The Sizemore Income Letter

November 2022

Happy Thanksgiving

By Charles Lewis Sizemore, CFA

Hopefully by the time you read this, you will have enjoyed a nice Thanksgiving dinner.

If I may offer one piece of non-financial advice before we get into the monthly issue, it would be this: Remember that the Christmas holiday season is supposed to actually be *enjoyable*. If you are stressing out about travel plans, buying the right gifts, etc… *You're doing it wrong!*

I had a reminder of this recently. We had originally planned a short trip for the four-day weekend with a few other families. And what was supposed to be fun ended up turning stressful. One family couldn't make it. The transportation fell through. We had to cancel the original plans… and then started scrambling to make new ones.

The whole thing was stupid.

So, I said enough. We scrapped all plans. As I am writing this Wednesday, our new plans are to enjoy a simple Thanksgiving dinner and, either Thursday or Friday, take a long bike ride. There is a mountain about seven miles from my apartment in Lima. I'm going to ride there with the kids, huff it to the top, and then likely collapse at a table for a two-hour lunch back at the base of the mountain before riding home. It will be fun… it will be a workout… and apart from the cost of lunch, it won't cost me a nickel.

Keep it simple in 2023. Don't travel just for the sake of travel. You really don't need to fly away to a Mexican beach resort or to Las Vegas for the umpteenth time. Just enjoy sitting at home with the people you actually care about. Or do something simple and close to home… like a bike ride.

We complained about being stuck at home during the pandemic. Honestly, I miss it. I enjoyed the slower pace of life, and I found myself getting more and more irritable as my life returned to pre-pandemic activity.

I'm making my New Year's resolution a month early. I resolve to *do* less and to not allow myself to get stressed out over things that are ostensibly supposed to be fun.

Now, on to business.

Debt Rising, Savings Falling

Figure 1

I'll be very curious how Black Friday pans out this year. The news coming out of retail America has been bleak. Just this week, Nordstrom became the latest retailer to issue a bomb of a quarterly earnings report. While sales and earnings both beat analyst expectations, the outlook for the remainder of the year was pretty sour. Margins were also clearly impacted by inventory markdowns.

Some of this is a continuation of the theme we've seen all year. Most retailers were unprepared for how quickly shoppers returned to pre-pandemic spending patterns.

But there's also something else afoot here. Inflation is really crimping consumer demand. A few months of higher grocery bills was easy enough to absorb. But at some point, all those extra dollars spent on groceries and basic necessities become dollars that are no longer available to spend on other things.

Take a look at Figure 1. The red line is credit card debt… which is now at all time highs. The blue line is the personal savings rate… which, after enjoying nearly a decade of gradual rising… and a huge spike during the pandemic… has now dropped to levels close to all-time lows.

Americans are burning through their savings and even going into debt… and yet the news coming out of the major retailers show people cutting back.

The data suggests people are spending themselves into debt <u>and</u> cutting back. That only makes sense when you consider inflation. It's causing the prices of everyday items to soar, which means cutbacks elsewhere.

Housing is also a factor. As I mentioned in the last issue, mortgage rates have more than doubled this year. On a hypothetical $500,000 house with a $400,000 mortgage, this spike in rates amounts to an extra $1,000 on the mortgage payment. So, if you're

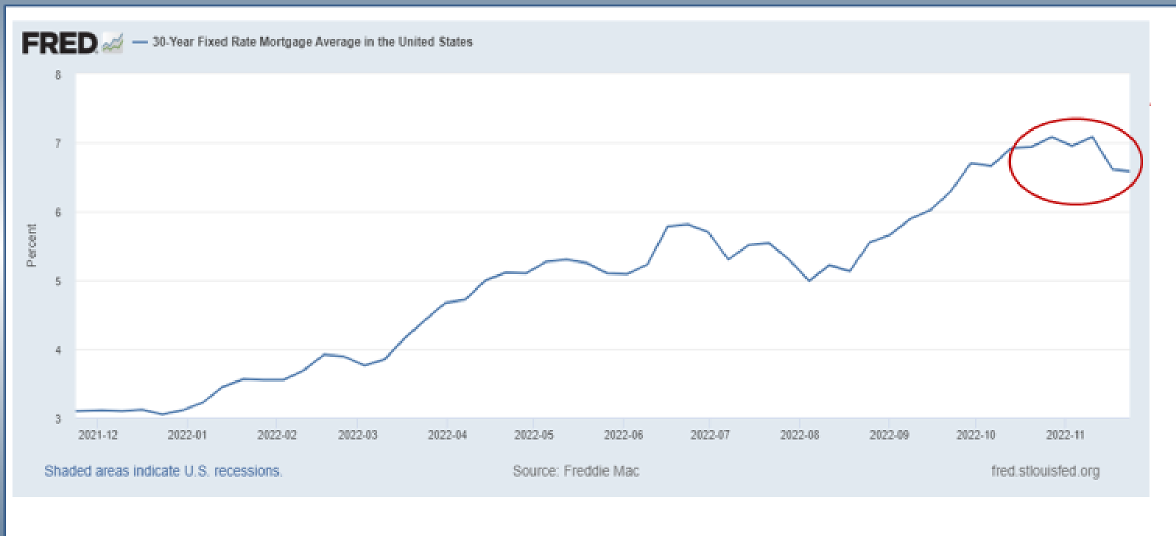

Figure 2

wondering how Americans can simultaneously be cutting back *and* going into debt… here's a fine example.

There may be at least a little hope on this front. Mortgage rates appear to have stalled out and have actually been declining all month. We'll see if this continues; we had a similar lull over the summer, and it gave way to sharply higher rates.

I tend to be pretty optimistic when it comes to investing. And frankly, given my focus on income, it's easy to err on the side of optimism. I don't have to get the timing exactly right so long as the stock continues to throw off income every quarter.

But all of that said, I think it makes a lot of sense to be cautious here. I don't believe this bear market is over yet, and I think it's highly likely we see at least a modest recession in the next six months.

But while the macro environment looks terrible, there are still plenty of macro themes we can play.

One of those themes is renewable energy. Virtually every country on the planet has at least nominally committed to greening their electrical grid.

I don't like to be ideological about it, but I consider this a no brainer. The Western world was held hostage by the 1973 oil embargo, and today, in 2022, Putin's Russia has weaponized his country's natural gas and crude oil exports.

I'm not naïve enough to believe we'll be able to totally wean ourselves off of oil and gas in my lifetime. I'm not even certain it would be a desirable goal. Going 100% to renewables creates its own set of problems, such as dependence on lithium for batteries. No one asked me, but I like the idea of energy diversification.

At any rate, it really doesn't matter what I think. Investment in renewable energy

before the Russian invasion of Ukraine was already exploding. Now, post-war, it's not exactly slowing down. Apart from previous commitments to add renewables, Europe now has to compensate for the loss of Russian energy.

We're already benefitting from this trend via our investment in liquified natural gas exporter **Cheniere Energy Partners (NYSEL CQP).** We're already up about 31% including dividends.

But today, we're going to focus on renewables. And we're going to do it via **Atlantica Sustainable Infrastructure PLC (Nasdaq: AY).**

A bear market is an excellent time to go shopping for things on sale. Atlantica certainly fits that bill. Green energy was "trendy" for most of the past five years, and Atlantica saw its shares more than triple from its late 2015 lows to its late 2020 highs. But the shares have struggled since then losing about half their value. We can now buy the shares at 2014 prices.

At 6.3%, we're also getting an excellent dividend yield. And importantly, the payout is likely to rise over time. Atlantica has raised its dividend by 78% since 2017 and shows no signs of slowing down.

Yield is a little easier to come by than it was this time last year. We can get close to 5% in good, old-fashioned Treasuries!

But if you want to stay ahead of inflation over time, you still need growth. And Atlantica Sustainable Infrastructure should be able to generate that growth. Its portfolio has growth built into it in the form of long-term contracts. The majority of the company's cash flows are

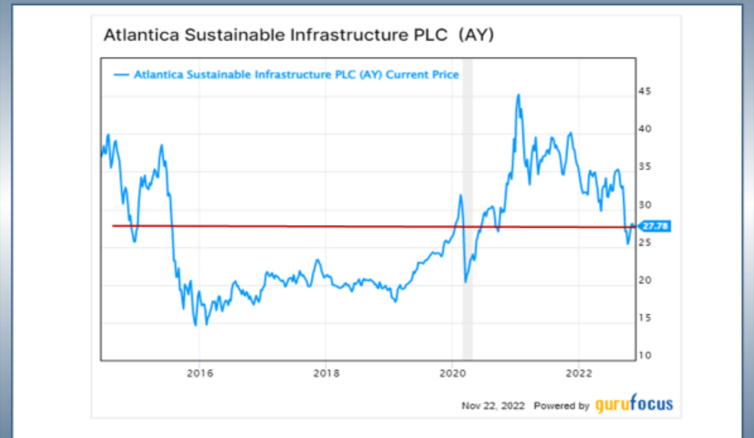

Figure 3

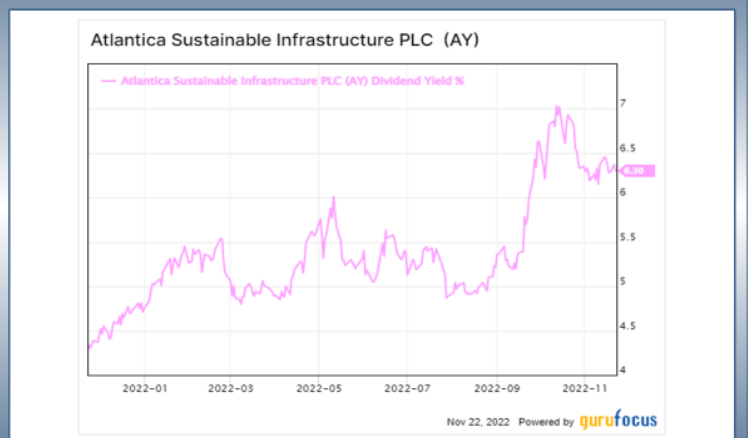

Figure 4

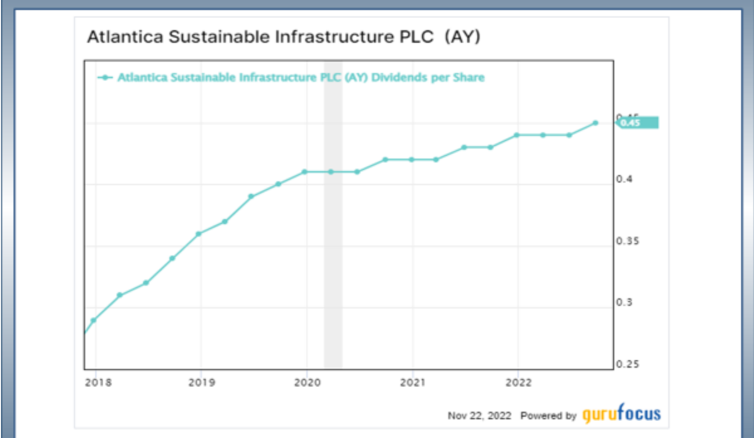

Figure 5

indexed to inflation or have a fixed escalation built in to the contracts.

A Look Under the Hood

So, what exactly does Atlantica Sustainable Infrastructure do?

As its name suggests, the company owns a portfolio of renewable energy assets. But, as was the case with the **Ecofin Sustainable and Social Impact Term Fund (NYSE: TEAF),** which we've had in the portfolio for years, they complement their green infrastructure with natural gas and transmission assets. The vast majority – 77% -- comes from renewables.

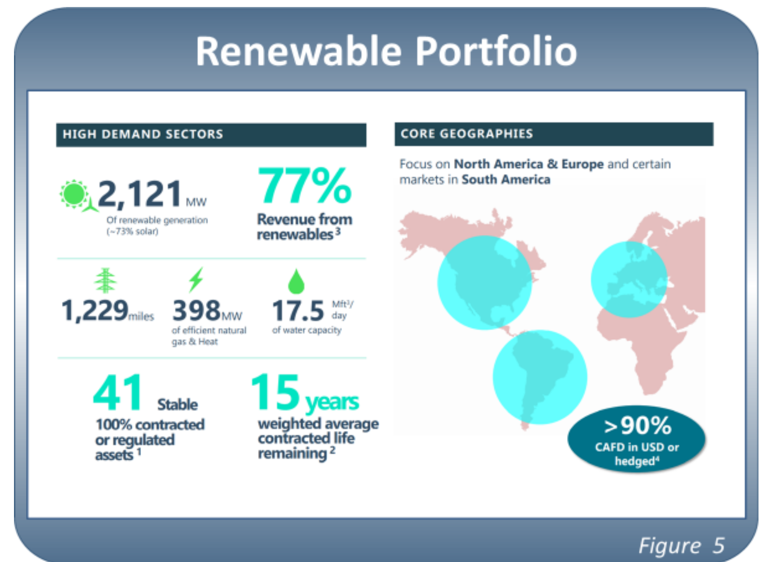

Figure 5

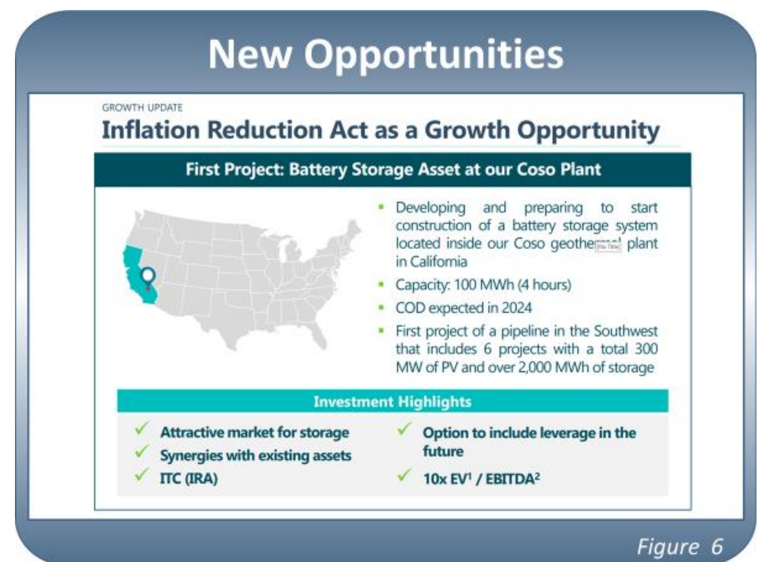

Figure 6

Just this month, the company announced $150 million in new investments primarily in energy storage (i.e. utility-grade batteries) and solar farms.

I find storage particularly interesting. Solar energy is useless after dusk… unless you have a way to store it. The same is true of wind energy. When there's no wind… there's no energy.

The absence of utility-grade storage has been a major impediment to renewable energy penetration. But that's changing, and changing quickly. And Atlantica is part of that solution.

The company is building a major new battery storage system in California that is expected to go online in 2024. This is the first of six projects planned, and funding from the Inflation Reduction Act is accelerating it.

I could go on all day, but you get the point. Atlantica owns a large portfolio of exactly the kinds of projects our government – and every other government in the world – are eager to subsidize. These are projects that should help the environment while also lessening our dependence on unfriendly energy exporting regimes. And we're getting paid a handsome dividend all along the way.

So, without any further delay…

Action to take: Buy shares of Atlantica Sustainable Infrastructure PLC (Nasdaq: AY). Set an initial stop loss at $20.41 based on closing prices.

Portfolio Review

Let's take a look at some of our other holdings. Our timing was absolutely fantastic in **AGNC Investment Corporation (NYSE: AGNC).** We've been in it for less than a month, and we're already up over 18%. I expect a lot more where that came from.

Overall, our energy plays remain our best-performing stocks. I mentioned Cheniere earlier, but we're up a solid 62% in **Energy Transfer (NYSE: ET).**

I admit that there are certain stocks that I'm just not completely objective about. I can't help it. I love Energy Transfer and always have. It's been a wild ride owning it over the years, and there are times the stock has given me heartburn. But it's one of the great growth stories of our time in energy. And I believe the move here has just gotten started. ET is just now back to its pre-pandemic levels. The stock could triple from here and barely be touching new all-time highs.

A lot can happen in the next year, and I don't want to jinx it. But I really believe we could easily see another 100% upside from here, including dividends, over the next 12-18 months.

Our gains in **ONEOK (NYSE: OKE)** have been more modest. We're up only about 3% on that stock. But that's ok. The stock has been trending higher lately, and I expect to see us do really well here.

And, at the expense of beating energy to death, we're up 84% in **Chevron (NYSE: CVX),** 47% in the **ClearBridge Energy Midstream Opportunity Fund (NYSE: EMO).** 35% in **Magellan Midstream Partners (NYSE: MMP)** and 48% in TEAF.

I still see upside in all of these and consider all "buys."

I would offer one caveat though. Energy is working for us now, and it has grown to be a large percentage of the total portfolio as other positions have dropped up.

In investing, it is absolutely possible tp have too much of a good thing. The best way to turn a winning trade into a disaster is to simply own too much of it.

So, take a look at your overall portfolio. If it looks like energy has become a disproportionately large piece of the total, you might want to consider doing a little rebalancing.

Again, I love energy in this market and expect it to continue outperforming. But energy can also be volatile… and you don't want to turn a winner into a loser by simply overloading it.

Apart from energy, I still really love our "experiences" REIT **EPR Properties (NYSE: EPR)**. We're actually down about 8% in this one, but I don't expect that to last much longer. Of every stock currently in the portfolio, this is one that see the most upside in over the next 12 months. I expect REITs in general to rebound from what has been a disaster of a year, and I expect EPR in particular to do really well. If you don't already own it, buy it and enjoy the 8% yield.

EPR is riskier than the REITs we own in the Forever Portfolio due to its exposure to movie theaters. That's a risk we have to acknowledge. But it's also a risk that I consider to be a little overblown at current prices. I believe the potential upside here more than compensates for the risk.

That's going to wrap it up for now.

Have a good week, and 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. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. 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
Atlantica Sustainable Infrastructure	AY	11/22/2022	$27.75	$27.75	$20.41	6.34%	$ -	0.00%	Yes	Buy
AGNC Investment Corporation	AGNC	11/3/2022	$8.16	$9.68	$6.37	14.88%	$ -	18.63%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$59.67	$33.01	5.85%	$ 1.07	30.65%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$48.25	$32.57	4.23%	$ 1.02	4.07%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$65.14	$47.91	5.74%	$ 2.81	3.73%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$12.40	$7.79	7.42%	$ 0.87	62.62%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$40.73	$33.92	8.10%	$ 3.20	-8.07%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$183.61	$130.77	3.09%	$ 7.02	84.49%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$29.66	$20.49	6.88%	$ 2.68	47.40%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$51.80	$41.78	8.01%	$ 8.28	35.29%	No	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$53.09	$42.57	4.65%	$ 5.57	94.10%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$21.05	$18.15	9.12%	$ 4.32	61.56%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$13.74	$12.53	7.86%	$ 2.24	48.89%	Yes	Buy

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