Sure Retirement Newsletter

HIGH YIELD, HIGH QUALITY INVESTMENTS

June 2017 Edition

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Table of Contents

Opening Thoughts
- On Di-Worse-ification -

This month's Top 10 Sure Retirement companies are listed below, along with their sector:

1. Energy Transfer Partners (ETP):	Energy
2. Genesis Energy, LP (GEL):	Energy
3. Occidental Petroleum (OXY)	Energy
4. Buckeye Partners, LP (BPL):	Energy
5. Enterprise Products Partners (EPD):	Energy
6. Omega Healthcare Investors (OHI):	Real Estate
7. AmeriGas Partners, L.P. (APU):	Utilities
8. AT&T (T):	Telecommunications
9. Energy Transfer Equity (ETE):	Energy
10. Holly Energy Partners (HEP):	Energy

Seven of the companies in this month's top 10 are in the energy sector. It is important to diversify *across* sectors, and not just *within* sectors. A portfolio that contains 1,000 energy companies is still not appropriately diversified if it is composed of 60% energy stocks.

With that said, oil & gas MLPs have persistently ranked highly in the Sure Retirement newsletter thanks to a combination of low oil prices (which pushes this industry's stock prices down and yields up) & higher valuations – and lower yields – across the rest of the stock market. While oil & gas MLPs continue to rank highly, this may create diversification concerns among investors.

So what is the solution?

Peter Lynch famously coined the term *diworsification* for when a business diversifies too widely and moves away from its core competency. Diworsification can also be used to describe buying unattractive stocks with the sole purpose of diversifying your portfolio.

It's important to take what the market gives you. Right now, oil & gas MLPs are out of favor, and buying them provides high yields and strong capital appreciation potential. If you are slowly building your portfolio over time, you can invest in out-of-favor sectors as they arise.

As time passes, the outlook for the oil & gas sector will likely improve. Other sectors will fall out of favor. It might be healthcare, it might be consumer staples, but the truth is – we have no idea.

That's one of the benefits of using a quantitative ranking system like The 8 Rules of Dividend Investing. Each month, the system identifies the best high yield dividend stocks for the long run.

And right now, that happens to be largely oil & gas MLPs; but there are exceptions. AT&T and Omega Healthcare Investors are both high-quality, high-yield dividend stocks outside the energy sector currently trading at attractive prices.

The Retirement Top 10 – June 2017

Name	Price	Score	Yield	Payout	Growth	Beta
Energy Transfer Partn. (ETP)	$22	1.00	9.8%	88%	12.0%	1.13
Genesis Energy (GEL)	$31	0.93	9.3%	95%	12.5%	1.17
Occidental Petroleum (OXY)	$61	0.82	5.0%	66%	3.0%	0.81
Buckeye Partners (BPL)	$64	0.81	7.6%	93%	8.5%	1.27
Enterprise Prod. (EPD)	$27	0.80	6.2%	77%	10.0%	0.90
Omega Healthcare (OHI)	$31	0.78	8.0%	74%	9.0%	0.54
AmeriGas Partners (APU)	$45	0.69	8.6%	93%	2.5%	0.33
AT&T (T)	$39	0.63	5.0%	94%	4.8%	0.37
Energy Transfer Equity (ETE)	$17	0.62	6.7%	116%	8.5%	1.94
Holly Energy Partners (HEP)	$32	0.60	7.7%	68%	6.0%	0.83

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.*

While the rankings changed from last month, only 1 stock was added that has not been in the Top 10 before. That stock is Occidental Petroleum.

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: 86.4%
Dividend Yield: 7.4%
Growth Rate: 7.7%

Analysis of Top 10 Securities

Energy Transfer Partners (ETP)

Dividend Yield: 9.8%
Most Recent Annual Dividend Increase: 9.4%
Dividend History: 15 Years of consecutive increases
Ex-Dividend Date: 8/7/17 (estimated)
10 Year Dividend Growth Rate: 14.3%
Sector: Energy
Business Type: MLP
Payment Date: 8/15/17 (estimated)

Overview, Current Events, & Growth Prospects

On May 1, Sunoco Logistics (SXL) began trading on the NYSE under the ticker ETP after merging with Energy Transfer Partners ('old' ETP).

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

ETP also recently (4/28/17) announced a quarterly distribution of $0.535 per share, a 2.9% sequential increase and a 9.4% increase over the same period a year ago (using SXL's previous distributions).

This MLP has experienced negative media and regulatory attention since being featured in the last Sure Retirement newsletter. After two notable spills of drilling fluid into Ohio wetlands in April, ETP has been ordered (5/10/17) by the Federal Energy Regulatory Commission to cease horizontal drilling activities on certain areas of its $4.2 billion *Rover* pipeline construction project. Separately, the MLP's Dakota Access Pipeline leaked 84 gallons of crude oil in South Dakota. While these events may pressure ETP's July 1 in-service target date for the *Rover* pipeline and create negative publicity for this company, they are unlikely to effect its long-term growth prospects.

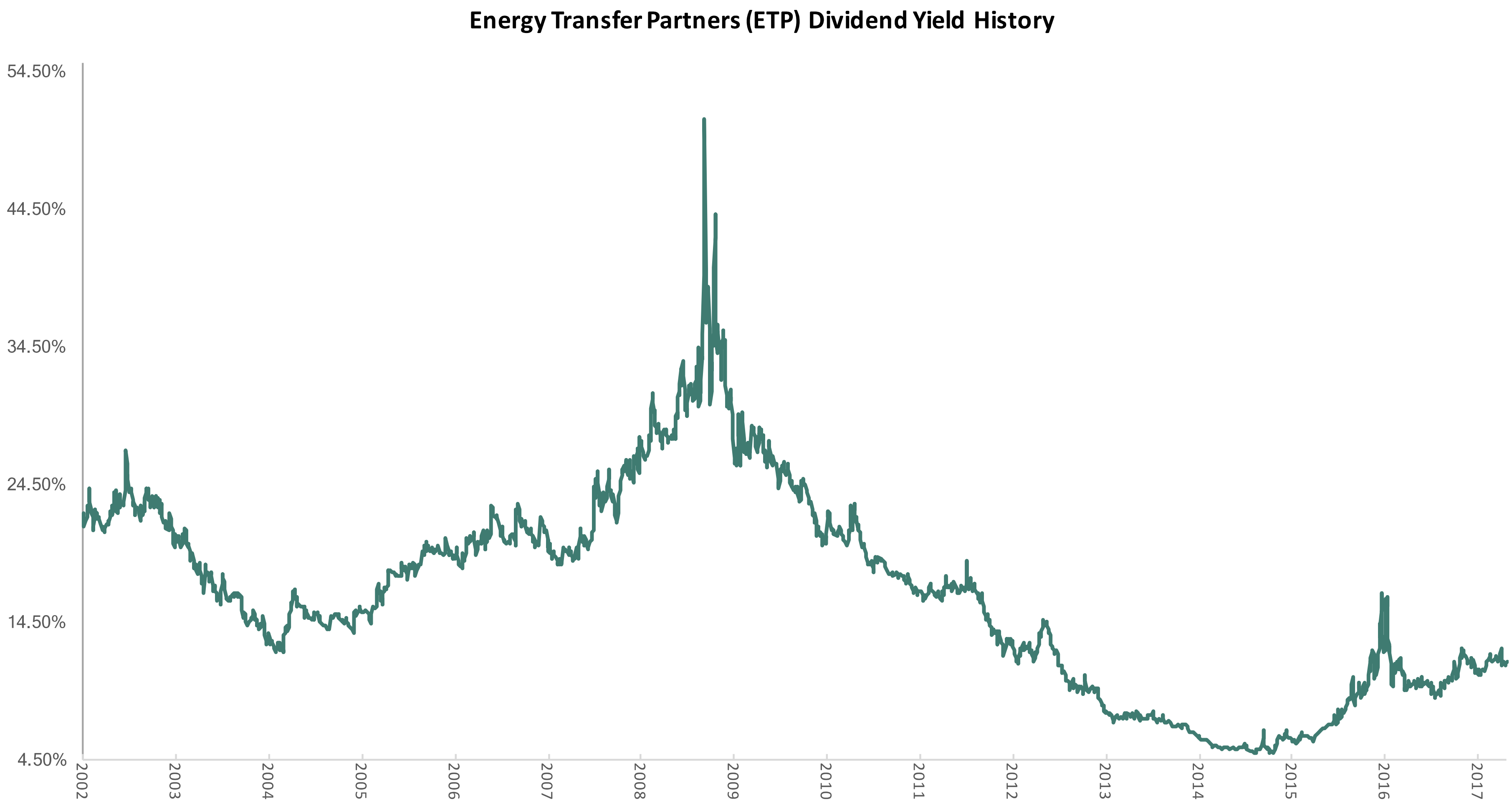
On a more positive note, this month ETP announced (5/18/17) an unsolicited cash tender offer of $20 per share for all of the outstanding units of PennTex Midstream Partners, a publicly-traded MLP (ticker PTXP) that owns and operates pipelines in northern Louisiana. PennTex was trading at $16.65 prior to the merger and has a market capitalization of ~$800 million. The tender offer expires on June 19 and, if successful, will see PennTex's pipelines join the ETP family of oil & gas assets.

Safety

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

Valuation

Prior to the merger, SXL had a median dividend yield of 6.1% and ETP had a median dividend yield of 5.9% (both since inception). Regardless of which parent company the new ETP is compared to, the current 9.8% dividend yield is priced at a *substantial* discount to historical levels.


Energy Transfer Partners (ETP) Dividend Yield History
54.50%
44.50%
34.50%
24.50%
14.50%
4.50%
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017

Genesis Energy, LP (GEL)

Key Statistics, Ratios, & Metrics

Dividend Yield: 9.3%	10 Year Dividend Growth Rate: 12.6%
Most Recent Annual Dividend Increase: 7.1%	Sector: Energy
Dividend History: 13 Years of consecutive increases	Business Type: MLP
Ex-Dividend Date: 7/25/17 (estimated)	Payment Date: 8/15/17 (estimated)

Overview

Genesis Energy is a midstream oil & gas MLP that was founded in 1996. The company provides an integrated suite of services to refineries and oil producers through its four operating divisions: offshore pipeline transportation, refinery services, marine transportation, and supply & logistics.

The company has an impressive asset base: 580 miles of onshore oil pipelines, 270 miles of onshore CO_2 pipelines, 2,500 miles of offshore pipelines, 83 barges, 43 push boats, 1 offshore oil tanker, ~3.3 million barrels of storage, and a land fleet composed of ~200 trucks, ~400 trailers, and ~525 railcars.

Current Events

Genesis Energy recently (5/4/17) reported financial results for the first quarter of 2017. Performance was better than expected – the company saw distributable cash flow decrease by 4.5% from the same period a year ago, largely driven by increased capital reinvestment and a notable gain on derivative transactions in the year-ago period. Adjusted EBITDA decreased by 1.9%. Genesis' CEO noted that "certain headwinds persist," though in his view some of the MLP's businesses are "clearly bottoming" and are expected to deliver improved financial contributions moving forward.

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

Safety

Genesis Energy has an adjusted debt to EBITDA ratio of 5.25x as of March 31 and is targeting a long-term debt to EBITDA ratio of 3.75x. Accordingly, the company will slowly deleverage itself over the next several years. The company had a distribution coverage ratio of 1.05 using distributable cash flow during its most recent quarter, which means its dividend is safe for the foreseeable future. Further, the MLP is expected to continue paying rising dividends - Genesis Energy has paid increasing distributions *for 47 consecutive quarters*, showing its ability (and willingness) to put its shareholders first.

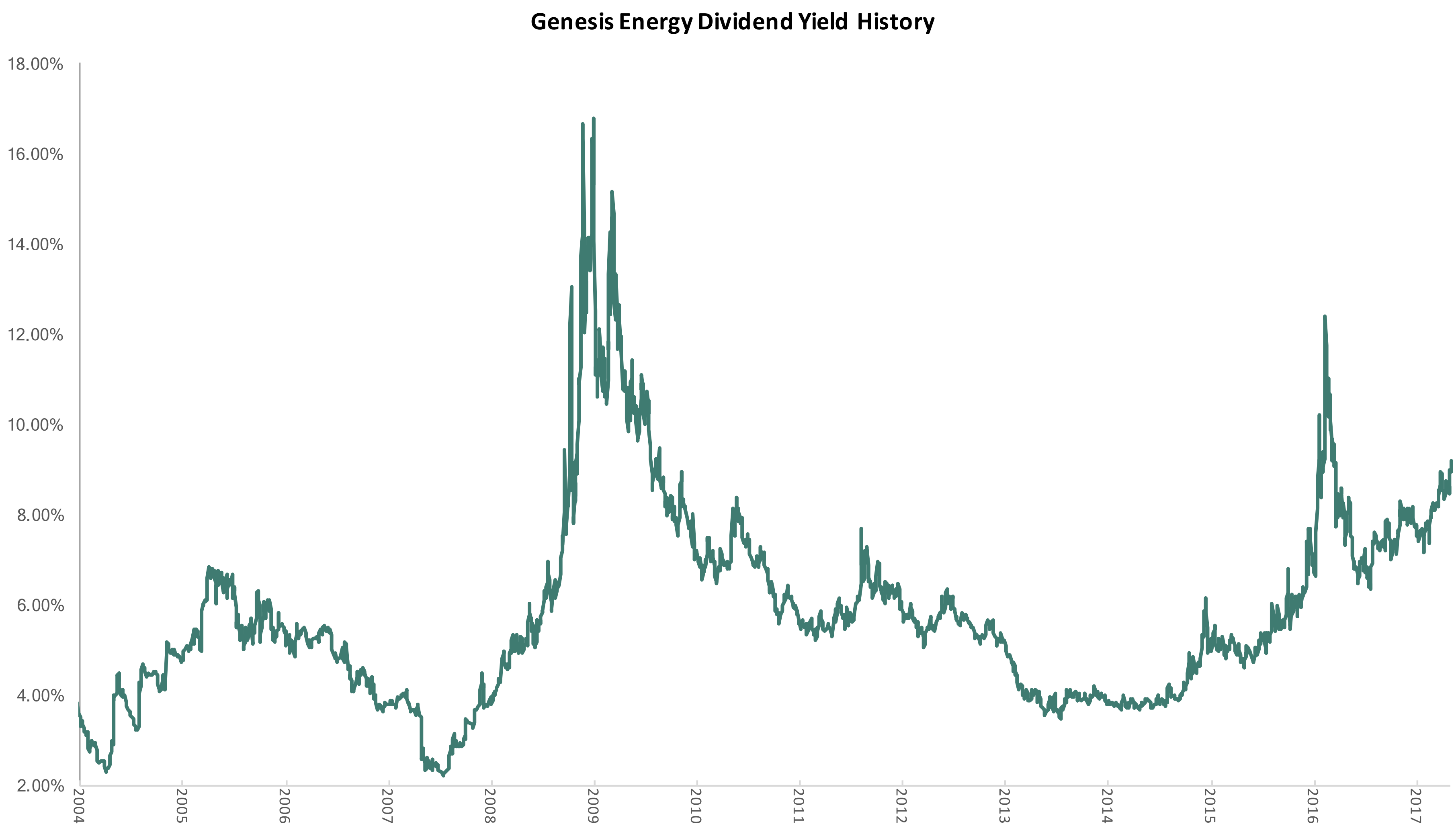
Growth Prospects

Genesis often executes small acquisitions to improve and grow its asset base. In the most recent quarter, the company identified and contracted for ~$100 million of bolt-on acquisitions, with the majority focused in the Baton Rouge corridor area.

Genesis Energy has delivered excellent distribution growth of 12.6% a year over the last decade. I expect growth of ~8% a year over full economic cycles. Genesis Energy has no general partner incentive distribution rights, meaning growth will accrue directly to unit holders.

Valuation

Genesis Energy's average dividend yield over the past five years is 5.6%. The stock is currently trading for a dividend yield of 9.3%. Genesis Energy appears significantly undervalued at current prices relative to its historical average.


Genesis Energy Dividend Yield History
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017

Occidental Petroleum (OXY)

Key Statistics, Ratios, & Metrics

Dividend Yield: 5.0%
Most Recent Annual Dividend Increase: 1.3%
Dividend History: Steady or rising since '91
Ex-Dividend Date: 6/7/17
10 Year Dividend Growth Rate: 14.8%
Sector: Energy
Business Type: Corporation
Payment Date: 7/14/17

Overview & Current Events

Occidental Petroleum is a multinational oil and gas company that is primarily involved in exploration and production. Occidental also has two smaller segments: the manufacturing of industrial chemicals, plastic, and fertilizers; and the operation of pipelines. Occidental has operations in the United States, Middle East, and Latin America. Founded in 1920, Occidental Petroleum is headquartered in Houston, Texas and has a market capitalization of $46 billion.

Occidental's recent (5/4/17) first quarter earnings reported announced a $0.15 per-share profit, up noticeably from a loss of $0.36 in the quarter prior and a loss of $0.56 in the same quarter a year ago. Importantly, this marks the end of five consecutive quarters of losses for the company. Occidental's improved performance was driven by higher crude oil prices, lower costs, and an increase in caustic soda prices and volumes. Looking ahead, Occidental's performance is expected to continue to improve and analysts expect the company to report a profit of just under $1/share for the full-year of 2017.

Safety

Occidental saw its adjusted earnings-per-share decline by 58% during the 2009 financial crisis, though it managed to maintain profitability. The company also reported an operating loss for the full-year of both 2015 and 2016. These troubles are temporary. Occidental's scale and diversified business model allow it to remain viable in the toughest operating environments.

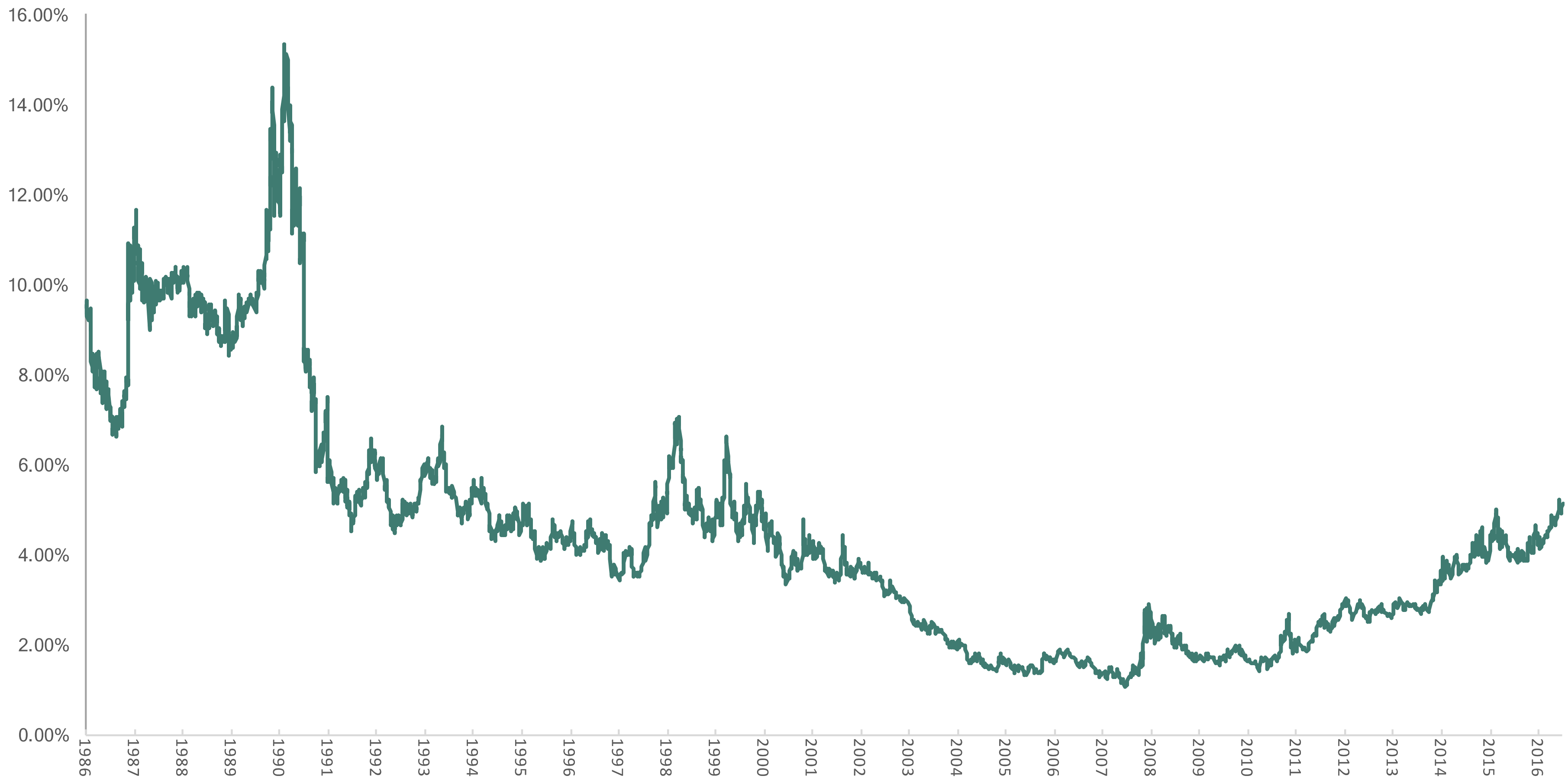
Occidental is well-positioned to endure through a prolonged period of low oil prices. Cash and equivalents totaled ~$1.5 billion at the end of the quarter, and long-term debt was a reasonable ~31% of the company's balance sheet. For context, Occidental spends about $575 million per quarter on its common stock dividend payments, which means its payout is safe for the near future. In the long term, Occidental will need to see a recovery in oil prices to continue its dividend payments – the company had a payout ratio of 500% in its most recent quarter.

Valuation

Low oil prices have troubled this energy company and pushed Occidental's valuation to very attractive levels. When oil prices recover, both the company's fundamentals and stock price will improve considerably. Management noted on their most recent quarterly conference call that every $1/barrel increase in crude oil increases Occidental's annual operating cash flow by about *$110 million*. Accordingly, low oil prices have driven Occidental's stock down by more than 40% since 2014.

Over the past decade, Occidental Petroleum has traded at an average price-to-earnings ratio of 13.4 (excluding 2015 and 2016, when it reported operating losses). The company is expected to earn about $0.95 per share this year and $5.00 per share by 2022. $5 per share earnings along with its long-term price-to-earnings ratio of 13.4 gives a fair value estimate of $67 – significant upside from today's price. While this price may not be reached until oil prices recover further, investors can happily collect Occidental's 5% dividend yield in the meanwhile.

Occidental Petroleum (OXY) Dividend Yield History



Buckeye Partners, LP (BPL)

Key Statistics, Ratios, & Metrics

Dividend Yield: 7.6%	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: 8/13/17 (estimated)	Payment Date: 8/22/17 (estimated)

Overview

Buckeye Partners is one of the largest independent liquid petroleum pipeline companies in the United States based on throughput volumes. The company also has a services business (where it uses its expertise to operate or maintain third-party assets) and a terminal & storage business. Buckeye's assets are located across the U.S., primarily in the east and northeast. Buckeye has ~6,000 miles of pipelines, 120 liquid petroleum terminals, and storage capacity of more than 115M barrels. Buckeye Partners can trace its roots back to Rockefeller's Standard Oil and has a current market capitalization of $9.2 billion.

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

Current Events

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

The partnership also increased its quarterly cash distribution to $1.25 during the same announcement, a 1.0% increase sequentially and a 4.2% increase over last year's quarter. Buckeye typically increases its distribution every quarter.

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

Safety

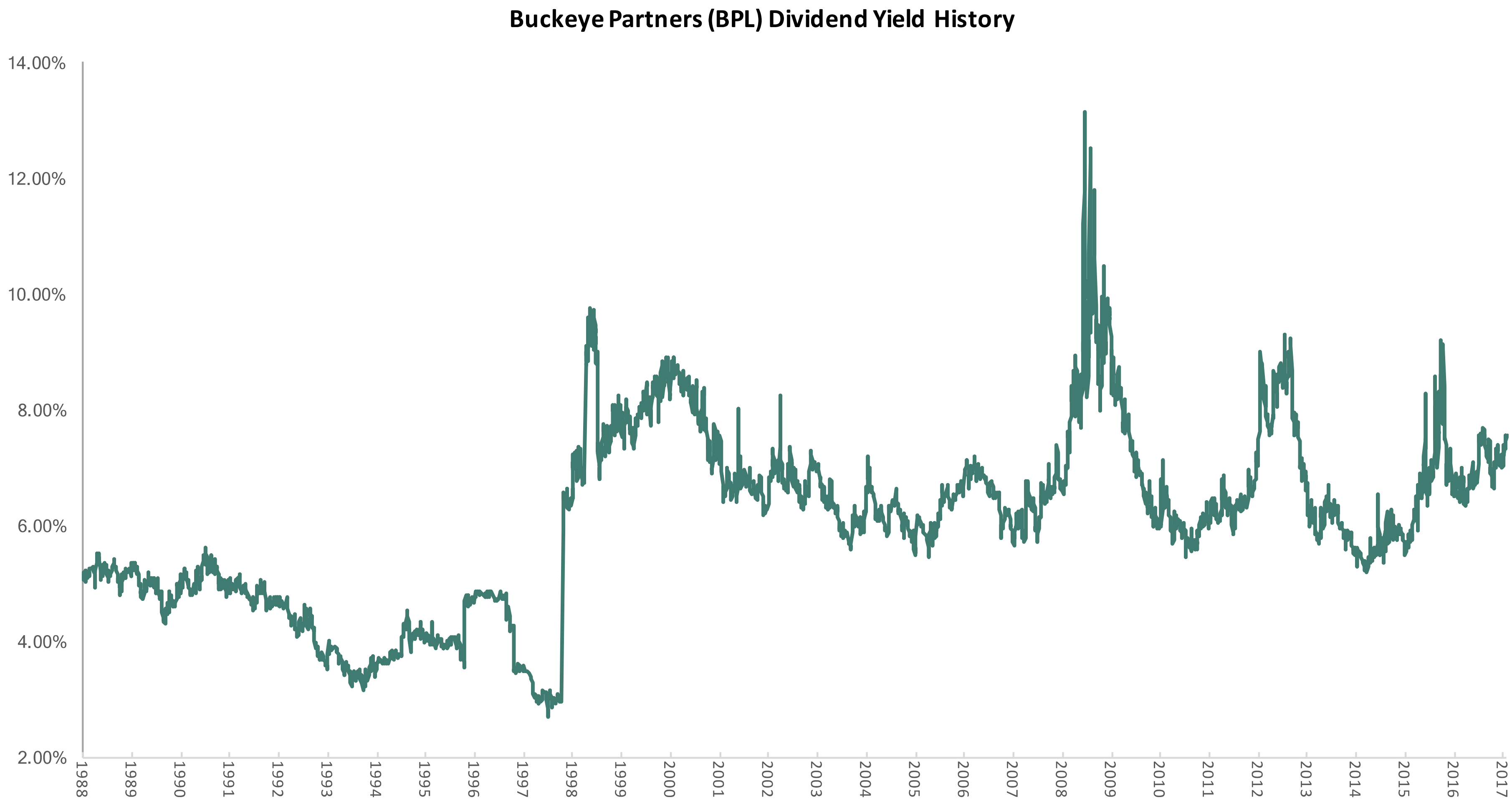
Buckeye Partners has a distribution coverage ratio of 1.08x in the first quarter of 2017, meaning its distribution is adequately covered by its distributable cash flows. The company focuses on fee-based revenue to provide consistent cash flows – this was seen in the company's recent investment in VTTI B.V. As a midstream company, Buckeye is also insulated from oil price fluctuations.

Growth Prospects

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

Valuation

Buckeye Partners' average historical dividend yield over the past 5 years has been 6.7%. The company's units are currently trading for a yield of 7.6%. Buckeye Partners is slightly undervalued versus its historical average dividend yield, especially considering its improved growth prospects.


Buckeye Partners (BPL) Dividend Yield History
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
1988
1989
1990
1991
1992
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2011
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2015
2016
2017

Enterprise Products Partners (EPD)

Key Statistics, Ratios, & Metrics

Dividend Yield: 6.2%
Most Recent Annual Dividend Increase: 5.1%
Dividend History: 19 Years of consecutive increases
Ex-Dividend Date: 7/26/17 (estimated)

10 Year Dividend Growth Rate: 5.7%
Sector: Energy
Business Type: MLP
Payment Date: 8/8/17 (estimated)

Overview

Enterprise Products Partners is one of the largest midstream energy companies based on its $58 billion market capitalization. The MLP operates ~50,000 miles of pipelines, ~260 million barrels of product storage capacity, 26 natural gas processing plants, 22 fractitioners, 11 condensate distillation facilities, and 18 deepwater docks. The partnership has increased its distribution for 19 consecutive years and 51 consecutive *quarters*, showing its willingness to emphasize shareholder returns.

Current Events

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

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

Safety

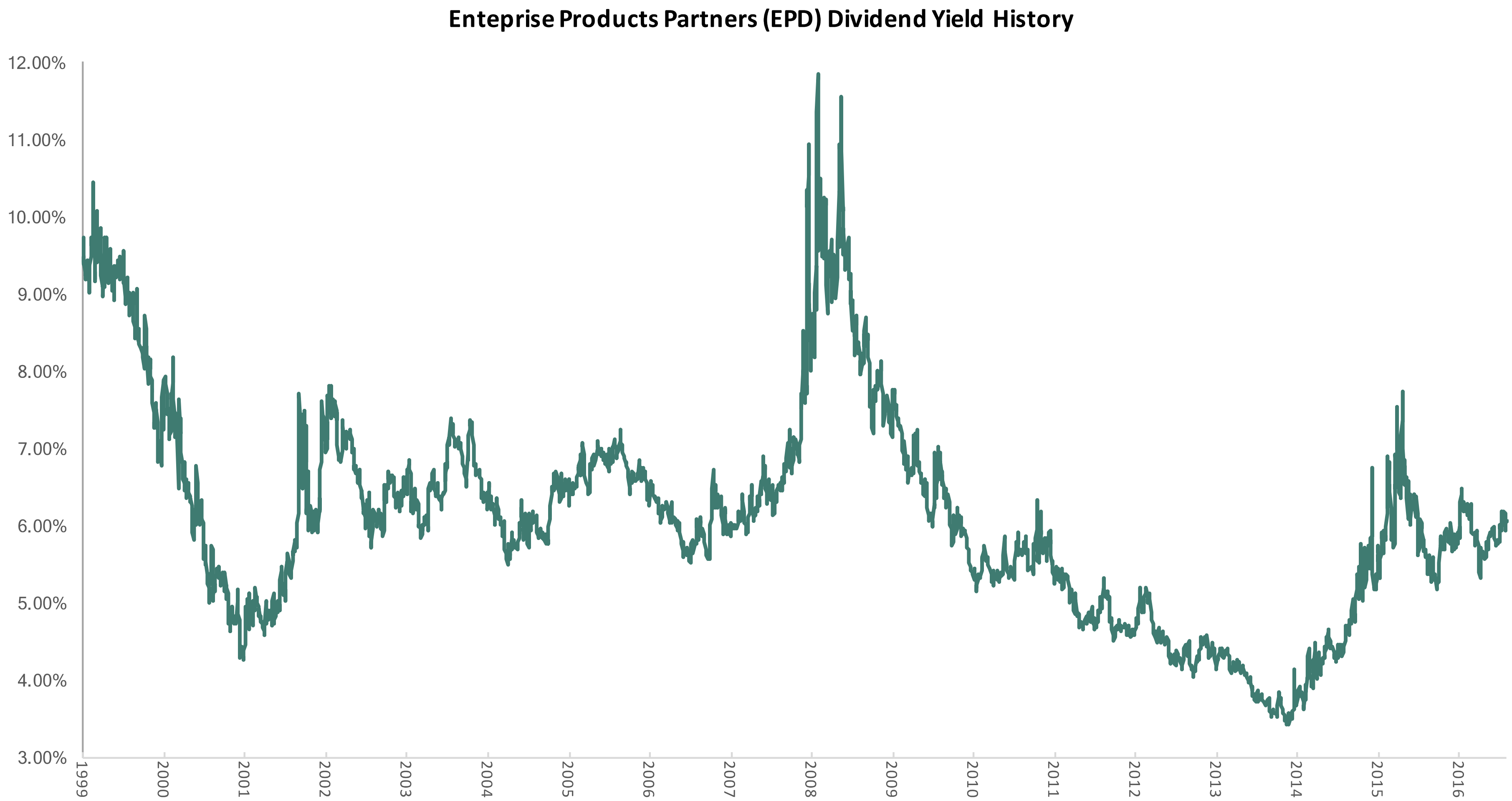
Enterprise Products Partners is among the safest and best capitalized MLPs. The company has an investment-grade BBB+/Baa1 credit rating, better than the majority of MLPs. The company currently has a reasonably safe 1.3x distribution coverage ratio in the most recent quarter (~1.2x for the trailing twelve months) and total available liquidity of $4.1 billion. With that said, the company's debt to EBITDA ratio of 4.4x is the highest it has been in several years. The partnership expects to slow its growth and de-leverage over the next few years.

Growth Prospects

Enterprise Products Partners is expanding its capabilities to fuel further growth, just as it has done in the past. The company has grown distributions per unit at 5.7% a year over the last decade. Several new projects are coming online in 2017 which will spur growth. Further, $8.4 billion of growth projects are currently under construction and expected to be completed by 2020 while the company expects to invest an additional $2.7-$3.0 billion in 2017. The company will likely continue to deliver strong growth over full economic cycles. I expect 8% to 10% overall distribution growth on a per-unit basis.

Valuation

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


Enteprise Products Partners (EPD) Dividend Yield History
12.00%
11.00%
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
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2016

Omega Healthcare Investors (OHI)

Key Statistics, Ratios, & Metrics

Dividend Yield: 8.0%	10 Year Dividend Growth Rate: 8.8%
Most Recent Annual Dividend Increase: 8.6%	Sector: Real Estate
Dividend History: 14 Years of consecutive increases	Business Type: REIT
Ex-Dividend Date: 7/28/17 (estimated)	Payment Date: 8/15/17 (estimated)

Overview

Omega Healthcare Investors is the largest publicly-traded REIT in the U.S. dedicated to owning and operating skilled nursing facilities (SNFs). The trust's portfolio is composed of approximately 86% SNFs and 14% Senior Housing Facilities (SHFs). Omega operates ~1,000 properties in 42 states and the U.K. that are occupied by 77 independent operators. Omega is quite shareholder-friendly and has increased its distribution for 19 consecutive quarters.

Current Events

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

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

The trust continues to expand internationally with the announcement (5/30/17) of the tuck-in acquisition of U.K.-based Gold Care Homes. The transaction, which closed on May 11 for approximately $113 million, saw Omega acquire 18 care home facilities - bringing its U.K. total to 53.

In the same announcement, Omega announced a new credit facility and term loan arrangement which raised total available liquidity by over $2.8 billion. A small proportion (£100 million) of this credit facility is Pound Sterling-denominated, which may indicate the trust has further international expansion intentions. This new financing bolsters Omega's liquidity and increases the safety of this stock.

Safety

Omega is currently paying out 74% of 2017's expected funds from operations, a relatively low payout ratio for a REIT. The trust has no debt maturities over the next 2 years, and ~61% of its total debt matures after 2022. Omega operates in the recession-resistant healthcare real estate industry – people need skilled nursing facilities, regardless of the health of the broader economy.

Growth Prospects

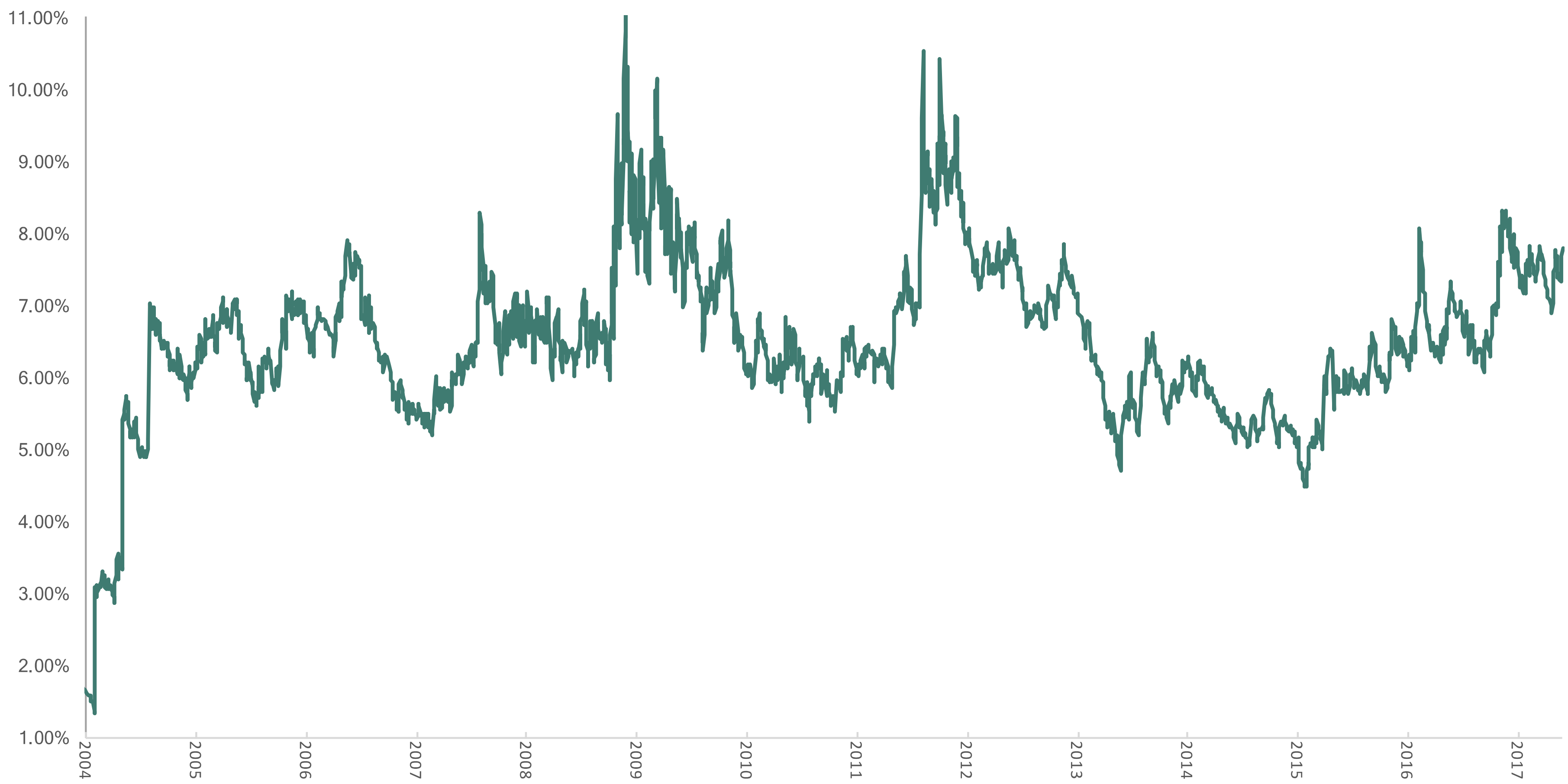
Omega is well-positioned to benefit from favorable macroeconomic tailwinds moving forward. The population of 85+ year old people in the U.S. is expected to grow by ~50% in the next fifteen years.

Omega is the 4th largest publicly traded company in the industry with a market capitalization of $6.2 billion, giving it the capability to drive growth via strategic acquisitions. Omega is expecting stagnant growth in 2017, but the company should continue to grow at a good clip beyond the current fiscal year.

Valuation

Omega's average dividend yield over the past 5 years is 6.3%, and its current dividend yield is 8%. Right now is a historically opportune time to initiate or add to a stake in Omega Healthcare Investors.

Omega Healthcare Investors (OHI) Dividend Yield History



AmeriGas Partners, L.P. (APU)

Key Statistics, Ratios, & Metrics

Dividend Yield:	8.6%	10 Year Dividend Growth Rate:	5.0%
Most Recent Annual Dividend Increase:	1.1%	Sector: Energy	
Dividend History: 13 consecutive years of increases		Business Type: MLP	
Ex-Dividend Date: 8/8/17 (estimated)		Payment Date: 8/18/17 (estimated)	

Overview

AmeriGas is the largest propane distributor in the United States. The company has ~15% market share. In total, AmeriGas has ~54,000 retail exchange locations, ~1,900 distribution locations, and serves approximately 2 million customers in all 50 states from approximately 2,100 distribution locations. The company currently has a $4.1 billion market cap. AmeriGas's sole General Partner is UGI Corporation (UGI), which also has a 26% limited partner interest in AmeriGas.

Current Events

AmeriGas posted disappointing results in its recently announced (5/1/17) second quarter earnings release. The company saw adjusted EBITDA decrease by 8.2% and volumes decrease by 5.9% from the same period a year ago. Poor operating results were caused by warmer temperatures (the 2nd warmest Q2 on record for AmeriGas) which drives propane sales downwards. The company also reported a $22.1 million loss caused by the early extinguishment of debt.

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

Safety

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

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

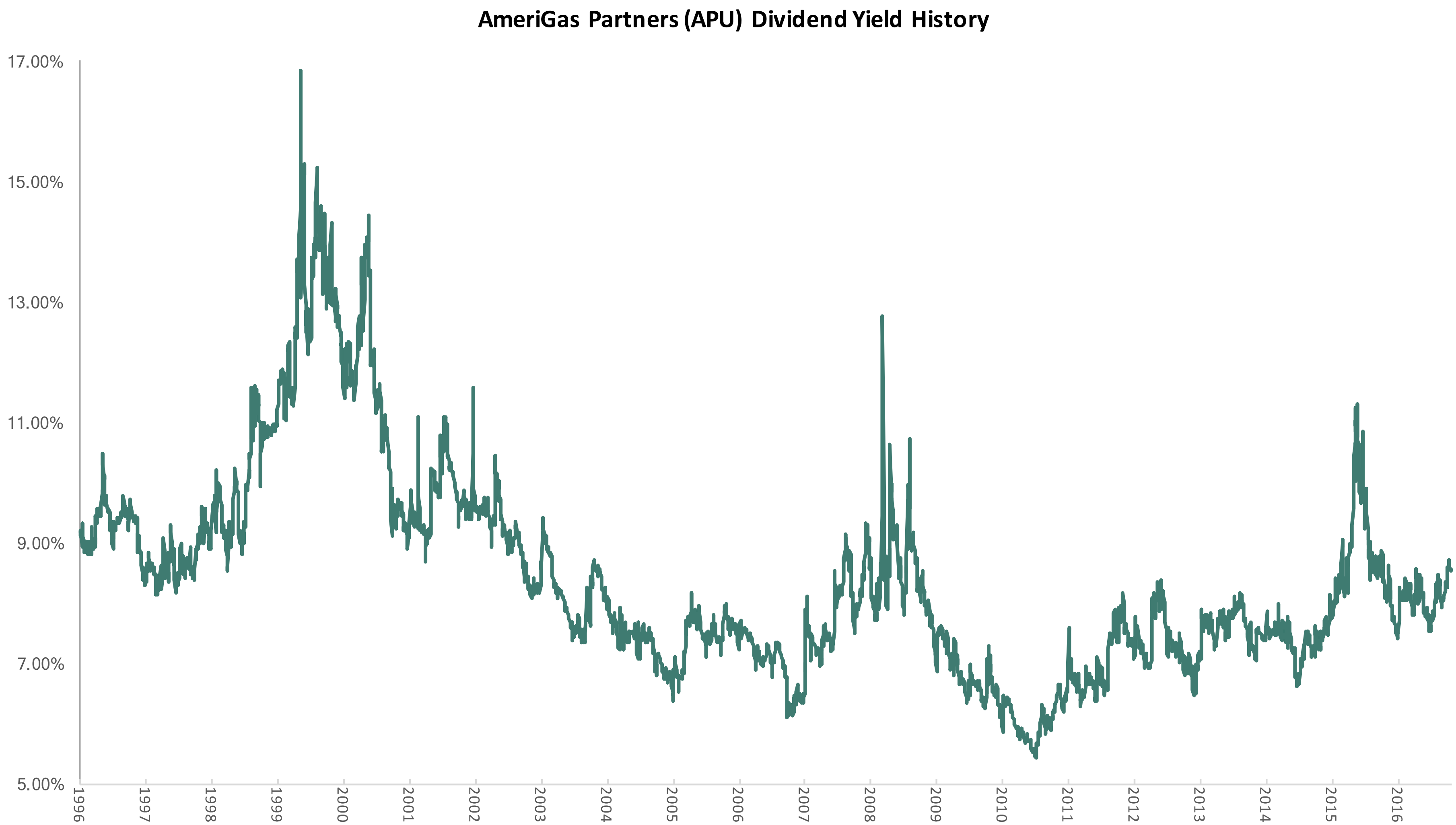
Growth Prospects

AmeriGas Partners' long-term growth driver is to slowly consolidate the fragmented propane distribution industry. The company made 15 bolt-on acquisitions in the last 2 years, 2 in the last quarter, and *more than 80 over the past decade.* AmeriGas estimates there are around 3,500 *potential* acquisition candidates in the United States propane market, giving the company a long growth runway.

The company is expecting growth of 3% to 4% a year over the long run. While this growth isn't particularly impressive, investors can still expect double-digit total returns based on the company's 8.6% dividend yield.

Valuation

AmeriGas Partners' median dividend yield over the last decade is 7.5%. The company is currently trading for a dividend yield of 8.6%. Based on this, AmeriGas appears undervalued, likely due to concerns about the impact of prolonged high temperatures on the company's business.


AmeriGas Partners (APU) Dividend Yield History
17.00%
15.00%
13.00%
11.00%
9.00%
7.00%
5.00%
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

AT&T (T)

Key Statistics, Ratios, & Metrics

Dividend Yield: 5.0%
Most Recent Annual Dividend Increase: 2.1%
Dividend History: 33 years of increases
Ex-Dividend Date: 7/7/17 (estimated)
10 Year Dividend Growth Rate: 3.7%
Sector: Telecommunication Services
Business Type: Corporation
Payment Date: 8/1/17 (estimated)

Overview

AT&T is the largest domestic telecommunications company in the United States based on its ~$241 billion market cap and 2016 consolidated revenue of ~$164 billion. The company's only competitor with similar size is Verizon (VZ). AT&T can trace its roots back to 1876 when Alexander Graham Bell invented the telephone. Today, AT&T generates more revenue than any other communications company and employs more than 200,000 individual in the U.S. alone. AT&T is highly shareholder-friendly and has increased its dividend payments for 33 consecutive years.

Current Events

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

AT&T's pending ~$85 billion acquisition of Time Warner (TWX) announced last fall (10/22/16) continues to proceed as planned. Last quarter, Time Warner's shareholders (2/15/17) approved the transaction, with 78% of outstanding shares voting in favor. Of the shares that were actually voted, 99% gave approval for the merger. The transaction is expected to be closed by the end of 2017.

Safety

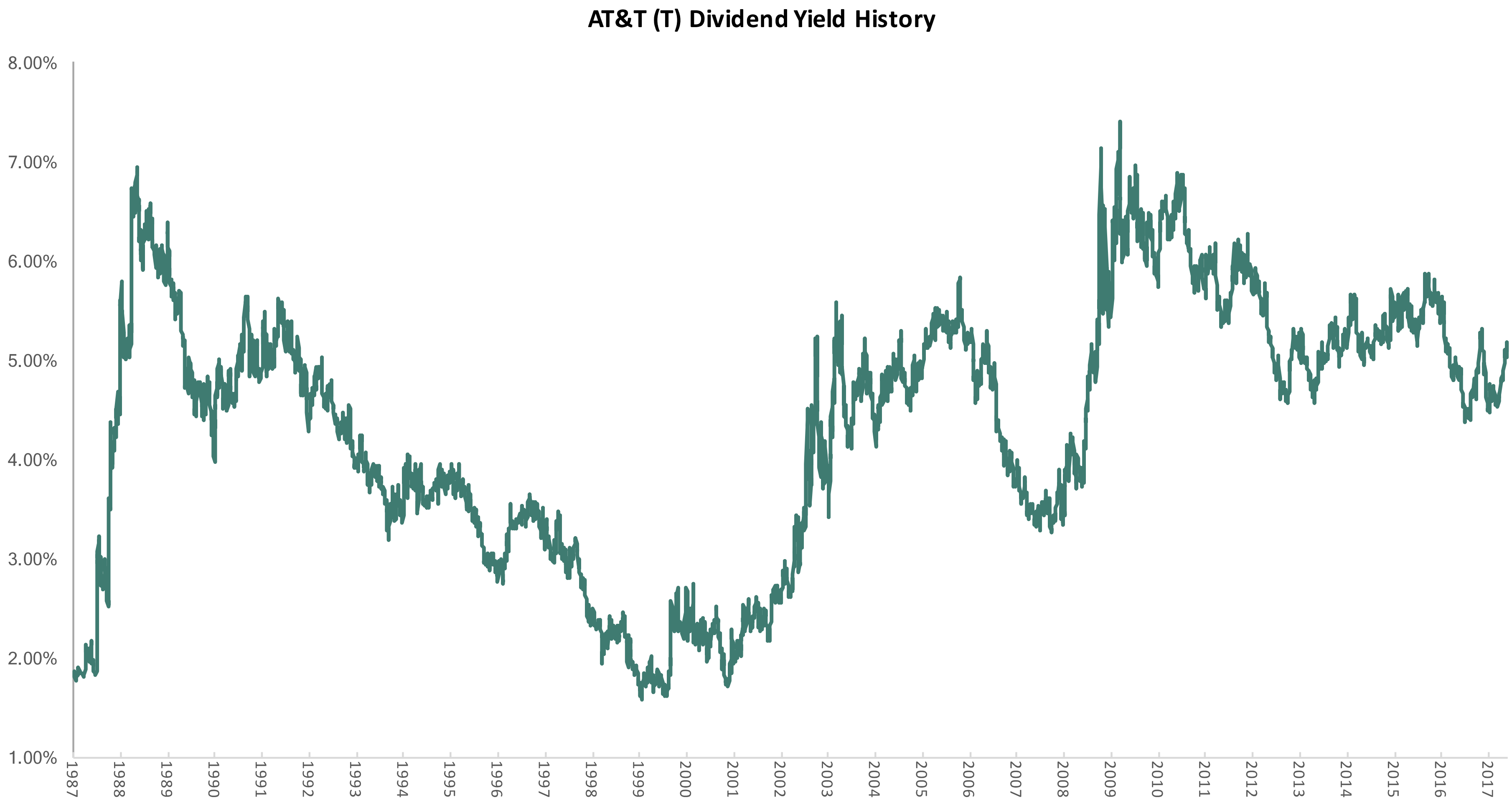
AT&T is likely the single safest stock available today with a yield above 5% - the company has a payout ratio in the most recent quarter of 87.5% and 66.2% using GAAP and adjusted earnings, respectively. AT&T's long dividend history shows it is capable and willing to raise dividends through a variety of environments. AT&T has very stable cash flows, and its services are a necessity in today's connected world. This gives AT&T a utility-like business model with substantial barriers to entry.

Growth Prospects

AT&T's earnings-per-share have grown at 2.0% a year over the last decade, and its dividend payments have grown at 3.7% per year over the same period. I expect similar levels of growth going forward. Growth in the short-term will come from an expected $1 billion in annual synergies from the pending Time Warner acquisition, while long-term growth will come from increasing consumer demand for telecommunication services. AT&T is likely to deliver inflation-beating dividend growth.

Valuation

AT&T is currently the only Dividend Aristocrat with a dividend yield of 5%. This gives AT&T a unique combination of income and safety. The company's stock has remained fairly stable since being featured in last month's newsletter and remains firmly in 'buy' territory, currently trading at 13.6x 2016's earnings and 13.1x 2017's expected earnings (using adjusted earnings – the GAAP equivalent is 18.3x 2016's earnings). For context, the company's average price-to-earnings ratio over the past decade is 14.8. Right now is historically a great opportunity to initiate or add to a position in AT&T.


AT&T (T) Dividend Yield History
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
1987
1988
1989
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1991
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2017

Energy Transfer Equity (ETE)

Dividend Yield: 6.7%
Most Recent Annual Dividend Increase: 37.3% (2015)
Dividend Hist.: 10 years of increases, frozen since ‘15
Ex-Dividend Date: 8/7/17 (estimated)
10 Year Dividend Growth Rate: 12.9%
Sector: Energy
Business Type: MLP
Payment Date: 8/19/17 (estimated)

Overview & Current Events

Energy Transfer Equity is an oil & gas MLP that owns the general partner and 100% of the incentive distribution rights (IDRs) of Sunoco L.P. and Energy Transfer Partners – the second of which is also ranked in this month’s Top 10. Incentive distribution rights give the general partner increasing shares of distributable cash flow as the businesses grow. Energy Transfer Equity also owns 100% of Energy Transfer LNG, an operating business which owns Lake Charles LNG and has a 60% interest in Lake Charles LNG Export Co (the remainder is owned by Energy Transfer Partners).

Energy Transfer Equity reported (5/3/17) distributable cash flow of $215 million in the first quarter of 2017, down considerably from the $349 million reported in the same quarter a year ago. This was primarily driven by a $105 million reduction in IDRs from Energy Transfer Partners. Energy Transfer Equity previously announced that it had agreed to a temporary IDR reduction of $720 million over a period of 7 quarters beginning in June of 2016. During this time, Energy Transfer Partners completed its significant merger with Sunoco Logistics, which closed in late April 2017.

Energy Transfer Equity executed two substantial capital market transactions this year. First, the MLP issued (1/9/17) 32.2 million common units for gross proceeds of $580 million to purchase 15.8 million units of the ‘new’ Energy Transfer Partners after its merger with Sunoco Logistics. Secondly, Energy Transfer Equity invested $300 million into Sunoco L.P. through a private placement of preferred equity. Sunoco used the proceeds to repay outstanding borrowings on its revolving credit facility. This is common behavior - the Energy Transfer Equity entities often work together and ETP CEO Kelcy Warren said on a recent conference call that “*I think an ultimate consolidation is inevitable*.”

Energy Transfer Equity (along with Energy Transfer *Partners*) has received negative media attention this month concerning environmental violations at its *Rover* pipeline construction project and the Dakota Access Pipeline. See this month’s ETP analysis for more details.

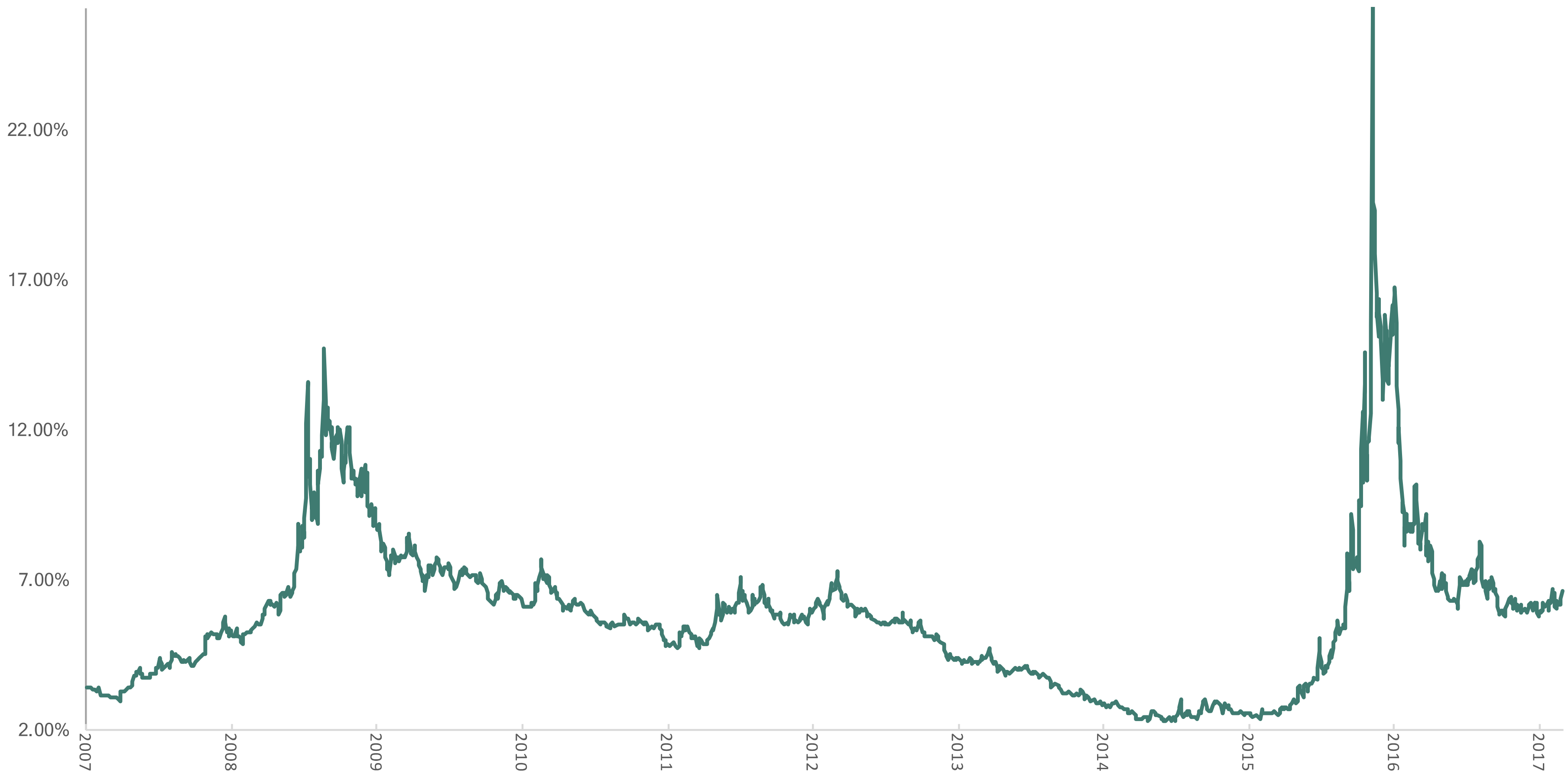
Safety

Because of this quarter’s declining distributable cash flow and additional units outstanding, Energy Transfer Equity’s distribution coverage ratio has declined to 0.86. As mentioned, ETE has reduced the IDRs it received from ETP. The purpose of this is to allow ETP to focus on current growth projects. While ETE’s risk is elevated right now (and will be for the near future) a distribution cut is unlikely since ETP is more likely to resume IDR payments than cut ETE’s dividend. ETE’s last dividend increase was in 2015 and the MLP is unlikely to deliver immediate dividend growth given its low distribution coverage ratio.

Valuation

Energy Transfer Equity’s average dividend yield over the past decade is 5.7% and its current dividend yield is 6.7%. Based on its dividend yield, the MLP appears moderately undervalued. This is likely due to the company’s currently weak distribution coverage ratio and the uncertainty around the impact of the Energy Transfer Partners and Sunoco Logistics merger on this MLP.

Energy Transfer Equity (ETE) Dividend Yield History



Holly Energy Partners (HEP)

Key Statistics, Ratios, & Metrics

Dividend Yield: 7.8%
Most Recent Annual Dividend Increase: 7.8%
Dividend History: 13 years of consecutive increases
Ex-Dividend Date: 8/4/17 (estimated)
10 Year Dividend Growth Rate: 6.0%
Sector: Energy
Business Type: MLP
Payment Date: 8/15/17 (estimated)

Overview

Holly Energy Partners operates a system of pipelines, storage tanks, and terminals for petroleum and crude. The MLP controls 3,400 pipeline miles and 14 million barrels of storage capability. Holly Energy Partners' assets are strategically located near those of HollyFrontier Corporation (HFC), which owns the general partner of Holly Energy Partners and has a 35% limited partner stake in the MLP.

Current Events

Holly Energy Partners' recent (5/2/17) first quarter earnings release reported distributable cash flow of $57.3 million, a 3.5% increase over the same period a year ago. The MLP also reported revenue growth of 3.6% and an EBITDA increase of 0.3%. This solid growth came despite a production downturn in HollyFrontier's Navajo refinery, which reduced Holly Energy Partners' throughput.

Safety

100% of Holly Energy Partners' revenue is fee-based with limited commodity exposure and 80% of revenues are tied to long-term contracts, giving the company a de-risked business model. Further, the MLP has grown its distributions *every quarter since going public in 2004*, a streak of 50 consecutive quarters. Holly Energy Partners has a payout ratio (using distributable cash flow) of 68% and targets a distribution coverage ratio of at least 1.1x-1.2x. Further, Holly Energy Partners' targets 8% annual distribution growth, giving its investors a healthy mix of safety and growth.

Growth Prospects

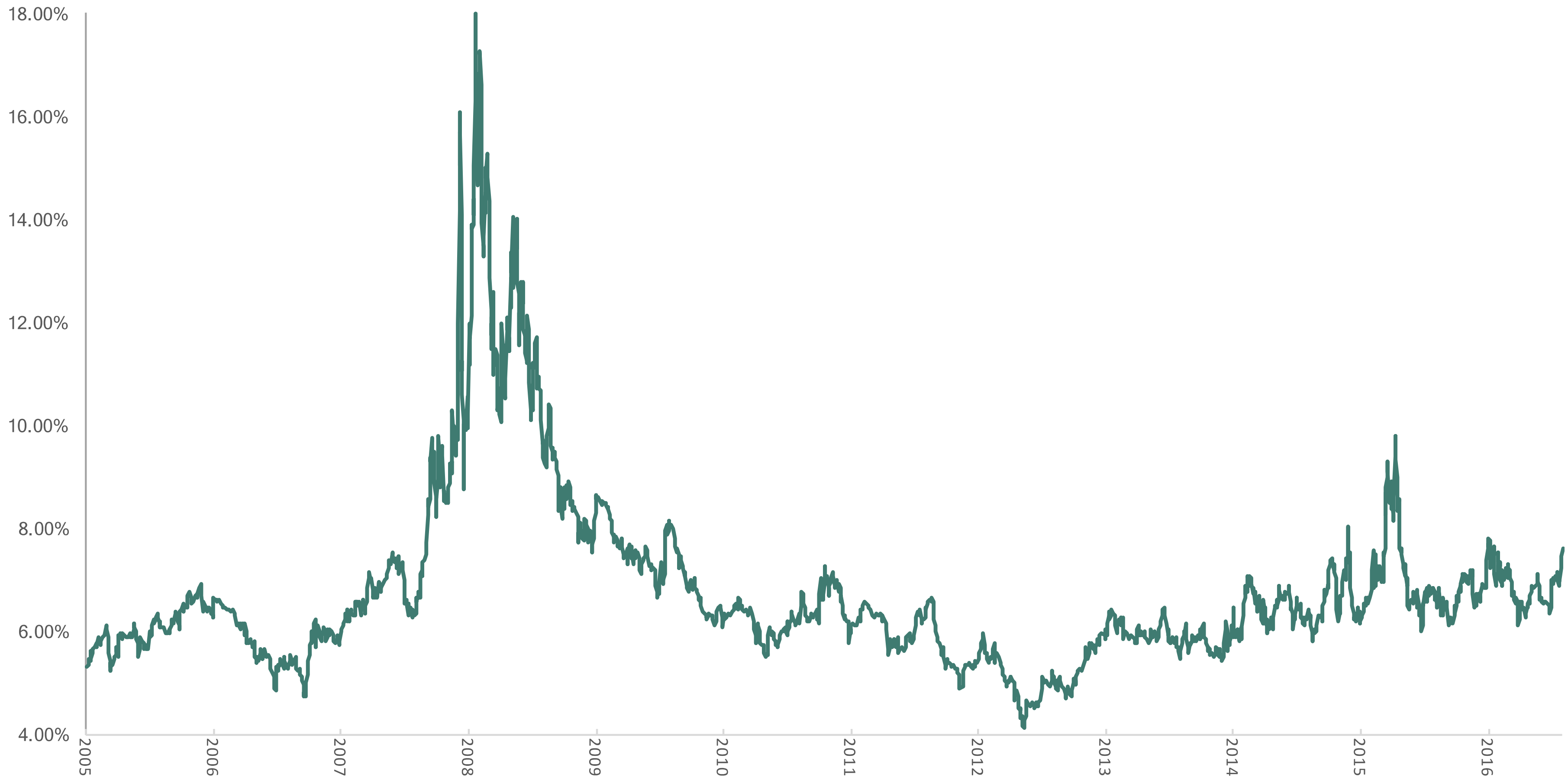
Since inception, Holly Energy Partners has grown its revenue by 16% per year and both its EBITDA and distributable cash flow by 17% per year. In addition, the partnership has grown its distribution at 6% per year over the past decade. In 2017, Holly Energy Partners is implementing a cost-cutting project that is expected to save $14 million per year once completed. For context, Holly Energy Partners had revenues of $402 million in 2016, which means the savings from this cost-cutting initiative are reducing expenses by ~3.5% of revenue.

Holly Energy Partners will also benefit from future 'dropdown deals,' where HollyFrontier (which owns the general partner) sells assets to the MLP. An example of this was seen in October of 2016, when HollyFrontier sold Holly Energy Partners the newly constructed crude, catalytic cracking, and polymerization units of HollyFrontier's Woods Cross refinery for a total price of $278 million. Holly Energy Partners also actively pursues the acquisition of assets from counterparties other than HollyFrontier. In particular, the MLP tends to purchase assets where the primary customer is already HollyFrontier, strengthening the relationship between the MLP and the general partner.

Valuation

Holly Energy Partners has traded at an average dividend yield of 6.2% over the past 5 years and 6.9% over the past 10 years. The company is trading at a current dividend yield of 7.8%, indicating that it is meaningfully undervalued from typical levels.

Holly Energy Partners (HEP) Dividend Yield History



Closing Thoughts
– The Importance of High Yield Stocks –

William P. Bengen revolutionized the financial planning industry with his introduction of the 4% rule in his 1994 paper, "*Determining Withdrawal Rates Using Historical Data*."

The 4% Rule gives a recommended amount for retirees to withdraw from their retirement account each year: 4% of assets. So if you retire with $1 million, you would withdraw $40,000 in the first year and 4% of annual assets thereafter. There are two main flaws to the 4% Rule.

Firstly, the 4% Rule does not necessarily create growing income over time, even though your expenses are almost certainly going to rise thanks to inflation. In a bull market, the 4% you withdraw each year will likely increase, but it a bear market, it will decrease dramatically.

Secondly, the 4% Rule means that you will be withdrawing the same proportion of your invested assets during recessions – when stocks go on sale. Selling securities in down markets can have a *huge* detrimental effect on your long-term ability to build wealth and generate portfolio income.

Creating a portfolio of high-yield dividend stocks that pay *inflation-beating distributions* is a superior method to generate retirement income versus the 4% Rule.

This month's Top 10 have a history of growing their dividends over time, often at rates exceeding inflation. This means that even though you may not be contributing more funds, *your income will still rise over time,* helping you to overcome the negative effects of inflation.

The income generated by high yield securities will remain unchanged during a bear market, barring any dividend cuts. This means that you will not be forced to sell stocks during a bear market, since you're not selling *any* securities to fund your withdrawals since the dividends earned exceed the 4% withdrawn

Investing in high yield stocks also has a third advantage. It is a *much simpler strategy* to fund your retirement. Instead of identifying and selling securities each month to fund your 4% annual withdrawal, you can simply withdraw the cash accumulating in your account thanks to the generous distribution payments of your portfolio holdings.

High yield dividend stocks offer many advantages over the 4% Rule – inflation-beating distributions, constant income during bear markets, and fewer transaction activities. For these reasons, we continue to believe high yield stocks are the best way for retirees to generate income.

The next newsletter publishes on Sunday July 2nd, 2017.

List of Investments by Sector

Each of the 76 stocks with long histories of dividend increases and 5%+ dividend yields is sorted by rank below in order based on The 8 Rules of Dividend Investing (highest to lowest) based on its GICS sector. Dividend yield is included next to each stock's ticker symbol.

Communication Services

1. AT&T Inc. (T) - 5%
2. Verizon Communications Inc. (VZ) - 5%
3. Vodafone Group plc (VOD) - 5.4%

Consumer Cyclicals

1. Macy's, Inc. (M) - 6.3%
2. Kohl's Corporation (KSS) - 5.6%
3. GameStop Corp. (GME) - 6.7%
4. Mattel, Inc. (MAT) - 6.7%
5. Staples, Inc. (SPLS) - 5.2%
6. Ford Motor Company (F) - 5.2%

Consumer Defensive

1. Vector Group (VGR) - 7.3%

Energy

1. Energy Transfer Partners (ETP) - 9.8%
2. Genesis Energy, LP (GEL) - 9.3%
3. Occidental Petroleum Corp. (OXY) - 5%
4. Buckeye Partners, LP (BPL) - 7.6%
5. Enterprise Product Partners (EPD) - 6.2%
6. Energy Transfer Equity, LP (ETE) - 6.7%
7. Holly Energy Partners, LP (HEP) - 7.7%
8. Sunoco, LP (SUN) - 11%
9. Western Gas Partners, LP (WES) - 6.2%
10. TC PipeLines, LP (TCP) - 6.5%
11. Spectra Energy Partners, LP (SEP) - 6.5%
12. Helmerich & Payne (HP) - 5.2%
13. ONEOK Partners, LP (OKS) - 6.4%
14. NuStar Energy LP (NS) - 9.5%
15. Transmontaigne Partners, LP (TLP) - 6.8%
16. EnLink Midstream, LLC (ENLC) - 5.9%
17. Tesoro Logistics, LP (TLLP) - 7.1%
18. DCP Midstream, LP (DCP) - 9.1%
19. EnLink Midstream, LP (ENLK) - 9.3%
20. Targa Resources Corp. (TRGP) - 7.9%
21. Tallgrass Energy Partners, LP (TEP) - 6.8%
22. MPLX LP (MPLX) - 6.5%
23. SemGroup Corporation (SEMG) - 5.8%
24. Enable Midstream Partners (ENBL) - 8.2%

Financial Services

1. PennantPark Floating Rate (PFLT) - 8%
2. Waddell & Reed (WDR) - 10.7%
3. Main Street Capital (MAIN) - 5.7%
4. Gladstone Investment (GAIN) - 8.3%
5. Ares Capital Corporation (ARCC) - 9%
6. BGC Partners, Inc. (BGCP) - 6%
7. Artisan Partners Asset (APAM) - 8.2%
8. FS Investment Corporation (FSIC) - 9.7%

Industrials

1. Iron Mountain Incorporated (IRM) - 6.3%
2. Macquarie Infrastructure (MIC) - 6.7%
3. Icahn Enterprises LP (IEP) - 12.4%

Real Estate

1. Omega Healthcare Investors (OHI) - 8%
2. Ramco-Gershenson Prop. (RPT) - 6.9%
3. Sabra Health Care REIT (SBRA) - 7.3%
4. Tanger Factory Outlet Centers (SKT) - 5.2%
5. W.P. Carey, Inc. (WPC) - 6.1%

6. Starwood Property Trust (STWD) - 8.7%
7. STAG Industrial, Inc. (STAG) - 5.1%
8. National Health Investors Inc. (NHI) - 5%
9. Senior Housing Properties (SNH) - 7.3%
10. DDR Corp. (DDR) - 8.7%
11. Arbor Realty Trust, Inc. (ABR) - 8.8%
12. Chesapeake Lodging Trust (CHSP) - 6.8%
13. Hospitality Properties Trust (HPT) - 7.1%
14. Kimco Realty Corporation (KIM) - 6%
15. EPR Properties (EPR) - 5.7%
16. Urstadt Biddle Properties Inc. (UBA) - 5.6%
17. VEREIT, Inc. (VER) - 6.6%
18. Select Income REIT (SIR) - 8.3%
19. Medical Properties Trust (MPW) - 7.3%
20. New Residential Investment (NRZ) - 11.8%
21. Brixmor Property Group Inc. (BRX) - 5.7%
22. Life Storage, Inc. (LSI) - 5.4%
23. One Liberty Properties, Inc. (OLP) - 7.5%
24. Lexington Realty Trust (LXP) - 7.2%
25. Spirit Realty Capital, Inc. (SRC) - 9.7%
26. RLJ Lodging Trust (RLJ) - 6.4%
27. LaSalle Hotel Properties (LHO) - 6.2%
28. The GEO Group, Inc. (GEO) - 6.2%
29. Care Capital Properties, Inc. (CCP) - 8.7%%

Technology

1. Black Box (BBOX) – 6.0%

Utilities

1. AmeriGas Partners, LP (APU) – 8.6%

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6. Omega Healthcare (OHI) - 8%
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8. AT&T Inc. (T) - 5%
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72. SemGroup (SEMG) - 5.8%
73. Artisan Partners (APAM) - 8.2%
74. Enable Midstream (ENBL) - 8.2%
75. FS Investment (FSIC) - 9.7%
76. Care Capital Properties (CCP) - 8.7%

List of Past Recommendations & Ranking Criteria

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

The sell criteria are below:

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

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

Name & Ticker	Recommend Date	Status	Total Return
Buckeye Partners, LP (BPL)	November 2016	Hold	6.1%
Enterprise Products Par. (EPD)	November 2016	Hold	11.5%
Omega Healthcare Inv. (OHI)	November 2016	Hold	7.2%
Genesis Energy LP (GEL)	November 2016	Hold	-1.8%
AT&T (T)	November 2016	Hold	8.1%
Energy Transfer Equity (ETE)	November 2016	Hold	25.1%
Holly Energy Partners (HEP)	December 2016	Hold	2.3%
Energy Transfer Partners (ETP)[1]	January 2017	Hold	-6.1%
AmeriGas Partners, LP (APU)	January 2017	Hold	-2.5%
Occidental Petroleum (OXY)	June 2017	Hold	N/A

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

Name & Ticker	Recommend Date	Status	Total Return
Urstadt Biddle (UBA)	November 2016	Hold	-7.2%
Magellan Midstream (MMP)	November 2016	Hold	12.4%
Waddell & Reed (WDR)	November 2016	Hold	12.4%
Spectra Energy Partners (SEP)	November 2016	Hold	7.4%
TC PipeLines (TCP)	December 2016	Hold	14.2%
Gladstone Investment (GAIN)	February 2017	Hold	6.7%
W.P. Carey, Inc. (WPC)	February 2017	Hold	9.0%
Macy's (M)	May 2017	Hold	-17.0%
Sunoco LP (SUN)	May 2017	Hold	1.1%
Kohl's Corporation (KSS)	May 2017	Hold	-0.8 %

There have been no sells in the Sure Retirement Newsletter.

[1] Recommended as SXL which changed its ticker to ETP

Portfolio Building Guide

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

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

Examples

Portfolio 1		
Ticker	**Name**	**Amount**
ETP	Energy Transfer Partners	$ 1,002
GEL	Genesis Energy, LP	$ -
OXY	Occidental Petroleum	$ -
BPL	Buckeye Partners, LP	$ -
EPD	Enterprise Product Part.	$ -
OHI	Omega Healthcare	$ -
KSS	Kohl's Corporation	$ -
APU	AmeriGas Partners, LP	$ -
T	AT&T Inc.	$ -
ETE	Energy Transfer Equity, LP	$ -

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

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