“High-Yield Havens”

3 Dividend Plays To Hold Forever

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IMPORTANT NOTE: This special report is for information and educational purposes only, based on data as of 2019. Please consult Mark Skousen's or Tim Plaehn's current newsletter issue or hotline for further research.

High-Yield Havens: 3 Dividend Plays To Hold Forever

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Introduction

With more than seven decades of investment experience between them, it's easy to see why **Dr. Mark Skousen** and **Tim Plaehn** are two of the most sought-after investing advisors in the market today.

After all, both speak at investment conferences across the U.S. and abroad, advocating for one single, life-long strategy:

Investing in companies that pay high, consistently rising dividends… the kind that let you "sleep well at night."

In fact, Mark and Tim believe that what you're about to read… can help you take high-income investing to an entirely new level.

It's all laid out in the following, easy-to-read special report.

And, not only are they sharing two of their favorite long-term dividend recommendations right here on these pages…

Mark and Tim have agreed to publish their proprietary research on the single investment they both agree… is today's #1 dividend play for the long haul.

Let's get started with the first recommendation, from Dr. Mark Skousen…

High-Yield Haven #1:
Omega Healthcare Investors (NYSE: OHI)

From Forecasts & Strategies Investment Director Dr. Mark Skousen

Based in Hunt Valley, Maryland, **Omega Heathcare Investors (OHI)** is a real estate investment trust (REIT) that provides financing and capital to the long-term healthcare industry, especially skilled nursing facilities.

For investors, it's a great way to take advantage of the "Aging of America," and, I believe, is currently a fantastic value play in an unloved market.

I like to call Omega, “the retirement home you can’t wait to get into.”

The company owns or holds mortgages on more than 1,000 assisted living facilities, nursing homes and specialty hospitals in 42 states, along with the United Kingdom.

It has been gobbling up health-related properties for several years now.

Keep in mind, all REITs must pay out at least 90% of its net cash flow in the form of dividends.

That means -- thanks to its REIT structure -- the huge rent payments the company collects from hospitals all over the country come right back into shareholders’ pockets.

By paying out 90%, Omega also avoids any income taxes.

So, we get an attractive yield here of nearly 7%.

And not only is the yield sustainable, it should grow substantially from here.

For five years running, Omega boosted its dividend an average of 10% per year. That’s five times the rate of the average healthcare REIT.

Some observers will argue that with Medicare reform ahead, a healthcare REIT isn’t a good place to invest.

I disagree. With the population greying — and living longer — nursing homes and assisted living facilities are going to see a steady influx of business in the years ahead.

One person who agrees with me is the outstanding contrarian investor David Dreman.

He owns more than 1 million shares of Omega Healthcare in his DWS Dreman Small-Cap Value Fund (KDSAX).

Know who else likes Omega?

Insiders.

Bernie Korman, a top expert in the medical industry and an Omega Healthcare board member, bought nearly $3 million worth of OHI stock in December 2017.

(At $26.89 per share… a very good move.)

Like me, Korman feels that Omega is a deeply undervalued play in the health care field.

2018 ended as a banner year for Omega, with its share price rising by 34%.

This year's gotten off to a flying start as well, so it's no surprise hedge funds are increasing their positions.

The company also recently completed its acquisition of MedEquities Realty in a $600 million deal.

In short, healthcare and an aging population continue to be omnipresent forces in the U.S. economy.

Connected to a trend that won't disappear and sporting a hefty dividend yield, OHI remains well positioned to profit from this booming industry.

In fact, over the last six months, shares have shot up over 30% (reflected in the chart below), for additional gains on top of that fat yield.

Data courtesy of StockCharts.com -- 1/17/2019

Recommendation: Consider adding **Omega Healthcare Investors (NYSE: OHI)** to your portfolio at the market price.

To limit the effects of a potential sell-off, place a sell stop 20% below your entry price.

Editor's Personal Position: Long OHI

High-Yield Haven #2: New Residential Investment Corp (NYSE: NRZ)

From Investors Alley Lead Research Analyst Tim Plaehn

In the world of double-digit yield income stocks, **New Residential Investment Corp. (NRZ)** stands head and shoulders above its peers.

The story behind most high yield stocks is one of a business that struggles to generate cash to cover the dividend and that any disruption in the business or sector economics will result in a cash flow shortage and dividend cut.

I research hundreds of high yield stocks, and most are quickly rejected when I look at their cash flow metrics and see the danger signals.

Using my cash flow analysis techniques, New Residential Investment Corp. continues to show itself as a high-yield stock that truly stands apart from the crowd. This is a company with a sustainable business that generate excess cash flow above the dividend.

A Different Type of Business

New Residential is structured as a real estate investment trust (REIT). REITs can be divided into two broad categories:

- Equity REITs own property and their revenue comes from rental payments on those properties.
- Finance REITs are involved in the range of real estate financing including residential mortgages and mortgage backed securities, commercial mortgages and a range of commercial real estate finance option such as bridge loans.

New Residential Investment is a finance REIT… one that has carved out a unique business model.

Residential mortgage servicing rights (MSRs) are the primary holding in the New Residential investment portfolio.

Every mortgage must be serviced, and to cover those costs a servicing rights payment, typically 0.25% or 25 basis points, is withheld from the interest paid on the loan.

The typical actual cost to service a mortgage is 10 to 12 basis points. The result is 10 to 15 basis points of “excess” MSRs that become a financial product that can be owned and traded.

Starting out as a small-cap company, New Residential has steadily built up its MSR portfolio. The company controls the servicing rights on over $540 billion of unpaid mortgage balances.

That’s half-a-trillion dollars of mortgages!

Valuing MSRs requires a high level of expertise. Servicing rights are paid on a mortgage until it is paid off, either with having the loan paid off or even if the borrow defaults.

The rate at which a portfolio of mortgage pays off depends on several factors, of which current mortgage rates is the most important.

If rates fall, homeowners will refinance at a higher rate, reducing the MSR stream of payments.

When rates increase, refinancing slows, and the MSR payment stream is extended.

New Residential invests in MSRs targeting 12% to 18% net annual returns. Historically, the company has produced results at the high end of that range.

Over its history, New Residential has expanded the types of investments it makes to diversify its portfolio and enhance earnings potential.

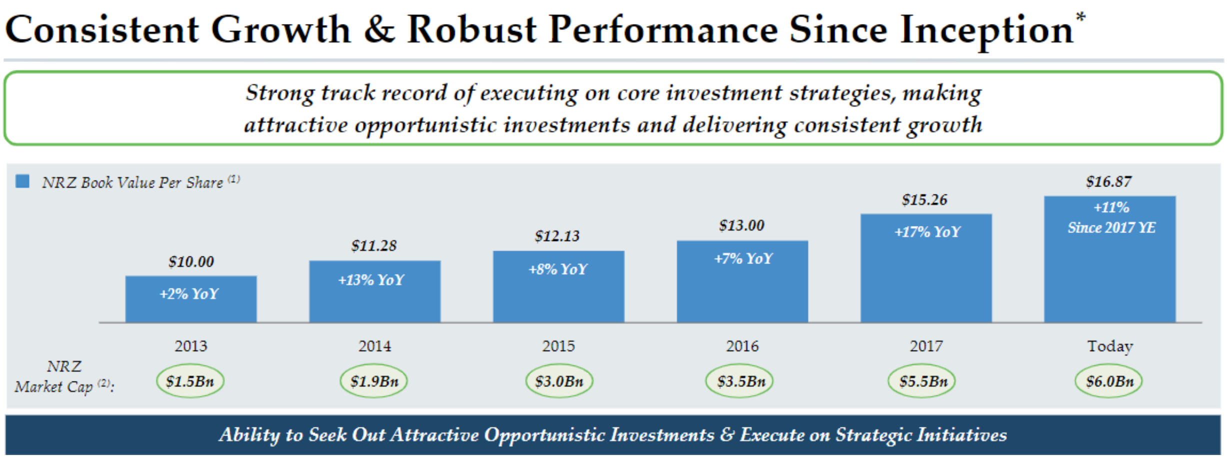
One move has been to become a licensed as a mortgage servicing company in all 50 states. This allows New Residential to buy pools of whole MSRs as well as continue to buy excess MSR rights. If it buys a group of whole MSRs, the mortgage servicing will be contracted out.

Other opportunistic investments have been made in non-agency MBS call rights, separate portfolios of residential securities and residential loans, and consumer loans.

In July 2018 the company acquired Shellpoint Partners, which gives New Residential added in-house servicing, mortgage origination, additional recapture capabilities and ancillary revenue streams.

With each of the existing and new investment categories, New Residential uses its expertise and deep experience to find pricing dislocations which allow above average returns.

For any investment the company shoots for 15% or higher targeted lifetime net yields. This smart investing has allowed New Residential to pay great dividends, and grow book value and market cap.



Investment Potential

The NRZ stock price has historically been set to give investors a low double digit yield.

Once a year or so, a scare about the company will hit the market, causing a share price drop.

These fears are always unfounded, so quick price drops are buying opportunities.

As the company has grown so has the NRZ quarterly dividend. The current $0.50 per share dividend is up from a $0.35 rate paid in 2014.

Increases are not timed but will be announced as the company grows net income per share. I am confident the dividend will continue to grow over time.

Recommendation: NRZ is a stock that will pay you a great double-digit yield. The dividend will grow over the years. Be ready to add shares when the stock market goes stupid and temporarily drives down the share price!

Editor's Personal Position: Long NRZ

High-Yield Haven #3: Main Street Capital Corporation (NYSE: MAIN)

From Dr. Mark Skousen and Tim Plaehn

Tim Plaehn:

I have been recommending **Main Street Capital Corporation (NYSE: MAIN)** since July 2014. This business development company (BDC) has been a tremendous stock for income-focused investors.

Since that first recommendation, the monthly dividend paid by MAIN has been increased six times, and nine special dividends have been declared. This is a powerful dividend income stock and it is time to re-review this best in class BDC.

Legally, a BDC is a closed-end investment company, like closed-end mutual funds (CEF). The difference is that a CEF owns stock shares and bonds, while a BDC makes direct investments into its client companies.

A BDC will have hundreds of outstanding investments which spreads the risk across many small companies. The client companies of a BDC will be corporations that are too small or too new to be able to issue stock or bonds into the publicly traded markets.

As a risk control factor, BDCs are limited to no more than two times its equity in leverage. This means that if a BDC has $500 million of equity raised from selling shares, it can borrow another two times $500 million. The company can then make $1.5 billion of loans or equity investments.

Main Street Capital Stands Apart

As a BDC portfolio selection, Main Street Capital Corp. is really quite different from the rest of the BDC crowd.

Since its 2007 IPO, MAIN has tripled the total return average of its BDC peers. Here is a list of some of the reasons why this company stands apart from its peers in the industry:

- MAIN is internally managed with insiders owning 3.3 million shares. Co-founder and Chairman Vince Foster is the single largest individual shareholder. The management team has a collective 100 years of experience and has worked together since 2002.
- Main Street is the most conservatively managed BDC in the industry and holds an investment grade BBB credit rating. Investment grade is rare among the BDC crowd and allows Main Street to borrow at a much lower cost of capital compared to most other BDCs.
- Operating, administration, and management costs are 1.5% of assets compared to 3.1% for the average BDC and 2.6% for commercial banks.
- Net debt is just 0.60 times company equity, well below the 2.0 times maximum set by law.
- The share price is about 1.5 times the book or NAV value.

MAIN uses a two-tier approach to its portfolio. This unique strategy allows Main Street Capital to generate a high level of interest income and capital gains from equity investments. In the corporate America “middle market,” MAIN provides debt financing to companies with stable finances and low risk of default.

Currently, Main Street has 58 middle market clients with an average loan amount of $10.6 million. The loans total over $600 million or about 25% of MAIN's total portfolio. Middle market loans are floating rate and match with MAIN's floating rate debt facility.

The average 9.4% yield on this group of loans is 4.75% higher than Main Street's debt used to fund the loans to clients. The 4.75% interest margin is almost pure cash flow that can be used to help pay dividends on MAIN's stock shares.

Main Street also owns a private loan portfolio originated through strategic and collaborative arrangements with other investment funds. Currently the 54 investments in the portfolio total $491 million. The loans are 85% floating rate, and 92% secured, first lien debt. Average effective yield is 10.1%.

In the lower middle market, the company takes equity stakes along with providing debt financing. The equity provides a significant boost to the total returns generated. Lower middle market companies are smaller than the typical BDC client and have annual revenues between $10 and $150 million.

There are over 175,000 companies in this revenue bracket in the U.S., and MAIN has 70 lower middle market clients with loans and equity investments worth $1.15 billion.

The loans to the companies in this part of the portfolio have an average yield of 12.2%. The equity position gives an average 39% ownership of the client companies. The equity stakes are what have allowed the MAIN net asset value (NAV) to increase by over 90% since the 2007 IPO.

These equity investments are what set MAIN apart from most other BDCs. The rules under which a BDC operates prevent them from setting aside loan loss reserves.

Because a BDC makes higher risk loans, there will be loan losses. These losses have a direct negative effect on a BDC's book or net asset value. That is why most BDCs struggle to maintain their book values compared to the growing value built by Main Street Capital.

Core Income Holding Investment

The lower middle market client, middle market client, and private loans mix provides a combination of net interest income to support MAIN's very excellent history of dividend payments.

The result has been a BDC that has generated both regular dividend growth for investors and special dividends to pay out capital gains. As an additional bonus, MAIN pays monthly dividends, smoothing out the cash flow into your brokerage account.

In August 2018, the monthly dividend was increased by a half cent to $0.195. This dividend rate is 5.4% higher than a year prior. At (roughly) $35 per share, MAIN currently yields 6.9%. Also, the company has been paying a special dividend twice a year to pay out some of the profits from the lower middle market equity investments. Over the last year, the two payments have totaled $0.55 per share, bringing the total yield to 8.25%.

MAIN generates a significant cash flow cushion to cover the dividends to be paid. This is a very important factor when considering which stocks to add to the portfolio. As of the 2018 third quarter, the distributable cash run rate was $2.71 per share. This is interest income only, no capital gains, and provides 116% coverage for the monthly dividend.

The high share price to book value ratio (about 1.5 times) for Main Street allows the company to sell shares and generate an immediate positive result for investors. This capital can then be put to work to generate a growing cash flow stream to support future dividend increases.

Recommendation: MAIN should be a core holding for any income-focused investor. Establish an initial position and be ready to add shares during market corrections such as the one we experienced in the latter weeks of 2018.

Editor's Personal Position: Long MAIN

Dr. Mark Skousen:

Based in Houston, **Main Street Capital Corp. (MAIN: 6.41% yield)** is a business development company (BDC) that makes equity investments and loans money to small and mid-sized companies.

Main Street is considered the "best of the breed" in the BDC world.

Typically, these businesses are cash flow positive, with revenue between $10 million and $100 million.

Main Street is extraordinarily well diversified. It has investments that exceed its cost basis in each of its three areas of financing, and the company is well positioned to take advantage of new opportunities.

At the current rate, counting its monthly dividend of 19 cents a share, MAIN's annual total distribution should be $2.46 per share or more (including both special dividends), for an outstanding total yield.

MAIN did raise its dividend in 2018, which brings me to another key distinction:

Not once in company history has it ever *decreased* its dividend.

In fact, since its IPO in 2007, the company has increased its monthly dividend by a full 77%.

I agree with Wall Street analysts who consider Main Street Capital the "best dividend stock in America," due to its top management team, insider buying and rising dividend policy.

It is currently one of my strongest-performing positions in my *Forecasts & Strategies* portfolio. (I first recommended MAIN back in April 2012.)

Over the last 5 years, investors who reinvested their dividends in MAIN have enjoyed a 60% return.

And there’s an even bigger reason to be bullish Main Street…

Management recently has continued to accumulate more shares of its own stock. Main Street’s management team and directors own nearly a tenth of the company.

New CEO Dwayne Hyzak is the largest shareholder in the company. Hyzak earns roughly $3.8 million in dividends per year on his holdings.

That’s about eight times as much as his salary.

The company’s directors, owners and board members execute transactions to acquire additional shares routinely, nearly every month -- all of them at market price.

That kind of insider buying affirms my confidence in the company’s outlook.

It trades at a premium over the average business development company -- and for good reason.

It has a low-cost operating structure, where less than 16% of its revenue is consumed by operating expenses (others exceed 35%).

It also has profited handsomely from its equity and warrant positions in its portfolio of middle-market companies, which, in turn, generate those special dividends every six months for shareholders.

Recommendation: If you’re an income-seeking investor, now is the time to add the shares to your portfolio.

It is rare to find a stock with a high yield, growing dividend, a very solid management team, insider buying and bright prospects for the future.

Editor’s Personal Position: Long MAIN

Stockcharts.com as of 1/18/2019

About the Authors

Mark Skousen, Ph. D., editor of *Skousen CAFÉ'* and *Forecasts & Strategies*, is a nationally known investment expert, economist, university professor and author of more than 25 books.

In 2018, he was awarded the Triple Crown in Economics for his work in economic theory, history and education, and has been named as one of the 20 most influential living economists (superscholar.org)

Mark earned his Ph. D. in monetary economics at George Washington University in 1977. He has taught economics and finance at Columbia Business School, Columbia University, Barnard College, Mercy College, Rollins College and Chapman University. He also has been a consultant to IBM, Hutchinson Technology and other Fortune 500 companies.

Since 1980, Skousen has been editor in chief of *Forecasts & Strategies*, a popular award-winning investment newsletter. He also is editor of four trading services, *Five Star Trader*, *High-Income Alert*, *Fast Money Alert,* and *TNT Trader*.

He is the founder and producer of FreedomFest, "the world's largest gathering of free minds," which meets every July in Las Vegas. (**www.freedomfest.com**). FreedomFest attracts several thousand people from around the world.

He is a former analyst for the Central Intelligence Agency, a columnist to *Forbes* magazine (1997-2001), and past president of the Foundation for Economic Education (FEE) in New York.

He has written articles for the *Wall Street Journal*, *Reason*, *the Daily Caller*, *Christian Science Monitor* and *The Journal of Economic Perspectives*. He has appeared on CNBC, ABC, CNN, Fox News and C-SPAN Book TV.

Based on his work "The Structure of Production" (NYU Press, 1990), the federal government began publishing a broader, more accurate measure of the economy, Gross Output (GO), every quarter along with GDP. It is the first macro statistic of the economy to be published quarterly since GDP was invented in the 1940s.

Tim Plaehn is the lead investment research analyst for income and dividend investing at Investors Alley.

He is the editor of ***The Dividend Hunter***, an investment advisory for income-oriented investors focused on high-yield investing.

Additionally, along with Options Portfolio Manager Jay Soloff, Tim runs ***30 Day Dividends***, a specialty income service using easy covered calls for consistent income that is generally two to three times more than the published dividend rate of their holdings.

Tim is also editor of ***Automatic Income Machine***, an investment advisory service for investors who want to turn their small nest egg into a large and secure source of retirement income.

Prior to his work with Investors Alley, Tim was a stock broker, a Certified Financial Planner, and F-16 Fighter pilot and instructor with the United States Air Force.

During his time in the service he was stationed at various military locations in the U.S., Europe, and Asia.

Tim graduated from the United States Air Force Academy with a degree in mathematics.

Tim's area of expertise is evaluating income generating investments to find the combination of sustainable and growing dividends, special dividend opportunities, and share price appreciation driven by management's commitment to dividend growth.

For more information on Mark Skousen and Tim Plaehn, visit their official web sites at www.markskousen.com and www.investorsalley.com.