The Sizemore Income Letter

May 2023

Investing in an Entertainment Powerhouse

By Charles Lewis Sizemore, CFA

Hopefully by the time you read this, we will have had a resolution of the debt ceiling fiasco.

Hey, I like to be optimistic. It could happen…

Regardless of how (or if) this theater of the absurd ends, I have a new recommendation I'm wildly excited about. Apart from paying an attractive yield of 3.5%, I see a long runway for growth in front of the company. And as the icing on the cake, it gives us geographic diversity. The stock is domiciled in Japan.

I won't tease you any longer. My recommendation this month is videogame and entertainment powerhouse **Nintendo Company Ltd (NTDOY)**. If you're roughly my age, you likely owned a Nintendo Entertainment System in the 1980s. Or if you're a little older than me, chances are good that you've purchased one of the successor Nintendo consoles for a kid or grandkid.

Nintendo isn't quite the powerhouse it was in the 80s and early 90s. In terms of market share, Sony's PlayStation controls about 45% of the console market with Nintendo controlling about 28%.

But Nintendo has something Sony does not and likely never will. It has arguably the most recognizable intellectual property of any company not named Disney. (Mickey Mouse is literally more recognized than Santa Claus, so no one can compare with that.)

But Mario and Luigi from the

Super Mario Brothers franchise and Link from the Legend of Zelda franchise and Donkey Kong are also close to universally recognized virtually anywhere in the world.

As a case in point the Super Mario Brothers movie, which was released in early April, has already grossed $1.26 billion. That already puts it in the top 20 highest-grossing movies of all time, and it's not done yet.

Nintendo is quirky on multiple levels. To start, videogame consoles are traditionally loss leaders. Sony and Microsoft both generally lose money on their PlayStation and Xbox consoles. They are content to lose a little on the console to get gamers hooked into the ecosystem and buying the profitable games.

As a smaller company without other product lines to fall back on, Nintendo can't play that game. They actually turn a profit on their consoles because they have to. And they don't try to "out power" Sony and Microsoft. Instead, they stick to their niche: More family-friendly, broad market games that don't require cutting-edge firepower. Nintendo's Switch console is roughly as powerful as an iPad (though with a little help from a custom Nvidia Tegra graphics chip).

Another Nintendo quirk is that the company predominantly sells its own intellectual property, as opposed to third-party titles. And its rights are exclusive. If you want to play a Mario or Zelda-themed game… well, you have to buy a Nintendo console.

Apart from the Super Mario Brothers movie, the biggest news for Nintendo this year is the launch of The Legend of Zelda: Tears of the Kingdom. This is the

Nintendo-Owned Game Sales

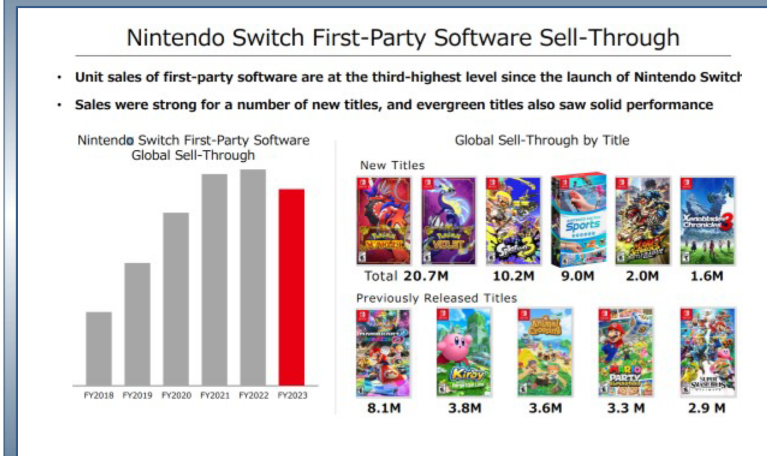

Figure 1

Building on Established Names

Figure 2

Nintendo Company (NTDOY)

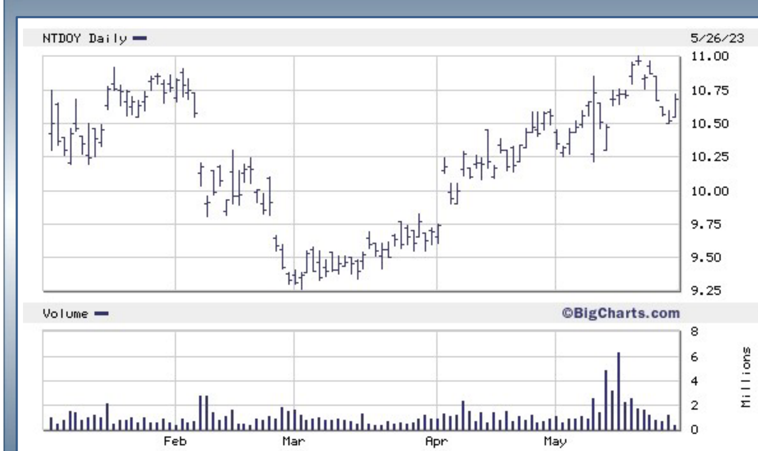

Figure 3

follow-up to the wildly successful Breath of the Wild, which launched in 2017, and is arguably the most anticipated game in recent history. Tears of the Kingdom launched in May and within the first three days of its existence had already sold 10 million copies. And if the success of Breath of the Wild is any indication, there's a lot more to come. Breath of the Wild has sold 31 million copies… and counting!

What Changed?

Videogame titles come and go. The new Zelda game will be a success, but sales will start to trail off within the next year. None of that makes Nintendo wildly interesting as an investment.

This is what excites me: For the first time in decades, Nintendo is making a real effort to monetize its intellectual property on something other than the videogames themselves. As I said, apart from Disney – which is in an entirely different world in terms of monetizing its assets – Nintendo has some of the most recognizable characters of any company anywhere in the world. I would argue that you'd be hard pressed to find any child anywhere in the developed world (and even in vast stretches of the developing world that don't even have reliable electricity) that doesn't instantly recognize Mario and Luigi.

Nintendo's success with the Mario movie will prompt the company to make more… and then likely make spinoff series on Netflix or elsewhere. And this becomes a virtual cycle. Children who enjoyed the movie will be asking mom and dad for a new Nintendo Switch for Christmas… and whatever new Mario game de jour Nintendo happens to be selling then.

Nintendo Price/Earnings Ratio

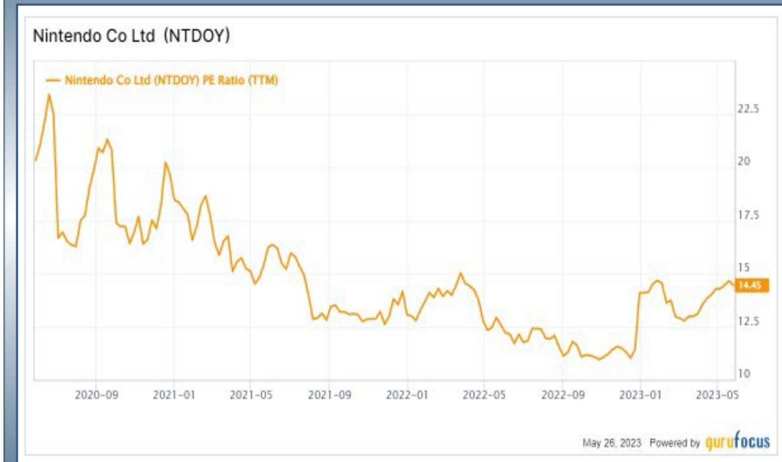

Figure 4

And furthering the comparison to Disney, the Nintendo is making moves into theme parks. Already, there are Nintendo sections featuring rides and other attractions in the Universal theme parks in Los Angeles and in Osaka, Japan, and there are plans to do the same in Orlando.

And then there is merchandising…

I remember going to a fair outside of Houston, Texas and spending an ungodly amount of money trying to win some mindless carnival game in order to win a stuffed Mario toy for my son. I ended up just discretely paying the attendant to give it to me.

And then, naturally, I had to do the same thing 10 minutes later when his brother wanted the Luigi doll.

Movies drive interest in the videogames and toys, which in turn drive more interest in the movies in a virtuous cycle. Why it took Nintendo this long to figure this out, I will never know. But better late than never.

Nintendo's shares are by no means expensive at current prices, trading at about 14 times earnings (see Figure 4 on the previous page). The market is not valuing Nintendo as a growth stock.

I believe that will change and soon. AI is unending business processes and entire industries. But it can't upend brands. Branding and intellectual property is more valuable today than at any time in history, and after essentially being asleep at the wheel for 40 years, Nintendo is finally figuring that out.

We can collect an attractive 3.5% dividend while waiting for this transformation to unfold.

So, with no further delay…

Action to take: Buy Shares of Nintendo Company Ltd (NTDOY) at market. Set an initial stop loss at $8.34 based on closing prices.

A few notes on this particular stock. Nintendo's primary market is Japan, of course. But the shares do trade in the United States in the "over the counter" of OTC market.

As a general rule, I avoid the OTC markets because it's something of an unregulated "wild west." I don't recall the last time I bought an American stock trading in the OTC market because the vast majority of American stocks on the OTC are garbage companies that frankly aren't good enough to trade on the Nasdaq or NYSE.

I make exceptions with international stocks, as some of the world's best overseas companies trade in the US on the OTC market. To give a few examples, Swiss food and snacks group Nestle (NSRGY) and German automakers Volkswagen (VWAGY), BMW (BMWYY) and Mercedes-Benz (MBGAF) all trade in the OTC markets. All are subject to strict regulation in their home countries. But there is no real reason for them to deal with the headache of an American listing in addition to the headache of listing in their home countries.

Portfolio Review

With the volatility in the market this year and last year, we've done a fair amount of portfolio pruning.

This is good! It's an important part of portfolio management. It has, however, left our core portfolio really heavy in energy and real estate investment trusts.

That's ok. It's not "bad" to run a concentrated portfolio if you are comfortable with the risks. But I would *strongly* encourage you to round out your income investments with some picks from the Forever Portfolio.

If you have new money to invest, let me break down some of my favorite

EPR Properties (NYSE: EPR)

Figure 5

positions in both portfolios at the moment.

EPR Properties (NYSE: EPR) remains one of my very favorite plays at the moment, and it's one of the few stocks that hasn't already long since blown past its pre-pandemic prices. At just shy of $42 per share, the REIT trades at barely half its pre-pandemic range in the $70s and $80s.

EPR sports a dividend yield close to 8%. And this is in spite of the fact that the dividend was cut during the pandemic and has yet to be reinstated at pre-pandemic levels.

As EPR's tenants continue to recover to their pre-pandemic health, the REIT will continue to raise its dividend accordingly. And as the market recognizes the safety and stability of REIT, I expect the dividend *yield* to shrink even as the *payout* is increasing.

In other words, I expect serious capital gains here, above and beyond the income gains.

If EPR simply recovers to the lower end of its pre-pandemic range, to $70, we'd be looking at 68% price returns plus the 8% dividend.

EPR Properties Dividend

Figure 6

W.P. Carey

Figure 7

Are there risks?

Of course. AMC, the movie theater chain, remains a large tenant. And while EPR has been slowly reducing the size of its exposure to AMC, it's a slow process, and if AMC were to be forced into bankruptcy, EPR would have a mess to clean up. But even under that worst case scenario, EPR should be able to muddle through just fine. AMC would continue to pay rent as the bankruptcy was negotiated, as it would be a reorganization and not a liquidation. And the AMC-operated theaters that EPR owns could be sold to rival chains or spun off.

So, yes, there is risk. But that risk is manageable. And we're being paid very handsomely to take this manageable risk.

So, if you don't already own shares of EPR, I recommend you snap some up at today's prices.

Moving on, our timing could have been a little better on **WP Carey (NYSE: WPC),** my recommendation from last month. We're down about 7% on the shares as I write this.

There is no specific reason the shares are down. It's mostly just broad market concerns along with investor fear towards REITs in general.

WPC dropped to around $68 per share in October of last year and then came roaring back to above $80 per share.

Should we expect a similar move this time around?

Maybe.

It's worth noting that the shares, apart from a brief window at the beginning of the pandemic, are close to their cheapest prices in five years. And yet over that same five-year period, the shares have paid out more in dividends with every passing year. Today, the shares yield a little over 6%.

Moving to the Forever Portfolio, I'd remind you that my general rule of thumb is that **Realty Income (NYSE: O)** is a buy whenever its yield creeps over 5%.

Well, that's the case today. After a slide in March, the shares yield about 5.1%.

Realty Income's shares today are trading at early 2016 prices, yet the company has continued to grow over the past seven years and has never been healthier. The weakness in the shares is simply a factor of two things. The first is general investor wariness of anything related to real estate, and the second – arguably the much bigger factor – is the increase in bond yields. Realty Income had come to be seen as a bond substitute when yields were pitifully low. As yields have risen, there is less need to look for substitutes.

I don't care. Bond yields will rise and fall. The Forever Portfolio is designed to be a buy-and-hold portfolio designed to last a lifetime, so I view selloffs like these as an opportunity to buy more. And as for the

W.P. Carey Dividends

Figure 8

Realty Income (NYSE: O)

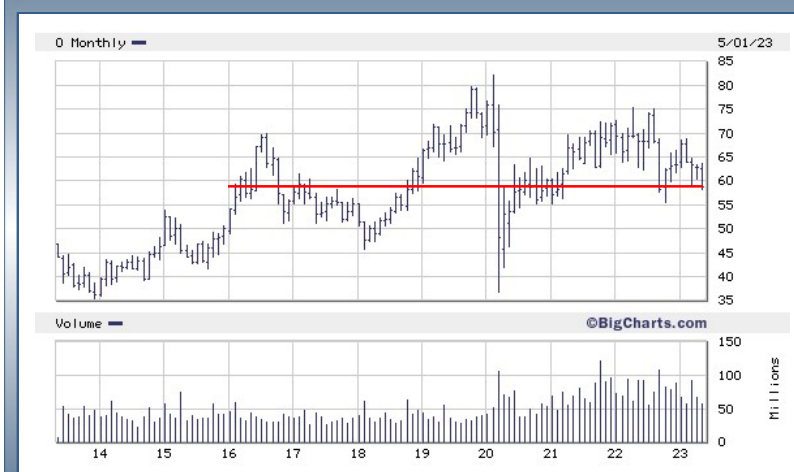

Figure 9

shares I already own, a temporary dip actually helps me because my shares are on automatic dividend reinvestment. My monthly dividends buy more shares when the price is depressed, allowing me to compound my shares faster.

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

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
Nintendo Company Ltd	NTDOY	5/26/2023	$10.69	$10.69	$8.34	3.49%	$ -	0.00%	Yes	Buy
W.P. Carey Inc	WPC	4/26/2023	$73.59	$68.12	$59.92	6.27%	$ -	-7.43%	Yes	Buy
Nuveen Real Estate Income Fund	JRS	1/30/2023	$8.46	$6.94	$6.41	9.77%	$ 0.17	-15.96%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	$28.79	$29.94	$20.15	11.72%	$ -	3.99%	Yes	Buy
Atlantica Sustainable Infrastructure	AY	11/22/2022	$27.75	$24.61	$20.41	7.15%	$ 0.89	-8.11%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$44.99	$41.42	7.76%	$ 1.07	-0.94%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$44.61	$36.00	4.57%	$ 1.02	-3.61%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$57.28	$47.91	6.53%	$ 2.81	-8.27%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$12.64	$8.59	7.28%	$ 0.87	65.56%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$41.67	$33.92	7.92%	$ 3.20	-6.09%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$154.09	$132.62	3.69%	$ 7.02	55.92%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$27.78	$20.49	7.34%	$ 2.68	38.83%	Yes	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	$ 42.09	None	5.23%	$ 1.10	10.55%	Yes
Conagra Brands	CAG	6/23/2022	$ 32.47	$ 34.85	None	3.79%	$ 0.99	10.36%	Yes
The Clorox Company	CLX	6/23/2022	$ 132.28	$ 159.16	None	2.97%	$ 3.54	23.00%	Yes
Campbell Soup Company	CPB	6/23/2022	$ 47.04	$ 51.52	None	2.87%	$ 1.11	11.90%	Yes
Flowers Foods	FLO	6/23/2022	$ 24.97	$ 25.81	None	3.41%	$ 0.44	5.13%	Yes
General Mills	GIS	6/23/2022	$ 67.90	$ 84.19	None	2.57%	$ 1.62	26.38%	Yes
J.M. Smucker Company	SJM	6/23/2022	$ 123.83	$ 146.55	None	2.78%	$ 3.06	20.82%	Yes
Target Corporation	TGT	6/23/2022	$ 141.08	$ 138.91	None	3.11%	$ 3.24	0.76%	Yes
Coca-Cola Company	KO	4/27/2022	$ 65.56	$ 60.26	None	2.92%	$ 1.32	-6.07%	Yes
Prologis	PLD	10/29/2021	$ 146.67	$ 124.91	None	2.53%	$ 3.79	-12.25%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 111.74	None	5.26%	$ 7.45	-34.48%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 90.85	None	5.59%	$ 7.49	10.06%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 44.61	None	8.43%	$ 10.60	48.80%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 58.67	None	5.10%	$ 8.40	39.49%	Yes
AT&T	T	3/19/2020	$ 31.15	$ 15.50	None	7.16%	$ 5.79	-31.65%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 25.47	None	7.46%	$ 5.51	113.33%	No
Kinder Morgan	KMI	3/19/2020	$ 11.20	$ 16.22	None	6.84%	$ 3.24	73.79%	Yes
Ventas	VTR	3/19/2020	$ 19.98	$ 42.88	None	4.20%	$ 5.74	143.36%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 286.76	None	2.79%	$ 35.15	71.59%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 30.62	None	6.04%	$ 4.77	17.45%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 34.26	None	4.26%	$ 4.23	77.31%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	$ 7.25	$ 12.21	None	4.91%	$ 1.27	85.93%	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	$19.88	-20%	8.04%	$ -	0.81%
Goldman Sachs Series A Preferred	GS.PRA	3/31/2023	$20.42	$20.19	-19%	6.69%	$ -	-1.13%
Bank of America Corp Floating Rate Non-Cumulative Preferred Stock, Series 5	BML.PRL	3/31/2023	$20.24	$19.56	-22%	6.53%	$ 0.33	-1.71%
Morgan Stanley | Floating Rate Non-Cumulative Preferred Stock, Series A	MS.PRA	3/31/2023	$20.28	$20.78	-17%	6.77%	$ -	2.47%