The Sizemore Income Letter

March 2022

Bring on the Second Quarter

By Charles Lewis Sizemore, CFA

I can't say I'm sad to see the first quarter come to a close. While March has seen a welcome respite, January and February were a brutal reminder that, yes, the stock market can be volatile. *Wildly* volatile.

The question, of course, is "what now?"

The evidence here is mixed. Stocks are still expensive, as the correction, while nasty, was not nearly deep enough to really reset the clock. We're also still fighting the Fed and still trying to price in the effects of inflation at 40-year highs. And then there's that war in Ukraine that could still spiral into World War III…

None of that bodes well for returns going forward.

Psychologically, I also don't feel like we saw true capitulation. This is harder to measure and honestly pretty subjective. But people I talk to don't "feel" scared.

And then there are the more anecdotal signs that we're still in a bubble. You might have missed this little headscratcher, but **AMC Entertainment Holdings (NYSE: AMC)** – yes, the movie theater chain so beloved by the meme stock crowd – bought a goldmine last week.

And I don't mean that in the metaphorical sense that they bought a highly-profitable business. No, they bought an *actual goldmining company*, **Hycroft Mining (NASDAQ: HYMC)**.

Where do we even start here?

Yes, AMC – the same AMC that was struggling before the pandemic, teetering on the

S&P 500 Index

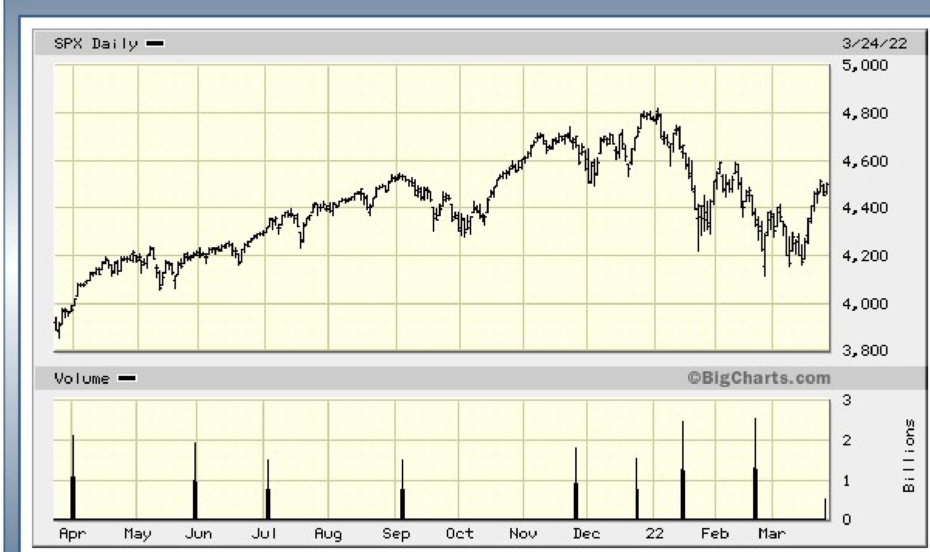

Figure 1

edge of bankruptcy during most of the pandemic, and even today is still trying to find its footing, somehow managed to find $28 million to throw at a highly speculative company in a highly speculative industry… and specifically an industry with no connection whatsoever to AMC's core theater business. And let me add that Hycroft was so strapped for cash before AMC's investment that they actually had to shut down production back in November for lack of working capital.

Now, it's entirely possible that the Hycroft purchase was some eccentric stroke of genius that will somehow make AMC shareholders fantastically wealthy. I suppose stranger things have happened.

But let's get serious here. Something is off. At best, AMC's management is reckless and irresponsible for blowing $28 million of its shareholder capital that might have been better spent reducing its gargantuan debt load or otherwise shoring up its balance sheet. At worst, there's some kind of shady backroom deal going on here that will eventually come to light. Movie theater chains don't buy gold miners. That just doesn't happen in a normal word.

Of course, this isn't a normal world. This is meme world, a place where a struggling movie theater chain has an army of weirdly loyal cult-like shareholders that bid its stock price to valuations that shouldn't be possible.

Meme world doesn't exist near a market bottom. That kind of nonsense gets wrung out during a proper bear market. This is the sort of thing you see closer to a top than a bottom.

Take that highly subjective observation with a *large* grain of salt. But the market action in February and March doesn't appear to have been a long-term bottom.

It does, however, appear to have been at least a short-term bottom. The S&P 500 has been rallying hard since mid-March.

We'll see what this means in the weeks ahead. It wouldn't take more than an errant Russian bomb or an errant Fed comment to send the market tumbling again. But at least for the time being, it seems the direction is up.

2022 Correction Plan

- Keep a little more cash on hand.
- Keep your position sizes a little smaller than usual.
- Keep a good percentage of your portfolio in non-market alternatives.
- To the extent you buy and hold stocks, focus on quality dividend payers.
- Be willing to make short-term trades, and be sure you have an exit plan.

Figure 2

Does this mean the coast is clear and it's safe to plow your savings back into the market?

Maybe. Maybe *not*. But for now, my general correction gameplan remains in place. Even if the market trends higher for a while, keep a little more cash on hand than usual, and keep your position sizes modest. Keep at least a little bit of your portfolio in non-market alternatives, and look for high-quality dividend payers. And perhaps most importantly of all, be willing to be more of a short-term trader and <u>be sure you have an exit plan!</u>

A New Dividend Payer With Long-Term Growth Prospects

And speaking of dividend payers… we're adding a new one this month, leading datacenter REIT **Digital Realty (NYSE: DLR)**.

Digital Realty is one of the pioneers in datacenter landlording. The company was founded in 2004 and has now expanded into a sprawling global enterprise with close to 300 datacenters spread across 50 metro areas in 26 countries on every continent but Antarctica.

I'll be honest with you. There are aspects of investing that I'm naturally good at… and there are aspects that I'm not. I've generally been good at seeing the potential of long-term tech trends. But I've been terrible at picking the specific winners.

It is what it is. I'm the income guy, not the tech visionary guy.

But that's why a stock like Digital Realty is so attractive. I don't know what specific cloud services are going to dominate over the next decade. I have no good way to handicap whether Netflix, Disney or an entirely new competitor I have yet to hear of eventually wins the streaming wars.

But I do know that demand for data centers will only grow as more and more computing and storage migrates to the cloud. You don't have to be a forward-thinking tech visionary to see that. You simply have to open your eyes.

Digital Realty Trust (NYSE: DLR)

Figure 3

DLR Dividend Yield

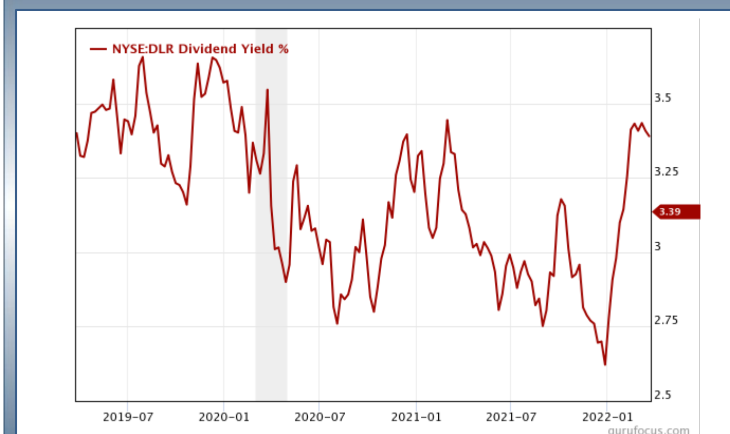

Figure 4

DLR Dividends Per Share

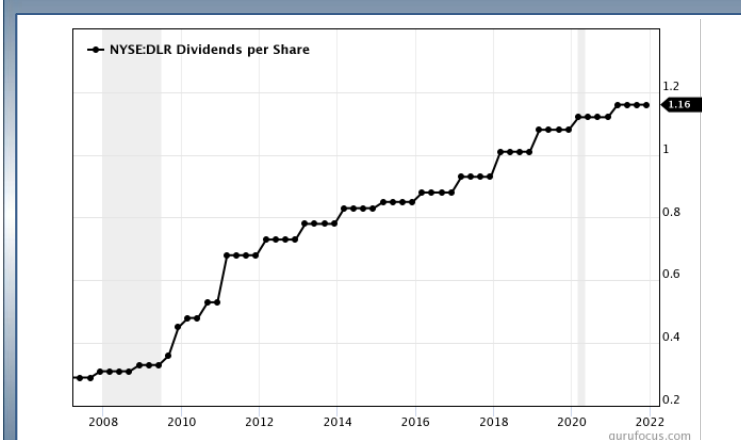

Figure 5

Digital Realty includes Amazon.com, Google, Facebook and Microsoft among its datacenter tenants, among many, many others. These tech giants can slug it out between themselves, but they're ultimately all going to pay rent to the same landlord.

Like a lot of stocks even tangentially related to tech, Digital Realty has really seen its shares take a pounding this year. They're down about 22% from their recent highs.

Good! We're getting one of the great growth names in REITs at pre-pandemic prices.

Let's talk dividends. At current prices, Digital Realty yields 3.4%. That's not a monster yield, but it's well above the average for REITs these days and it's significantly higher than you'll find in the investment grade bond market.

And importantly – given that inflation has been raging out of control for the past year – Digital Realty has a long history of raising its dividend and has doubled it over the past decade.

Will Digital Realty double its dividend again in the ten years ahead? We'll see. But I'm willing to bet that, at a minimum, its dividend growth stays well ahead of inflation.

Not Your Grandfather's Real Estate

More broadly, ask yourself the following question. In the post-COVID era, what kind of real estate do you really want to own?

Office buildings are still relevant. Most of us still go to one on most days. But they won't be a *growth* market for years… and possibly never again our lifetimes. The sector will likely be oversupplied for the foreseeable future, which means rent growth that is modest at best. And modest rent growth translates into modest dividend growth.

Shopping malls? Absolutely not. Amazon.com was wrecking retail long before the pandemic, and that hasn't exactly changed in the past two years. A mall REIT could be an interesting short-term trade, but is that really where you'd want to tie up precious capital that could be deployed elsewhere?

Where to Look for REITs

There's "experiential" real estate of course, and that was my recommendation back in November in **EPR Properties (NYSE: EPR)**. And there are specialty operators like **Iron Mountain (NYSE: IRM)**, **Physician Realty (NYSE: DOC)** and **Healthcare Trust of America (NYSE: HTA).** And of course, in our Forever Portfolio we have logistics champions **Prologis (NYSE: PLD)** and **STAG Industrial (NYSE: STAG),** cell tower landlord **Crown Castle International (NYSE: CCI),** self-storage leader **Public Storage (NYSE: PSA),** medical and senior living REIT **Ventas (NYSE: VTR)** and high-traffic retail landlords like **Realty Income (NYSE: O)** and **Retail Opportunities Investments (NYSE: ROIC)**.

It's a broad mix, but they all have a few things in common. All are "Amazon proof," or at least as close to Amazon proof as you can get, and all had robust business models that survived the pandemic and are now poised to do really well in the post-pandemic world. They are all highly recession resistant, which could really be a life saver for us later this year if high inflation, a hawkish Fed and fallout from the Russian Ukraine invasion end up pushing us into recession.

That's what you should look for in a REIT. Stay away from the rest!

With no more delay, please take the following action:

Action to Take: Buy shares of Digital Realty (NYSE: DLR) at market. Set an initial stop loss at $106.88.

Update on the Forever Portfolio

Speaking of the Forever Portfolio, let's give that a quick review.

This is designed to be a buy and hold portfolio of stocks you can potentially hold for the rest of your life. But not every stock is equally attractive at all times.

If you're looking to add a little money to the Forever Portfolio, my favorites at the moment are the two blue chip pipeline operators **Kinder Morgan (NYSE: KMI)** and **Enterprise Products Partners (NYSE: EPD)**. KMI and EPD both sport competitive yields and both have really performed well so far in 2022.

Russian oil and gas is untouchable for now across a good swath of the globe, and that won't likely be changing any time soon. This means demand for oil and gas from the United States and other major energy producers will be elevated for a long time to come, and a good percentage of that oil and gas will pass through pipelines like those owned by KMI and EPD. So, if you haven't already…

Action to take: Using any excess cash to top up your positions in Enterprise Products Partners (NYSE: EPD) and Kinder Morgan (NYSE: KMI).

Also, note that EPD should be held outside of an IRA or other retirement account in order to avoid potential tax headaches.

It looks like the correction is over for the time being, but I still expect the rest of this year to be choppy. Having a stable producer like Realty Income is really attractive in an environment like that.

As I've written more times that I can count, I own shares of Realty Income that I've had for well over a decade and have no intention of ever selling. The

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
Prologis	PLD	10/29/2021	$ 146.67	$ 154.46	None	1.75%	$ 1.42	6.28%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 173.40	None	3.27%	$ 2.94	-3.06%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 92.33	None	5.27%	$ 4.95	8.87%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 52.43	None	7.58%	$ 6.92	59.97%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 66.54	None	3.86%	$ 5.67	50.20%	Yes
AT&T	T	3/19/2020	$ 31.15	$ 23.27	None	8.30%	$ 4.68	-10.29%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 25.25	None	7.42%	$ 3.60	98.67%	No
Kinder Morgan	KMI	3/19/2020	$ 11.20	$ 18.40	None	6.24%	$ 2.13	83.32%	Yes
Ventas	VTR	3/19/2020	$ 19.98	$ 60.55	None	3.28%	$ 3.94	222.79%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 369.54	None	2.48%	$ 16.00	105.51%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 45.18	None	3.69%	$ 4.00	63.22%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 40.27	None	3.32%	$ 2.89	98.82%	Yes
Investments	ROIC	3/19/2020	$ 7.25	$ 18.75	None	2.47%	$ 0.84	170.21%	Yes

shares are on a dividend reinvestment plan, meaning my share count gets just a little bigger each time Realty Income pays its monthly dividend.

I also particularly like our logistics and light industrial REITs Prologis and STAG Industrial. So, if you haven't already…

Action to take: Using any excess cash to top up your positions in Realty Income (NYSE: O), Prologis (NYSE: PLD) and STAG Industrial (NYSE: STAG).

Portfolio Update

Let's also give the main newsletter portfolio a good review. I'm going to echo what I said about Kinder Morgan and Enterprise Products. I really **like Energy Transfer (NYSE: ET), Magellan Midstream (NYSE: MMP),** and the **ClearBridge Energy Midstream Opportunity Fund (NYSE: EMO)**. All of these look great to me right now, and if you don't already own them… well, you should! And if you do, you should probably buy more!

(Note that Energy Transfer and Magellan Midstream shouldn't be held in an IRA due to the same tax issues that plague EPD).

Obviously, use your discretion here. You don't want to overload your portfolio with energy stocks to the point that you put it at major risk in the event the market flips again. But a good, strong allocation to energy absolutely makes sense in this market.

Among some of our more recent additions, I also still really like EPR Properties. If you don't already own shares, it is absolutely not too late.

Again, don't bet the farm here. I still recommend you follow our correction gameplan and keep a little more cash than usual on hand. But the stocks I've mentioned today are attractive enough to buy even in an overall risky market.

In Case You Missed It…

You know me. I hate paying taxes and I'm willing to starve myself in order to free up cash to put into tax-deferred vehicles. As far as I am concerned, a dollar in taxes deferred by multiple decades is a dollar saved.

Well, our fearless leaders in congress actually did something right for once. The House of Representatives just passed the Securing a Strong Retirement Act if 2022 in a vote of 414 to 5. Among other things, the bill raises the age at which you have to start taking required minimum distributions (RMDs). In 2023, the age jumps to 73. In 2030, it jumps to 74. And in 2033, it jumps to 75. Prior to the pandemic, the age was 70 ½.

What this means is that retired Americans will be able to kick the RMD tax can another couple years down the road. And that is a good thing!

Furthermore, the "catch up" limit for Americans aged 62-64 will rise from $6,500 to $10,000. (For Americans aged 50 to 61 or 65 and older, the catch-up limit remains $6,500).

I will really never understand where Congress gets their numbers. Why can a 64 year old invest more than a 65 year old?

Whatever. We'll take it. Any legislation that allows Americans to save more for retirement tax free is something I can support, even if the cutoffs are random and arbitrary.

The Senate still has to pass the bill and President Biden has to sign it, but given its overwhelming popularity in the House, I don't see that being a problem.

Take a good look at your financial situation. Given these changes, can you personally save more? If the answer is yes, actually do it. When it becomes official, take the five minutes you'll need to log in to your 401k account or call your HR department to increase your contribution amount. You'd be a fool not to.

That's all I have for now. Let's hope that the remainder of this year is a little less ulcer-inducing than the first quarter!

Until next time, keep cashing those dividend checks!

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*.

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
Digital Realty Trust	DLR	3/24/2022	$136.79	$136.85	$106.88	3.57%	$ -	0.04%	Yes	Buy
MFS Municipal Income Trust	MFM	2/28/2022	$6.54	$6.10	$5.93	4.51%	$ 0.02	-6.38%	No	Buy
Vertical Capital Income Fund	VCIF	1/27/2022	$9.99	$9.92	$8.95	9.23%	$ 0.07	0.05%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$10.26	$7.30	7.42%	$ 0.18	27.82%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$52.55	$33.92	6.28%	$ 1.00	12.08%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$166.32	$126.42	4.62%	$ 2.76	63.63%	Yes	Buy
Nuveen Real Estate Income	JRS	6/25/2021	$10.77	$11.30	$10.17	6.68%	$ 0.59	10.43%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$27.14	$17.30	7.10%	$ 0.76	27.18%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$49.71	$41.78	8.65%	$ 5.16	23.55%	No	Buy
WisdomTree Emerging Markets High Dividend Fund	DEM	12/31/2020	$41.22	$43.90	$40.42	4.48%	$ 2.55	12.68%	Yes	Buy
Healthcare Trust of America	HTA	11/20/2020	$26.80	$31.24	$26.95	4.61%	$ 1.61	22.57%	Yes	Buy
Physicians Realty Trust	DOC	11/20/2020	$17.80	$17.28	$15.30	4.49%	$ 1.15	3.51%	Yes	Buy
AllianceBernstein Holding, LP	AB	11/6/2020	$30.85	$46.22	$40.98	6.77%	$ 3.58	61.43%	No	Hold
Main Street Capital	MAIN	9/25/2020	$29.74	$41.90	$35.50	5.93%	$ 3.91	54.03%	Yes	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$52.05	$40.12	5.30%	$ 4.33	86.58%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$23.87	$18.15	7.38%	$ 2.88	70.38%	Yes	Buy
Dow Inc.	DOW	6/24/2020	$38.45	$63.78	$47.65	4.53%	$ 4.90	78.62%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$14.89	$12.53	6.14%	$ 1.61	53.74%	Yes	Buy
LyondellBasell Industries	LYB	5/22/2020	$60.39	$106.47	$79.23	4.27%	$ 8.72	90.74%	Yes	Buy
Ares Capital Corporation	ARCC	4/23/2020	$11.35	$20.60	$17.91	8.20%	$ 2.85	106.57%	Yes	Buy