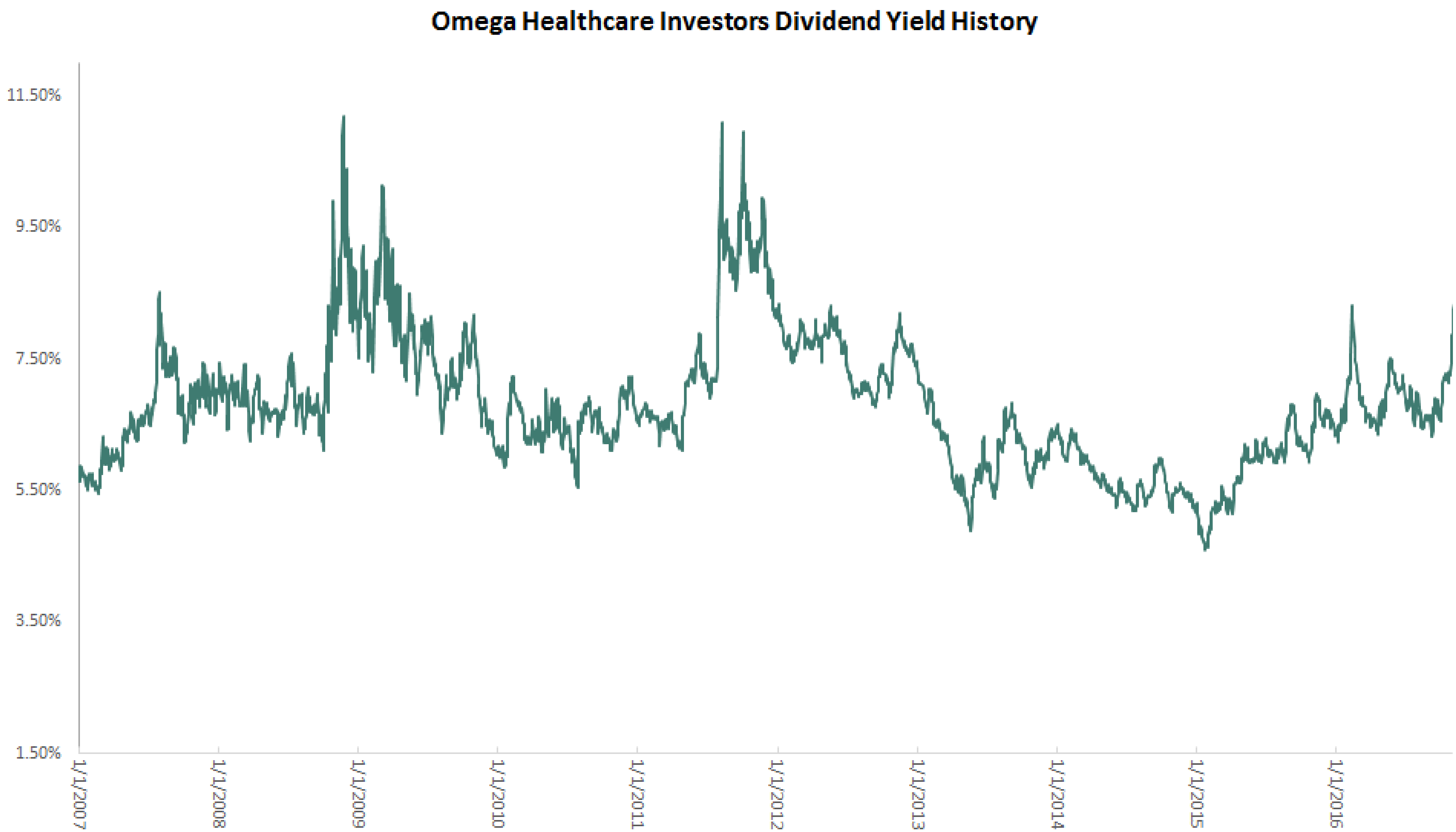
Omega Healthcare has a payout ratio of 69% using adjusted funds from operations, which is low for a REIT. In addition, the company has no debt maturities over the next 2 years and $750 million in untapped liquidity on its credit lines. Omega Healthcare operates in the fairly recession resistant healthcare industry. People need skilled nursing facilities, regardless of the economy. It is not a discretionary expense.

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. Around 40% of the company's skilled nursing facility patients are over 85 years old. 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. It also makes continued consolidation more likely. 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 due to changes in government payment for health care. The company should continue to grow at a good clip beyond the current fiscal year.

Valuation

Omega Healthcare Investors is trading near dividend yield highs only seen briefly near the beginning of 2016 and prior to 2013. Now is a historically good time to start or add to a position in Omega Healthcare Investors. The company's stock appears undervalued at current prices, especially considering today's low interest rate environment and Omega's macroeconomic tailwinds.


Omega Healthcare Investors Dividend Yield History
11.50%
9.50%
7.50%
5.50%
3.50%
1.50%
1/1/2007
1/1/2008
1/1/2009
1/1/2010
1/1/2011
1/1/2012
1/1/2013
1/1/2014
1/1/2015
1/1/2016

Spectra Energy Partners (SEP)

Key Statistics, Ratios, & Metrics

Dividend Yield: 6.3%
Most Recent Annual Dividend Increase: 7.8%
Dividend History: 9 Years of consecutive increases
Ex-Dividend Date: 5/12/17 (estimated)
10 Year Dividend Growth Rate: 8.9%
Sector: Energy
Business Type: MLP
Payment Date: 5/16/17 (estimated)

Overview

Spectra Energy Partners is one of the largest MLP pipeline companies in the United States. The partnership has 15,000 miles of transmission and gathering pipeline, 170 billion cubic feet of natural gas storage, and 4.8 million barrels of crude oil storage. The company can trace its history (through many mergers and acquisitions) to Union Gas Limited, which was founded in 1911.

Current Events

Enbridge (ENB) owns 84% of Spectra Energy Partners due to the recent Spectra Energy (SE) and Enbridge merger (2/27/17). Spectra Energy Partners will remain a key financing and operating vehicle for the new Enbridge. The partnership also recently (2/7/17) announced a 1.8% distribution increase, marking the 37th consecutive *quarterly* increase. Spectra Energy Partners' fiscal 2016 results (2/17/17) showed poor results. The company saw distributable cash flow per unit decline 9% in fiscal 2016 versus fiscal 2015. Results have improved through the year, with distributable cash flow per unit down just 1.4% in the 4th quarter of fiscal 2016 versus the same quarter a year ago. Growth should pick up *substantially* over the next several years as Spectra Energy Partners stands to benefit from the financial strength of Enbridge and several new growth projects.

Spectra Energy Partners recently (3/13/17) agreed to acquire PSEG's 10% stake in the PennEast Pipeline project, doubling Spectra Energy Partner's stake to 20%. Financial terms were not disclosed. Enbridge also announced ~1,000 job cuts, but has no consolidation plans for Spectra Energy Partners.

Safety

Spectra Energy Partners' distribution coverage ratio is 1.1x. The MLP's debt to EBITDA ratio is 3.8x, with financial covenants allowing it to go up to 5.0x. The company has ~$2 billion in available liquidity it can access if necessary. Spectra Energy Partners generates most of its cash flows through contractual obligations. The company has a 98% contract renewal rate, keeping cash flows stable.

Growth Prospects

Spectra Energy Partners has grown their distributions by 8.8% per year since 2008. The partnership expects the following distribution growth for fiscal 2017:

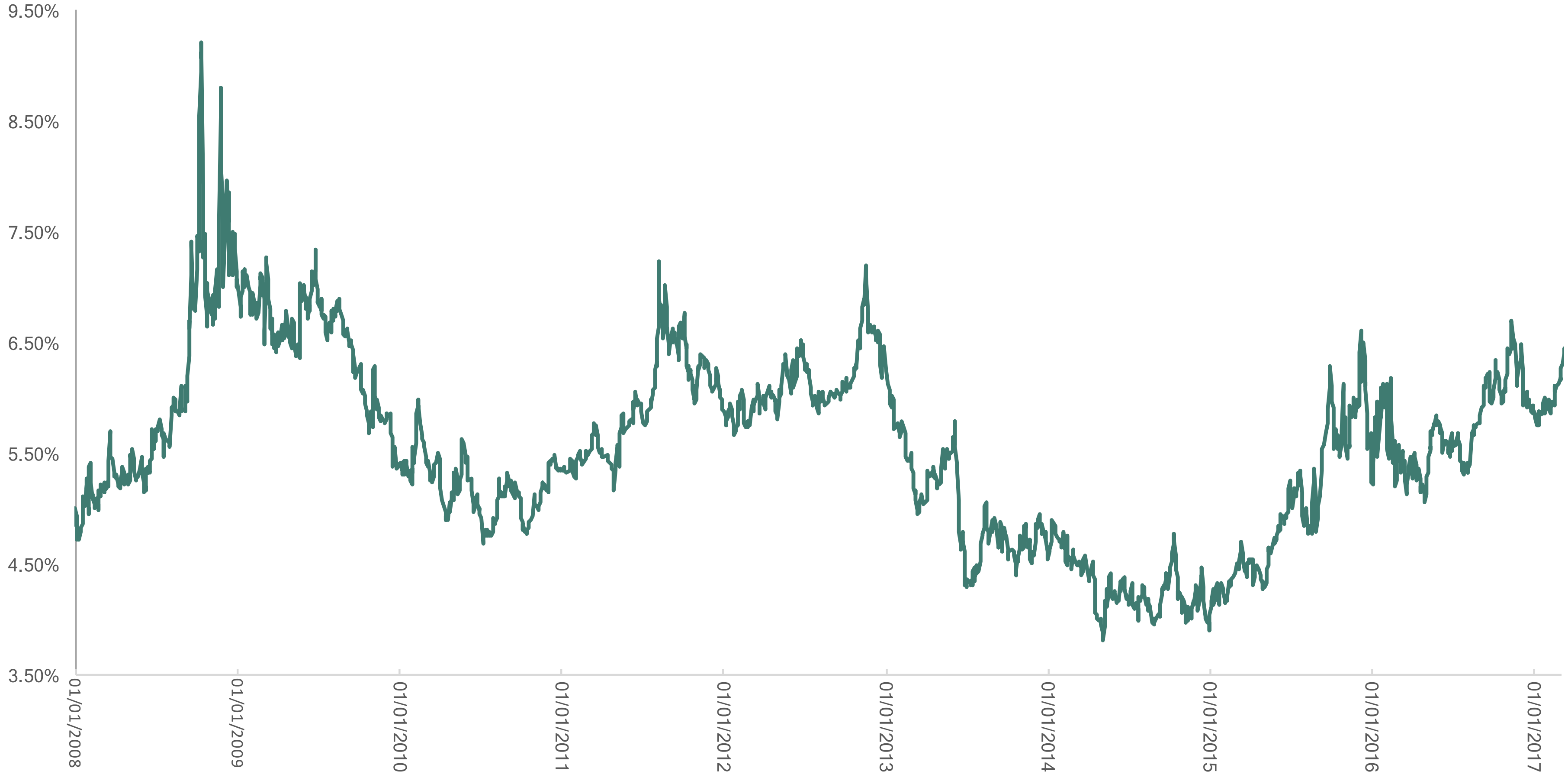
"For 2017, we plan to continue our quarterly penny-and-a-quarter distribution increases while maintaining DCF coverage in our targeted range of 1.05 to 1.15 times."

Spectra Energy Partners will also benefit from the financial strength of Enbridge. Dropdown deals and strategic acquisitions will be a larger part of the company's growth story moving forward.

Valuation

Spectra Energy Partners traded for an average dividend yield of around 5% from 2013 through 2015. The company is currently trading for a dividend yield of 6.3%. Spectra Energy appears to be undervalued at current prices, especially considering its excellent expected growth.

Spectra Energy Partners Dividend Yield History



W.P. Carey (WPC)

Key Statistics, Ratios, & Metrics

Dividend Yield: 6.4%
Most Recent Annual Dividend Increase: 4.5%
Dividend History: 19 Years of consecutive increases
Ex-Dividend Date: 3/29/17 (already happened)
10 Year Dividend Growth Rate: 8.0%
Sector: Real Estate
Business Type: REIT
Payment Date: 4/17/17

Overview

W.P. Carey is a global REIT and real estate asset manager originally founded in 1973. W.P. Carey was previously an LLC, but converted to a REIT in 2012. The trust generates ~90% of funds from operations from its real estate portfolio, and ~10% from its asset management business. In total, W.P. Carey owns 868 properties totaling 89 million square feet over 19 countries. The company owns primarily office, industrial, warehouse, and retail facilities. 63% of the company's properties are in the United States, with the majority of the remainder located in Europe.

Current Events

W.P. Carey recently released its fiscal 2016 results (2/23/17). The company realized AFFO/share growth of 2.6% in fiscal 2016. AFFO stands for adjusted funds from operations, which is a better measure of profitability than earnings for REITs because it excludes non-cash charges like depreciation and amortization. Dividends also increased 2.6% versus the prior year. The company is expecting another sluggish year in fiscal 2017. Guidance suggests AFFO/share growth of 1.6% at the median.

W.P. Carey also recently (3/16/17) increased their quarterly dividend to $0.995, a 4.5% hike.

Safety

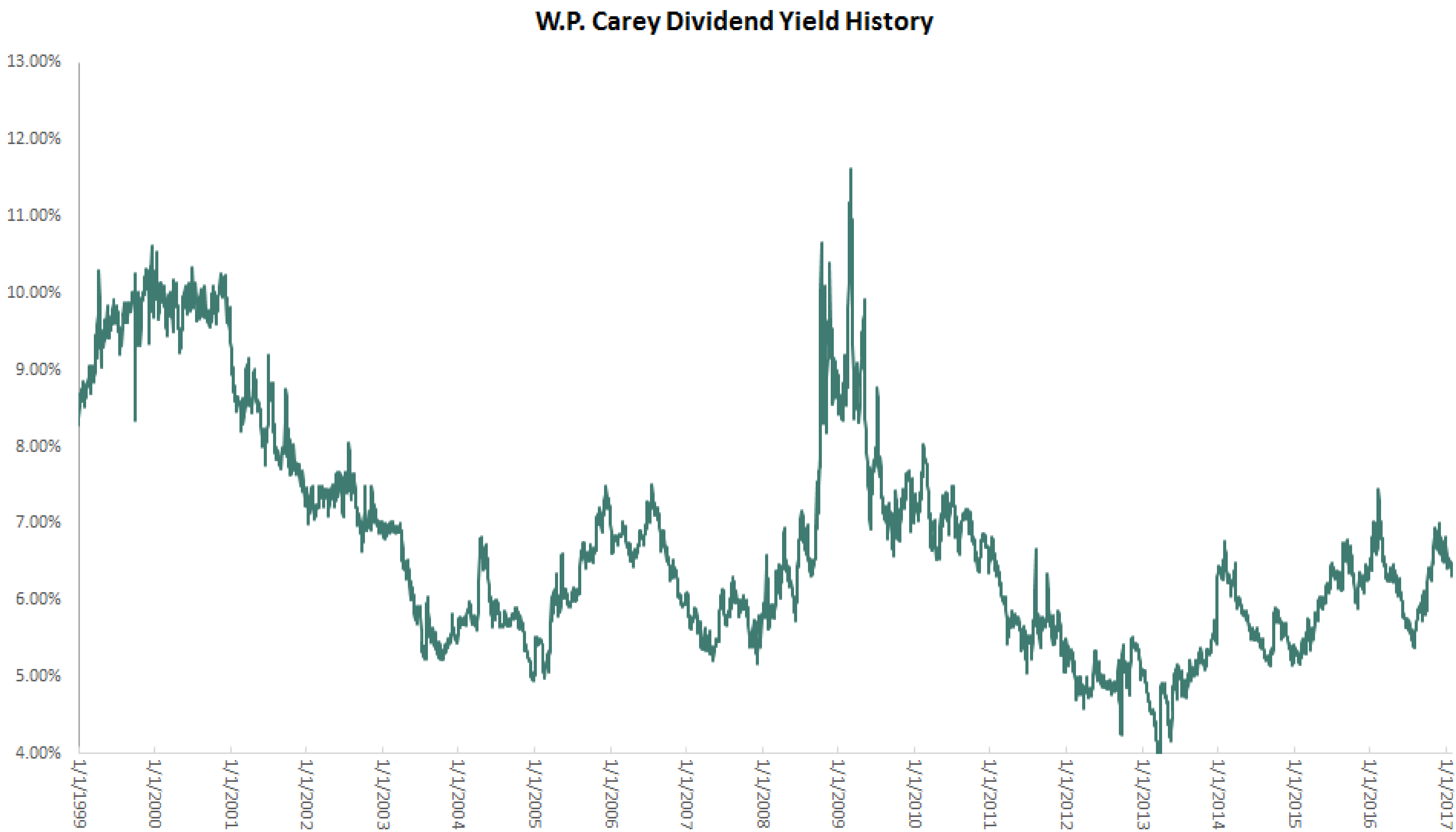
W.P. Carey had a payout ratio of 77% (using AFFO) in 2016. The company's payout ratio is conservative for a REIT. Additionally, the company has a 9 year average lease term. The *lowest* occupancy was 96.1% which was in 2006. Occupancy reached a low of 96.6% during the worst of the Great Recession. The company is a well-run REIT that can handle recessions. W.P. Carey's stability makes continued single-digit dividend growth very likely.

Growth Prospects

96% of W.P. Carey's leases have either contractual or CPI-based rent increases. This 'builds in' growth for the company. W.P. Carey is expected to grow at 2% to 4% a year over the next several years. Growth will come from continued organic expansion. This expected growth rate combined with the company's current 6.4% dividend yield gives expected total returns of 8.4% to 10.4% a year.

Valuation

W.P. Carey's median dividend yield since 1998 is 6.5% and its current dividend yield is 6.4%. The trust appears to be trading near fair value. However, we are in a period of historically low interest rates. One would expect the company to trade for a yield noticeably lower than its historical average. Thus, the company may be undervalued after taking into account the current interest rate environment.


W.P. Carey Dividend Yield History
13.00%
12.00%
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
1/1/1999
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1/1/2010
1/1/2011
1/1/2012
1/1/2013
1/1/2014
1/1/2015
1/1/2016
1/1/2017

Gladstone Investment Corporation (GAIN)

Key Statistics, Ratios, & Metrics

Dividend Yield: 8.3%
Most Recent Annual Dividend Increase: 5.0%
Dividend History: 6 consecutive years of increases
Ex-Dividend Date: 4/20/17 (estimate)
10 Year Dividend Growth Rate: 15.3%
Sector: Financial
Business Type: BDC
Payment Date: 4/22/17 (estimate)

Overview

Gladstone Investment Corporation is a business development company (BDC) that pays *monthly distributions*. Gladstone is a small cap stock with a market cap of just $275 million. The company has investments in 36 businesses across 19 states and 17 industries in the United States. Gladstone invests in small businesses with $3 million to $10 million in EBITDA. The company's investment portfolio is comprised of 72% debt investments and 28% equity investments. In contrast, most BDCs have around 90% of their investments in debt securities.

Current Events

Gladstone posted solid results in its most recent quarter (2/6/17). The company saw earnings-per-share grow 1.8% quarter-over-quarter. Net asset value per share also increased 1.8% quarter-over-quarter. Net asset value per share grew 13.4% versus the same quarter a year ago.

Gladstone recently (2/21/17) was a partner in the buyout of J.R. Hobbs Co., a transaction in which Gladstone provided equity and senior secured debt. Deals like this are common for Gladstone and a major component of the BDC's growth runway.

Safety

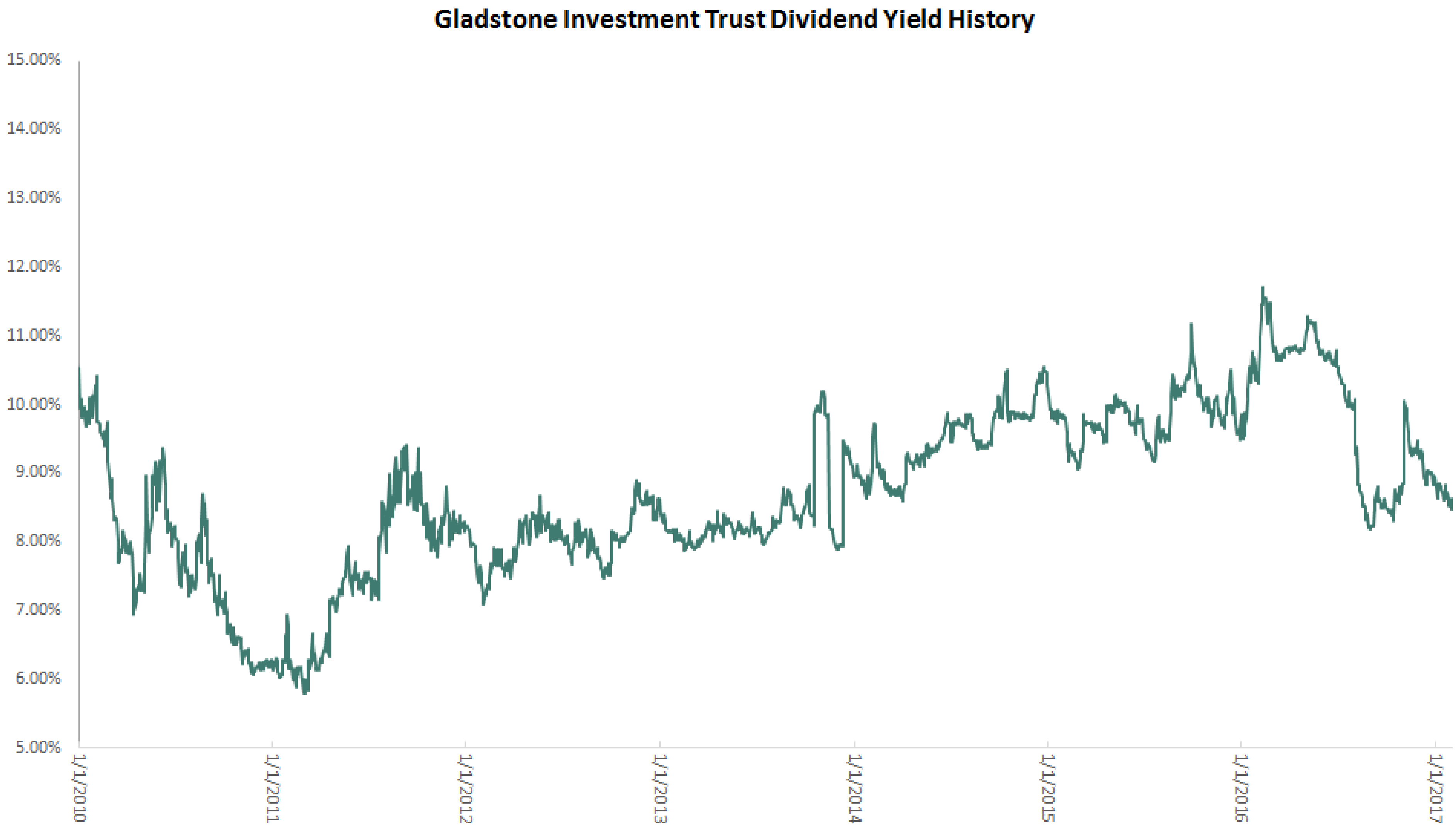
Gladstone's dependable debt income allows it to pay steadily rising dividends. The company's equity investments provide capital appreciation potential. Gladstone has a conservative payout ratio of 56%. The company's interest income comfortably covers its monthly distributions. Moreover, around 90% of the company's debt portfolio has variable rates which will protect against potential rising interest rates. The company prioritizes its distributions. Management has cut its incentive fees in the past to secure distribution payments to shareholders.

Growth Prospects

The Gladstone management team focuses heavily on valuation when making new equity investments. In one of the company's recent conference calls, Gladstone's management indicated concern about market valuation levels and the unprecedented $19+ trillion debt load of the United States. Despite this, the company's management will remain diligent in searching out value-oriented deals. Gladstone managed to grow at a double-digit pace over the last several years, and will likely continue to do so.

Valuation

Gladstone currently has a dividend yield of 8.3%. The company's historical median yield is 8.5%. Gladstone has an unusually high yield for a business with a payout ratio of just 56%. The company appears significantly undervalued based on its investment income rather than its dividend history. If Gladstone continues to perform well, its yield should decline as its valuation and stock price rise.


Gladstone Investment Trust Dividend Yield History
15.00%
14.00%
13.00%
12.00%
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
1/1/2010
1/1/2011
1/1/2012
1/1/2013
1/1/2014
1/1/2015
1/1/2016
1/1/2017

Sunoco Logistics (SXL)

Key Statistics, Ratios, & Metrics

Dividend Yield: 8.5%
Most Recent Annual Dividend Increase: 8.6%
Dividend History: 15 Years of consecutive increases
Ex-Dividend Date: 5/5/17 (estimated)
10 Year Dividend Growth Rate: 14.4%
Sector: Energy
Business Type: MLP
Payment Date: 5/9/17 (estimated)

Overview, Current Events, & Growth Prospects

Sunoco Logistics is merging with Energy Transfer Partners (ETP). Both MLPs are in the Energy Transfer Equity "family" of oil and gas assets. The purpose of the merger is to preserve cash at ETP. Without a buyout, ETP would be forced to do a 10% to 15% distribution cut. ETP's produce large cash flows, but the company is overleveraged. The merger is expected to close by the end of April.

By merging with SXL, ETP will spread its debt over a larger cash flow base. SXL unit holders will benefit as well. The merger is expected to be immediately accretive to Sunoco's distributable cash flow and distributions-per-unit. It is also expected to provide *low double-digit distribution growth* going forward at SXL – a win for SXL shareholders.

The merger will create a business with a market cap of around $30 billion. Sunoco has a market cap of $8.0 billion at current prices. The combined company should be able to increase margins by eliminating duplicate expenses. The merger will make the "new" Sunoco the largest midstream MLP based on EBITDA, and the second largest based on enterprise value.

SXL and ETP's managements are not new to acquisitions. Their two management teams have together overseen 6 acquisitions since 2011. Integrating the two companies is expected to happen quickly.

Additionally, the merger adds diversification to Sunoco. This is because ETP is primarily involved in natural gas distribution, while Sunoco is primarily involved in liquid distribution.

SXL recently (2/22/2017) reported earnings for the full-year and fourth quarter of 2016. The MLP announced record numbers for both EBITDA and distributable cash flow. Distributable cash flow increased by 7.9% for the MLP, but actually decreased by 11% on a per-unit basis. The MLP's business growth was more than offset by a large increase in the number of units outstanding caused by $3.4 billion of debt and equity financing that was recently completed for the Bakken Pipeline projects.

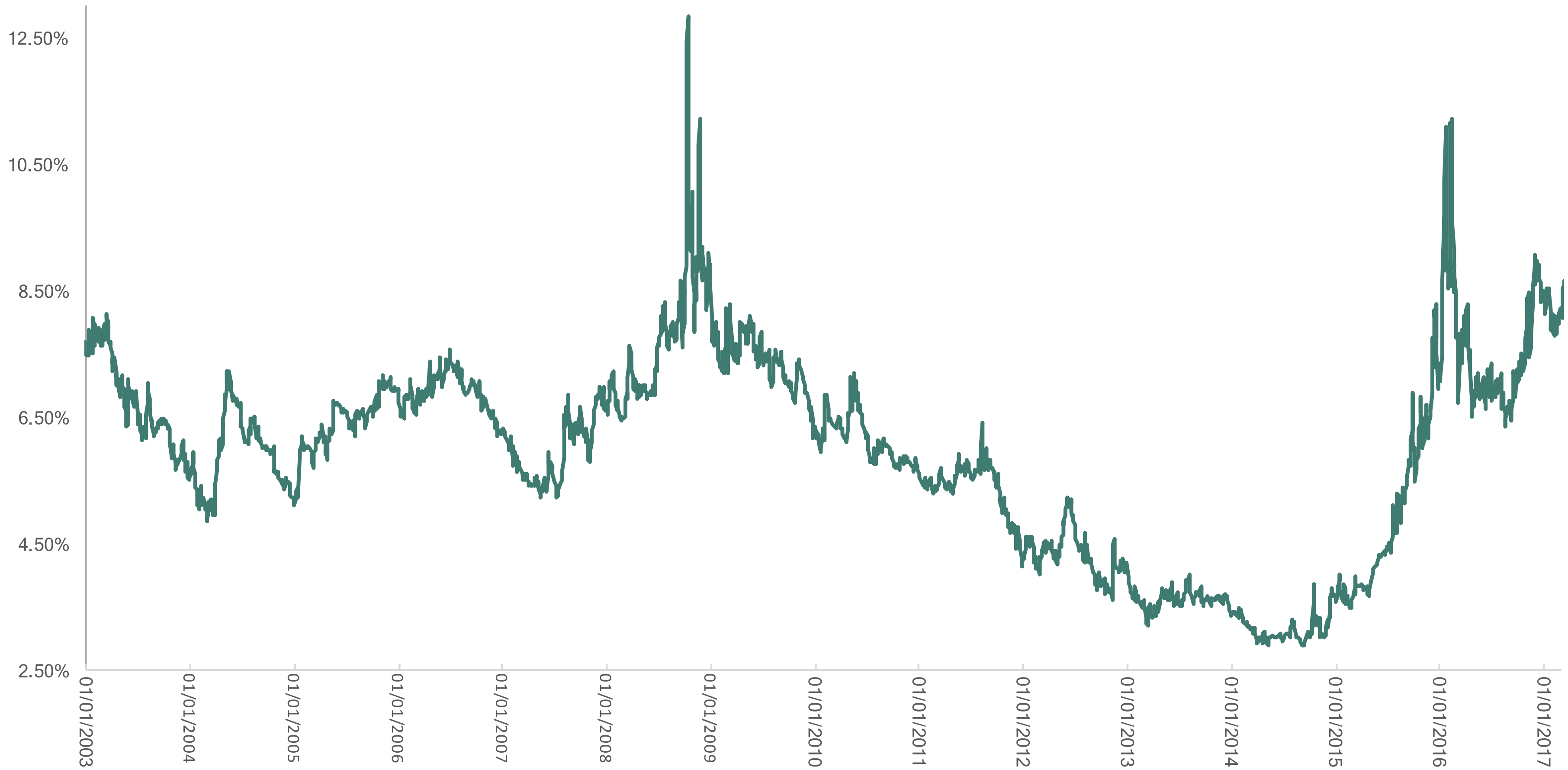
Safety

Sunoco has increased its distributions for 47 consecutive *quarters*. The company will have a distribution coverage ratio of more than 1x following the merger. The combined company will likely slowly deleverage itself to reduce risk further.

Valuation

Sunoco Logistics' median dividend yield since inception is 6.1%. The company is currently trading at a >25% discount to its historical average dividend yield based on its current yield of 8.5%. Sunoco Logistics appears significantly undervalued at current prices. This is likely because of uncertainty surrounding the merger with Energy Transfer Partners.

Sunoco Logistics Dividend Yield History



Waddell & Reed (WDR)

Key Statistics, Ratios, & Metrics

Dividend Yield: 10.8%
10 Year Dividend Growth Rate: 11.1%
Most Recent Annual Dividend Increase: 7.0%
Sector: Financial
Dividend History: 8 Years of consecutive increases
Business Type: Corporation
Ex-Dividend Date: 4/7/17
Payment Date: 5/1/17

Overview

Waddell & Reed was originally founded by two World War I veterans in 1937 and was privately held until its IPO in 1998. Waddell & Reed provides investment management and financial planning services both in the United States and internationally. The company currently has a market cap of $1.5 billion. The company's share price has collapsed from over $60/share in 2014 to $17 per share today.

Current Events, Safety, Growth Prospects, & Valuation

Waddell & Reed's stock has plummeted due to declining assets under management (AUM). A large part of the company's income is asset management fees on its portfolio of mutual funds.

The mutual fund business model has come under pressure due to the growing prevalence of low cost ETFs and Robo Advisors. Investors struggle to justify these high fees, which has caused the firm's assets under management to decline from $57.5 billion to $30.3 billion *in just 6 quarters*.

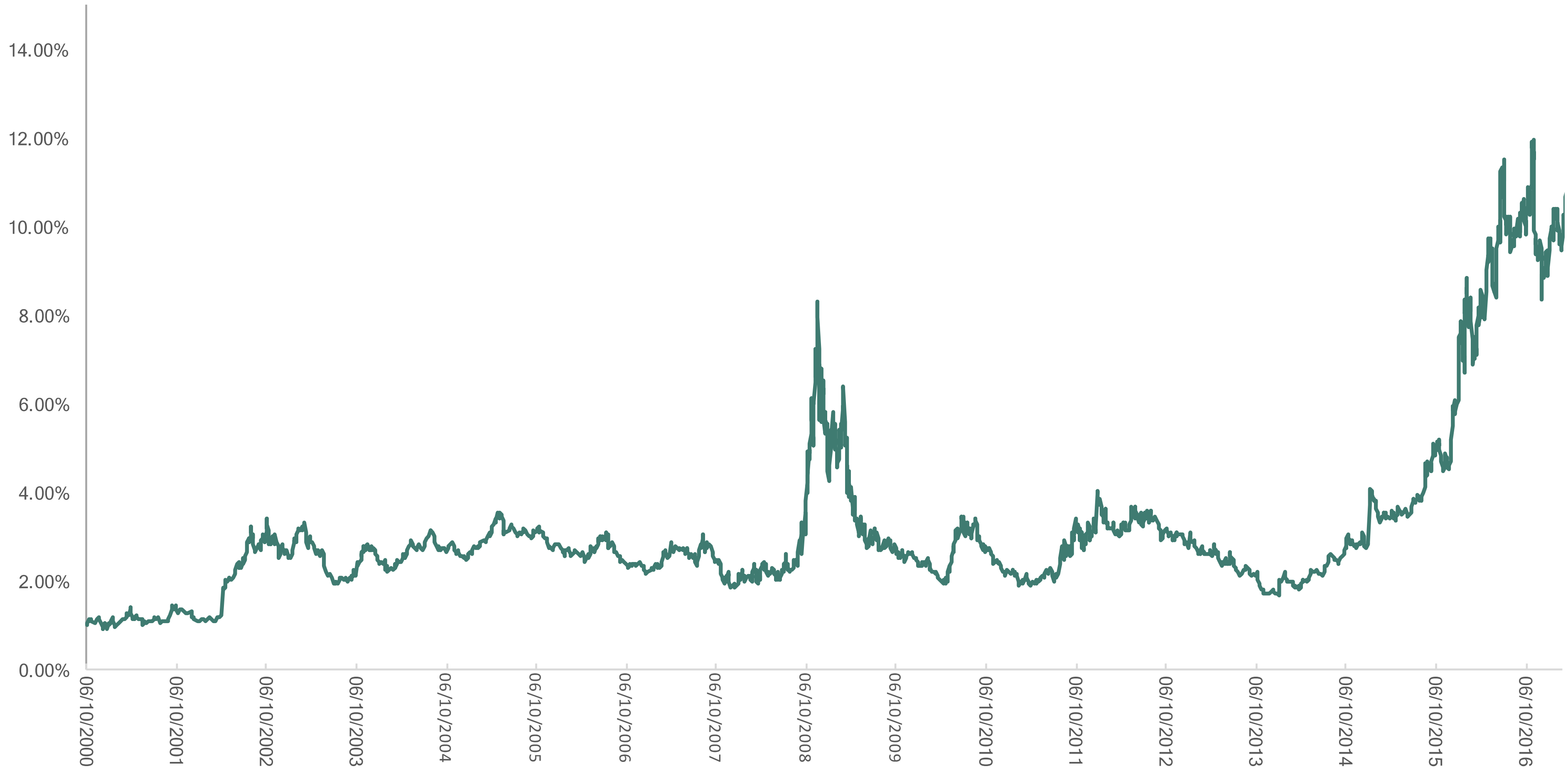
A large portion of the decline is due to weak performance in the company's flagship Ivy Asset Strategy Funds. These funds invest in multiple asset classes. They tend to do better (on a comparative basis) when the market is falling. A dip in the broader markets would show better relative performance for Waddell & Reed's funds, which would likely result in new asset inflows – and more earnings.

In the 3rd quarter, management miraculously pulled out positive earnings-per-share growth of 12.1% versus the same quarter a year ago by slashing costs. In the 4th quarter of 2016 (1/31/2017), Waddell & Reed realized earnings-per-share of $0.27, versus $0.76 in the same quarter a year ago. Continued AUM declines caused the poor results, as AUM dropped 25% year-over-year and caused management fees to decline by 20% during the same period. The company also announced (2/3/17) that it is coming out with 5 index ETFs (including a Dividend Aristocrats ETF) in a deal with ProShares. These are the company's first passively managed funds and mark a shift in strategy for this asset manager.

The real question surrounding Waddell & Reed is whether or not the company can curb asset outflows in today's more competitive investment landscape. Despite heavy competition, the company actually managed to grow revenue from 2011 through 2014, with only modest declines in 2015. Waddell & Reed's business is far from over. It has proved it could compete in the past. Further, investment performance improved during the fourth quarter of 2016 and this may drive future sales growth. It is likely (though certainly not a sure thing) that the company can turn its operations around again.

Waddell & Reed is riskier than most of the other top recommendations in the Sure Retirement Newsletter. There is also tremendous upside to the company if operations rebound. If share prices return to previous highs of early 2014, the share price would more than triple. The company's 10.8% yield is enticing (and well-covered with an adjusted payout ratio of 86% for fiscal 2016) for dividend investors willing to take higher than average risks. Waddell & Reed's next earnings release is scheduled for May 2nd.

Waddell & Reed Dividend Yield History



Holly Energy Partners (HEP)

Key Statistics, Ratios, & Metrics

Dividend Yield: 6.8%
Most Recent Annual Dividend Increase: 7.6%
Dividend History: 13 Years of consecutive increases
Ex-Dividend Date: 4/28/17 (estimated)
10 Year Dividend Growth Rate: 6.1%
Sector: Energy
Business Type: MLP
Payment Date: 5/2/17 (estimated)

Overview

Holly Energy Partners operates a system of pipelines, storage tanks, and terminals for petroleum and crude. Holly Energy Partners has 3,400 miles of pipeline and 14 million barrels of storage capability. The company's assets are located at or near those of HollyFrontier Corp. (HFC). HollyFrontier owns a 100% stake in Holly Energy Partners' general partner, Holly Logistic Services LLC, which in turn has 100% Incentive Distribution Rights and a 2% investment stake in Holly Energy Partners. HollyFrontier also has a direct 35% stake in the MLP Holly Energy Partners.

HollyFrontier is one of the United States' largest refiners. Holly Energy Partners has a 6.8% dividend yield, compared to 4.7% for HollyFrontier. Holly Energy Partners is the preferred investment vehicle for investors seeking current income.

Current Events

Holly Energy Partners' 4th quarter results (2/21/17) showed distributable cash flow per unit growth of 2.0%. Distributable cash flow increased 8%, but the number of outstanding units increased around 6%, offsetting much of these gains. The company's growth was due to recent bolt-on acquisitions. The company also announced (1/26/17) a 7.5% distribution increase versus the same quarter a year ago.

Safety

Holly Energy Partners uses long-term contracts. 100% of the company's revenue is *fee-based*, and not subject to energy price volatility. Further, Holly Energy Partners' earliest contract up for renewal is in 2019, which means there is a very minimal amount of risk from an investment in this MLP until then.

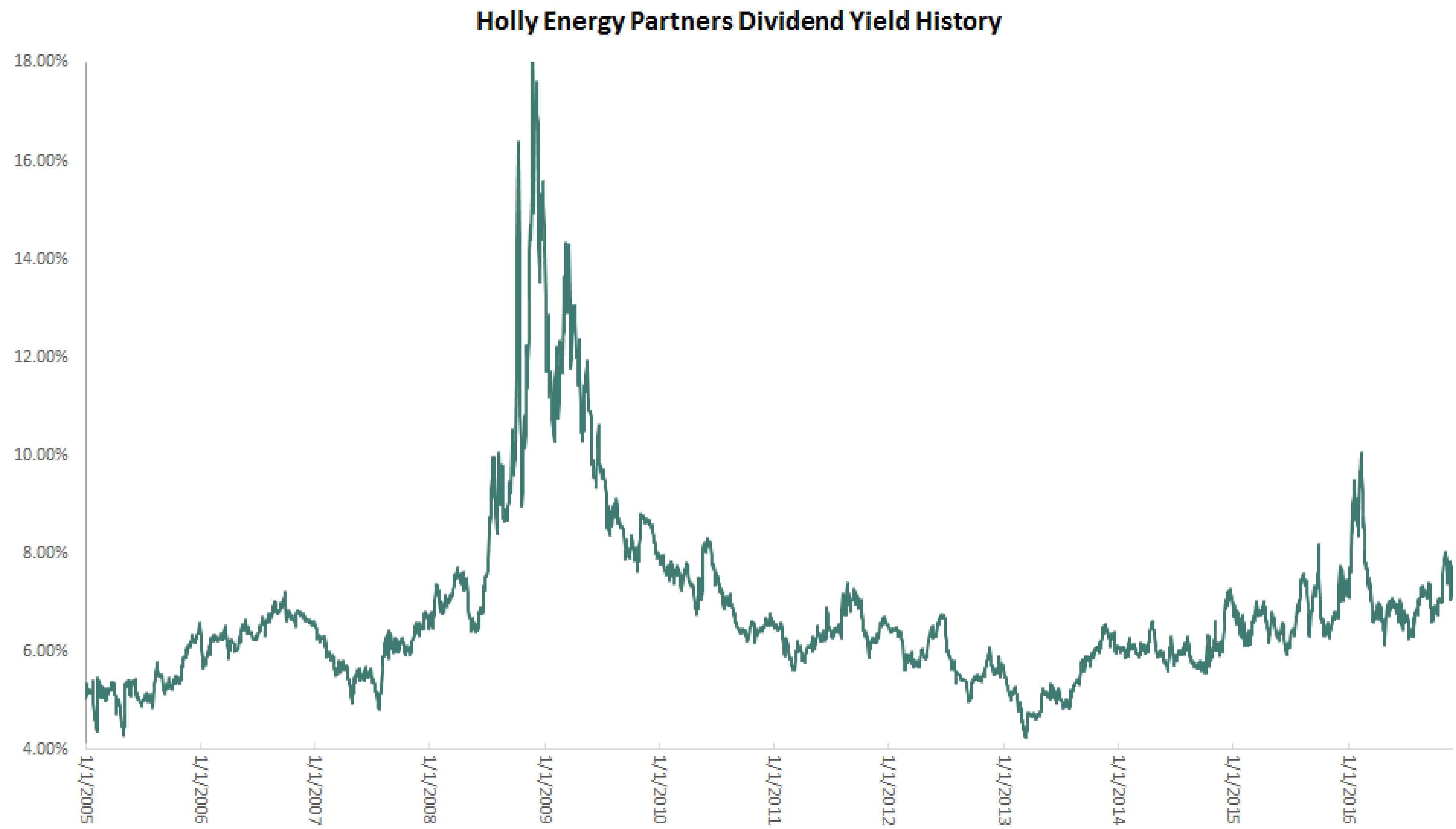
The company has grown its distributions *every quarter since going public*, which is a streak of 48 consecutive quarters. The company has a payout ratio (using cash flows available for distributions) of just 63%. Holly Energy Partners' targets a coverage ratio of at least 1.1x-1.2x, and its low (for a MLP) payout ratio helps it score high for safety.

Growth Prospects

Holly Energy Partners is targeting 8% distribution growth for fiscal 2017. The partnership has grown distributions at ~7% a year over the last decade. The partnership could manage distribution growth of 6% to 9% a year over the long-run, but likely closer to 6% to 7%. Holly Energy Partners plans to boost growth in 2017 through a cost-cutting project. In total, the company believes it can save $14 million a year with this initiative. This is a substantial amount, equaling about 5% of revenues. In addition, several "dropdown" deals – where HFC will sell assets to HEP – should also spur growth.

Valuation

Holly Energy Partners' median dividend yield since it went public is 6.4%. It is currently trading for a dividend yield of 6.8%. Holly Energy Partners appears to be slightly undervalued at current prices.



Holly Energy Partners Dividend Yield History
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
1/1/2005
1/1/2006
1/1/2007
1/1/2008
1/1/2009
1/1/2010
1/1/2011
1/1/2012
1/1/2013
1/1/2014
1/1/2015
1/1/2016

List of Investments by Sector

Each of the 43 stocks with 5 or more years of consecutive 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.

Consumer Discretionary

1. Cedar Fair, LP (FUN) - 5.1%
2. GameStop Corp. (GME) - 5.9%
3. Stage Stores, Inc. (SSI) - 27%

Consumer Staples

1. Vector Group (VGR) - 7.5%

Energy

1. Buckeye Partners, LP (BPL) - 7.2%
2. Enterprise Products Partners (EPD) - 5.8%
3. Spectra Energy Partners, LP (SEP) - 6.2%
4. Sunoco Logistics Partners, LP (SXL) - 8.1%
5. Energy Transfer Equity, LP (ETE) - 5.9%
6. Holly Energy Partners, LP (HEP) - 6.9%
7. Genesis Energy, LP (GEL) - 8.4%
8. Transmontaigne Partners, LP (TLP) - 6.1%
9. Western Gas Partners, LP (WES) - 5.5%
10. TC PipeLines, LP (TCP) - 6.1%
11. Enbridge Energy Partners (EEP) - 13%
12. Tesoro Logistics, LP (TLLP) - 6.5%
13. Sunoco, LP (SUN) - 13.1%
14. Targa Resources Corp. (TRGP) - 6.3%
15. EnLink Midstream, LP (ENLK) - 8.2%
16. EnLink Midstream, LLC (ENLC) - 5.2%

Financials

1. Waddell & Reed (WDR) - 9.9%
2. Gladstone Investment (GAIN) - 8.2%
3. PennantPark Floating Rate (PFLT) - 8.3%
4. The GEO Group, Inc. (GEO) - 5.9%

Health Care

-*None*-

Industrials

1. Macquarie Infrastructure (MIC) - 6.8%

Information Technology

1. Black Box Corp. (BBOX) - 5.4%

Materials

-*None*-

Real Estate

1. Omega Healthcare Investors (OHI) - 7.6%
2. W.P. Carey, Inc. (WPC) - 6.4%
3. LaSalle Hotel Properties (LHO) - 6.2%
4. Welltower, Inc. (HCN) - 5%
5. Chesapeake Lodging Trust (CHSP) - 6.6%
6. EPR Properties (EPR) - 5.4%
7. One Liberty Properties, Inc. (OLP) - 7.1%
8. Medical Properties Trust (MPW) - 7.5%
9. Select Income REIT (SIR) - 7.9%
10. Arbor Realty Trust, Inc. (ABR) - 8.4%
11. STAG Industrial, Inc. (STAG) - 5.4%
12. Ramco-Gershenson Prop. (RPT) - 5.9%
13. Sabra Health Care REIT (SBRA) - 6.2%
14. Spirit Realty Capital, Inc. (SRC) - 6.7%
15. Hospitality Properties Trust (HPT) - 6.6%
16. DDR Corp. (DDR) - 5.3%

Telecommunication Services

-*None*-

Utilities

1. AmeriGas Partners, LP (APU) – 8.2%

List of Investments by Rank

Each of the 43 stocks with 5 or more years of consecutive 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. Buckeye Partners, LP (BPL) - 7.2%
2. Omega Healthcare Inv. (OHI) - 7.6%
3. Enterprise Products Pa. (EPD) - 5.8%
4. Spectra Energy Partners (SEP) - 6.2%
5. W.P. Carey, Inc. (WPC) - 6.4%
6. Sunoco Logistics Part. (SXL) - 8.1%
7. Waddell & Reed (WDR) - 9.9%
8. Energy Transfer Equity (ETE) - 5.9%
9. Holly Energy Partners (HEP) - 6.9%
10. Gladstone Investment (GAIN) - 8.2%
11. Genesis Energy, LP (GEL) - 8.4%
12. AmeriGas Partners, LP (APU) - 8.2%
13. PennantPark Floating (PFLT) - 8.3%
14. Transmontaigne Partne. (TLP) - 6.1%
15. LaSalle Hotel Propert. (LHO) - 6.2%
16. Vector Group (VGR) - 7.5%
17. Cedar Fair, LP (FUN) - 5.1%
18. Western Gas Partners (WES) - 5.5%
19. Welltower, Inc. (HCN) - 5%
20. Chesapeake Lodging (CHSP) - 6.6%
21. TC PipeLines, LP (TCP) - 6.1%
22. Enbridge Energy Partn. (EEP) - 13%
23. EPR Properties (EPR) - 5.4%
24. One Liberty Properties (OLP) - 7.1%
25. GameStop Corp. (GME) - 5.9%
26. Tesoro Logistics, LP (TLLP) - 6.5%
27. Stage Stores, Inc. (SSI) - 27%
28. Medical Properties (MPW) - 7.5%
29. Select Income REIT (SIR) - 7.9%
30. Arbor Realty Trust (ABR) - 8.4%
31. Macquarie Infrastructu. (MIC) - 6.8%
32. The GEO Group, Inc. (GEO) - 5.9%
33. STAG Industrial, Inc. (STAG) - 5.4%
34. Sunoco, LP (SUN) - 13.1%
35. Black Box Corp. (BBOX) - 5.4%
36. Ramco-Gershenson (RPT) - 5.9%
37. Sabra Health Care (SBRA) - 6.2%
38. Targa Resources (TRGP) - 6.3%
39. Spirit Realty Capital (SRC) - 6.7%
40. EnLink Midstream (ENLK) - 8.2%
41. Hospitality Properties (HPT) - 6.6%
42. EnLink Midstream (ENLC) - 5.2%
43. DDR Corp. (DDR) - 5.3%%

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. They are:

- Dividend History: 5 years of increases required; the longer the better
- Dividend Yield: 5%+ yield required; the higher the better
- Payout Ratio: The lower the better
- 10 Year Dividend Growth Rate: The higher the better
- 10 Year Stock Price Standard Deviation: The lower the better

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	11.0%
Waddell & Reed (WDR)	November 2016	Hold	8.8%
Spectra Energy Partners (SEP)	November 2016	Hold	8.6%
Enterprise Products Par. (EPD)	November 2016	Hold	13.3%
Omega Healthcare Inv. (OHI)	November 2016	Hold	10.4%
Holly Energy Partners (HEP)	December 2016	Hold	13.5%
TC PipeLines (TCP)	December 2016	Hold	16.6%
Sunoco Logistics (SXL)	January 2017	Hold	3.5%
Gladstone Investment (GAIN)	February 2017	Hold	-0.5%
W.P. Carey, Inc. (WPC)	February 2017	Hold	1.6%

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	42.4%
Urstadt Biddle (UBA)	November 2016	Hold	-0.4%
Magellan Midstream (MMP)	November 2016	Hold	18.2%
AT&T (T)	November 2016	Hold	14.2%
Genesis Energy LP (GEL)	November 2016	Hold	0.7%
AmeriGas Partners, LP (APU)	January 2017	Hold	1.2%

There have been no sells in the Sure Retirement Newsletter.

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**
BPL	Buckeye Partners, LP	$ 1,002
EPD	Enterprise Products Part.	$ -
TCP	TC PipeLines	$ -
OHI	Omega Healthcare	$ -
SEP	Spectra Energy Partners	$ -
WPC	W.P. Carey, Inc.	$ -
GAIN	Gladstone Investment	$ -
SXL	Sunoco Logistics	$ -
WDR	Waddell & Reed	$ -
HEP	Holly Energy Partners, LP	$ -

Portfolio 2		
Ticker	**Name**	**Amount**
BPL	Buckeye Partners, LP	$ 4,374
EPD	Enterprise Products Part.	$ 4,878
TCP	TC PipeLines	$ 5,374
OHI	Omega Healthcare	$ 4,353
SEP	Spectra Energy Partners	$ 7,312
WPC	W.P. Carey, Inc.	$ 2,799
GAIN	Gladstone Investment	$ 2,952
SXL	Sunoco Logistics	$ 6,660
WDR	Waddell & Reed	$ 2,367
HEP	Holly Energy Partners, LP	$ 2,818

- If you had portfolio 1, you would buy EPD, the top ranked stock you own least.
- If you had portfolio 2, you would buy WDR, 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 largerly 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 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 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 **U**nrelated **B**usiness **I**ncome (UBI), and may owe **U**nrelated **B**usiness **T**axable **I**ncome (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.

Closing Thoughts
– Tax Time –

The deadline for filing 2016 income tax returns with the IRS is April 18, 2017. This is the first tax season since the launch of the Sure Retirement Newsletter.

Since inception, a large proportion of Sure Retirement recommendations have been MLPs and REITs. This is not because this newsletter focuses only on these securities.

Rather, these securities happened to rank highly according to the Sure Retirement system. In a bear market, more common stocks will likely be included in the Top 10 as prices decline and more companies qualify for the 5%+ yield cutoff.

The tax treatment of these alternative investment vehicles is on the minds of many investors as they prepare their tax returns. MLPs have more complicated tax requirements than their common stocks (see the tax guide in this newsletter for more).

Investors should remember that, despite their complexity, MLPs are actually the *most efficient tax vehicle* for returning cash to shareholders (or rather, unitholders) in a taxable account. An investor will get somewhere between $0.70 and $0.80 for every dollar that an MLP wishes to distribute.

The majority of MLP distributions are tax deferred. Rather than being declared as income, MLP distributions reduce the cost basis of the security itself when held in a taxable account. Investors need not pay tax on the return of capital portion of MLP distributions until they actually sell it.

In a retirement account, the treatment is different. Investors need to get their account providers to issue them a form 990-T. In rare cases, investors might need to pay taxes on Unrelated Business Income (UBI). Because of this, the advantages of MLPs are highest when held in a taxable account.

Despite this complexity, the benefits of investing in MLPs are still worthwhile. As with many other areas of investing, the additional work come tax time from investing in MLPs rather than dividend stocks is *worth the effort*. From the same corporate earnings, investors can generate higher income on an after-tax basis.

Thanks,

Ben Reynolds

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