

# The Sizemore Income Letter

Late August 2023

## High Yield on the Cheap

By Charles Lewis Sizemore, CFA



You'll be happy to know that we'll be wrapping up August with an exciting new high-yield income play that I expect to give us 15% annual dividend growth for years to come.

But before I jump into that, let's take a quick minute to do recap of the macro picture.

August wasn't a great month in the stock market, and the S&P 500 and most major market indexes finished lower. As is generally the case, it wasn't just one thing that sapped investor enthusiasm.

It was a toxic cocktail of higher interest rates (see Figure 1), uncertainty of the Fed's next move (or moves!), less-than-stellar corporate earnings and perhaps a touch of the usual summer doldrums made a little worse this year by a realization that stock prices are high and there is no obvious catalyst for them to go materially higher in this environment.

But then, that's just fine. Little selloffs like these create opportunities for us, and it's given us a fantastic entry point in this month's pick: **NextEra Energy Partners, LP (NEP)**. (It seems I have found a unicorn, by the way: a publicly -traded partnership that you can hold in your IRA without causing major tax headaches! More on that later.)

You've probably heard of NextEra Energy, Inc. (NYSE: NEE), the partnership's sister company. It's one of America's fastest growing public utility companies, and no, that's not contradictory to

### U.S. 10 Year Treasury Yield



Figure 1

put “utility” and “growing” in the same sentence. NextEra Energy is not your typical slow-growth, widows-and-orphans-friendly utility stocks. It’s one of the world’s biggest owners and developers of renewable energy assets, and over the past 15 years it’s generated 669% returns, blowing away its peers in the utility space and even outperforming the tech sector (Figure 2).

That said, we’re not buying the utility company. I like it... and I think we’d likely be happy owning it. But it’s more of a growth play, and I’m looking for income this month.

Enter NextEra Energy Partners!

The relationship between these two entities is similar to that of an oil and gas company and a related MLPs. The partnership essentially provides financing to the parent company and in return high-quality, mature assets that throw off a lot of cash that can be recycled into dividends.

NextEra Energy Partners owns a sprawling portfolio spread across 29 states (Figure 3), and virtually all of the high-population states. Its portfolio generates 7,560 MW of wind energy, 1,530 MW of solar energy, controls 240 MW of storage capacity and even has a significant position in natural gas pipelines, though the company plans to divest this to become a pure-play on green energy assets.

The runway for growth here is impressive, and it will continue, in some

## NextEra Energy, Inc. Total Returns

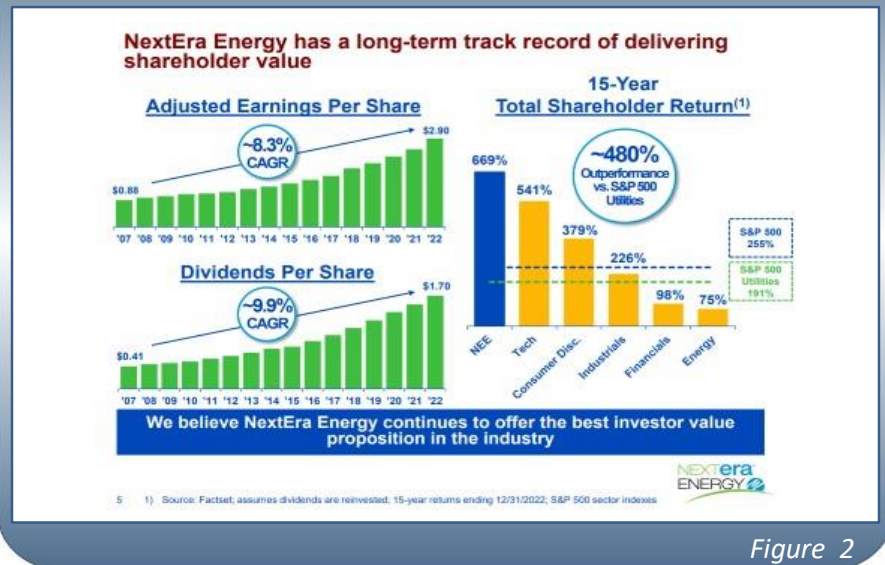


Figure 2

## NextEra Energy Partners Portfolio

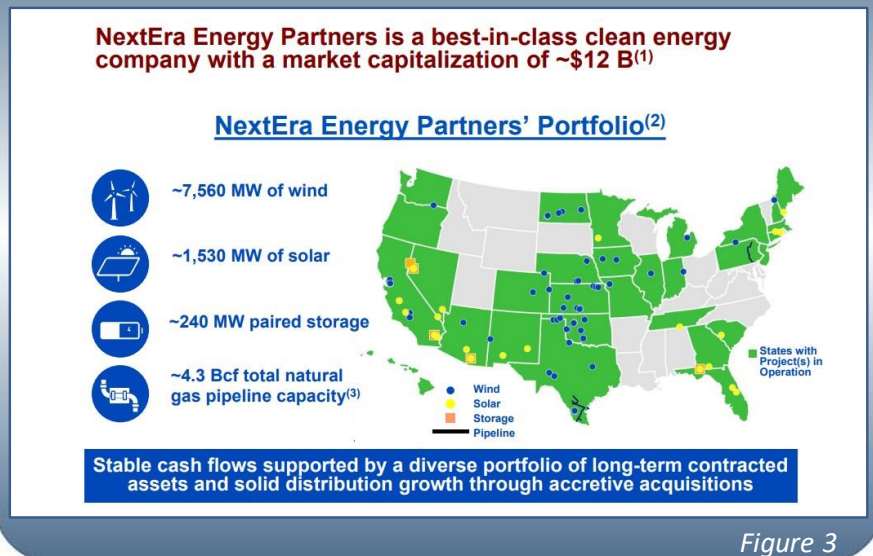


Figure 3

form or fashion, regardless of who wins the next presidential election. If we get a Democrat in the White House, there will be a more aggressive push to pursue renewable energy investment. But if a Republican wins, it’s not like it goes in reverse. Building green infrastructure is a multi-decade plan involving major capital commitments by the private

sector. That battleship doesn't turn on a dime or based on the results of an every-four-year election.

As of 2021, there was approximately 210 GW of installed capacity in renewable energy. That's expected to grow to about 1,400 GW by 2025.

Hey, maybe it ends up being a little less or a little more. Frankly, who cares. The point here is that there is a *long* runway. This is a company well positioned in one of the greatest macro trends of our era.

NextEra Energy Partner's stock price has gotten seriously beaten up over the past two years (Figure 5). As recently as last summer, this was a stock trading over \$80 per share.

A combination of factors helps knock the shares lower. To start, green energy investments were all the rage a few years ago. And like most investment fads, prices stopped making sense and eventually investors moved on to the next "it" thing... which for the moment appears to be artificial intelligence.

Adding fuel to the fire, the massive surge in bond yields really hit high-yield stocks hard. We saw it in our yield portfolio here, and NEP certainly wasn't spared.

Great!

The shares appear to have bottomed earlier this month, and the selloff has given us a fantastic entry point at a great yield.

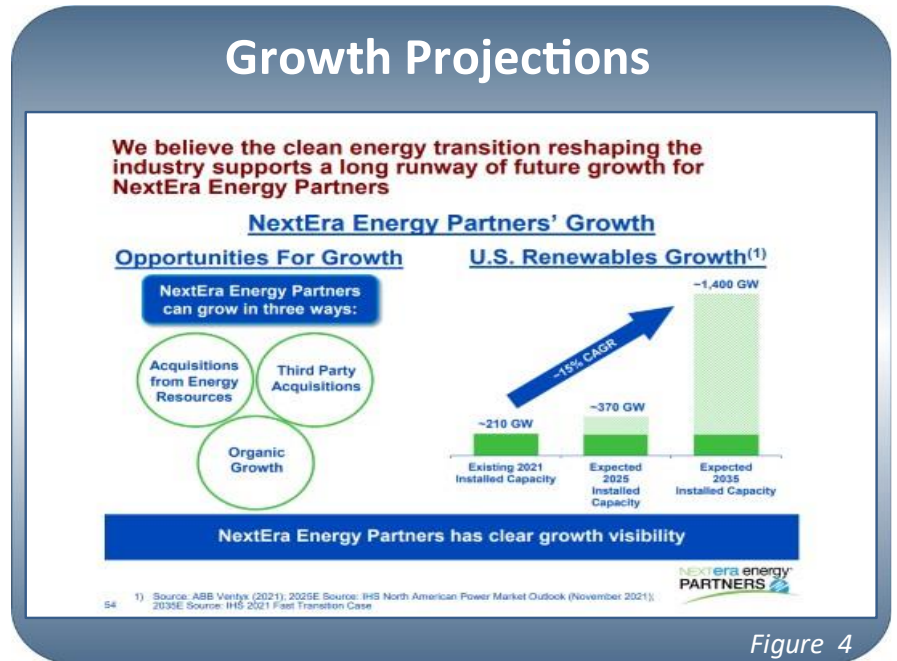


Figure 4

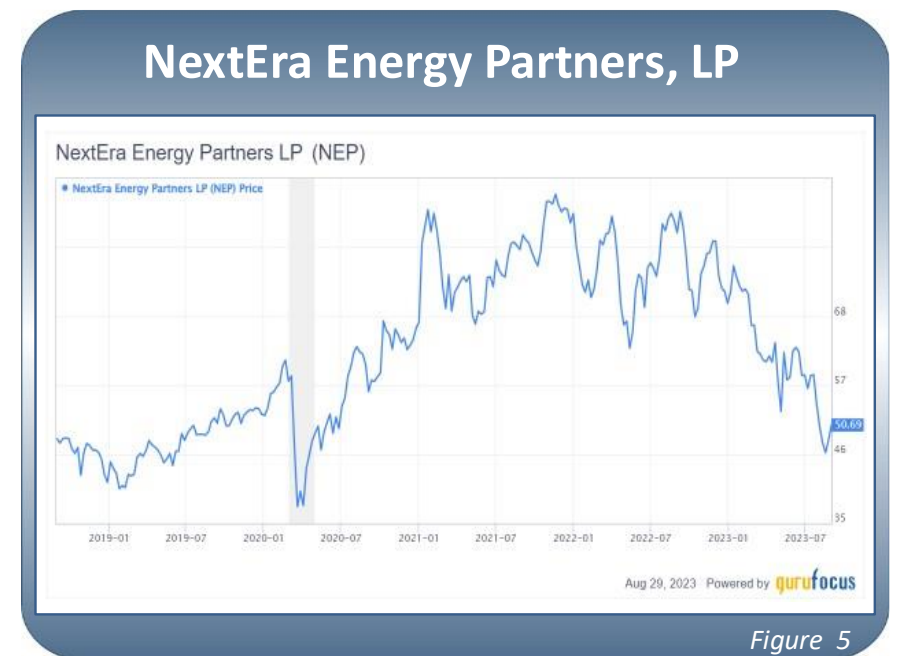


Figure 5

### All About the Dividend

As I mentioned earlier, I'm hungry for yield, and NextEra Energy Partners delivers.

At current prices, NEP yields 6.7% (Figure 6), which is close to the highest yield in the company's history.

Also – and this is important – NEP is safe to hold in an IRA. While I own a ton of them, most publicly-traded partnerships are a nightmare to own at tax season, as they issue K1s instead of the standard 1099-div issued by your broker.

**Well, in NEP you don't have that issue. The shares are 100% IRA friendly and you'll get a standard 1099-div from your broker at tax time.**

NEP is a high yielder. But high yield alone is not reason enough to own this. I can get a t-bill or CD yielding over 5% for crying out loud.

Now, I want growth with my yield, and NEP delivers there as well. The company raised its dividend by about 12% last year. And over the past three and five years, it's raised its dividend by a cumulative 47.8% and 95.0%, respectively. Since the company's inception in 2014, the company has increased its payment by an almost ridiculous 354.2%.

Management expects to see 12-15% dividend growth annually for the foreseeable future, and given the fantastic runway for growth, I see no reason to doubt it.

So, please take the following action:

**Action to take: Buy shares of NextEra Energy Partners, LP (NEP) at market. Set an initial stop loss at \$38.75 based on closing prices.**

Moving on, let's take a look at some of our other portfolio positions starting with our Preferred Stock Portfolio (see last page).

## Dividend Yield



Figure 6

## Quarterly Dividends

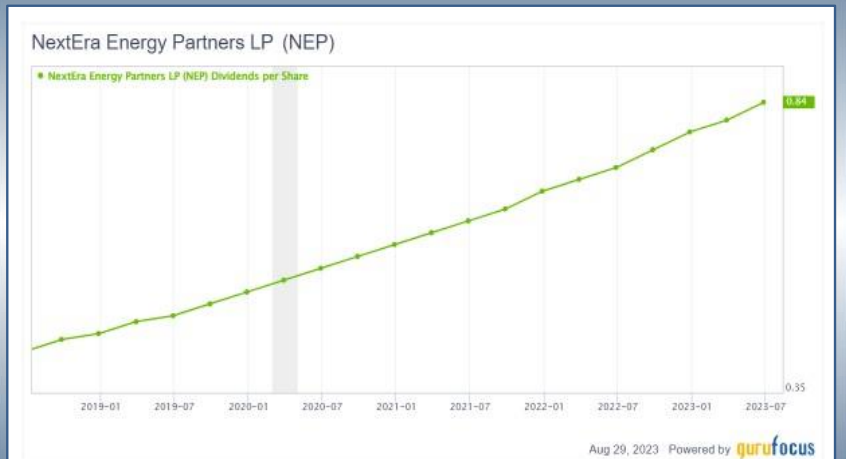


Figure 7

## Dividend Growth Rate

Dividend Growth 1Year	11.9%
Dividend Growth 3Year	47.8%
Dividend Growth 5Year	95.0%
Dividend Growth Since Inception (2014)	354.2%

Figure 8

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We bought these in March when preferred stock were on fire sale and no one wanted to touch the asset class with a ten-foot pole. And as is typical in these cases, the first few months were a little rocky.

But now, we have received at least one dividend payment in three out of the four, and we are in positive territory in all four. I continue to recommend all four preferreds, as I consider the yields competitive.

Moving on, let's also revisit the Forever Portfolio. These are, of course, the stocks that I believe you can buy and hold for the long-term and simply never sell.

I consider the REITs to be the most attractive subset of the total here. REITs have gotten hammered this year, in many cases knocking prices back to pre-pandemic levels.

Realty Income (NYSE: O) is my favorite stock. I've owned it since 2008 and I have no plans to ever sell it. So, I admit that I am probably a little biased on this one. But all the same, it pays well over 5% at current prices and sits about 30% below its highs of a few years ago.

My general policy has always been to buy Realty Income when its yield rises above 5%. So, if you're looking to add a little exposure, this is as good of a time as any!

National Retail Properties (NYSE: NNN), Crown Castle International (NYSE: CCI)

and Prologis (NYSE: PLD) also look good to me as destinations for new money.

The recent selloff erased all of our gains in Flowers Foods (NYSE: FLO), Conagra (NYSE: CAG) and Target Corporation (NYSE: TGT). Among our non-REITs, those are the three I'd be most excited about adding new money to at current prices.

Of course, I love the rest as well! But if you have limited capital to invest in the Forever Portfolio, I would start with these first.

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

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 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 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](mailto: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
NextEra Energy Partners, LP	NEP	6/30/2023	\$50.66	\$50.69	\$38.75	6.78%	\$ -	0.06%	Yes	Buy
Essential Properties Realty Trust	EPRT	8/4/2023	\$23.59	\$24.04	\$18.10	4.61%	\$ -	1.91%	Yes	Buy
National Storage Affiliates Trust	NSA	6/30/2023	\$34.82	\$34.19	\$26.98	6.55%	\$ 0.56	-0.20%	Yes	Buy
Nintendo Company Ltd	NTDOY	5/26/2023	\$10.69	\$10.58	\$8.34	3.49%	\$ -	-1.03%	Yes	Buy
W.P. Carey Inc	WPC	4/26/2023	\$73.59	\$64.90	\$59.92	6.58%	\$ 1.07	-10.36%	Yes	Buy
Nuveen Real Estate Income Fund	JRS	1/30/2023	\$8.46	\$7.31	\$6.41	9.77%	\$ 0.34	-9.57%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	\$28.79	\$32.15	\$20.15	10.92%	\$ 0.76	14.30%	Yes	Buy
Atlantica Sustainable Infrastructure	AY	11/22/2022	\$27.75	\$22.93	\$20.41	7.68%	\$ 1.34	-12.56%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	\$46.49	\$52.06	\$41.42	6.70%	\$ 1.07	14.28%	No	Buy
Citigroup Inc	C	6/23/2022	\$47.34	\$41.72	\$36.00	4.89%	\$ 1.02	-9.72%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	\$65.50	\$65.26	\$47.91	5.73%	\$ 2.81	3.92%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	\$8.16	\$13.52	\$8.59	6.81%	\$ 0.87	76.29%	No	Buy
EPR Properties	EPR	11/29/2021	\$47.78	\$44.88	\$33.92	7.35%	\$ 3.20	0.63%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	\$103.33	\$159.96	\$132.62	3.55%	\$ 7.02	61.60%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	\$21.94	\$31.25	\$20.49	6.53%	\$ 2.68	54.65%	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	\$ 39.51	None	5.57%	\$ 2.22	6.80%	Yes
Conagra Brands	CAG	6/23/2022	\$ 32.47	\$ 30.28	None	4.36%	\$ 1.67	-1.60%	Yes
The Clorox Company	CLX	6/23/2022	\$ 132.28	\$ 157.09	None	3.00%	\$ 5.92	23.23%	Yes
Campbell Soup Company	CPB	6/23/2022	\$ 47.04	\$ 42.28	None	3.50%	\$ 1.85	-6.18%	Yes
Flowers Foods	FLO	6/23/2022	\$ 24.97	\$ 23.56	None	3.74%	\$ 0.89	-2.06%	Yes
General Mills	GIS	6/23/2022	\$ 67.90	\$ 68.49	None	3.15%	\$ 2.75	4.91%	Yes
J.M. Smucker Company	SJM	6/23/2022	\$ 123.83	\$ 145.94	None	2.80%	\$ 5.14	22.01%	Yes
Target Corporation	TGT	6/23/2022	\$ 141.08	\$ 126.16	None	3.42%	\$ 5.42	-6.73%	Yes
Coca-Cola Company	KO	4/27/2022	\$ 65.56	\$ 60.50	None	2.91%	\$ 2.22	-4.33%	Yes
Prologis	PLD	10/29/2021	\$ 146.67	\$ 125.10	None	2.53%	\$ 5.53	-10.94%	Yes
Crown Castle International	CCI	10/29/2021	\$ 181.90	\$ 100.58	None	5.85%	\$ 10.58	-38.89%	Yes
Philip Morris International	PM	3/30/2021	\$ 89.35	\$ 96.26	None	5.28%	\$ 10.03	18.96%	Yes
Altria Group	MO	3/19/2020	\$ 37.10	\$ 44.23	None	8.50%	\$ 12.48	52.84%	Yes
Realty Income	O	3/19/2020	\$ 48.08	\$ 56.47	None	5.10%	\$ 9.93	38.11%	Yes
AT&T	T	3/19/2020	\$ 31.15	\$ 14.79	None	7.51%	\$ 6.35	-32.16%	Yes
Enterprise Products Partners	EPD	3/19/2020	\$ 14.52	\$ 26.81	None	7.09%	\$ 6.50	129.37%	No
Kinder Morgan	KMI	3/19/2020	\$ 11.20	\$ 17.45	None	6.36%	\$ 3.81	89.82%	Yes
Ventas	VTR	3/19/2020	\$ 19.98	\$ 43.55	None	4.13%	\$ 6.64	151.22%	Yes
Public Storage	PSA	3/19/2020	\$ 187.60	\$ 278.93	None	2.87%	\$ 41.15	70.62%	Yes
International Paper	IP	3/19/2020	\$ 30.13	\$ 34.68	None	5.33%	\$ 6.62	37.07%	Yes
STAG Industrial	STAG	3/19/2020	\$ 21.71	\$ 36.91	None	3.96%	\$ 4.97	92.91%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	\$ 7.25	\$ 13.30	None	4.51%	\$ 1.57	105.10%	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	\$21.37	-15%	8.04%	\$ 0.38	10.31%
Goldman Sachs Series A Preferred	GS.PRA	3/31/2023	\$20.42	\$20.59	-18%	6.69%	\$ -	0.83%
Bank of America Corp Floating Rate Non-Cumulative Preferred Stock, Series 5	BML.PRL	3/31/2023	\$20.24	\$20.91	-16%	6.53%	\$ 0.33	4.96%
Morgan Stanley   Floating Rate Non-Cumulative Preferred Stock, Series A	MS.PRA	3/31/2023	\$20.28	\$21.50	-14%	6.77%	\$ 0.38	7.87%

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