Valuentum Securities, Inc. **1/3/2019** Edition 1, Volume 2

HIGH YIELD DIVIDEND NEWSLETTER

BRACE FOR MORE VOLATILITY

Markets are facing big pressure on the trading session January 3.

There's more to the story than rising interest rates. There's more to the story than the US-China trade war. There's more to the story than concerns about the political environment. Price-agnostic (indexing and quant) trading, as I outline in Value Trap, could really take this market on a wild spin. The Dow is trading off aggressively in part due to Apple's poor first-quarter 2019 guidance, which we believe is the warning shot across the bow for more to come. As I've been saying for some time, fasten your seatbelts.

Right now, we played this market well during its multi-year upswing, and we capitalized on the large cash "weightings" in the simulate newsletter portfolios once the markets swooned in unprecedented fashion in December. Regardless of what you may have heard, the month's trading activity was not "normal." Now, we're playing with all of our chips on the table in the simulated newsletter portfolios. That means, we're watching this market like a hawk. We were expecting heightened volatility, and we know you were expecting heightened volatility. At this point, however, it is all about how to play it "correctly," without taking on too much premium risk, which erodes with time.

A lot of members have been asking about put options. To put it simply, put options are a speculative bet (*and they are a bet*) on the price decline of a given security, whether it is a stock or ETF. For example, if I wanted to bet on the price decline of the S&P 500 ETF (SPY) over a certain time period, I would buy put options at a specific strike price for a specific premium (in the money or out of the money or at the money). The longer time duration of the option, the more expected volatility of the asset, and how far away the strike price is from the trading price are major factors in the price of a put option.

If the security price goes down, the price of the put option goes up, all else equal. If the security price goes up, the price of the put option goes down, all else equal. However, the eroding time value of options and the uncertainty of how volatility is factored into the pricing coupled with large bid/ask spreads make any options trading quite risky. Most options expire worthless, meaning most that buy options often lose their entire premium, so they are dangerous vehicles. We don't dabble in these derivatives much at all, and at most, we'd only risk about 1-3% of the simulated newsletter portfolios at any time. *You can lose a bundle in options. Please be careful.* Always talk to your personal financial advisor if any of these risk-mitigation techniques may be right for you.

That said, I believe the markets could have a long way

"WE'RE ALSO WORRIED ABOUT THE GENERAL MAKE-UP OF THE EQUITY MARKETS TODAY. WITH THE PROLIFERATION OF INDEX INVESTORS AND QUANTITATIVE INVESTORS, MANY OF WHOM ARE USING BACKWARD-LOOKING INFORMATION, NOT MANY MARKET PARTICIPANTS ARE PAYING ATTENTION TO THE PRICE-TO-ESTIMATED FAIR VALUE CONSIDERATION." – BRIAN NELSON, CFA to go downward, particularly if price-agnostic trading accelerates the fall, but while we have our fingers on the put-option trigger, we're not rushing to add protection yet. Markets tend to ebb and flow, and if we're going to add protection to the simulated newsletter portfolios, it will be on a strong series of up days and when the markets calm down, not on what is shaping up to be one of the worst days on Wall Street for some time after a heightened period of volatility. If we acted today, we'd be paying up the nose for put-option protection, and it's very likely most will not end up in the money as a result. At this juncture, we're going to feel some pain in both the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio, but we're not going to make it worse by overreacting.

As for the simulated High Yield Dividend Newsletter portfolio, it is important to remind you that high yield dividend investing is synonymous with high risk. Remember: these are companies that, almost by default, do not generally cover their dividends/distributions with internally-generated free cash flow (cash flow from operations less all capital spending) and are dependent on a healthy credit and equity market to keep paying such dividends/distributions. The size of their yields can turn a lot of heads sometimes, but you have to understand that, while the market is inefficient, in my view, it is not that inefficient where it would misprice risk so terribly to allow a 10%+ yielding equity when the 10-year is yielding under 3%. That 10%+ yield simply means tremendous risk. Here's what we said in the inaugural January 2018 edition (pdf) of the High Yield Dividend Newsletter, from 12 months ago:

> It couldn't have been 15 years ago, for example, that investors could get a 6%+ yield on a 1-year certificate of deposit (CD) from the local bank. I know because I had one. Now, look at the risks investors have to take to get that kind of yield. Please always work with your personal financial adviser or seek professional help to determine if any idea or strategy may be right for you.
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> Said bluntly, the ideas in the High Yield Dividend Newsletter may not be your cup of tea. It sounds so silly for us to feel the need to say this, but stock prices can go down, and equities with high yields often have an investor base solely focused on the yield. In the event that a high-yield equity comes under suspicion of a dividend cut, its price may experience a considerable decline in advance of the dividend cut, resulting in not only capital impairment but also reduced income if the dividend cut happens.
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> We've seen this too many times before to count, but we've always cautioned about the risk of high yielders, avoiding them whenever possible--now, in this (High Yield Dividend) newsletter, we'll be steering through the universe. We are playing in a mine-field with respect to navigating the high-yield space. Frankly, it's like "no-man's" land during World War I, and most of our efforts will be spent hunkering down in the trenches, trying to avoid stepping on what could be called high-yield landmines. We think success in the simulated High Yield Dividend Newsletter portfolio will come from avoiding "unforced errors," and avoiding mistakes, rather than simply chasing the highest yields. If we venture out too far into "no-man's" land, we could get burned.
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> We're also worried about the general make-up of the equity markets today. With the proliferation of index investors and quantitative investors, many of whom are using backward-looking information, not many market participants are paying attention to the price-to-estimated fair value consideration. This has considerable implications on the traditional underpinnings of equity valuation and the thousands of books written on "value investing" in decades past. If, for example, very few are paying attention to the price-to-estimated fair value equation, will stocks ever be bid toward their fair values again? We think so, of course, but with estimates suggesting only 10% of trading on the markets today is coming from traditional, fundamental investors, we're taking note of the risks.

I love our subscribers, and I can never thank you enough. I genuinely care about you. Sometimes, I catch a lot of flak for focusing too much on the risks and the negatives, but you have to understand: the good stuff takes care of itself. You know this. Your efforts should be mostly spent on protecting the downside. I want you to continue to be skeptical of the high-yield dividend space, and always diversify, diversify, diversify--between asset classes, too. In the second edition of the High Yield Dividend Newsletter (pdf), I pounded the table on what we were up against (last February).

> Let's talk a little about the stock market now. The bull market we are currently in can be viewed about average when compared to other bull markets in history as it relates to duration and total return, but that is what concerns me. If we're talking about average bull markets, then we need to talk about average bear markets, too. The average bear market is fast and cuts deep, with total losses to the tune of 40%, on average. If you're not one to believe in valuation, then you're one to believe in bull markets. And if you believe in bull markets, then you must also believe in bear markets, and bear markets are very, very painful…
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> I think it is important that we continue to emphasize that high yield dividend investing is very risky. I spent a lot of time in the inaugural edition on the topic of risk, but it is worth emphasizing yet again. For starters, even if we identify solid, high-yielding companies and their fundamentals hold up under adverse market conditions, you can't forget that a market is made up of buyers and sellers that are focused on achieving goals. If yields on fixed-income instruments continue to shoot up, then investors will start to anticipate a continuation of that trend--and start to prepare to reallocate capital to better risk-adjusted opportunities, long before any perceived tipping point actually occurs with yields. This means that they may start selling the very ideas in the simulated High Yield Dividend Newsletter portfolio, pressuring their shares.
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> I care. I want you to think about your goals and risk tolerances. Can you tolerate a 40% drop in wealth as in an average bear market? If not, should you be in stocks? If you can't handle the tremendous risks of a rising interest-rate environment on the prices of high-yield dividend-paying equities, is this an area that you should be involved with? As yields on certificates of deposits start to reflect rising near-term rates, what might be a better fit for you and your retirement goals? Only you and your financial advisor know the answer to these questions. What I am worried about is that there may be investors that aren't aware of the tremendous risks, and as a result of this multi-year bull market, are taking on risks that they don't know enough about. The stock market doesn't go up in a straight line.

Remember folks: the value of a research publisher is to get the risks in front of you, right away. Our customers come from all over, from Seeking Alpha, YahooFinance, Barron's, and social media and beyond, but I see a lot of content that is often very one-sided in the blogosphere, and a lot of authors on these blogs may not be independent. As I talk in my book, Value Trap, many these days are conflating ownership of a stock with expertise. You know better: Just because someone owns a stock does not make them an expert on investment analysis. I believe Valuentum's independent opinion is so very important in bull markets and in bear markets. We don't get everything right, but you know we're telling you how we think it is.

As I wrap up, I can't begin to tell you just how happy I am to be back in full swing after finalizing the book, Value Trap. I have priced the book in such a way where I hope that everyone will read it. It is a jam-packed 350 pages of content with tons of footnotes that I think will truly create an environment where we can have a genuine conversation about investing, price versus estimated intrinsic value. It's a book that I believe sorts through a lot of topics and helps frame them in a different perspective. I truly hope you read it. It will make our interactions much richer, and you'll get a ton more out of our website.

The paperback is now available on Amazon. If you want to read the book immediately, it's available for pdf download at the Valuentum store. Let's keep watching these markets.

IT'S HERE!

Brian M Nelson

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ISBN-13: 978-0998038490, ISBN-10: 0998038490

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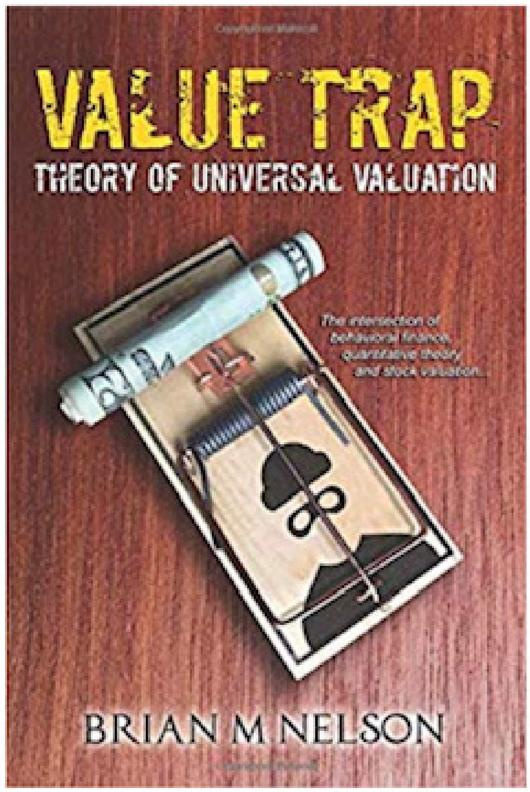

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2018 Gave the High Yield Dividend Newsletter a Challenging Start

We don't need to explain to you that 2018 was a strange year for equities across the risk spectrum, but as we have belabored in the past, the high-yield space inherently carries a higher degree of risk. A number of ideas within the simulated High Yield Dividend Newsletter portfolio faced material selling pressure over the course of the year, including some we prudently removed early and some that we continued highlighting perhaps too long. **Not one constituent of the simulated portfolio experience a dividend or distribution cut**, despite the carnage, and a number of dividend yields have been pushed higher as a result of slumping share prices.

We use a blended benchmark consisting of the Alerian MLP ETF (AMLP) and the Vanguard REIT ETF (VNQ) to help evaluate the ideas within our simulated portfolio, and both of these funds faced notable selling pressure over the course of 2018 as well. By our calculations, which include distributions and dividends received as cash, the blended benchmark saw its value decline 9% in 2018 from the open on January 2 to the close December 31 with the AMLP providing the majority of the drop.

We're not looking for 2019 to be a year of relief, however. As the markets continue to display a significant increase in volatility with no signs of the large intraday price swings slowing any time soon, access to outside capital may become increasingly had to come by for high yielding equities, especially for those with weaker credit ratings. This is a core risk of business models that require equity funding to maintain growth trajectories and dividend payouts and further highlights the reason for our focus on internal cash flow generation as the most important source of funding for any enterprise.

In any case, we're not backing down from the high yield space, and we will continue to work to find the most attractive ideas therein. If 2018 is any indication, it will continue to be tough sledding, but **we have a duty to our members to diligently identify what we find to be the most attractive ideas across the domain of the simulated High Yield Dividend Newsletter portfolio.**

AT&T

Our most recent addition to the simulated High Yield Dividend Newsletter portfolio is one that most people across the US are familiar with, and it continues to work to make its presence felt even more in the everyday lives of consumers. While the advertising-based approach to taking on Netflix (NFLX) and other next-generation media initiatives is a largely unproven strategy that AT&T has taken on an enormous amount of debt to complete, we think it may have legs, especially after considering the vast and diverse asset base

Simulated Idea	Symbol	Weighting	Initiation Date	Entry Price	Dividends Received	Current Price	Hypothetical Gain / Loss	Est Div Yield
CORE								
Alerian MLP ETF	AMLP	5.0%	8/1/2018	10.91	0.40	8.73	-16.33%	8.49%
Global X SuperDividend ETF	SDIV	5.0%	1/2/2018	21.93	1.58	17.10	-14.84%	8.10%
Global X SuperIncome Preferred ETF	SPFF	10.0%	1/2/2018	12.16	0.84	11.03	-2.36%	7.47%
iShares International Select Dividend ETF	IDV	5.0%	1/2/2018	33.95	1.70	28.71	-10.42%	5.22%
iShares MSCI Australia ETF	EWA	5.0%	1/2/2018	23.25	1.18	19.25	-12.14%	4.79%
iShares U.S. Preferred Stock ETF	PFF	5.0%	1/2/2018	38.14	2.16	34.23	-4.59%	5.79%
Invesco Senior Loan Portfolio	BKLN	5.0%	1/2/2018	23.03	0.98	21.78	-1.16%	4.04%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	1/2/2018	67.50	4.01	62.09	-2.08%	6.02%
EQUITY								
AT&T	T	5.0%	12/1/2018	31.24	0.00	28.54	-8.64%	7.25%
BP PLC	BP	5.0%	1/2/2018	42.06	2.43	37.92	-4.07%	6.45%
Digital Realty Trust	DLR	5.0%	1/2/2018	114.04	4.04	106.55	-3.03%	3.85%
Enterprise Products Partners	EPD	5.0%	1/2/2018	26.60	1.72	24.59	-1.11%	7.14%
Iron Mountain	IRM	5.0%	11/1/2018	31.59	0.61	32.41	4.53%	7.60%
Magellan Midstream Partners	MMP	5.0%	1/2/2018	70.99	3.79	57.06	-14.28%	6.94%
Omega Healthcare Investors	OHI	5.0%	1/2/2018	27.54	2.64	35.15	37.22%	7.50%
Public Storage	PSA	5.0%	1/2/2018	210.05	8.00	202.41	0.17%	3.97%
Realty Income Corporation	O	5.0%	1/2/2018	57.02	2.64	63.04	15.19%	4.19%
Tallgrass Energy LP	TGE	5.0%	1/2/2018	25.92	1.86	24.34	1.09%	8.03%
Closed Positions								
AmeriGas Partners	APU	5.0%	1/2/2018	46.31	3.80	22.91	-42.32%	Closed 12/25/18
Government Properties Income Trust	GOV	5.0%	1/2/2018	18.56	0.86	12.69	-26.99%	Closed 5/1/18
Landmark Infrastructure Partners	LMRK	5.0%	1/2/2018	18.30	0.74	14.55	-16.48%	Closed 5/4/18
Senior Housing Properties	SNH	5.0%	1/2/2018	19.12	0.78	15.67	-13.96%	Closed 5/1/18
Benchmark								
Alerian MLP ETF	AMLP	50.0%	1/2/2018	10.85	0.81	8.73	-12.06%	8.49%
Vanguard REIT ETF	VNQ	50.0%	1/2/2018	83.04	3.531	74.57	-5.95%	4.23%
Blended Benchmark		100.0%					-9.00%	

Current price as of 12/31/18 or other close date closing price, according to Yahoo Finance. Entry price as of 1/2/18 open or close of initiation date.
Dividend yield according to Yahoo Finance as of 1/2/19.
The simulated High Yield Dividend Newsletter portfolio is not a real money portfolio. Simulated results/performance is hypothetical.
There is risk of substantial loss investing in high yield instruments. Please contact your personal financial advisor before making any investment decisions.

the company has accrued. From wireless services to traditional television packages to premium content ownership and creative bases, AT&T's assets in next-generation media may be unmatched.

AT&T continues to cover cash dividend obligations with free cash flow generation, another key consideration of our highlighting the idea in the simulated High Yield Dividend Newsletter portfolio. AT&T reported 16.6% year-over-year growth in free cash flow generation in the third quarter thanks in part to 14.3% growth in cash flow from operations, and free cash flow of $14.4 billion through the first three quarters of the year has been more than sufficient in covering cash dividends paid of less than $10 billion.

Though the number of moving parts in its business in recent years may complicate things, free cash flow coverage of dividends has been similarly solid as it averaged nearly $17.7 billion in free cash flow over the past three years, which compares favorably to annual run rate cash dividend obligations of just over $12 billion. AT&T's Dividend Cushion ratio currently sits in negative territory (-0.2 at last check) due to its massive net debt load, which sat at ~$175 billion as of the end of the third quarter, and management continues to make deleveraging a priority as it targets a net debt-to-EBITDA ratio of 2.8x at the end of 2018 (on ~$170 billion in net debt) and 2.5x by the end of 2019 (on ~$150 billion in net debt). Shares yield ~7.2% as of this writing after management declared a 2% increase in the quarterly payout in mid-December. We value shares at $38 each.

BP

BP plc (BP) and its share price performance are not immune to the recent decline in oil prices, but it does have several ways to mitigate the negative impact on its cash flow generation. Reductions in its annual Gulf of Mexico legal payments, stronger performance at its downstream division, solid operational execution, unconventional development opportunities in Tier 1 plays (the Eagle Ford and the Permian Basin), and rising oil & gas production will help BP plc shore up its cash flow profile over the medium term in the face of potentially lower crude oil realizations.

That alone won't be enough as fiscal restraint is also required. Management has pledged to keep BP's capital expenditures to around $15 billion on an annual basis when oil prices are low, and the company can utilize its scrip dividend program to reduce its cash outlays in the medium term.

BP plc is taking the necessary moves to ensure it can sustain its generous ~6.4% yield in a volatile oil pricing environment, which has not abated despite OPEC+ coming to another production cap agreement. Through the first three quarters of 2018, BP has succeeded in covering cash dividends paid (nearly $5 billion) with traditional free cash flow ($5.3 billion), but its debt load continues to weigh on its Dividend Cushion ratio, which currently sits at 0.8. We value shares at $42 each.

Digital Realty Trust

2018 was a bit of a roller coaster for Digital Realty Trust's (DLR) share price, but a notable portion of the volatility it faced was not a result of its own doing. As a real estate investment trust, it is even more sensitive to changes in benchmark interest rates than the typical equity, and we like that management stayed hungry in terms of growing its footprint amid solid data center demand, including in Northern Virginia and Europe, two important markets for Digital Realty. We also like the long-term potential its additional exposure to the Brazilian data center market holds.

Digital Realty's adjusted Dividend Cushion ratio, which gives credit for access to the capital markets, checks in at 1.8, and shares yield just under 3.9% as of this writing. The REIT ended the third quarter with a net debt-to-EBITDA ratio of 5.2x, and the credit rating agencies assign it investment grade credit ratings (BBB/Baa2/BBB). We value shares at $96 each.

Enterprise Product Partners

2018 was a notable year for Enterprise Product Partners (EPD), but not as a result of its share price performance, which left a bit to be desired due in part to a notable decline in crude oil prices in the back half of the year. However, the third quarter of 2018 marked its 20th anniversary as a public company as well as its 20th year of increasing cash distributions. We continue to remind investors that the master limited partnership's dividend is dependent upon assess to the capital markets, and its adjusted Dividend Cushion ratio, which gives it credit for such access, currently sits at 2. Units yield nearly 7% as of this writing, and we value units at $30 each.

Enterprise Product Partners boasts one of the most integrated midstream energy systems in the US, with pipelines connecting to 95% of refining capacity east of the Rockies, and it remains tied to energy resource pricing to a degree. The MLP has solid distribution coverage measures, but we warn against depending on industry-specific metrics that ignore growth capital spending. It has been active in the Permian Basin and will likely play a role in helping mitigate the bottleneck that has impacted the area of late, and we like the potential it has in the US being a growing exporter of energy resources.

Iron Mountain

Iron Mountain (IRM) came in to the simulated High Yield Dividend Newsletter portfolio late in the year, and we continue to be intrigued by the potential of this unique REIT with a sizable yield of ~7.6% as of this writing. Shares are trading roughly in-line with our fair value estimate of $32 per share, and its adjusted Dividend Cushion ratio, which gives it credit for access to capital markets, currently sits just above parity. Its unadjusted Dividend Cushion ratio is in negative territory, highlighting its dependence on access to capital markets, and its credit rating is in junk territory.

Iron Mountain is working to deleverage its balance sheet as it continues to work to transform its portfolio amid a maturing storage and information management markets in developed markets such as North America and Western Europe. This maturation provides the greatest risk to Iron Mountain, in our view, as it is now forced to search elsewhere for growth. We think its targeted 70/30 2020 revenue split in terms of developed/growth markets is only the beginning of its transformation, and a data center business that accounts for ~10% of total EBITDA by 2020 is a good place to start in terms of modernization and diversification of its portfolio.

Magellan Midstream Partners

Magellan Midstream Partners (MMP) remains one of the more appealing master limited partnerships in our opinion, but it too had a rough 2018 in terms of share price as a mid-year rally was more than wiped out by selling pressure in the back half of the year thanks in part to volatility in energy resource pricing and capacity concerns in certain drilling regions in the US. We continue to find the track record of Magellan an impressive one as the company boasts strong investment grade credit ratings, and its use of equity markets for growth capital has been tremendously sparse over the past decade.

Magellan is targeting distributable cash flow growth in the range of 5%-8% in 2019-2020, and we expect distribution growth to follow a similar trajectory as management works to maintain a 1.2x coverage ratio. It expects future fee-based, low risk activities to account for 85%+ of its adjusted operating margin, but investors must remember that although MLPs are not directly tied to energy resource pricing, they are not insulated from changes in such prices. The MLP's adjusted Dividend Cushion ratio currently sits at 1.2, and we value units, which yield ~6.8% as of this writing, at $69 each.

Omega Healthcare Investors

Omega Healthcare Investors (OHI) was the best performing idea in the simulated High Yield Dividend Newsletter portfolio by a wide margin in 2018, and we must credit management for executing nicely around potential pitfalls involving some of its largest operators. The skilled nursing facility space remains somewhat challenged, and Omega continues to expect headwinds related to labor costs and occupancy rates as a result of a shortage of skilled workers and recent supply growth. Nevertheless, management has delivered on its guidance for maintenance of the payout at current levels throughout 2018, a goal a number of observers questioned, and its investment grade credit rating (Baa3) was reaffirmed by Moody's in October 2018.

Omega is not out of the woods yet, and it recently made a splash with its agreement to acquire MedEquities Realty Trust (MRT) for $600 million in cash and stock. MedEquities is a self-managed and self-administered REIT that invests in healthcare properties and related real estate debt investments in the acute, post-acute, and behavioral spaces of healthcare. While management had indicated that it planned to return to its historical growth model in 2019 with acquisitions expected to outpace dispositions, we were not anticipating a move like this so early in the year, and the market reacted unfavorably. Nevertheless, the move highlights the REIT's dedication to the skilled nursing and senior housing industry, which remains tied to long-term secular trends despite near-term hurdles, and also brings a number of new investments to its portfolio. We currently value shares at $33 each.

Public Storage

2018 was a year of headwind battling for Public Storage (PSA) as the REIT continues to work against the impact of excess supply coming in to the self-storage market. Though the self-storage market is relatively highly-localized, management is not anticipating a slowdown in new capacity coming on to the market in 2019 compared to 2018 levels, which it believes are significantly higher than that of an average year in the past. As a result, top-line growth has been muted at Public Storage in recent quarters due to the REIT's once significant pricing power being impacted by the supply/demand profile of its markets served.

Nevertheless, we view Public Storage's dividend as relatively solid, and both its adjusted and unadjusted Dividend Cushion ratios are above parity. Investors love its 'A' rated credit, and we'll be keeping an eye out for continuity-related issues as the company recently transitioned to a new CEO and CFO. However, the new leaders are not newcomers to the business. Shares of Public Storage yield ~4.1% as of this writing, and we currently value shares at $180 each.

Tallgrass Energy

Tallgrass Energy (TGE) has been through an interesting year in which it became one of many master limited partnerships to undergo a simplification transaction, a trend that continues to add credence to our view that the master limited partnership structure may not stand the test of time. In any case, units of Tallgrass Energy caught a bit of an upswing in the final weeks of 2018 thanks to reports that an investor group including Stonepeak Infrastructure Partners and Brookfield Asset Management (BAM) is considering a deal to acquire Tallgrass. No official news has been confirmed by any of the parties involved, but private equity and alternative asset management firms may be increasingly likely to get involved in energy infrastructure investments after the space has been beaten up by multiple changes to tax benefits provided to the group and the recent slide in energy resource pricing.

High Yield ALERT: We Removed AmeriGas (APU)

By Brian Nelson, CFA

The following was sent to members via email December 25, 2018.

The markets have been walloped of late, and I must say that I'm disappointed in the price performance of many of the ideas included in the simulated High Yield Dividend Newsletter portfolio. This is probably an understatement. As unfortunate as the pricing action has been though, there hasn't been one dividend/distribution cut across the ideas of the simulated newsletter portfolio. The yields have only grown higher as the equity prices have fallen. That may not be any consolation, however. High yield dividend investing is synonymous with high risk, and frankly, the market has lost its risk appetite. I want you to know how much I care though. It's 11:30pm Eastern time on Christmas day as I'm penning this note. It means a lot to me that you know this.

What we are dealing with in today's market is not one that is wholly driven by fundamentals. We published nearly 20 videos in January and February of this year, if you recall, a series called "Off the Cuff." It was my attempt at being energetic and exciting to stimulate your interest, but I must admit I was completely out of character. I tried to be a little like those personalities you see on the business channel, a little like Tomi Lahren, but it was just completely not me. I'm a teacher, a trainer at heart. I'm not an entertainer. In February, we wrote about what we were worried about in the next market crisis, a crisis of market structure. What this means is that the "smart money" may very well be overrun by indexing and quantitative trading if the market should move against the latter two in a big way.

It may be starting to happen.

The high yield dividend investing space is not immune to this issue, but we're not panicking. Amerigas Partners' (APU) share price has plummeted on worries of a distribution cut (its Dividend Cushion ratio is poor), and we're now faced with a very difficult decision. The MLP released its 10-K recently, and what the company defines as distributable cash flow came in above that paid out to distributions to common unitholders in fiscal 2018, but below that of total distributions paid for the year. The situation, however, is better than the prior fiscal year when distributable cash flow fell below both distributions to common and total distributions paid. During the MLP's fourth-quarter quarterly report, released just a few weeks ago, it issued adjusted EBITDA guidance range of $610-$650 million for the period ending September 30, 2019. This is better than the adjusted EBITDA during fiscal 2018 of $605.5 million, which itself was $54.2 million better than that of the prior fiscal year.

Here's what we said about AmeriGas' dividend in its utilities report (pdf) from September 2018 (page 25):

> AmeriGas Partners says investors should not worry about credit fears or customer concentration risk, but we're keeping a close eye on this high-yielding entity. AmeriGas, the country's largest retail propane maker with ~15% share, prides itself on being a unique MLP with no commodity price exposure and modest capital intensity; it says investors should not worry about credit fears or customer concentration risk, but we're not so sure. The entity has had the good fortune of being able to increase its distribution for more than 10 consecutive years, but we cast a cautious eye on the MLP business model, even as we say AmeriGas Partners has unmatched geographic coverage and customer density. The entity's goals are to achieve 5% distribution growth, even in the face of EBITDA expansion of a slightly lower pace.
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> Most large public utility holding companies have raw, unadjusted cash-flow-derived Dividend Cushion ratios below 1, indicating that future expected free cash flows over the near term are completely absorbed by net debt obligations and future expected dividend payments. Utilities' high dividend payout ratios (dividends paid per share divided by earnings per share) and elevated capital outlays--both of which prevent the buildup of cash on the balance sheet--coupled with the ballast of hefty debt obligations, which are higher on the capital structure than any equity concerns, prevent most utilities from receiving a healthy Dividend Cushion ratio, a pure financial-statement based comprehensive assessment of the coverage of the dividend.

High yield dividend investing is difficult, and while we're very disappointed with Amerigas Partners' price fall, we're making the difficult decision to remove it from the simulated newsletter portfolio. We've never been fans of the MLP business model, and the market is all but factoring in a distribution cut with its current yield now in the mid-teens. Though a distribution cut won't alter our fair value estimate, by itself, we think the growing risks of market structure make it prudent to remove it. We always knew MLPs were the high risk, but the market really beat this one up fast. I could not feel worse about the situation, but price declines in high-yield stocks are fundamental in nature. They simply matter to credit health.

There are a number of fundamental risks facing Amerigas Partners in addition to the structural issues its business model inherently brings. The ongoing threat of the proliferation of natural gas as a lower-cost replacement for propane, executive turnover, concerns regarding warmer temperatures and lower demand, and rising interest rates have all combined to weigh on shares of the MLP over the course of the past year.

MLPs in general have faced outsize selling pressure, and volatility in capital markets may very well be a driving force of this, which provides a compounding impact of market declines as future growth investments across the group are dependent upon healthy access to capital markets. Amerigas Partners is no exception to this characteristic, and rising interest rates and less favorable market conditions (lower stock prices) could limit its growth potential via acquisitions and restrict the number and size of capital projects it is able to pursue for future growth. In short, lower or volatile equity prices and rising interest rates impact the trajectory of Amerigas' growth.

Yet another development resulting from volatility in the capital markets is the exposure of Amerigas Partners to liquidity, default, and credit risk of its suppliers, vendors, counterparties in relation to its derivative financial instruments (hedges, etc.), and customers. Defaults on the part of customers, suppliers, and counterparties are not particularly a major concern at this juncture, but the MLP holds a junk credit rating (Ba2), which only further exacerbates the impact of rising costs of capital.

Senior Housing Battling Tough Operating Environment

Our opinion of Senior Housing Properties Trust (SNH) soured early in 2018, and we elected to remove the healthcare REIT from the simulated High Yield Dividend Newsletter portfolio in the May edition. Challenges in the senior housing space proved more difficult than we had anticipated as industry inventory growth continued to outpace demand in a material way through the first half of the year. The REIT's largest operator, Five Star Senior Living (FVE), continues to be a key source of its bottom-line weakness, and it is still working to right the ship as rent coverage and occupancy rates there remain mired in a downtrend.

There are still a number of things to like about Senior Housing, however, including its investment grade credit rating (Baa3/BBB-). Management appears optimistic that the aforementioned supply/demand trends in the challenged senior housing space may be abating as of the third quarter of 2018, but we'll need to see a sustained improvement to call this an encouraging sign for healthcare REITs exposed to the space. Senior Housing also claims limited government funding as a key positive as ~97% of its net operating income comes from private pay properties. This keeps the REIT largely insulated from potentially unpredictable changes in government funding.

We also like Senior Housing's medical office building and life sciences portfolio, which together accounted for 44% of 2018 third quarter net operating income. This portion of its portfolio boasts an impressive occupancy rate of 95.6% as of the end of the third quarter, and demographic and other demand trends (outpatient centers, clinics, and laboratory and research space) make this portion of its portfolio relatively more attractive.

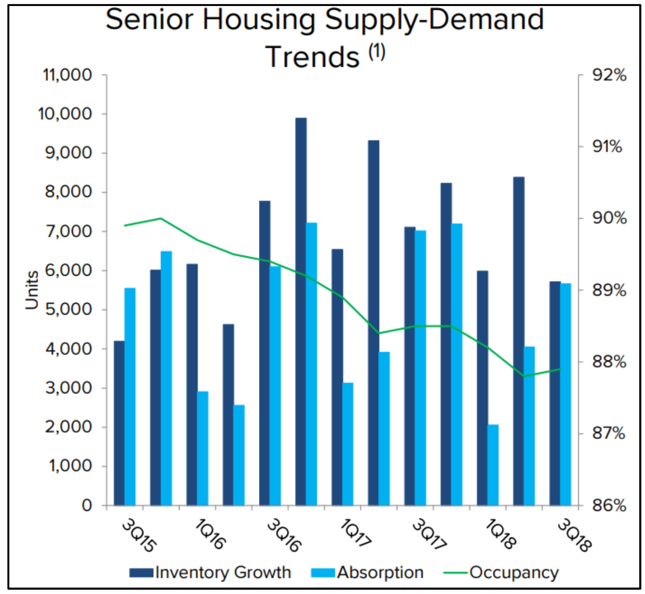


Image Source: Senior Housing Investor Presentation

However, the key drag on Senior Housing's performance continues to be the aforementioned senior living space. In addition to the unfavorable supply/demand dynamics seen in the space of late, portions of its cost structure are becoming more difficult to contain, namely labor expenses. Minimum wage increases in a number of states in which the REIT operates have impacted its bottom-line, and a shortage of skilled employees has also contributed to rising labor expenses.

Five Star is Senior Housing's largest tenant as it occupies more than 40% of its total properties and more than 60% of its senior living properties as of the end of the third quarter of 2018, and its rent coverage continues to slip. In the third quarter of 2018, Five Star's rent coverage fell to 1.05x from 1.15x in the year-ago period, which helped drop Senior Housing's overall senior living communities rent coverage to 1.13x at the end of the quarter from 1.22x. Senior Housing's senior living occupancy fell to 83.3% from 84.6% over the same period due in large part to Five Star's occupancy falling to 81.4% from 83%. We're not convinced that initiatives such as digitally-focused move-in strategies and revenue management will be enough to right the ship in the near term at Five Star.

Despite it holding investment grade credit ratings, we're not too pleased with Senior Housing's 6.1x reported debt-to-annualized adjusted EBITDA ratio at the end of the third quarter of 2018. The company's normalized FFO continues to face pressure as well as it fell to $0.42 per share in the third quarter of 2018 from $0.44 in the comparable period of 2017, which has applied upward pressure on its normalized FFO payout ratio. This ratio rose to 92.9% in the third quarter from 88.6% in the year-ago period. The REIT's traditional free cash flow does not cover cash dividends paid, as seen in the chart below, and it remains dependent upon access to the capital markets to sustain its payout.

Senior Housing Properties Trust Free Cash Flow Generation				
($ in millions)	2015	2016	2017	2018*
Cash Flow From Operations	$406	$427	$407	$286
Total Capital Spending	$1,205	$327	$277	$195
Free Cash Flow Generation	-$800	$100	$131	$91
Cash Dividends Paid	$356	$370	$371	$278
*2018 figures through three quarters				

We're not predicting a dividend cut at Senior Housing at this point in time, but we are not particularly comfortable with the level of risk it brings, as evidenced by our parting ways with the idea in spring 2018.

Exxon Mobil's Downstream Operations Provide Stability

Energy giant Exxon Mobil's upstream operations garner the majority of the attention from investors, but its downstream operations can prove to be the star of the company's in times of lower crude oil prices. Let's take an in-depth look at what makes up Exxon's natural hedge.

By Callum Turcan

What differentiates integrated energy majors like Exxon Mobil Corporation (XOM) from their smaller upstream-oriented peers is majors have extensive downstream operations, defined as petrochemical and refining operations. These operations are exposed to fluctuations in petroleum product and energy prices, but not in the same way as raw energy resource producers. If the price for key feedstocks (like oil or ethane) moves lower, that enables Exxon Mobil to capture upside via stronger crack spreads at its refining unit and better margins at its petrochemical plants. That helps offset weaker realizations at its upstream (oil & gas producing) operations.

As illustrated in the chart below, Exxon's Refining & Retail unit and its Chemicals unit has consistently been relatively consistently profitable over the past five years, in stark contrast to the performance of its upstream unit. Wild swings in the profitability of its upstream unit, largely due to changes in raw energy resource prices, can at times put Exxon's lofty dividend at risk. Therefore, having a large downstream presence is required in order to preserve the integrity of its payout.

Shares of Exxon currently yield roughly 4.7%, and as of the end of the third quarter, it is on track to spend ~$13.7 billion on dividends to common shareholders in 2018. Over the past decade, Exxon Mobil's lack of share price appreciation has made its dividend all the more important, as many investors view this equity as a type of quasi-bond. Any situation that leads to Exxon's payout being adversely impacted would likely have severe repercussions for its stock price. While Exxon Mobil's Dividend Cushion ratio is just 1.2, we have assign the company a Dividend Safety rating of GOOD due to the resilience of its business model and its ATTRACTIVE Economic Castle rating.

Keep in mind the earnings figures below exclude corporate and financing charges, and that Exxon's estimated 2018 performance is an extrapolation of its results during the first three quarters of the year for illustration purposes.

Image Source: Author's Calculations – SEC filings

Refining Presence

At the end of 2017, Exxon Mobil had a net economic interest in 4.9 million barrels of oil refining capacity per day. With refineries all around the globe, the company can take advantage of favorable crack spreads whenever and wherever they arrive, and Exxon's refining operations are supported by a global distribution network that consisted of 20,962 retail sites as of the end of 2017. At the end of 2014, Exxon Mobil had a net economic interest in 5.2 million barrels per day (bpd) of oil refining capacity that was supported by a distribution network made up of 20,217 retail sites.

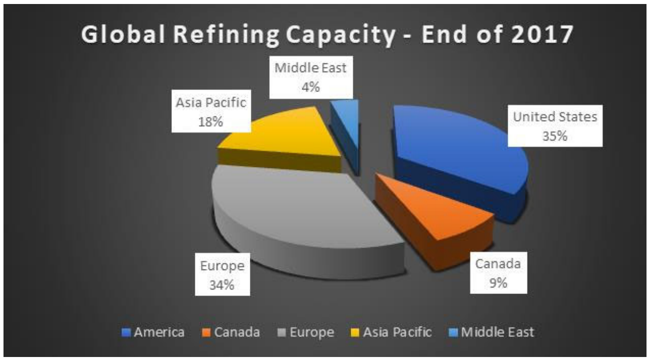


Image Source: Author's Calculations – SEC filings

As illustrated in the image above, over 40% of Exxon's global refining capacity is situated in the US and Canada. Exxon owns 100% of its five US refineries and has a 70% economic interest in its three Canadian refineries that are operated by a company it has a 70% controlling interest in, Imperial Oil Limited (IMO).

Due to the sizable spread between Brent and West Texas Intermediate, and the large differential between Western Canadian Select and West Texas Intermediate (Brent trades at a premium to WTI, and WTI trades at a premium to WCS), certain North American refineries have an edge over their peers. This is especially true for American refineries located along the Gulf Coast due to those facilities having access to foreign markets, and is largely why the US became a major net exporter of petroleum products. Three of Exxon's largest American refineries are located along the Gulf Coast.

Exxon upgraded its refinery in Joliet, Illinois, to handle heavy sour bitumen volumes, the type of crude produced in Alberta's oil sands region, and in 2015, a joint venture between Imperial Oil and Kinder Morgan (KMI) finished building a rail terminal in Edmonton, Alberta, that along with existing pipeline capacity connects the Joliet refinery to oil supplies that trade at Western Canadian Select prices. This same rail terminal can also route Canadian oil supplies to Exxon's refinery in Baton Rouge, Louisiana. Some of those volumes are sourced from the Kearl oil sands facility, which is operated by Imperial Oil.

Going forward, Exxon Mobil is actively considering upgrading its refinery in Beaumont, Texas, to process larger light oil volumes from shale and unconventional plays. Management especially wants to grow Exxon's ability to refine larger amounts of crude supplies sourced from the roaring Permian Basin. This upgrade would reportedly increase the Beaumont refinery's capacity by 300,000 bpd as Exxon is expected to add a third crude distillation unit to the facility. Note this project would almost double the refinery's existing 366,000 barrels of daily crude throughput capacity.

In the past, Exxon commented that if the BLADE project (Beaumont Light Atmospheric Distillation Expansion) was approved in 2019, it would be operational by 2022. That guidance was reinforced as part of its 'Growing the Gulf' initiative, but the project's timetable won't be known until management officially announces a final investment decision.

The goal of this project is to take advantage of the discount oil supplies in West Texas trade at compared to US Gulf Coast prices (keep in mind crude supplies in the Gulf Coast region trade at a premium to WTI), a discount that is likely to persist for years. Simultaneously having access to major energy consumers in foreign markets that are importing petroleum products at Brent-linked prices while also having access to cost-advantaged oil supplies from unconventional upstream plays in America (like the Permian Basin) is part of how Exxon expects to earn a nice return on its investment.

Exxon should have recently completed its SCANfiner project (Selective Catalytic Naphtha Hydrofining) at its Beaumont refinery. That project was expected to be completed by the end of 2018 and is slated to add 45,000 bpd of low-sulfur motor fuels production capacity to the Beaumont refinery. Effectively, Exxon upgraded the facility so its Beaumont refinery could yield larger volumes of high-value products to bolster its future crack spreads.

Chemicals

At the end of 2017, Exxon Mobil had a net economic interest in 9.2 million metric tons of ethylene, 9.9 million metric tons of polyethylene, 2.7 million metric tons of polypropylene, and 4.1 million metric tons of paraxylene production capacity per year. Exxon's ethylene and polyethylene production capacity is heavily concentrated in North America, but its polypropylene and paraxylene production capacity is spread out across the world. Ethylene is used to make polyethylene, which is the world's most common commodity plastic. Polypropylene is the world's second most common commodity plastic, and paraxylene is often used as a feedstock in the production of other chemical products.

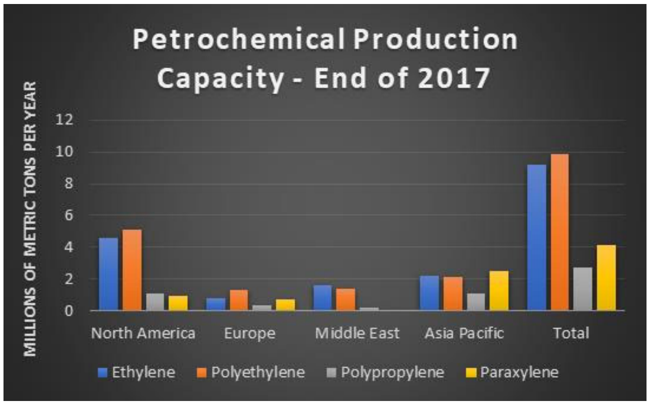


Image Source: Author's Calculations – SEC filings

Exxon Mobil steadily increased its petrochemical production capacity across the board, save for polypropylene, from the end of 2014 to the end of 2017 as illustrated in the image below.

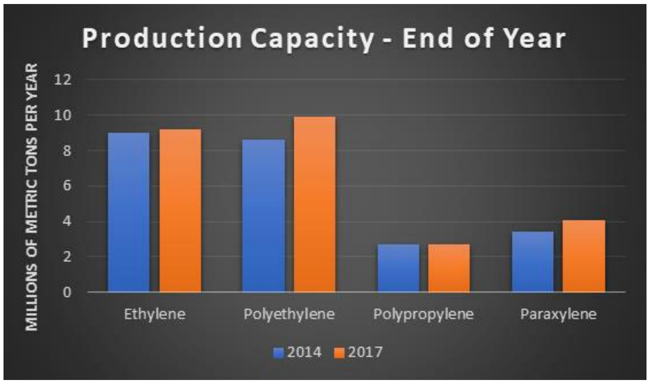


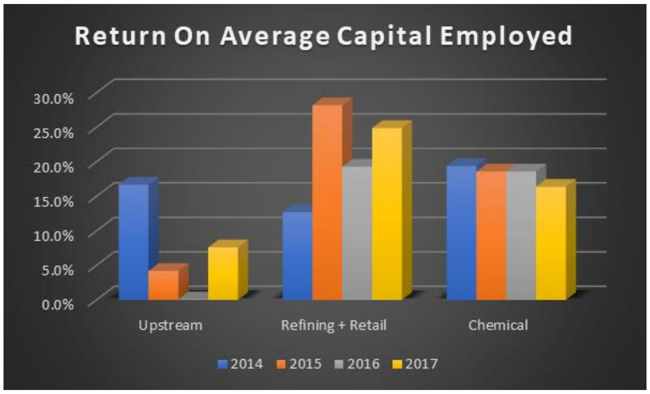
Image Source: Author's Calculations – SEC filings

The increase in Exxon's polyethylene production capacity is due to the completion of a key project at its large plastics plant in Mont Belvieu, Texas, last year. At full capacity, the two new polyethylene production lines that were brought online as part of that development will be able to produce 1.3 million metric tons per year of a commodity plastic product in high demand. Some analysts expect global demand for polyethylene to have increased by 4% on an annual basis to 99.6 million metric tons in 2018, and that is expected to grow to 113 million metric tons by 2021 according to IHS Markit Limited (INFO). Global demand for plastic products is expected to slightly outpace global GDP growth as millions of people all over the world enter the middle class and start consuming more goods, particularly in Asia.

Exxon Mobil launched an ethane cracker development in conjunction with the polyethylene project in order to supply the facility with ethylene (which is made from ethane). The Baytown ethane cracker in Texas was completed in July 2018, and at full capacity has the ability to produce 1.5 million metric tons of ethylene per year. Ethane prices in America are low compared to other petrochemical feedstocks (like propane and butane), and more broadly, American natural gas liquids prices are much cheaper than in most other parts of the world due to surging domestic production. Exxon Mobil is capturing this upside by expanding its domestic Chemical unit, which should be reflected in its 2019 financial performance.

Consistent Returns

Exxon Mobil's downstream capital has been put to good use over the past several years, which can be seen through its consistently strong return on average capital employed. Below is a look at how its capital allocation strategy stacks up on an internal basis. This signals that Exxon's plan to expand its refining and petrochemical presence may very well earn the company a nice return if past operational performance combined with current macro trends are any indicator. At the very least, this performance speaks to Exxon Mobil's ability to effectively manage and invest in its downstream operations.



Source: Author's Calculations – SEC filings

Conclusion

While its upstream operations create most of the excitement, Exxon Mobil needs its downstream operations in order to smooth out the impact volatile energy markets can have on its financials. This is what protects Exxon Mobil's ~4.7% dividend yield from capricious oil markets. By expanding and upgrading Exxon Mobil's downstream presence, management is reinforcing the company's natural hedge.

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Disclosure: Brian Nelson and Kris Rosemann do not own any shares of any securities mentioned in this newsletter. Callum Turcan does not own shares of any company mentioned in the article he authored. Please contact info@valuentum.com for more information regarding Valuentum's editorial policies.

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

We continue to be excited about the launch of the simulated High Yield Dividend Newsletter portfolio, the inaugural edition released January, 1, 2018.

Many of our members continue to prefer the list-versus-weighting perspective across our simulated newsletter portfolios. It may also be true that a lot of new members won't feel like they have missed out on anything under a list-versus-weighting format, too, which has been a concern when new members see a simulated portfolio that has been around for half decade or longer.

Though we may calculate simulated performance of the High Yield Dividend Newsletter periodically, we don't think it is necessary to do so on a monthly basis. The list-and-weighting format facilitates a level of consistency across our newsletter products, and we may consider migrating the simulated High Yield Dividend Newsletter portfolio to a range-of-percentage-weightings, too, as we have with respect to both the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio.

The simulated High Yield Dividend Newsletter portfolio is presented each month in similar fashion (list and weightings) as that of the first edition. If you have any questions, comments, or concerns, please be sure to let us know at info@valuentum.com.

Idea	Symbol	Weighting	Est Annual Div's/Share ($)	Est Div Yield
CORE				
Alerian MLP ETF	AMLP	5.0%	0.81	9.07%
Global X SuperDividend ETF	SDIV	5.0%	1.58	9.11%
Global X SuperIncome Preferred ETF	SPFF	10.0%	0.84	7.54%
iShares International Select Dividend ETF	IDV	5.0%	1.70	5.93%
iShares MSCI Australia ETF	EWA	5.0%	1.18	6.21%
iShares U.S. Preferred Stock ETF	PFF	5.0%	2.07	5.97%
PowerShares Senior Loan Portfolio	BKLN	5.0%	0.98	4.47%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	4.00	6.49%
EQUITY				
AT&T	T	5.0%	2.04	6.90%
BP PLC	BP	5.0%	2.46	6.34%
Digital Realty Trust	DLR	5.0%	4.04	3.93%
Enterprise Products Partners	EPD	5.0%	1.73	6.80%
Iron Mountain	IRM	5.0%	2.44	7.48%
Magellan Midstream Partners	MMP	5.0%	3.91	6.87%
Omega Healthcare Investors	OHI	5.0%	2.64	7.65%
Public Storage	PSA	5.0%	8.00	4.02%
Realty Income Corporation	O	5.0%	2.65	4.24%
Tallgrass Energy LP	TGE	5.0%	1.86	7.88%
		95.0%		**6.22%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 1/3/2019.

HIGH YIELDING EQUITIES IN OUR COVERAGE UNIVERSE WITH POSITIVE DIVIDEND RATINGS

Company Name	Symbol	Industry	Dividend Yield	ValueRisk	Div Growth	Div Safety	Div Cushion	Div Track Record	Leverage
Alliance Resource Partners	ARLP	Industrial Minerals	10.4%	HIGH	POOR	GOOD	1.7	RISKY	LOW
Spectra Energy Partners	SEP	Oil & Gas Pipelines	8.6%	LOW	GOOD	GOOD	1.3	HEALTHY	HIGH
Holly Energy	HEP	Oil & Gas Pipelines	8.6%	LOW	EXCELLENT	GOOD	1.3	HEALTHY	HIGH
Western Gas	WES	Oil & Gas Pipelines	8.4%	MEDIUM	EXCELLENT	GOOD	1.7	HEALTHY	HIGH
DCP Midstream	DCP	Oil & Gas Pipelines	7.5%	MEDIUM	GOOD	GOOD	2.2	HEALTHY	HIGH
Enbridge	ENB	Oil & Gas Pipelines	6.4%	MEDIUM	EXCELLENT	GOOD	1.7	HEALTHY	HIGH
Norbord	OSB	Building Materials	6.4%	MEDIUM	EXCELLENT	GOOD	1.3	HEALTHY	LOW
Philip Morris	PM	Tobacco	6.3%	LOW	GOOD	GOOD	0.6	HEALTHY	MEDIUM
Ford	F	Auto Manufacturers	6.3%	HIGH	GOOD	GOOD	1.3	HEALTHY	HIGH
Enterprise Product Partners	EPD	Oil & Gas Pipelines	6.1%	MEDIUM	GOOD	GOOD	2.0	HEALTHY	HIGH
Magellan Midstream	MMP	Oil & Gas Pipelines	6.0%	MEDIUM	EXCELLENT	GOOD	1.2	HEALTHY	HIGH
Natural Resource Partners	NRP	Industrial Minerals	5.7%	VERY HIGH	GOOD	GOOD	2.2	RISKY	HIGH
Total	TOT	Major Oil & Gas	5.6%	LOW	POOR	GOOD	1.6	RISKY	MEDIUM
Ventas	VTR	REIT - Healthcare	5.4%	LOW	GOOD	GOOD	1.4	HEALTHY	HIGH
Welltower	WELL	REIT - Healthcare	5.4%	LOW	GOOD	GOOD	1.4	HEALTHY	HIGH
Rio Tinto	RIO	Mining - diversified	5.4%	MEDIUM	POOR	GOOD	1.4	RISKY	LOW
Exxon Mobil	XOM	Major Oil & Gas	4.6%	MEDIUM	GOOD	GOOD	1.2	HEALTHY	LOW
AbbVie	ABBV	Pharmaceuticals - Big	4.6%	MEDIUM	GOOD	GOOD	1.2	HEALTHY	HIGH
Abercrombie & Fitch	ANF	Retail - Under 30, Off-Price, Sport Apparel	4.6%	MEDIUM	GOOD	GOOD	3.1	HEALTHY	LOW
Simon Property	SPG	REIT - Retail	4.5%	LOW	POOR	GOOD	0.9	RISKY	HIGH
Kinder Morgan	KMI	Oil & Gas Pipelines	4.5%	HIGH	GOOD	GOOD	1.1	RISKY	HIGH
Realty Income Corp	O	REIT - Retail	4.4%	LOW	EXCELLENT	GOOD	1.2	HEALTHY	HIGH
Guess	GES	Retail - Under 30, Off-Price, Sport Apparel	4.4%	MEDIUM	EXCELLENT	GOOD	2.0	HEALTHY	LOW
Chico's FAS	CHS	Retail - Men's, Women's, Kids' Apparel	4.4%	HIGH	GOOD	EXCELLENT	3.4	HEALTHY	LOW
QUALCOMM	QCOM	Communications Equipment	4.3%	LOW	EXCELLENT	GOOD	1.6	HEALTHY	MEDIUM
IBM	IBM	Computer Hardware	4.2%	MEDIUM	GOOD	GOOD	1.2	HEALTHY	MEDIUM
Western Union	WU	Financial Tech Services	4.1%	LOW	EXCELLENT	GOOD	1.6	HEALTHY	MEDIUM
Public Storage	PSA	Rental and Leasing	4.1%	MEDIUM	EXCELLENT	GOOD	1.4	HEALTHY	LOW
General Motors	GM	Auto Manufacturers	4.0%	MEDIUM	GOOD	EXCELLENT	3.4	RISKY	HIGH
Leggett & Platt	LEG	Household Durables	4.0%	LOW	GOOD	GOOD	1.2	HEALTHY	MEDIUM
Ethan Allen	ETH	Household Durables	4.0%	LOW	POOR	GOOD	1.9	RISKY	LOW
Weyerhaeuser	WY	Paper Products	4.0%	LOW	GOOD	GOOD	1.6	RISKY	HIGH
Digital Realty Trust	DLR	REIT - Retail	3.9%	MEDIUM	EXCELLENT	GOOD	1.8	HEALTHY	HIGH

Note: The Dividend Cushion ratio and qualitative assessments in the table above may change following the date of this publication. Please be sure to access the website at www.valuentum.com for more information. Please also note that Valuentum publishes both an adjusted Dividend Cushion ratio and an unadjusted Dividend Cushion ratio. Many of the equities included in this table have substantial equity-price and dividend-payment risk.

SCREEN OF THE MONTH – TOP HOLDINGS OF THE ISHARES INTERNATIONAL SELECT DIVIDEND ETF (IDV)

Name	Ticker	Weight (%)	Sector	Country	Market Currency	Dividend Yield*
ASTRAZENECA PLC	AZN	6.13	Health Care	United Kingdom	GBP	3.45%
MACQUARIE GROUP LTD DEF	MQG	4.12	Financials	Australia	AUD	3.96%
COMMONWEALTH BANK OF AUSTRALIA	CBA	3.33	Financials	Australia	AUD	6.42%
ROYAL DUTCH SHELL PLC	RDSA	3.21	Energy	United Kingdom	GBP	6.54%
SALMAR	SALM	2.54	Consumer Staples	Norway	NOK	4.44%
GLAXOSMITHKLINE PLC	GSK	2.05	Health Care	United Kingdom	GBP	5.15%
TOTAL SA	FP	1.93	Energy	France	EUR	5.55%
CANADIAN IMPERIAL BANK OF COMMERCE	CM	1.88	Financials	Canada	CAD	5.35%
ENI	ENI	1.87	Energy	Italy	EUR	6.21%
SWEDBANK	SWED A	1.85	Financials	Sweden	SEK	6.57%
SSE PLC	SSE	1.79	Utilities	United Kingdom	GBP	9.01%
VTECH HOLDINGS LTD	303	1.76	Information Technology	Hong Kong	HKD	9.76%
CASINO GUICHARD PERRACHON SA	CO	1.75	Consumer Staples	France	EUR	8.70%
GALLIFORD TRY PLC	GFRD	1.68	Industrials	United Kingdom	GBP	12.87%
NATURGY ENERGY SA	NTGY	1.66	Utilities	Spain	EUR	6.36%
SWISSCOM AG	SCMN	1.64	Communication	Switzerland	CHF	4.59%
RED ELECTRICA SA	REE	1.64	Utilities	Spain	EUR	4.85%
SPARK NEW ZEALAND LTD	SPK	1.63	Communication	New Zealand	NZD	5.30%
SES SA FDR	SESG	1.59	Communication	France	EUR	4.83%
JM	JM	1.58	Consumer Discretionary	Sweden	SEK	6.59%

*Dividend yield in terms of home currency, according to Yahoo Finance

The iShares International Select Dividend ETF has ~$3.8 billion in AUM and carries a net expense ratio of 0.49%.

Public Storage PSA FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$135.00 - $225.00	HEALTHY	GOOD / 1.4	EXCELLENT	4.07%

Assessment of Company Dividend Strategy

Key Strengths

Investors have come to love Public Storage, with the REIT trading at a very lofty multiple of its expected funds from operations. Revenue has been fantastic at Public Storage, and operating income has performed even better, the latter advancing to $1.4+ billion in 2017 from ~$750 million in 2011; cash distributions per share have doubled over the same time. It has paid a quarterly dividend in each of the past 18+ years, and we love its A-rated corporate credit quality. Public Storage's dominance in major metro areas is a key competitive advantage in our view, especially given concentration/density benefits, and its brand is a key recognizable asset. Operating cash flow has averaged nearly $1.9 billion during the past three years (2015-2017).

Potential Weaknesses

We have had no qualms with Public Storage's operating performance, as same store revenue and property NOI continue to grow nicely in its US self-storage operations. Oversupply is expected to provide headwinds to pricing in the near term. Growth outside the US may not be as easy, as self-storage tends to be a smaller market in Europe, which it targets through its Shurgard brand. We're somewhat disappointed that the firm will become more active in the corporate debt markets, as we tend to be relatively debt-averse when it comes to income holdings. The REIT remains capital-market dependent, and this could come back to haunt investors during weak times of credit availability. Dividend obligations are not minor at ~$1.6 billion per annum.

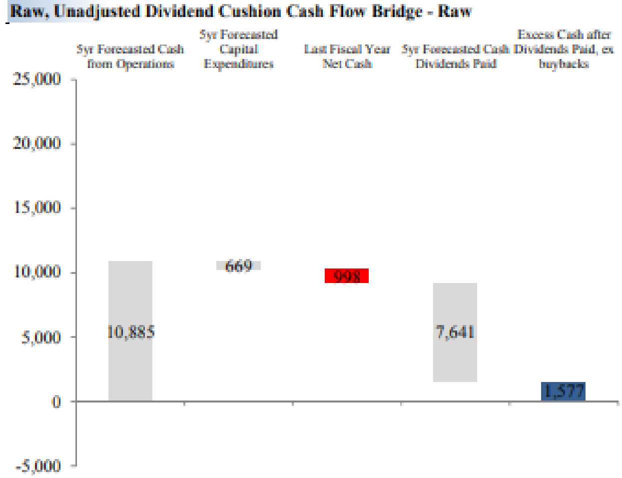
Graphical Relationship, Earnings and Dividends (per share)

The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Public Storage's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is greater than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

Raw, Unadjusted Dividend Cushion Cash Flow Bridge - Raw

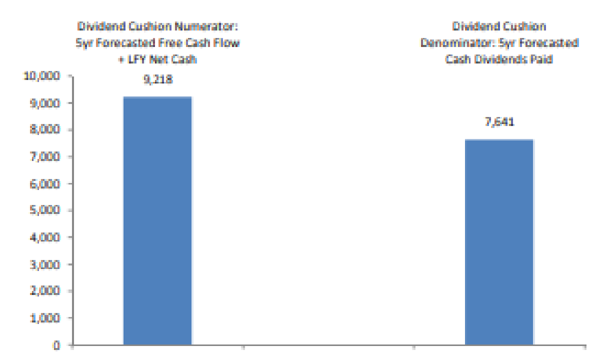


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, Public Storage's numerator is larger than its denominator suggesting strong dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

Raw, Unadjusted Dividend Cushion Ratio Deconstruction - Raw



DIVIDEND REPORT PAGE 2 – REALTY INCOME (O)

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 30-Dec-2018 | Data as of 24-Dec-2018

Realty Income Corp O FAIRLY VALUED

Valuentum Buying Index™ 3 | Valuentum Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Neutral	\$45.00 - \$67.00	HEALTHY	GOOD / 1.2	EXCELLENT	4.39%

Assessment of Company Dividend Strategy

Key Strengths

Realty Income is known as "The Monthly Dividend Company" thanks to its impressive track record of monthly dividend payments. The firm has increased its cumulative quarterly payout for more than 80 consecutive quarters and has paid more than 560 consecutive monthly dividends. The REIT's consistent fundamentals are the basis of its ongoing dividend strength; its occupancy rate has never fallen below 96%. Portfolio diversification helps maintain such occupancy levels as no one state accounts for more than 10.5% of total rent, and tenants in a given industry do not account for more than 11% of total rent. AFFO averaged just over \$720 million from 2015-2017, easily higher than annual run-rate cash dividend obligations of nearly \$690 million.

Potential Weaknesses

Real estate investment trusts pay out 90% of annual taxable income and therefore are unable to meaningfully reinvest internally-generated funds, resulting in external capital-market dependence. The weak internal cash-flow retention of most REITs translates into poor raw, unadjusted Dividend Cushion ratios, which could become severe during the depths of the real estate cycle. Even though a REIT's operating cash flow may be robust, the lack of cash accumulation on the balance sheet and the massive debt needed to purchase/develop new properties can become restrictive. The adjusted Dividend Cushion ratio, accounts for expectations of continued access to the capital markets, which while "normal," cannot be guaranteed in times of tight credit.

Graphical Relationship, Earnings and Dividends (per share)

The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Realty Income Corp's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is less than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

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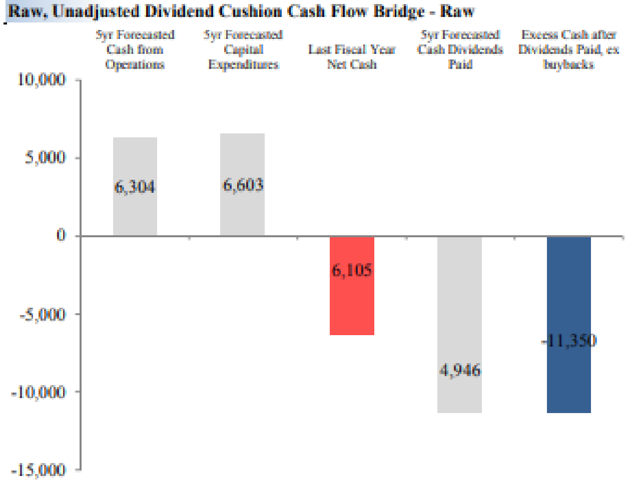

Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, Realty Income Corp's numerator is smaller than its denominator suggesting weak dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

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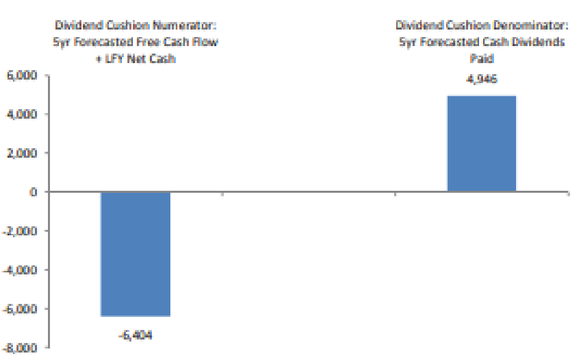

DEFINITIONS

ValueCreation. This is a proprietary Valuentum measure. ValueCreation indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill) and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value.

ValueRisk. This is a proprietary Valuentum measure. ValueRisk indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

ValueTrend. This is a proprietary Valuentum measure. ValueTrend indicates the trajectory of the firm's return on invested capital (ROIC). Firms that earned an ROIC last year that was greater than the 3-year average of the measure earn a POSITIVE rating. Firms that earned an ROIC last year that was less than the 3-year average of the measure earn a NEGATIVE rating.