The Sizemore Income Letter

April 2023

Recession Proofing the Portfolio

By Charles Lewis Sizemore, CFA

I have a new pick this month. It's one of my favorite REITs and, after a rough start in 2023, is trading at a fantastic price.

But, before I get into that, I want to revisit our Forever Portfolio… and give some examples of exactly why I consider this to be a "forever" portfolio, or a portfolio we can literally plan to own for the rest of our lives.

The Coca-Cola Company (NYSE: KO) released earnings this week. They beat analyst estimates on both top-line revenues for the quarter and bottom line earnings.

Great!

But remember, we're talking "forever" here. Beating expectations in a single quarter doesn't matter all that much when your time horizon is measured in decades.

Here's where it gets good.

Coke's unit sales weren't amazing. They grew at a somewhat flattish 3%. But the company was able to defy expectations because it raised prices by 11% on average across the board.

I enjoy a Coke from time to time. I'm making an attempt to get healthy and be some sort of example for my kids, so I don't drink a lot of the stuff. I try to limit myself to one per week. But I do drink a ton of sparkling water. I find the bubbles make it "feel like" a Coke, but I'm not getting all the sugar.

Well, Coca-Cola also happens to own the Mexican sparkling water brand Topo Chico. And maybe this is just the Texan in me talking, but I consider it to be the best brand of sparkling water out there. I don't like to waste time comparing brands at the grocery store. If I see Topo Chico, I know the quality will be great. My decision is make for me, and I move on.

That's the power of a brand.

There may be better or cheaper bottled water out there.

I don't care.

The price difference wouldn't be enough to move the needle on my budget, and relying on a brand I know and trust saves me the mental energy of having to choose.

Most Coke-owned products are like that. And that's exactly why they are able to jack up their prices at will.

Sure, if the coming recession hits hard enough, you'll see consumer pare back… a little. They may eat out less in restaurants or order fewer Coke products when they do. But few people are going to trade down from Coca-Cola classic to generic Walmart branded "cola." Certainly not enough to present a strategic threat.

Plus, when times are tough, people enjoy guilty little pleasures. A Coke, or junk food in general, can help you get through a rough day. (The same holds true of major beer and liquor brands and even cigarettes, but that's another story for another day.)

So, again, that's why Coke makes the Forever Portfolio. 50 years from now, when I'm in my 90s or (more likely) dead, Coca-Cola will still be around. Sure, their product mix will be different. They'll be marketing things I've never heard of by then, just as 20 years ago few Americans had ever heard of Topo Chico or Vitamin Water. But whatever they're selling, it will be profitable because they understand the importance of branding.

You'll see that the Forever Portfolio is disproportionately full of consumer staple names. Well, this is exactly why!

What About the Recession?

Moving on, I mentioned "the coming recession" as if it were a forgone conclusion.

Leading Economic Indicators

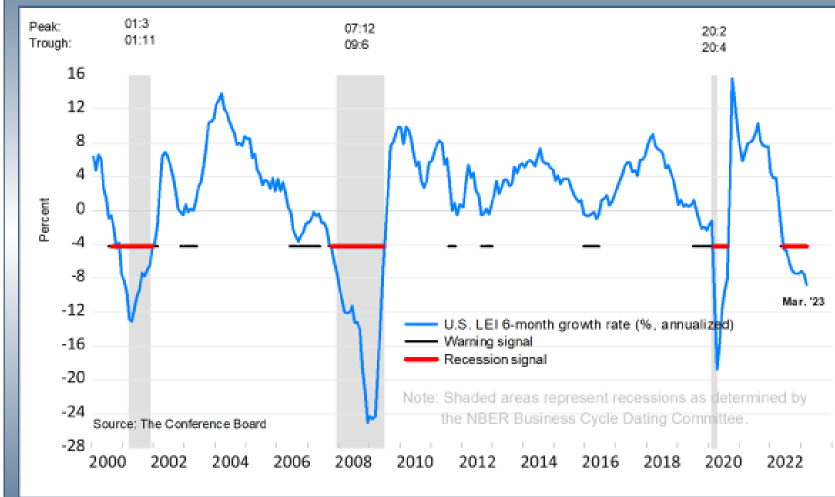

Figure 1

Leading Economic Indicators

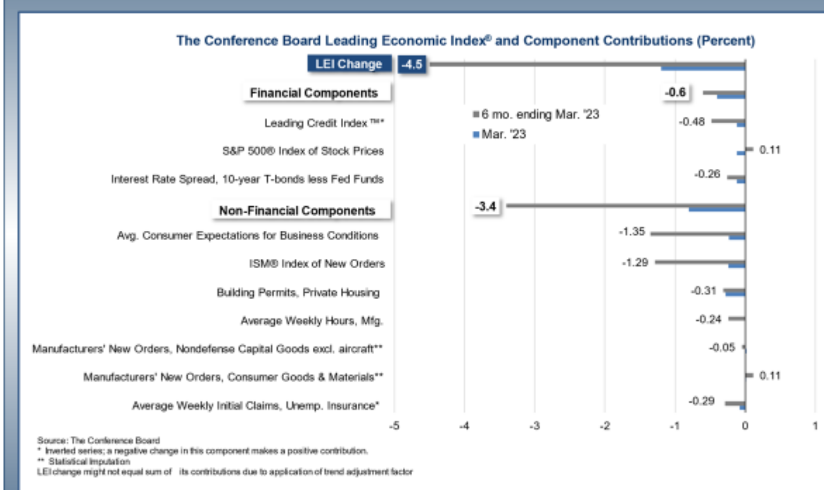

Figure 2

Frankly, I think it *is* a foregone conclusion. Take a look at Figures 1 and 2. Figure 1 tracks the Leading Economic Indicators (LEI) index published by the conference board. It may be a little hard to read, but you can see that the blue line dips negative just before a recession is called (gray shaded areas). The red horizontal lines show where a recession risk signal has been triggered.

Well, we're there. The signal has been flashing recession risk for months. And interesting, it's across the board. Figure 2 breaks down the individual pieces that make up the Leading Economic Indicators index, and eight out of 10 were negative. And the two that were positive – the movement S&P 500 stock index and manufacturers' new orders – were only barely positive.

Now, I know the post-COVID numbers are weird. The comps are hard to work with given how skewed the data has been in recent months. But the data here is pretty unambiguous. The economy is starting to cool, and this is before the results of the banking turmoil of last month have had time to flow through the data.

So, yes. A recession is a foregone conclusion at this point. It's just a question of whether it ends up being deep or shallow.

I'm generally an optimist, and my going assumption is that it will be shallow. But, that's subject to change as new data comes in.

So, the bottom line for us is that it still makes sense to be conservative. We can pick and choose good stocks at good prices without having to go "all in."

W.P. Carey

Figure 3

WPC Portfolio

Net-Lease Portfolio	Number of Properties	1,449
	Number of Tenants	392
	Square Footage	176.0 million
	ABR	$1.38 billion
	US / Europe / Other (% of ABR)	63% / 34% / 3%
	Contractual Rent Escalation: CPI-linked / Fixed / Other [2]	55% / 40% / 5%
	WALT	10.8 years
	Occupancy	98.8%
	Investment Grade Tenants (% of ABR)	31.9%
	Top 10 Tenant Concentration (% of ABR)	18.1%
Self Storage [3]	Number of Properties	84
	Number of Units	52,093
	Average Occupancy	91.0%

Figure 4

A Recession Resistant REIT

And with that as background, let me introduce my recommendation for the month, conservative real estate investment trust **W.P. Carey (NYSE: WPC)**.

W.P. Carey owns a sprawling portfolio of 1,449 net lease properties totaling 176 million square feet of space spread across 392 tenants. The properties are 98.8% leased and – importantly – 99% of those leases come with rent escalations, meaning their rental income is contractually guaranteed to rise. That's critically important to keeping pace with inflation.

WPC also has a growing portfolio of 84 self-storage properties totaling 52,093 units.

There's a lot to like here.

To start, WPC tends to lumped in with retail REITs because historically it held a lot of retail and its "triple net" structure (the tenant is responsible for taxes, maintenance and insurance) tends to be common with retail properties.

But today, fully 51% of the portfolio is invested in industrial and warehouse properties… exactly the kinds of properties most in demand in the Amazon.com-led internet economy.

Retail makes up about 17% of the portfolio, and most of this space is let to companies that are shielded from internet commerce, such as grocery stores and restaurants.

I'm not particularly happy to see 17% of the portfolio in office properties, as this is the segment of the real estate world most at risk in the post-pandemic world of hybrid work schedules. But a good chunk of that is rented to government tenants. In fact, the provincial government of Andalucia in Spain is WPC's second largest tenant in terms of rent received.

That's not WPC's only international tenant, by the way. About 34% of the portfolio is in Europe.

WPC Portfolio

Property Type Diversification (% of ABR)

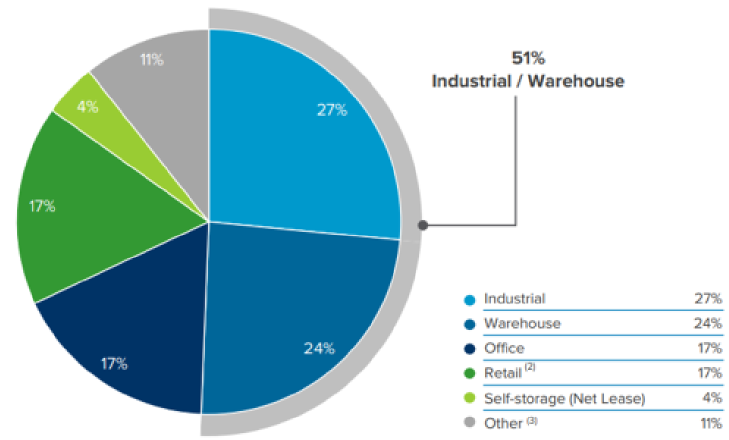

Figure 5

WPC Top 10 Tenants

Tenant	Description	Number of Properties	ABR ($ millions)	WALT (years)	% of Total
U-HAUL	Net lease self-storage properties in the U.S.	78	$39	1.3	2.8%
State of Andalucia	Government office properties in Spain	70	29	12.0	2.1%
METRO	Business-to-business wholesale stores in Italy & Germany	20	28	5.8	2.0%
HELLWEG	Do-it-yourself retail properties in Germany	35	27	14.2	2.0%
	Net lease self-storage properties in the U.S.	27	23	21.3	1.7%
OBI	Do-it-yourself retail properties in Poland	26	22	7.8	1.6%
Marriott	Net lease hotel properties in the U.S. (2)	18	21	1.0	1.6%
NORD ANGLIA EDUCATION	K-12 private schools in the U.S.	3	21	20.7	1.5%
Advance Auto Parts	Distribution facilities in the U.S.	29	20	10.1	1.4%
EROSKI	Grocery stores and warehouses in Spain	63	20	13.2	1.4%
Top 10		369	$250	10.1 yrs	18.1%

Figure 6

So, apart from industrial diversification and tenant diversification (the largest tenant makes up less than 3% of the portfolio), WPC also enjoys country diversification. Given that the dollar is at historically high levels against many world currencies, that's not at all a bad thing. If the dollar weakens this year, WPC could enjoy currency benefits.

Along with most other REITs, investors have been pretty sour on WPC of late. The shares are down about 14% as investors fret over higher financing costs and the risk of a recession.

I say bring it. The shares are cheap, and the company is largely recession proof or at least very recession resistant. And in any event, it's conservatively financed. 67% of its capital stack is equity.

WPC pays a nice dividend of 5.9%. And it has a long history of raising its dividend every year that I don't expect to see broken any time soon.

I don't necessarily expect us to make millions in WPC. It's a conservative REIT, after all. But I do think total returns of 20% or more over the next year are likely. And I believe this is one we can likely hold on to for years.

Action to Take: W.P. Carey Inc (NYSE: WPC) at market. Set an initial stop loss at $59.92.

Update on Preferred Stock Portfolio

If you haven't nibbled on the preferred stock recommendations I made last month, it's not too late (see table on page 7).

All are still trading at crazy discounts and all sport very solid yields. Yields like these won't go unnoticed forever. So, again, if you haven't bought shares yet, it's absolutely not too late.

That's going to wrap it up for this month.

W.P. Carey Dividends

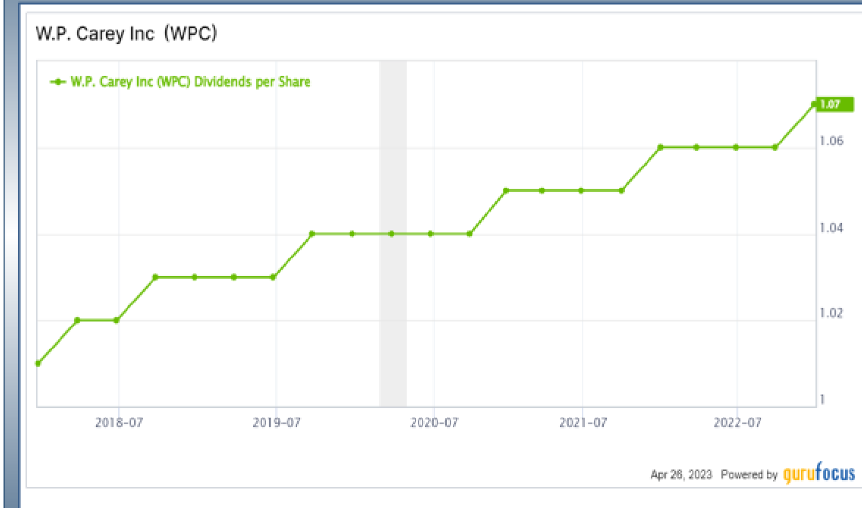

Figure 7

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
W.P. Carey Inc	WPC	4/26/2023	$73.59	$73.59	$59.92	5.80%	$ -	0.00%	Yes	Buy
Nuveen Real Estate Income Fund	JRS	1/30/2023	$8.46	$7.30	$6.41	9.77%	$ 0.17	-11.70%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	$28.79	$27.61	$20.15	12.71%	$ -	-4.10%	Yes	Buy
Atlantica Sustainable Infrastructure	AY	11/22/2022	$27.75	$27.27	$20.41	6.45%	$ 0.89	1.48%	Yes	Buy
AGNC Investment Corporation	AGNC	11/3/2022	$8.16	$9.75	$9.30	14.77%	$ 0.36	23.90%	Yes	Hold
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$45.12	$41.42	7.73%	$ 1.07	-0.65%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$47.90	$36.00	4.26%	$ 1.02	3.34%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$65.55	$47.91	5.71%	$ 2.81	4.36%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$12.53	$8.59	7.34%	$ 0.87	64.22%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$40.74	$33.92	8.10%	$ 3.20	-8.04%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$168.99	$132.62	3.36%	$ 7.02	70.34%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$27.85	$20.49	7.32%	$ 2.68	39.15%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$55.35	$41.78	7.50%	$ 9.33	45.65%	No	Buy

The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
National Retail Properties	NNN	9/29/2022	$ 39.07	$ 43.09	None	5.11%	$ 1.10	13.10%	Yes
Conagra Brands	CAG	6/23/2022	$ 32.47	$ 38.14	None	3.46%	$ 0.99	20.51%	Yes
The Clorox Company	CLX	6/23/2022	$ 132.28	$ 164.90	None	2.86%	$ 3.54	27.34%	Yes
Campbell Soup Company	CPB	6/23/2022	$ 47.04	$ 54.67	None	2.71%	$ 1.11	18.59%	Yes
Flowers Foods	FLO	6/23/2022	$ 24.97	$ 27.22	None	3.23%	$ 0.44	10.80%	Yes
General Mills	GIS	6/23/2022	$ 67.90	$ 88.50	None	2.44%	$ 1.62	32.72%	Yes
J.M. Smucker Company	SJM	6/23/2022	$ 123.83	$ 154.34	None	2.64%	$ 3.06	27.11%	Yes
Target Corporation	TGT	6/23/2022	$ 141.08	$ 157.61	None	2.74%	$ 3.24	14.01%	Yes
Coca-Cola Company	KO	4/27/2022	$ 65.56	$ 63.85	None	2.76%	$ 1.32	-0.59%	Yes
Prologis	PLD	10/29/2021	$ 146.67	$ 120.64	None	2.62%	$ 3.79	-15.16%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 122.23	None	4.81%	$ 7.45	-28.71%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 98.69	None	5.15%	$ 7.49	18.84%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 46.99	None	8.00%	$ 10.60	55.23%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 62.04	None	5.10%	$ 8.40	46.50%	Yes
AT&T	T	3/19/2020	$ 31.15	$ 17.51	None	6.34%	$ 5.79	-25.19%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 26.64	None	7.13%	$ 5.51	121.38%	No
Kinder Morgan	KMI	3/19/2020	$ 11.20	$ 17.41	None	6.38%	$ 3.24	84.41%	Yes
Ventas	VTR	3/19/2020	$ 19.98	$ 46.36	None	3.88%	$ 5.74	160.78%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 290.00	None	2.76%	$ 35.15	73.32%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 34.69	None	5.33%	$ 4.77	30.96%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 33.60	None	4.35%	$ 4.23	74.27%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	$ 7.25	$ 13.01	None	4.61%	$ 1.27	96.97%	Yes

Preferred Stock Trading at Deep Discounts

Stock	Ticker	Buy Date	Buy Price	Current Price	Discount to Par	Yield	Cumulative Dividends	Total Return
AGNC Investment Corp Preferred	AGNCP	3/31/2023	$19.72	$19.87	-21%	8.04%	$ -	0.76%
Goldman Sachs Series A Preferred	GS.PRA	3/31/2023	$20.42	$20.40	-18%	6.69%	$ -	-0.10%
Bank of America Corp Floating Rate Non-Cumulative Preferred Stock, Series 5	BML.PRL	3/31/2023	$20.24	$20.65	-19%	6.53%	$ -	2.03%
Morgan Stanley | Floating Rate Non-Cumulative Preferred Stock, Series A	MS.PRA	3/31/2023	$20.28	$20.54	-19%	6.77%	$ -	1.28%