The Sizemore Income Letter

April 2022

It's Looking a Lot Like a Bear Market

By Charles Lewis Sizemore, CFA

Well, March was fun!

April… not so much. The market correction that started in January resumed its downward plunge.

So, is it a bear market?

Not officially, or least not yet. The S&P 500 is only down about 12% from its all-time highs. The carnage, as nasty as it has been, has only erased approximately a year's worth of returns.

The Nasdaq, however, is in full-blown bear mode, down about 23%. And the damage in some of the high-profile growth stocks of recent years is nothing short of amazing. Streaming leader **Netflix (Nasdaq: NFLX)** is down 73% from its old highs, and **PayPal (Nasdaq: PYPL)**, the original web-based fintech, is down 74%.

This is an income letter, so I can't make either of those stocks an official recommendation. But just for grins, let's take a look at them.

After the drubbing it's taken, Netflix now trades at a trailing price/earnings ratio of 19 and a forward P/E just slightly higher than that. That's not "cheap" by deep-value bargain hunter standards.

But Netflix isn't some burnt-out cigar butt either. It's the leader among the plethora of streaming competitors and a mainstay in American living rooms. It provides a ridiculous amount of content for a ridiculously cheap price.

Sure, prices are higher now. But a premium plan still goes for less than $20 per month, and it wasn't all that long ago

S&P 500 Index (3-Year Chart)

Figure 1

that we all paid $50 - $100 per month for cable – or even more – and didn't think twice about it. And got a lot less content worth having, I might add.

This is a stock that had profit margins of 17% last year and a return on equity of 38%.

Was Netflix overpriced at $700 per share last year?

Yes! That was a ludicrous price and exactly what you'd expect in a bubble. But the pendulum has clearly swung too far the other direction.

What about PayPal?

It's a similar story. PayPal is one of the dominant players in online payments and fintech in general. It has competition – ferocious competition – but given the size of the opportunity, there's enough wealth to be spread around.

I wouldn't be surprised at all if the average 10-year-old never owns a traditional checking account once they reach adulthood. Mobile and online payment systems are already cheaper and vastly more convenient to use than a traditional bank. Today, fintechs largely operate on top of the traditional banking system. It's just a matter of time before they replace it entirely.

Good riddance, by the way. Today's banks evolved from medieval loan sharks and still have the same mentality. No one should mourn their passing.

Paypal trades for 17 times forward earnings. And while not as profitable as Netflix, it does enjoy a healthy return on equity of just under 20%.

Again, I'm not going to recommend these stocks in these pages because this is explicitly a dividend letter. But I would encourage you to consider buying the dip in some of these bombed-out growth names. I don't know where the bottom is, but I expect you'll be happy you took the plunge.

2022 Bear Market Plan

I don't do market forecasts. I personally find them distracting, as they make me focus on being "right" rather than making money.

Let me be clear, I don't want to be *right*. I just want to earn a good return and protect my capital from major losses.

And speaking of that, let's review my 2022 Correction Plan. In fact, let's just go ahead and rechristen it the "2022 Bear Market Plan."

I don't know that the market slides into "official" bear territory from here, but I do know that I want to be prepared for that possibility.

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

The plan hasn't changed. We're being defensive and protecting ourselves with stop losses.

And about that… We hit our stop loss in **Alliance Bernstein (NYSE: AB)** and the **Wisdom Tree Emerging Markets High Dividend Fund (NYSE: DEM),** by the way. So, before we go any further, please take the following action:

Action to Take: Sell Alliance Bernstein (NYSE: AB) at market.

Action to Take: Sell the Wisdom Tree Emerging Markets High Dividend Fund (NYSE: DEM) at market.

Apart from the stop losses, we're keeping a little more cash than usual on hand in order to buy dips.

But importantly, we're not selling everything and running for the hills. Or at least not yet. Most of our picks are holding up just fine, and there is still opportunity to be had out there.

And speaking of that…

Adding a New Pipeline to the Mix

Nothing has been completely safe from the carnage in the market of late. But energy has certainly held up better than most sectors, and the economics of the sector look good right now. The energy market is tight right now, and virtually everyone in the world is searching for alternatives to Russian oil and gas.

So, with no further ado, let's take a look at Oklahoma-based **ONEOK, Inc. (NYSE: OKE)**.

ONEOK owns a sprawling 40,000-mile network of natural gas and natural gas liquids pipelines. Approximately 10% of all natural gas in America passes through ONEOK pipelines.

ONEOK, Inc. (NYSE: OKE)

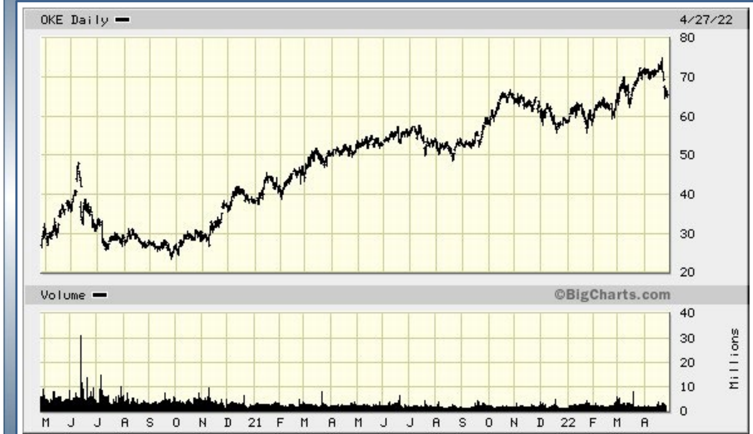

Figure 3

40,000 Miles of Pipeline Assets

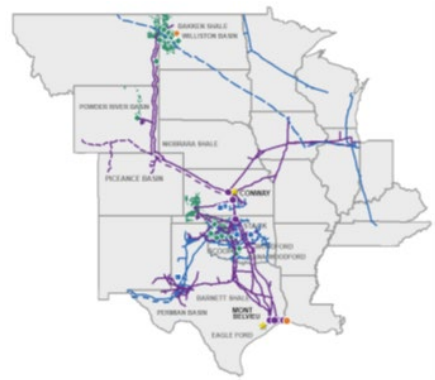

Figure 4

OKE Makes Money Independently of Oil Price Moves

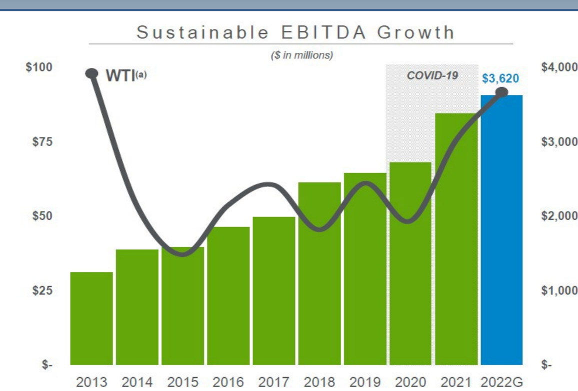

Figure 5

Importantly, ONEOK is also a volume play rather than a price play. The dynamics of the energy market look good right now and supportive of higher oil and gas prices. But if the past decade has taught us anything, that can turn on a dime. And I don't want to be left holding the bag if the energy market turns on us.

OKE expects 90% of its earnings from its natural gas liquids business to be fee-based (i.e. not based on oil or gas price movements). That figure was as low as 80% as recently as five years ago.

There's a little more exposure to commodity price movements in OKE's natural gas gathering and processing business, but really not that much. OKE expects more than 80% of its earnings here to be fee based.

All in all, OKE has done a solid job of reducing its exposure to commodity prices, and this continues to trend the right direction. And meanwhile, earnings continue to march higher (see Figure 5 on previous page).

I'll spare you a lengthy review of why I love pipeline stocks. My bullish arguments for OKE aren't materially different than my bullish arguments for **Energy Transfer (NYSE: ET)** or for **Kinder Morgan (NYSE: KMI)** or **Enterprise Products (NYSE: EPD)**. Pipelines have bond-like cash flows, and the predictability of their businesses make them fantastic additions to a dividend-stock portfolio.

And about that…

OKE sports a fantastic dividend yield just shy of 6%, and the company has managed to more than triple its payout over the past 10 years.

OKE Dividends Per Share

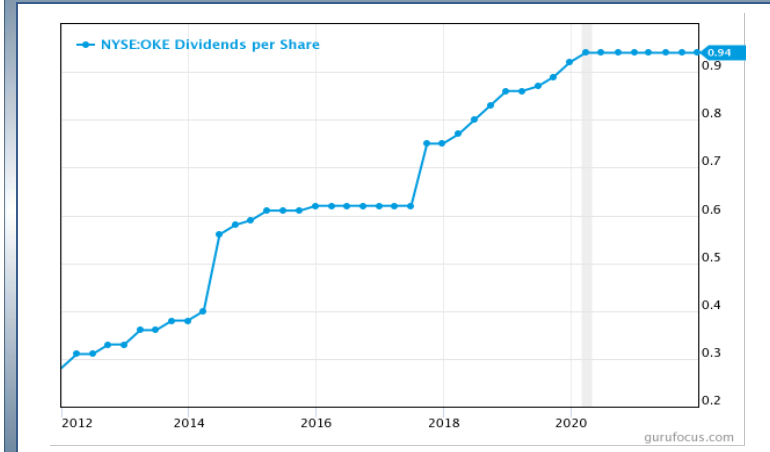

Figure 6

And this dividend growth is nothing new. Since 2000, the company has grown its dividend at a 13% compound annual growth rate.

There's no guarantee that OKE continues to raise its dividend at that high of a clip. The larger the company gets, the more natural it would be for its dividend growth rate to slow down. But at a minimum, OKE should be able to keep that growth rate at well above the rate of inflation.

So, please take the following action:

Action to take: Buy shares of ONEOK, Inc. (NYSE: OKE) at market. Set an initial stop loss at $47.91 based on closing prices.

Also, please note that OKE is a corporation rather than a partnership like many of its peers. This means that you can own OKE in an IRA or other retirement account with no potential tax complications.

I think it's very likely that we are in a bear market, and I think it's also likely that market conditions remain difficult for a while. It took about a year and a half for the S&P 500 to bottom out in the 2008 meltdown, and it took over two years for the S&P 500 to bottom out during the 2000-2002 tech wreck. That doesn't mean that our current situation *has* to linger that long. But it suggests that we might not get a ton of help from the market in that "rising tide lifts all boats" sense.

Because of that, I'm hesitant to give a firm estimate of our returns in OKE. I could easily see us making 50% in total returns in 2-3 years. That wouldn't be a stretch. But if the general market conditions are cruddy, that might cause our returns to be a little smaller than what they might have been in a more benign environment.

I'm good with that. At the end of the day, we're getting a great dividend stock and are being paid to wait for the market to reprice itself.

The Forever Portfolio

I also want to add a new stock to our "Forever Portfolio."

This isn't something I do often, as "forever" stocks aren't something you stumble across every day.

But with the market behaving the way it is today, I think the time is right to add an American classic to the list in none other than the **Coca-Cola Company (NYSE: KO)**.

Coke really needs no introduction. This is one of the most recognizable companies in the world. It's really a two-horse race between Coca-Cola and McDonalds to be the world's most recognized brand logo.

KO has almost completely avoided the market correction this year. Apart from

Coca-Cola Company (NYSE: KO)

Figure 7

KO Dividend Yield

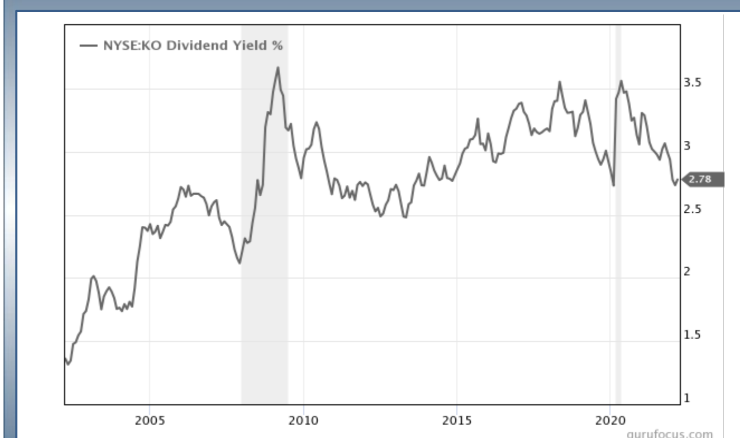

Figure 8

KO Dividends Per Share

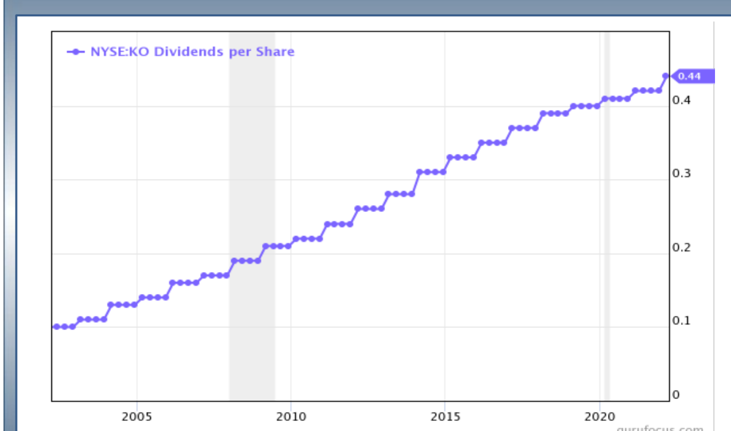

Figure 9

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
Coca-Cola Company	KO	4/27/2022	$ 65.56	$ 65.56	None	2.79%	$ -	0.00%	Yes
Prologis	PLD	10/29/2021	$ 146.67	$ 167.67	None	1.75%	$ 1.42	15.29%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 188.74	None	3.27%	$ 2.94	5.38%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 101.69	None	5.27%	$ 4.95	19.35%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 54.92	None	7.58%	$ 6.92	66.68%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 71.66	None	3.86%	$ 5.67	60.84%	Yes
AT&T	T	3/19/2020	$ 31.15	$ 19.07	None	8.30%	$ 4.68	-23.76%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 26.18	None	7.42%	$ 3.60	105.10%	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	$ 57.25	None	3.28%	$ 3.94	206.27%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 391.38	None	2.48%	$ 16.00	117.15%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 47.36	None	3.69%	$ 4.00	70.47%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 39.71	None	3.32%	$ 2.89	96.24%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	$ 7.25	$ 19.32	None	2.47%	$ 0.84	178.07%	Yes

a brief dip in March, the shares have continued to push higher as investors rotate out of techy growth stocks and into more staid and conservative brands. And if I'm right about the general state of the market, I don't see that changing in the immediate future.

Coke's dividend yield isn't the highest you're going to find. It yields about 2.8% at current prices.

That's just fine. You'll notice that many of our Forever Portfolio stocks sport relatively low current yields.

In a stock I intend to hold forever I'm more interested in long-term growth in the payout. I want a yield that is decent today and better than what I'd get in the S&P 500. Ideally, it would be competitive with high-quality bond yields.

Well, Coke fits the bill here. Its dividend yield is within a few basis points of the 10-year treasury yield, and the stock raises its dividend every year like a machine. **This year marked the company's 60th consecutive dividend hike**.

Coke is an established company, and we shouldn't expect to get filthy rich holding it. But it should reliably double its dividend roughly every 10 years. And no matter what happens in the world (short of actual nuclear Armageddon) we should expect this company to long outlive all of us, throwing off dividends to our children and grandchildren.

So, please take the following action:

Action to take: Buy shares of the Coca-Cola Company (NYSE: KO) at market. Plan to hold forever.

I suppose I should address the elephant in the room. Elon Musk recently joked (we think he was joking?) that he planned to buy Coca-Cola.

You can safely ignore that.

At the rate that Tesla's shares are falling in value, it's by no means certain that he'll be able to wrap up his purchase of Twitter.

And frankly, I'd prefer he didn't…

I would always welcome the constructive presence of an activist billionaire legitimately interested in making a company better. Warren Buffett has made a career of it.

But Elon Musk is a fine example of what happens when a person makes too much money too quickly. He behaves like a petulant child and treats the companies he buys like his personal toys. The idea of behaving in the best interests of the shareholders is a foreign concept to him.

I don't for a minute pretend that I would be any better, by the way. Knowing myself, I would probably do the same or worse if I had access to Musk's billions. But as investors, we should want no part of it. So, with Coke – and with any other investments for that matter – we're better off ignoring the social media musings of bored billionaires.

Otherwise, there's not much else to report. We've now been stopped out of a handful of stocks this year, and we may still get stopped out of a few more.

That's perfectly fine and part of the investing game. For now, we'll stay invested in what's working for us… while collecting our dividends along the way.

That's all I have for now.

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
ONEOK, Inc.	OKE	4/28/222	$65.50	$63.97	$47.91	5.73%	$ -	-2.34%	Yes	Buy
Digital Realty Trust	DLR	3/24/2022	$136.79	$148.91	$106.88	3.57%	$ -	8.86%	Yes	Buy
Vertical Capital Income Fund	VCIF	1/27/2022	$9.99	$9.50	$8.95	9.23%	$ 0.07	-4.16%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$11.15	$7.30	7.42%	$ 0.18	38.73%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$52.95	$33.92	6.28%	$ 1.00	12.91%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$157.34	$126.42	4.62%	$ 2.76	54.94%	Yes	Buy
Nuveen Real Estate Income	JRS	6/25/2021	$10.77	$11.40	$10.17	6.68%	$ 0.59	11.36%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$28.01	$17.30	7.10%	$ 0.76	31.13%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$48.38	$41.78	8.65%	$ 5.16	20.56%	No	Buy
WisdomTree Emerging Markets High Dividend Fund	**DEM**	**12/31/2020**	**$41.22**	**$41.15**	**$40.42**	**4.48%**	**$ 2.55**	**6.01%**	**Yes**	**Sell**
Healthcare Trust of America	HTA	11/20/2020	$26.80	$30.77	$26.95	4.61%	$ 1.61	20.80%	Yes	Buy
Physicians Realty Trust	DOC	11/20/2020	$17.80	$17.30	$15.30	4.49%	$ 1.15	3.62%	Yes	Buy
AllianceBernstein Holding, LP	**AB**	**11/6/2020**	**$30.85**	**$40.56**	**$40.98**	**6.77%**	**$ 3.58**	**43.08%**	**No**	**Sell**
Main Street Capital	MAIN	9/25/2020	$29.74	$40.59	$35.50	5.93%	$ 3.91	49.61%	Yes	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$54.57	$40.12	5.30%	$ 4.33	94.91%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$23.13	$18.15	7.38%	$ 2.88	65.67%	Yes	Buy
Dow Inc.	DOW	6/24/2020	$38.45	$67.03	$47.65	4.53%	$ 4.90	87.07%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$15.07	$12.53	6.14%	$ 1.61	55.38%	Yes	Buy
LyondellBasell Industries	LYB	5/22/2020	$60.39	$107.00	$79.23	4.27%	$ 8.72	91.62%	Yes	Buy
Ares Capital Corporation	ARCC	4/23/2020	$11.35	$20.52	$17.91	8.20%	$ 2.85	105.90%	Yes	Buy