The Sizemore Income Letter

November 2021

Here We Go Again

By Charles Lewis Sizemore, CFA

The Godfather Part III wasn't exactly a great movie.

The original *Godfather* might very well be the best movie ever made, and its sequel, *Part II*, wasn't far behind it. But the third installment just didn't quite deliver the same magic.

There was one memorable line, however. Michael Corleone desperately wants to leave the mafia life behind and go clean… but his legion of enemies has other ideas. Realizing he has no option but to resort to his old ways, Corleone throws up his hands in exasperation and says "Just when I thought I was out, they pull me back in."

That's how I felt when the news broke over the Thanksgiving holiday of a new COVID variant coming out of South Africa. The new omicron variant was startling enough to the health authorities to prompt large swaths of the world to restrict incoming flights from southern Africa. Israel shut down all incoming flights… from everywhere!

The market reaction on Friday was about what you would expect. Stocks sold off hard as investors feared yet another round of lockdowns and another chapter in a story that just won't end. Just when we thought we were out, COVID pulls us back in…

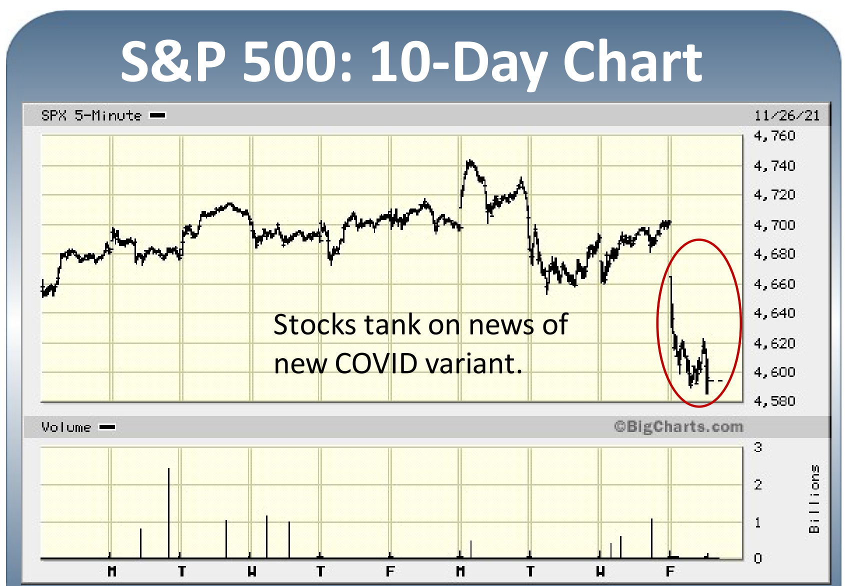


Figure 1

I'm not a doctor… and I'm certainly not a public health expert. I have no idea how dangerous the new variant is. Your guess is as good as mine. But for our purposes as investors, it actually doesn't matter how dangerous the variant is, per se. What matters is the potential economic fallout from any new restrictions or from people retreating into bunker mode.

It's still early. It could be that this new variant is no more deadly or transmissible than delta and that the vaccines work well enough to keep most of us out of the hospital. Or for all we know, this is the end of human civilization and the start of a dystopian future that resembles *12 Monkeys*. We'll find out soon enough. But while the market is digesting new information, expect it to remain volatile. We'll likely have massive down days and massive up days until more information comes in.

For now, I'm going to treat this little spate of volatility as a tradable dip. As I have really stressed over the past few weeks, I'm treading carefully and keeping our stops relatively tight. I'm prepared to dump *everything* if it comes down to it. But if we're heading to a major "blow off" top, I don't want to miss that either.

Think back to the late 1990s. Things had already been nutty for years by the time 1998 rolled around. We had a near bear market that year after hedge fund Long-Term Capital Management blew up in spectacular fashion. But then, just as it seemed the world was ending, the market bounced and went on to rise again by more than half before finally topping out in the first quarter of 2000.

I'm not necessarily saying that's the exact scenario I expect. My view is simply that, giving the volume of stimulus still being thrown into the capital markets and given the fact that earnings have been coming in particularly strong, I think it makes sense to stay invested until the market tells us otherwise.

What Now?

I'll admit that the news of the omicron variant came at an inopportune time. My recommendation this month – entertainment REIT **EPR Properties (NYSE: EPR)** – is tied directly to the reopening trade.

S&P 500 (1997-2000)

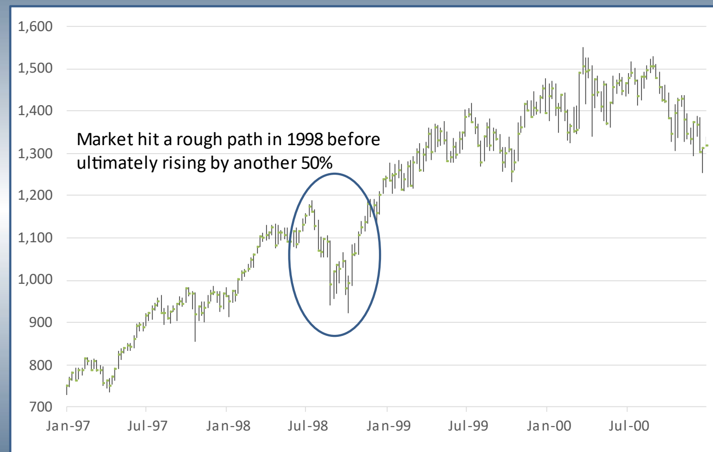


Figure 2

EPR Properties

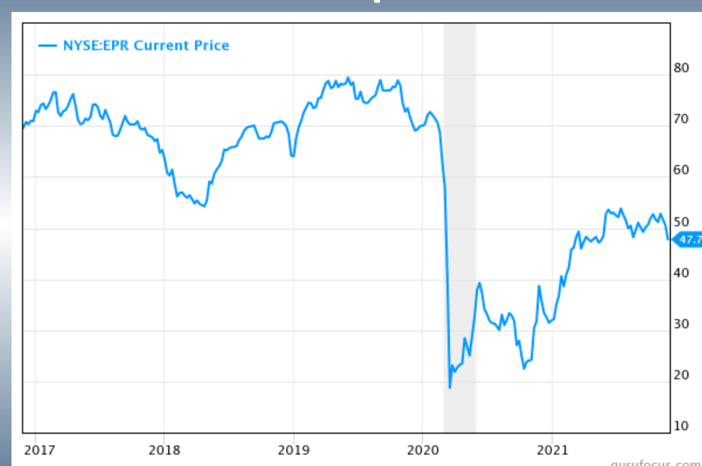


Figure 3

EPR Properties Portfolio

Property type	Properties	Operators	Contractual Cash Revenue[2]	Strategic Focus
Theatres[1]	177	18	44%	Reduce
Eat & Play	57	8[4]	28%	Grow
Ski	13	5	8%	Grow
Attractions	18	5	7%	Grow
Experiential Lodging	8	2	4%	Grow
Gaming	1	1	2%	Grow
Cultural	3	2	1%	Grow
Fitness & Wellness	7	2	1%	Grow
EXPERIENTIAL PORTFOLIO	284	43	95%	
Private Schools	9	1	2%	Reduce
Early Childhood Education	65	7	3%	Reduce
EDUCATION PORTFOLIO	74	8	5%	
TOTAL PORTFOLIO	358	51	100%	

Source: EPR Investor Presentation *Figure 4*

A moment ago, I mentioned that I'm treating the omicron news as a tradable dip. And I'd reiterate that here. EPR dropped nearly 7% on Friday. I believe this was an overreaction, and I'll go into more detail on that aspect shortly. But first, let's dig into the company.

All About Experiences

EPR Properties is a real estate investment trust (REIT) with a niche portfolio focused on experiences and entertainment. (EPR is actually short for "entertainment properties.")

Fully 95% of the portfolio is invested in entertainment and experiences with the remaining 5% invested in private schools and early childhood education. (EPR is reducing its exposure to schools to become a pure play on entertainment and experiences.)

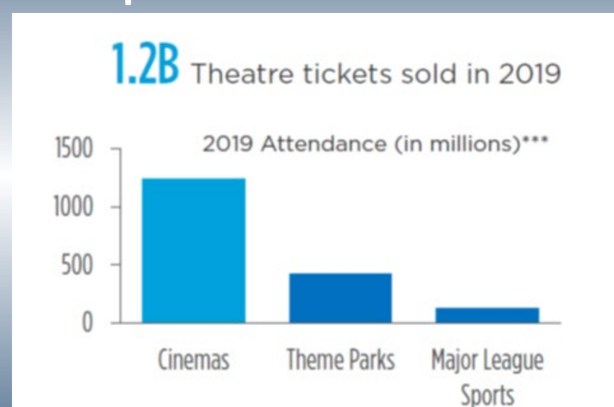
Movie theaters are the REIT's largest allocation, accounting for about 44% of revenues. That's a high concentration, of course, and EPR is working on rebalancing its portfolio to make theaters a smaller piece of the total.

But for the moment, theater exposure isn't looking too bad. After a long stretch of closures, Americans are returning to theaters in droves, and Hollywood has a veritable backlog of content to show them. This year brought Daniel Craig's final appearance as James Bond in *No Time to Die* as well as four Marvel Cinematic Universe films, and next year will bring at least three new Marvel movies as well as installments to *Top Gun, Mission Impossible, Avatar, Jurassic World, Batman* and *Aquaman.*

Yes, competition from Netflix and other high-quality streamers is real, but it's not exactly an apples-to-apples comparison. 85% of content minutes streamed at home are series rather than movies. You can binge watch Netflix at home in sweatpants. But a movie is still an event, and going to a theater is an experience… particularly considering the gentrification of theaters over the past decade. Most theaters, particularly in affluent areas, now boast luxury seating and many now offer alcohol and high-end dining in addition to the usual popcorn and Coke.

58% of EPR's theater properties have reclining seats, and fully 77% have enhanced food and beverage options or alcohol. EPR clearly focuses on the premium properties most likely to thrive in this new world.

Theater Attendance Relative to Sports or Theme Parks



Source: EPR Investor Presentation *Figure 5*

Our usable data only goes through 2019, of course, as the COVID pandemic made data from 2020 and most of 2021 all but useless. But movie attendance absolutely dwarfs live sports and even theme parks.

During the pandemic, the movie studios experimented with new models, such as bringing movies directly to streaming platforms. But as the world normalizes, it seems they've found a new formula. Movies will continue to hit the theaters first and will make it to the streaming services 30-45 days later. This seems to be the happy medium that keeps viewers happy.

Movies will remain the biggest single revenue driver for EPR for a while. But the REIT is focused on expanding its "eat and play" or "eatertainment" portfolio, which includes properties such as Top Golf.

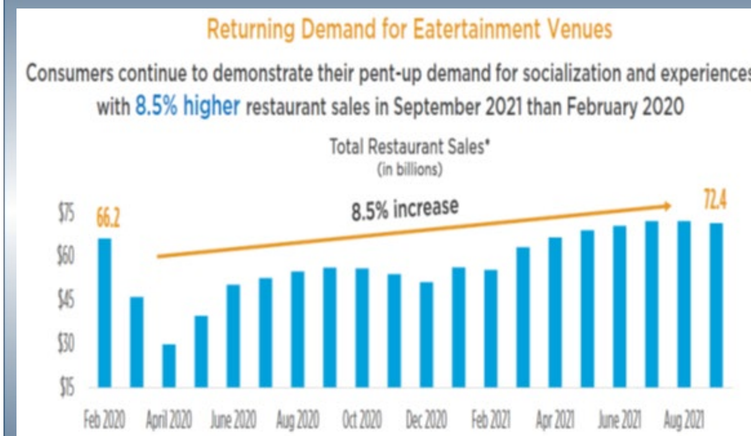
Getting together with friends at a restaurant is fun… particularly after nearly two years of having limited access. And perhaps amazingly, restaurant sales have now returned to and surpassed pre-COVID levels. But hyperactive Millennials often prefer to "do" something rather than just eat and yap. Properties that allow guest to eat, drink and do some sort of physical activity were wildly popular before the pandemic. They're even more so today.

The eat and play portfolio currently makes up about 28% of EPR's revenues. Expect to see that figure creep higher in the years ahead.

Looking deeper into EPR's portfolio, the REIT has an 8% allocation to ski properties, a 7% allocation to theme park properties, a 4% allocation to "experiential lodging" (think themed hotels with attached attractions, such as a waterpark) and a 2% allocation to casino / gaming properties. EPR views all of these as areas for growth.

Most of you have likely heard of Peter Lynch. He was the long-time manager of the Fidelity Magellan fund and one of the best fund managers of all time. Between 1977 and 1990, Lynch averaged a 29% annual return… and he retired *before* the go-go years of the 1990s.

Restaurants are Back



Source: EPR Investor Presentation *Figure 6*

At any rate, Lynch's most enduring advice was to "buy what you know." If you or your family regularly use a product or service, it might be worthwhile to see if there is an investment play there.

Well, at least in my family's experience, I can say that EPR passes the "Peter Lynch test." We generally go skiing once per year… and it seems I get dragged to theme parks and experiential hotels more often than I care to.

I hate gambling and wouldn't shed a tear if every casino on earth fell into a black hole… and yet even I found myself in Las Vegas this past month.

What About the Dividends?

This is an income newsletter, so let's talk dividends. At current prices, EPR yields 6.3%.

That's a solid yield, but it's also likely only the beginning. I expect to see major dividend growth in the years ahead.

EPR got utterly slammed by the pandemic, as nearly every property in its portfolio was closed for a time, and many of its tenants had to negotiate rent deferrals or other concessions.

As a precautionary measure to conserve cash, EPR slashed its dividend to *zero* in 2020 but reinstated it earlier this year at $0.25 per month, or $0.75 per quarter.

EPR's dividend would have to rise by 53% just to return to pre-pandemic levels. And it *will*. It won't happen in a single quarter, but the fundamental drivers of EPR's pre-pandemic succuss are stronger than ever.

As its tenants get their houses in order, EPR's rental revenues will surpass the levels they saw before COVID turned the world upside down. And those higher revenues will be translated into higher dividends for EPR shareholders.

In the third quarter of this year, EPR collected 90% of the rents it is entitled to under current leases. But importantly, tenants are also starting to pay back deferred rent from the pandemic. Including these back payments, EPR collected 102% of its contractual cash revenue for the quarter.

Rome wasn't built in a day, and it will be a while before we repair all of the damage done by COVID and by the measures put into place to combat it. But we're getting there, and we're getting there quickly. And EPR represents a way to profit from that general trend while also collecting a nice yield of more than 6%.

So, please take the following action:

Action to take: Buy shares of EPR Properties (NYSE: EPR). Set a stop loss at $33.92.

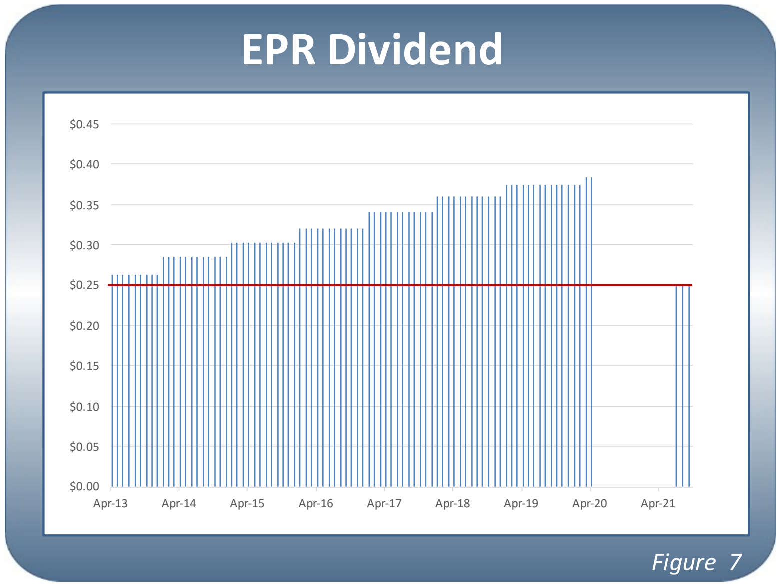


Figure 7

Again, for now I'm viewing the omicron variant as a tradable dip. I really encourage you to seize this opportunity to buy a best-in-class player at a discounted price.

If that makes you nervous, I get it. It's always scary when you see large swaths of the world restricting travel... again. And I don't think there's anything wrong with averaging into this position over the course of a few weeks if you'd prefer to be extra cautious. But I see this as a great opportunity to buy a best-in-class REIT while it is on sale, so don't wait too long!

Portfolio Update

There's not a lot to report at the moment. We've been keeping our stops tight, and I don't plan to change that.

I believe we're in the late innings of the bull market. Valuations stopped making sense ages ago, and the proverbial wall of worry has been replaced by bald-faced speculation. This doesn't mean the bull dies tomorrow. We had these conditions in place for years during the late 1990s. But it does suggest the end is sooner rather than later.

The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
Prologis	PLD	10/29/2021	$ 146.67	$ 153.28	None	1.75%	$ -	4.51%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 185.85	None	3.27%	$ -	2.17%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 87.35	None	5.27%	$ 1.20	-0.90%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 43.47	None	7.58%	$ 5.12	30.97%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 69.79	None	3.86%	$ 3.75	52.95%	Yes
AT&T	T	3/19/2020	$ 31.15	$ 23.88	None	8.30%	$ 3.64	-11.65%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 21.68	None	7.42%	$ 2.24	64.70%	No
Kinder Morgan	KMI	3/19/2020	$ 11.20	$ 16.01	None	6.24%	$ 1.32	54.75%	Yes
Ventas	VTR	3/19/2020	$ 19.98	$ 49.12	None	3.28%	$ 3.04	161.08%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 331.89	None	2.48%	$ 10.00	82.24%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 47.22	None	3.69%	$ 2.57	65.23%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 43.44	None	3.32%	$ 1.93	108.94%	Yes
Investments	ROIC	3/19/2020	$ 7.25	$ 17.78	None	2.47%	$ 0.42	151.03%	Yes

So, we'll going to continue to ride it higher… but I'm ready to eject at any time.

There's no specific action to take today, but I would point out that we're getting close to our stops in the **Morgan Stanley Emerging Markets Domestic Debt Fund (NYSE: EDD)** and the **Invesco Advantage Municipal Income Trust II (NYSE: VKI)**. So, we'll be sure to keep an extra close eye on those two.

With new money to invest, I still really like the **Ecofin Sustainable and Social Impact Fund (NYSE: TEAF)** at current prices. It trades at a 15% discount to NAV, it yields over 6%, and – importantly – it invests heavily in green energy. Due to both political mandates and improving economics, green energy projects are all but guaranteed to absorb large sums of investor capital over the next decade.

TEAF is a term fund rather than a traditional closed-end fund (CEF). In plain English, that means that the fund will terminate in a little over nine years with the proceeds being distributed to investors. This means that any discounts to net asset value will get closed, one way or another.

Apart from TEAF, I also still really like **Chevron Corp (NYSE: CVX)**. We're up about 11% in two months, and I see a lot more where that came from.

Update on Forever Portfolio

Last month, rather than add a regular position to the portfolio, I made two new additions to the Forever Portfolio.

So far, so good. November has been a rough month in the market, but we're up about 4.5% in logistics REIT **Prologis (NYSE: PLD)** and another 2.2% in cell tower REIT **Crown Castle (NYSE: CCI)**.

I mentioned earlier that I was prepared to sell everything and sit in cash if it looked like the bear market were finally ending. That is not the case, of course, with our Forever Portfolio. If the omicron variant blows up the world, so be it. These are stocks that made it through the pandemic with their businesses intact, and I don't expect omicron to be any different.

If you're looking to add new money to the Forever Portfolio, I particularly like Prologis and Crown Castle, of course. But I also really like **Realty Income (NYSE: O)** at current prices.

I practice what I preach here, by the way. I have shares of Realty Income that I've owned since the 2008 meltdown that I have sworn to never sell. I will die owning these shares, and my children can do with them what they will. But until then, I'm going to keep reinvesting the dividends and letting the shares compound.

You may have to zoom in a little to read it, but Figure 8 shows two things. The orange bars represent the annual dividend… which you can see rises every single year. But there is a number in the X-axis just below the year. This is the number of dividend raises the stock had in that year. We've had four dividend hikes this year, and that follows five hikes in each of the years 2017-2020.

Realty Income is a dividend raising machine. This is exactly the kind of stock you want underpinning your portfolio.

That's all I have for this month. Until next time, keep cashing those dividend checks!

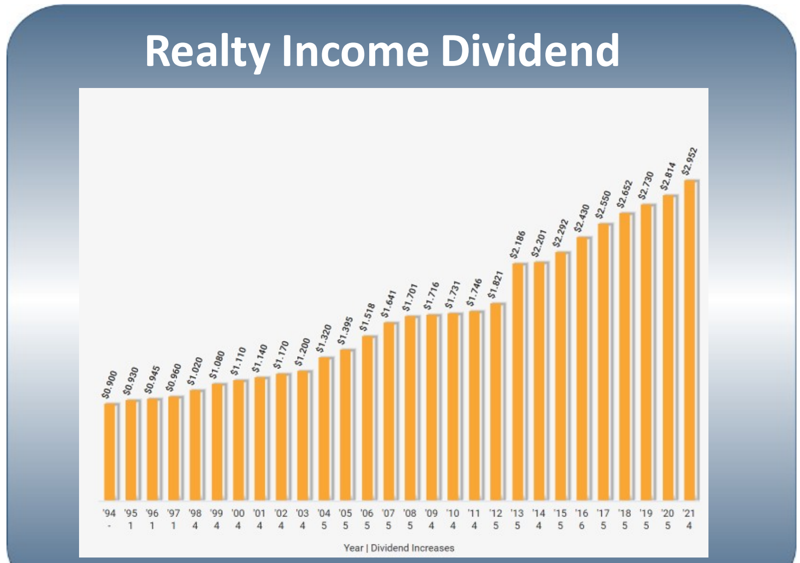


Figure 8

But we also do a lot more than that. <u>We manage a suite of low-volatility strategies offering low correlation to the S&P 500.</u> If you think your portfolio is a little too exposed to the stock market right now, let's talk. I may have some alternatives that can offer competitive returns without the heartburn.

If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.

The Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
EPR Properties	EPR	11/29/2021	$47.78	$47.78	$33.92	6.28%	$ -	0.00%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$114.51	$85.88	4.62%	$ -	10.82%	Yes	Buy
AGNC Investment Corp.	AGNC	8/30/3031	$16.23	$15.91	$14.93	8.71%	$ 0.24	-0.49%	Yes	Buy
Morgan Stanley Emerging Markets Domestic Debt	EDD	7/30/2021	$6.15	$5.66	$5.50	6.60%	$ 0.10	-6.50%	Yes	Buy
Nuveen Real Estate Income	JRS	6/25/2021	$10.77	$11.78	$9.63	6.68%	$ 0.19	11.14%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$22.62	$17.30	7.10%	$ 0.76	6.56%	Yes	Buy
First Trust Dynamic Europe Equity Income	FDEU	5/26/2021	$13.68	$12.42	$11.76	5.29%	$ 0.36	-6.58%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$47.52	$41.78	8.65%	$ 4.12	16.28%	No	Buy
WisdomTree Emerging Markets High Dividend Fund	DEM	12/31/2020	$41.22	$41.71	$40.42	4.48%	$ 1.81	5.57%	Yes	Buy
Healthcare Trust of America	HTA	11/20/2020	$26.80	$34.24	$26.95	4.61%	$ 1.29	32.56%	Yes	Buy
Physicians Realty Trust	DOC	11/20/2020	$17.80	$18.16	$15.30	4.49%	$ 0.92	7.19%	Yes	Buy
AllianceBernstein Holding, LP	AB	11/6/2020	$30.85	$54.18	$40.88	6.77%	$ 3.58	87.23%	No	Hold
Main Street Capital	MAIN	9/25/2020	$29.74	$45.32	$34.89	5.93%	$ 2.88	62.07%	Yes	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$46.69	$37.57	5.30%	$ 3.10	64.74%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$25.67	$18.15	7.38%	$ 2.40	78.79%	Yes	Buy
Dow Inc.	DOW	6/24/2020	$38.45	$57.60	$47.65	4.53%	$ 3.50	58.91%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$14.62	$12.24	6.14%	$ 1.20	47.44%	Yes	Buy
LyondellBasell Industries	LYB	5/22/2020	$60.39	$89.44	$79.23	4.27%	$ 6.46	58.80%	Yes	Buy
Invesco Adv. Municipal Income Trust II	VKI	4/23/2020	$10.12	$11.90	$11.77	4.70%	$ 0.90	26.45%	No	Hold
Ares Capital Corporation	ARCC	4/23/2020	$11.35	$20.35	$17.55	8.20%	$ 2.41	100.53%	Yes	Buy