



DR. DAVID EIFRIG'S Income Intelligence

We're Buying Back These Two 9% and 10% Yields

- ▶ *It's simple: Pay less, earn more*
- ▶ *Premier private equity at a pauper price*
- ▶ *Jumping back on a 10% yield*

They call legendary investor Warren Buffett the “Oracle of Omaha,” but sometimes he’s more the “Oracle of the Obvious.”

In his 1997 annual letter to Berkshire Hathaway shareholders, he asked if you were a hamburger lover, whether you would wish for higher or lower prices for beef... And likewise, if you planned to buy a car, should you prefer higher or lower car prices? As he wrote: *“These questions, of course, answer themselves.”*

And yet, when investors look at the market, something changes...

If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the “hamburgers” they will soon be buying.

It's obvious that if you plan to buy stocks, then lower prices are better.

However, when you look at the markets since October, do you feel better? Have you rejoiced at the opportunities available to buy?

If you have, then you're a true contrarian... and perhaps a true income investor, too.

But if you've found yourself depressed over the recent market action, we're not surprised. It's ingrained in our nature to extrapolate the recent past. If prices have fallen the past two months, most folks feel prices will *continue* to fall.

You need to overcome this feeling.

Buffett knows this well. His success lies less in his analysis than in his emotional control. As he's also said:

Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.

Your future investment returns are driven by the price you pay. **Pay less for an investment, earn a bigger return.**

That's especially true for income investors. Buying cheaper shares earns you a bigger yield. You can

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get a higher yield and buy more shares for the same investment when a dividend-paying stock trades at a lower price.

If we can get the business right and buy into growing, stable dividend streams, a cheaper price will always pay off. That means buying into down markets, when things feel the scariest and when our emotions tell us, “let’s sit back and wait and see if things start moving back up.”

We intend for every business and fund we buy in *Income Intelligence* to produce real cash flows and income... and deliver them to us on a monthly or quarterly basis.

That means we don’t buy bitcoin with the intention of selling it to someone else later... and we don’t buy a money-losing business with little chance of ever making a profit in the hopes that we can flip it to someone else later at a higher price.

We bring up these two features – paying the right price and owning the right businesses – because they both factor into the maneuver we’re going to make in this month’s issue of *Income Intelligence*. We’re going to buy back two investments that we recently sold... but we recommend purchasing again today at lower prices and higher yields.

Why We’re Making a Cautious Buyback

We use sell stops for a reason. They help us control our natural, yet unprofitable, emotions.

Sometimes when you buy a stock, you’ll simply be wrong.

For example, we thought that General Electric (GE) had a path to resurrect its cash flow and recommended shares in January 2017. We were wrong. But thanks to our sell stop, we only lost about 15%. If we *hadn’t* followed our stop and instead held through today, we’d be down 75%.

The sell stop prevented us from getting emotionally attached to the position and riding it down before we could figure out our worldview wasn’t right.

If you are wrong about the company, a stop can help keep you from becoming *too* wrong. That’s why ignoring sell stops or buying back into stopped-out investments can be risky.

With the two investments we’re recommending today, that’s not the case.

We didn’t stop out because of a shaky earnings report or a negative business development. We stopped out because the broader market fell.

We used volatility-adjusted stops for these two companies that are meant to signal when something is “off” with an investment. For example, if a stock that we would expect to move 10% in “normal” pullback instead moves double that, then maybe something has broken down in the business. These two investments fell – and they fell more than normal – but they did exactly what we’d expect them to in relation to the market. Our stops didn’t identify a shift in the business. They simply *alerted us* before others reacted to the markets.

Still, we earned profits on both. And today, each of their prices are down even more from where we sold... which we now see as an opportunity.

These two businesses with good yields now trade for the same price or cheaper than they did the first time we recommended them. And buying quality assets like these when prices are low is exactly what investing is all about.

Here’s our plan...

Premier Private Equity at a Pauper Price

You can’t find a better business than **Blackstone** (NYSE: BX).

Blackstone is the largest private equity manager in the world. It raises funds from extremely wealthy investors (think pensions and other institutions) and locks them up for around seven years. Blackstone then uses the funds to buy up entire businesses, improve them, sell them, and return the (generally) outsized gains to the investors.

Along the way, Blackstone earns hefty fees based on the amount of assets it manages.

The fees are generous to Blackstone, but investors keep giving Blackstone money because private equity returns from the company have historically been higher than the market. We’d like to see Blackstone’s investments continue to earn high returns so it will attract new customers and earn bonuses for good performance. And Blackstone has historically been one of the best private equity firms.

As a shareholder in Blackstone, we’ll profit like a private equity *manager*, not a private equity *investor*. That means we are sharing in its stream of fees.

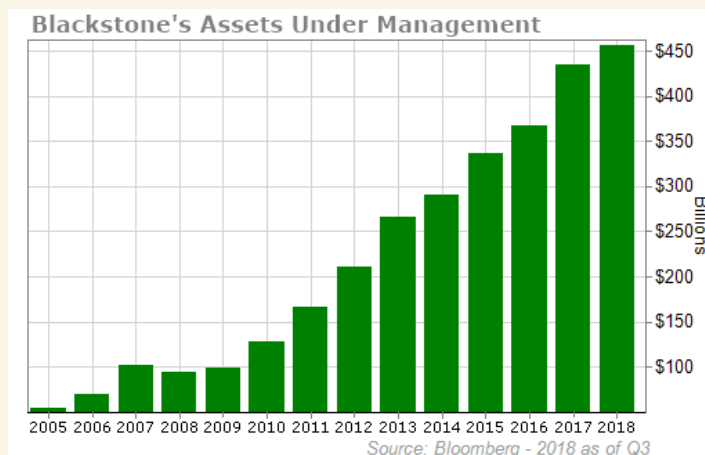
The key metric for Blackstone is its assets under management (“AUM”). The firm’s revenue is essentially determined as a percentage of the total amount of wealth it controls for investors. The fee rates vary by product – it has about \$126.2 billion in funds that buy businesses in the classic private equity model, about \$119.9 billion in funds that focus on real estate, \$80 billion in its business line that allocates capital to hedge funds, and \$130.6 billion that it invests in credit instruments.

Of these businesses, the private equity and real estate branches are the most profitable. The hedge fund and credit divisions are simpler and, though they bring in plenty of fees, are smaller businesses.

	Total Revenue	Expenses	Economic Net Income
Private Equity	\$2,511	\$1,159	\$1,352
Real Estate	\$1,846	\$832	\$1,014
Hedge Fund Solutions	\$477	\$250	\$227
Credit	\$631	\$387	\$244

YTD through Q3 – in millions U.S. of dollars.

Blackstone’s AUM totals \$456.7 billion... that’s nearly half a *trillion* dollars. It also represents a year-over-year increase of 18%. Remember, AUM is the lifeblood of an investment-management business. As this grows, so does Blackstone’s fee revenue.



Over the past five years, total revenue from these assets has grown from \$6.5 billion to roughly \$8 billion.

Our initial thesis on Blackstone was simply that it was a high-quality business with a great reputation and an extremely high dividend. That dividend comes from the fact that it’s one of the few non-energy firms organized as a master limited partnership (“MLP”).

That structure adds another reason its shares may soar...

Blackstone, MLPs, and Taxes

As we mentioned earlier, Blackstone is structured as an MLP... That means it pays no corporate taxes, instead “passing on” the profits via an abnormally generous distribution to unit holders like us. That’s to our advantage.

This structure creates extra hurdles come tax time, but the benefits are well worth it. With MLPs, you are truly considered a partner in the business (not just a shareholder)...

- That means part of each distribution counts like a dividend. You’ll pay income tax on that part, like any other dividend you receive.
- But another part of the distribution counts as a “return of capital.” You don’t have to pay tax on this part when you receive it. However, when you sell your BX shares, you’ll need to add up all the capital returned each year and subtract that from your cost basis. That means your capital gain will likely be larger. Then you’ll pay tax on the capital gains.

Blackstone sends a “Schedule K-1 form” each year to give you the information you need to put on your tax return.

Because Blackstone is already tax-advantaged, it’s a great choice to own in a regular taxable brokerage account.

You can hold it in a tax-deferred account like an IRA or 401(k), too. There, you won’t pay tax on either the distributions or return of capital... We look at it like a “double tax advantage.” However, you do have to be careful... If you earn a total of \$1,000 or more from a unique income measure called unrelated business taxable income (“UBTI”), special rules apply and you’ll have to pay taxes. And we note that Blackstone hasn’t distributed any UBTI at least as far back as 2012.

A tax advisor (or even most tax software) should be able to walk you through filing your K-1 come tax time.

And if you refuse to deal with K-1 forms, you could consider the Invesco Global Listed Private Equity Fund (PSP). This fund holds private equity firms and can help get you access to private markets, but Blackstone only makes up a small percentage of the fund’s portfolio. We prefer simply buying the best of the best with Blackstone.

MLPs must pay out a large percentage of their income to shareholders, and in return the company pays no corporate tax. That's great for us as income investors.

However, there are downsides. You have to do extra work during tax filing, which also prevents index funds and other institutions from holding shares.

To make its stock more attractive, we've been predicting that Blackstone will soon convert from an MLP to a regular C corporation ("C corp"). A competitor, KKR (KKR), did so and its valuation has increased. What's more, since Blackstone is the biggest and best private equity firm, it will likely get included in some of the major indices. That will attract even more capital.

If Blackstone announces a conversion to a C corp, **we expect to see a surge of 40%-50% in the share price in the following months.**

If the conversion doesn't happen, we get to own an amazing business with a nearly 9% yield.

We recommended Blackstone before. We bought shares at about \$30, collected \$4.27 in dividends and sold when it hit our volatility-based trailing stop at nearly \$32. That's about a 20% return in 18 months.

Today, Blackstone is down nearly 10% from where we sold... That's a steal, in our opinion.

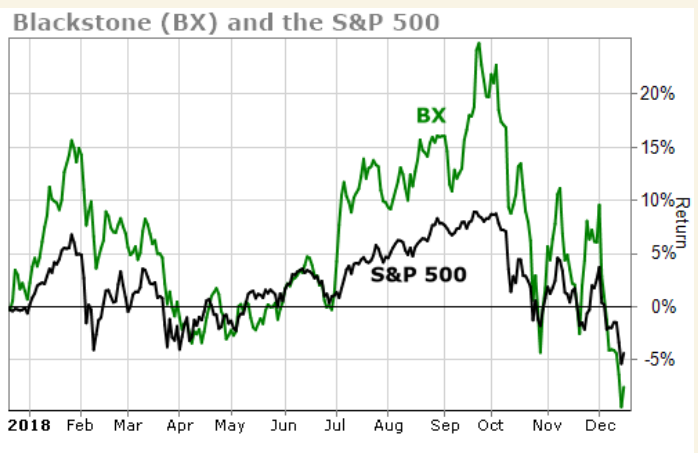
Over the course of its decline from near \$40 per share in September to its price today, there has only been good news...

The latest quarterly didn't disappoint on any measure. As noted above, AUM grew 18% on the year. Revenue came in at \$1.93 billion versus an estimate of \$1.81 billion. Economic net income, a special measure for private equity firms, grew 12% over the year.

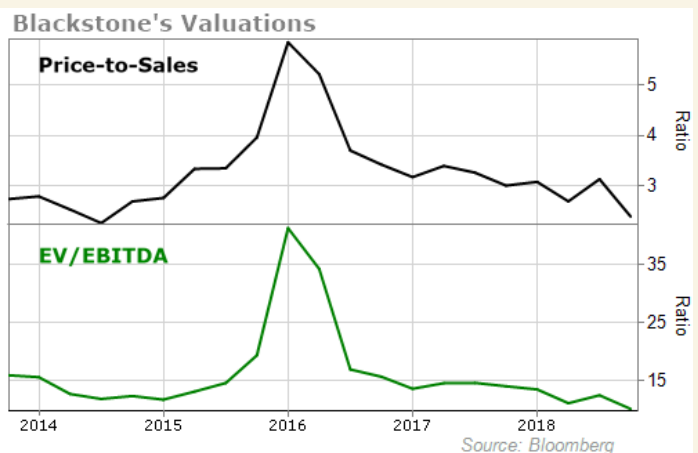
And as income investors, we're excited to see that distributable earnings grew 23% over the year. The company announced a distribution of \$0.64, a special cash distribution of \$0.10 on top of that, and that it would repurchase 6 million shares.

The only reason we see for Blackstone's fall is fears about the broader market.

Blackstone's shares are typically more volatile than the market, with a five-year beta of 1.3. We see that during the current downturn. But the timing shows us that it's the broader market that's pushing Blackstone down.



But since the fundamentals have stayed steady, the valuation has become very attractive. On a price-to-sales ("P/S") or enterprise value ("EV") to earnings before interest, taxes, depreciation, and amortization ("EBITDA") basis, Blackstone hasn't been this cheap in about five years.



And looking at the five-year chart, Blackstone looks range-bound. You could do well buying below \$30 and selling closer to \$40. In addition, Blackstone pays 6%-8% in dividends each year.



Blackstone does have a complicating factor: It's levered to the returns of the market.

As an asset manager, it gets paid on its AUM. When the stock and bond markets decline, fewer investors invest in private equity. If things get particularly bad, Blackstone may have to revalue some of the private businesses it holds and its AUM could decline accordingly.

That may make shares a little volatile as the market finds its footing.

Now, we realize that readers may not care for this process. Selling in October and then buying back in December is a hassle, even when we're buying back at a better, lower price.

That's fair. And we try to keep our buy and sell recommendations clean, simple, and rational so that you enjoy our research. But **our priority to you as a subscriber is to recommend the best investments possible at the best price possible.**

Today, that describes Blackstone as well as our second recommendation in the next section. We will, however, make one change to simplify things going forward for these two recommendations. We'll use a regular trailing stop of 25% from their highs instead of a volatility-based stop that tightens as volatility increases.

Action to take:

Buy Blackstone (NYSE: BX) up to \$32 per share. We'll use a 25% trailing stop on BX shares rather than a volatility-based stop. We recommend putting no more than 4%-5% of your portfolio into this investment.

Jumping Back on a 10% Yield

Companies don't slash their dividends when everything is rosy. So many investors run away as soon as a dividend cut is announced.

That typically sends shares tumbling... so if you think the underlying business will keep up the *new* dividend, the drop can often be a good time to buy.

This was the case when we first bought infrastructure company **Macquarie Infrastructure (NYSE: MIC)** in March 2018.

We liked Macquarie's income-generating business. It basically buys and improves infrastructure assets.

That means things like a bulk-liquid storage and handling service called the International-Matex Tank

Terminals, a business that provides services like refueling at airports, a portfolio of power facilities, and a Hawaiian energy segment.

These are profitable and steady businesses. They typically deal with long-term contracts, have low turnover with their customers, and have high barriers to entry. Competition is limited – it's hard to build storage tanks or get contracts with airports. And these businesses produce a steady stream of cash.

Macquarie had been able to pay a fat dividend for many years. But back in February 2018, Macquarie announced it would reduce its annual dividend from around \$5.50 per share to \$4. Selling shareholders sent the stock down 40% in one day.

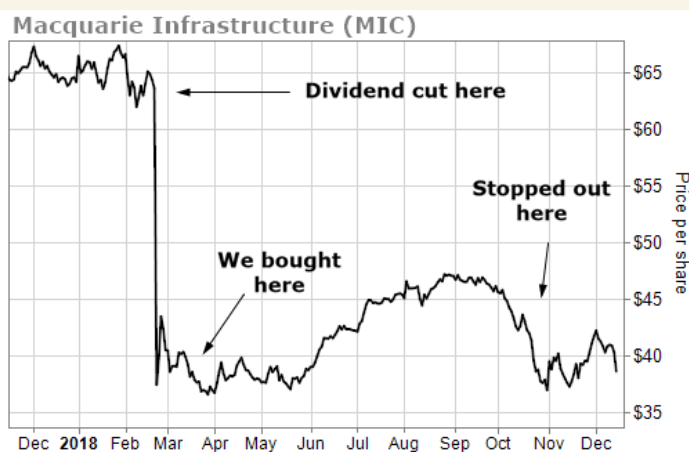
In Macquarie's largest division – its International-Matex Tank Terminals division – a number of customers simply closed up shop and stopped storing oil. The prices in the oil market meant their business didn't make sense anymore.

However, this didn't mean a competitor stole its customers. Or that Macquarie had made a strategic mistake. It was outside of its control. And those tanks can be repurposed to hold a different type of oil. That takes some time and money, but they'll be productive again.

In the meantime, Macquarie couldn't keep up the dividend, hence the cut and the share price fall.

We felt a 40% drop was overdone. Shares were hated at the time. After the drop, we thought shares were trading for an attractive price. The dividend looked steady moving forward and paid a yield of more than 10%.

We got in when shares were trading near multiyear lows. Shortly after, shares were up 23%. But as the S&P 500 fell, so did Macquarie. Shares fell roughly



22% in about two months from its recent high. And we got stopped out for around an 8% gain.

Right now, shares are trading near lows for the past few months. And our outlook on the company's upside has not changed...

We think now is the perfect time to buy back in.

There's been a few announcements from Macquarie that make us feel confident about becoming shareholders again. First, there's been no further surprises with the International-Matex Tank Terminals division.

Here's what we said back in the March issue...

IMTT has typically booked its tanks at about 94% of capacity. But with the loss of these customers, that dropped quickly to about 89% and management expects it to go a little lower to the mid-80% mark.

It's been a few months and, as management expected, capacity is now at 82.1%.

The company is prioritizing the repurposing of those tanks with products that have stronger demand. It says that of the 3 million barrels of capacity it needs to repurpose, 1.3 million will be repurposed in 2019. It expects 600,000 barrels to be in service by the end of this year.

Macquarie is doing everything correctly to get capacity back up above 90%. We should expect everything to return to normal within the next couple years.

Here's the part we love and what gets us excited about being shareholders again... **Macquarie's balance sheet looks stronger today than when we bought back in March.**

In July, it agreed to sell its Bayonne Energy Center power generation facility for about \$900 million in cash and assumed debt. The deal closed in October. The net cash proceeds were about \$657 million, and it used that to pay down debt.

As of October 30, Macquarie had \$2.7 billion of debt outstanding. That's down 25% from \$3.6 billion in July 2018.

Macquarie's debt load was always a risk, but with debt lower and occupancy holding steady, we feel confident now that another dividend cut won't happen. The company has plenty of cash to support the dividend, pay down debt, and invest in growth. Over the past three quarters, it was able to churn out \$254 million in free cash flow.

It has paid out \$1 per share of dividends in May, \$1 in August, and \$1 in November. We can expect a \$1 per share dividend next March.

With shares trading around \$38, that means we'll collect a more than 10% yield moving forward.

In addition, and as we mentioned in our March issue, a study from Morgan Stanley found that companies typically underperform the market before the dividend cut... but outperform by 11% in the 12 months afterward. Additionally, it found that the strongest outperformance comes from stocks that cut from a high dividend yield of 12% or so, like Macquarie.

We think Macquarie is in excellent position to outperform in the months ahead.

We expect shares to continue to grind higher as Macquarie completes the repurposing of its tanks and as it continues to strengthen its balance sheet.

Buy Macquarie Infrastructure (NYSE: MIC) up to \$44 per share. We'll use a 25% trailing stop on MIC shares rather than a volatility-based stop.

We recommend putting no more than 4%-5% of your portfolio into this investment.

Here's to our health, wealth, and a great retirement,



Dr. David Eifrig, MD, MBA
Baltimore, Maryland
December 20, 2018

Blackstone (NYSE: BX)

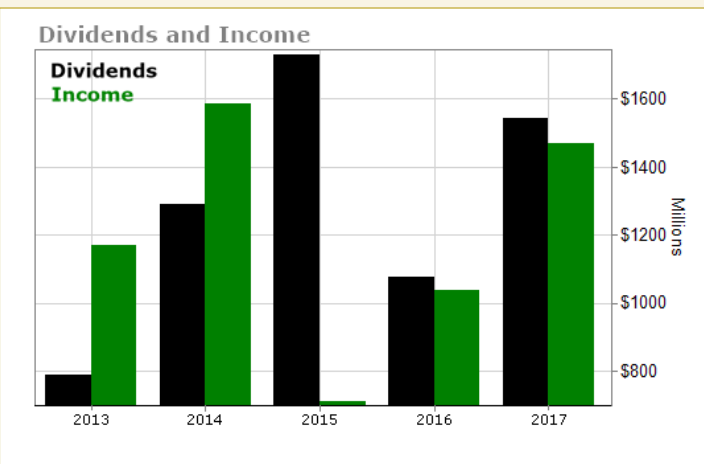


Snapshot	
Recent Price (per share)	\$27.60
Market Cap (in billions)	\$32.9
52-Week High	\$40.60
52-Week Low	\$27.60
Dividends Per Share (estimated)	\$2.77
Dividend Yield (indicated)	8.8%
One-Year Return	-1.9%
Three-Year Return (annualized)	5.1%
Average Volume (30 days)	6,547,327



Income Statement	2013	2014	2015	2016	2017
Total Revenue	\$6,613	\$7,485	\$4,647	\$5,126	\$7,119
Net Income	\$1,171	\$1,585	\$710	\$1,039	\$1,471
Dividends Paid	\$1,469	\$2,348	\$3,497	\$2,018	\$2,842

Cash Flow	2013	2014	2015	2016	2017
Cash From Operations	\$3,554	\$1,655	\$2,397	-\$541	-\$2,449
Cash From Investing	-\$166	-\$24	-\$53	-\$29	-\$188
Cash From Financing	-\$3,265	-\$1,050	-\$1,919	\$570	\$2,792
Free Cash Flow	\$3,528	\$1,625	\$2,338	-\$563	-\$2,473



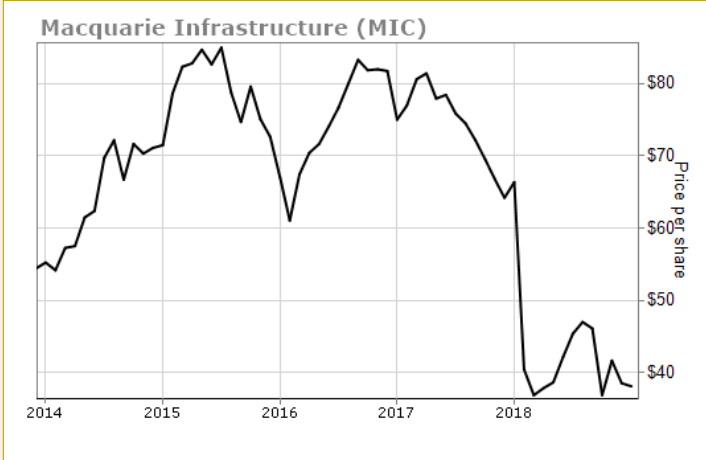
Balance Sheet	2013	2014	2015	2016	2017
Cash and Equities	\$832	\$1,412	\$1,837	\$1,837	\$1,992
Total Assets	\$29,679	\$31,497	\$22,526	\$26,403	\$34,429
Long-Term Debt	\$10,458	\$8,924	\$6,117	\$8,866	\$14,815
Total Liabilities	\$15,301	\$14,164	\$10,296	\$13,888	\$20,699

*All dollar figures in millions.

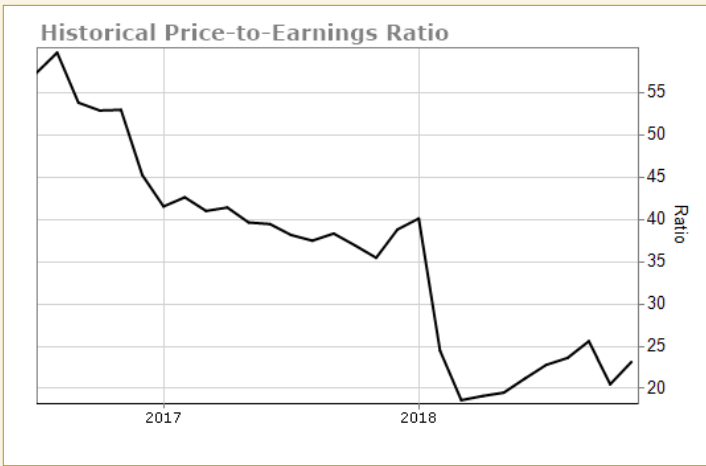
Dividend Payout Ratio	Years Paid	Interest Coverage
105%	11	n/a



Macquarie Infrastructure (NYSE: MIC)

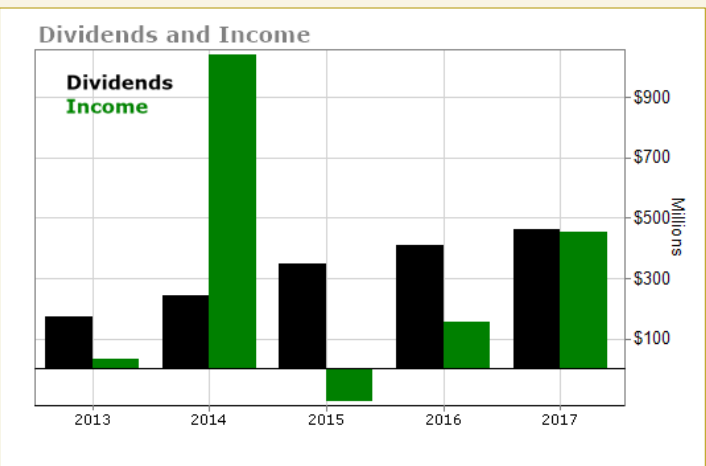


Snapshot	
Recent Price (per share)	\$38.03
Market Cap (in billions)	\$3.3
52-Week High	\$67.84
52-Week Low	\$36.20
Dividends Per Share (estimated)	\$4.00
Dividend Yield (indicated)	10.4%
One-Year Return	-32.8%
Three-Year Return (annualized)	-9.0%
Average Volume (30 days)	863,701



Income Statement	2013	2014	2015	2016	2017
Revenue	\$1,041	\$1,351	\$1,639	\$1,652	\$1,815
EBITDA	\$126	\$180	\$259	\$613	\$623
Net Income	\$31	\$1,042	-\$109	\$156	\$451
Dividends Paid	\$172	\$245	\$348	\$409	\$463

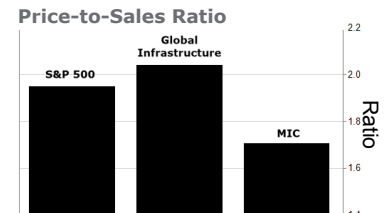
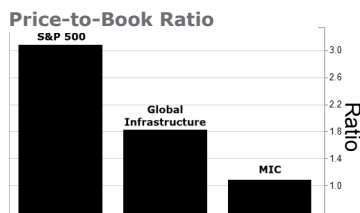
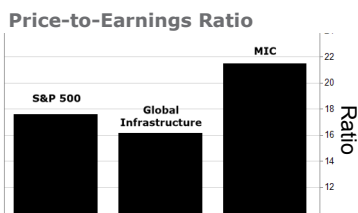
Cash Flow	2013	2014	2015	2016	2017
Cash From Operations	\$155	\$252	\$381	\$560	\$529
Cash From Investing	-\$140	-\$1,069	-\$449	-\$377	-\$566
Cash From Financing	\$77	\$632	\$42	-\$161	\$39
Free Cash Flow	\$44	\$128	\$187	\$246	\$189



Balance Sheet	2013	2014	2015	2016	2017
Cash and Equities	\$233	\$48	\$22	\$45	\$47
Total Assets	\$2,501	\$6,625	\$7,309	\$7,559	\$8,009
Long-Term Debt	\$832	\$2,367	\$2,747	\$3,040	\$3,530
Total Liabilities	\$1,348	\$3,655	\$4,106	\$4,412	\$4,658

*All dollar figures in millions.

Dividend Payout Ratio	Years Paid	Interest Coverage
103%	8	2.9x



Source: Bloomberg

Income Investor Dashboard

Inflation Monitor

The core consumer price index (“core CPI”), a key measure of inflation that excludes volatile food and energy costs, rose 0.2% from the previous month and 2.2% from a year ago. This measure of inflation picked up as costs for housing, medical care, and used cars rose.

The broader CPI was unchanged from last month as energy prices plunged. Still, inflation isn’t shooting up, which may cause the Federal Reserve to pause rate hikes in early 2019.

Commodities	Price	1-Mo. Change	1-Yr. Change	Inflation	Stable	Deflation
Oil (barrel)	\$47.21	-16.4%	-17.4%			●
Gold (oz)	\$1,249.10	2.1%	-1.0%			●
Silver (oz)	\$14.65	1.5%	-9.3%			●
Copper (lb)	\$2.78	-1.3%	-11.3%			●
Corn (bushel)	\$3.57	5.6%	11.6%	●		
Surveys and Stats	Index Value	1-Mo. Change	1-Yr. Change	Inflation	Stable	Deflation
Consumer Price Index	252.9	0.0%	2.2%	●		
Producer Price Index	204.5	-0.8%	1.6%		●	
CRB Industrial Prices	486.2	-0.2%	-4.3%			●
2018 SSA COLA			2.8%	●		
Economy	Price/Index Value	Qrtly Change	1-Yr. Change	Inflation	Stable	Deflation
Unemployment	3.8%	-0.1%	-0.5%	●		
Capacity Utilization	78.5%	0.7%	2.8%	●		
US Personal Income (in trillions)	\$17.78	1.4%	4.7%	●		
Baltic Dry Shipping Rates	1406	1.5%	3.7%	●		
Real-World Inflation	Price	1-Mo. Change	1-Yr. Change	Inflation	Stable	Deflation
White Bread (lb)	\$1.27	-0.2%	-1.6%			●
Gasoline (unleaded gallon)	\$2.67	-7.5%	4.8%	●		
Electricity (kilowatt hour)	\$0.134	-1.5%	-1.5%			●
Milk (gallon)	\$2.88	-1.2%	-8.7%			●
Ground Beef (lb)	\$3.75	1.4%	-0.8%			●
26" Men's Bike (Walmart)	\$89.00	0.0%	11.3%	●		

Overall Score

INFLATION 9 ⁺⁰	STABLE 1 ⁺¹	DEFLATION 9 ⁻¹
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Yield Corner

Investors have sold off U.S. high-yield debt since October – wiping out the gains since the start of the year. Everyone is afraid of low-quality debt today. That has pushed up yields to a two-year high.

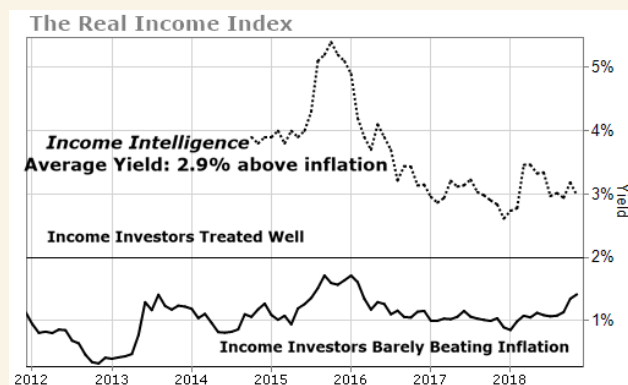
Also, with fear in the market, volatility is spiking. It’s usually a profitable strategy to sell options when the volatility index is above 20%.

Certificate of Deposit	Highest Avail	3 Mo. Ago
Capital One	2.7%	2.6%
Money-Market Fund	Highest Avail	3 Mo. Ago
CIT Bank	2.0%	2.1%
Current Rates	Current	3 Mo. Ago
\$30K Home Equity Line of Credit	7.4%	6.2%
High-Yield Bonds	7.4%	6.8%
Corporate Bonds	5.1%	4.9%
30-Year Fixed-Rate Mortgage	4.6%	4.5%
48 Mo. Auto Loan	4.5%	4.6%
Municipal Bonds	4.2%	4.1%
U.S. 10-Year Gov't Bonds	2.8%	3.0%
S&P 500 Dividend Yield	2.1%	1.8%
Five-Year Certificate of Deposit	2.0%	1.9%
Interest Checking Rate	0.6%	0.5%
Money-Market Fund	0.6%	0.4%
Option Income	Current	3 Mo. Ago
Volatility Index	24.6%	13.2%
1-Year S&P 500 Call Yield	8.2%	6.0%

The Real Income Index

We take what an average investor can earn in a basket of conventional income investments and subtract inflation to calculate the Real Income Index.

If the average investor can earn at least 2% after inflation, it’s a good time for income investors. In *Income Intelligence*, our goal is to show you how to safely earn high income... no matter what the market is doing.



Income Investor Dashboard

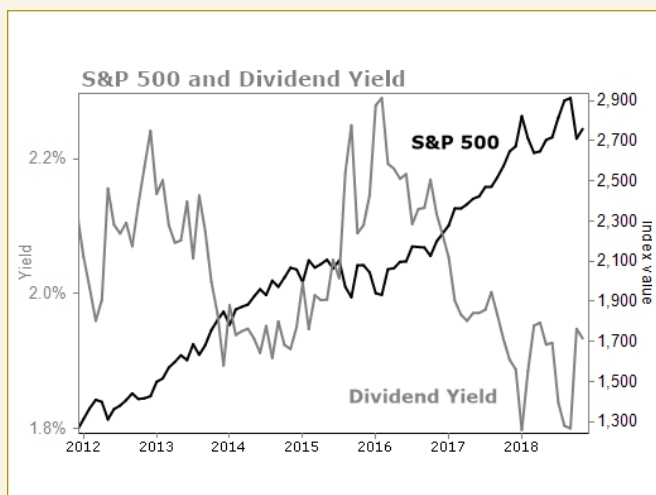
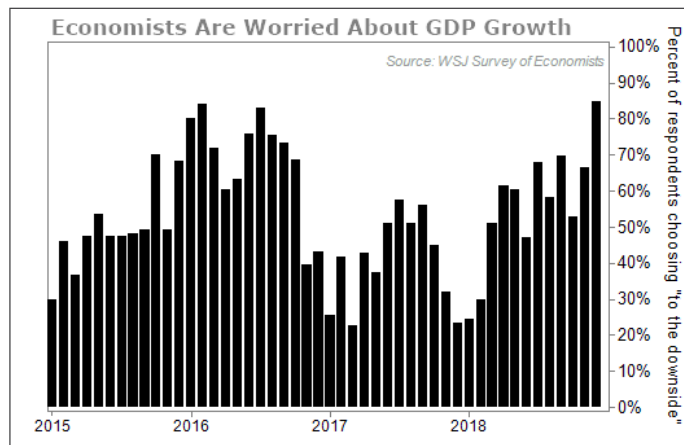
The Bets for 2019 Are In...

What happens in 2019? Does the bull market continue? Or does growth slow?

In a recent survey of economists conducted by the *Wall Street Journal*, nearly half of all respondents say that the U.S.-China trade war is the biggest threat to the economy next year. Only 7.3% of economists said rising rates were the No. 1 threat.

And most economists are worried about economic growth... One of the survey questions was: "Is the risk to your U.S. GDP growth forecast for the next 12 months more to the upside or downside?"

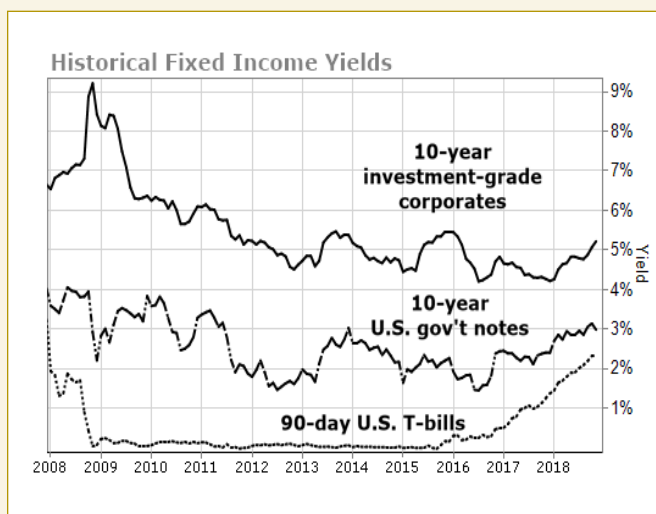
Nearly 85% said it was "to the downside," the highest percentage over the past few years. The question now is, should we take this as a quality prediction or a sign of too much consensus regarding slow growth? We suspect we'll split the difference – growth may slow but still stay positive.



From Retirement Trader: Trading for Income

Below is a list of closed-end funds that are trading well in excess of their net asset values (NAVs). That means by buying these funds, you're paying more than \$1 for \$1 worth of assets. You should never buy a fund for more than its NAV. If you own any of these funds, sell them immediately...

The first fund on this list is trading at a premium to NAV of 37%. That means people are paying \$1.37 for only \$1 of asset value. Don't be a fool by owning these funds!



Name	Symbol	Premium to NAV
PIMCO Global StocksPLUS & Income Fund	PGP	37%
PIMCO Strategic Income Fund	RCS	33%
PIMCO High Income	PHK	31%
Bitcoin Investment Trust	GBTC	30%
Gabelli Utility Trust	GUT	29%
DNP Select Income Fund	DNP	19%
PIMCO Municipal Income II Fund	PML	15%
Eagle Point Credit	ECC	10%
Cornerstone Total Return Fund	CRF	10%
Cornerstone Strategic Value Fund	CLM	8%

Next Month: Trading for Income

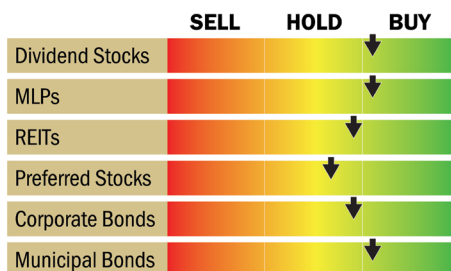
Income Market Overview

Income Market Overview

Dividend Stocks – See below.

MLPs – The energy MLP sector held strong for November but turned down in December. The sector is in a period of change as it restructures, but the underlying assets have plenty of value. We may have an MLP as a new recommendation soon.

REITs – As risk assets sold off with stocks, REITs lost 3% this month. We think the biggest part of the interest rate move has probably happened... That's positive for REITs.



Preferred Stocks – Preferreds lost nearly 4% on the month – and closed-end funds lost even more. Preferred funds have seen outflows for four straight months. Again, given the yields and discounts, preferred are recommended as a long-term holding.

Corporate Bonds and Municipal Bonds – Bonds have been bid up over the past month in the search for safety, but it's not anything to worry about. Yields are still much higher than a few months ago.

Spotlight: Stocks

Now that the stock market has drawn down more than 14%, is it finally time to worry?

Well... no. The time to worry was before the drop, so you could position yourself accordingly. If you recall, we've spent the past several months adding "boring" defensive positions to our *Income Intelligence* model portfolio that can stand up to a market dip.

Now that the market is down, your gut tells you to worry... But the fact is that assets are now cheaper and the market has less froth.

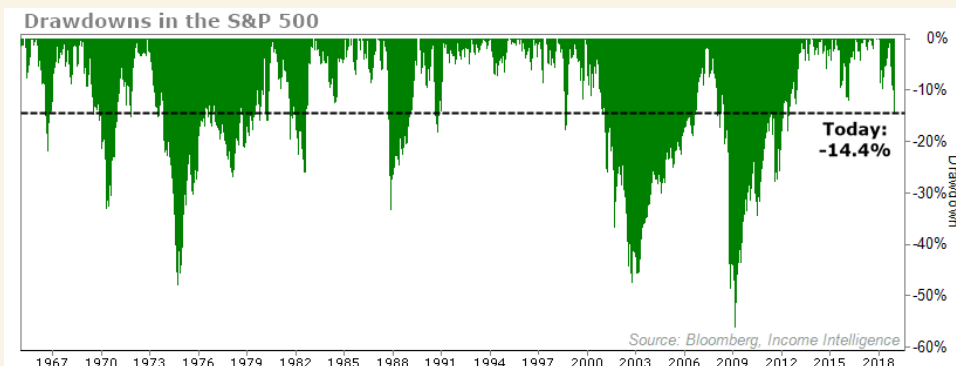
The question is, how bad can the downturn in the stock market get?

The chart below shows the S&P 500's drawdowns from its highs back to 1965. You can see that the 2008 financial crisis led to a drawdown of nearly 60% and took years to claw back.

This chart doesn't tell us where this drawdown will end up, but it does put it in perspective. At a 12.5% drawdown, we've reached what looks like a significant spike. Most of the drops in the market don't quite reach this level.

The ones that do go deeper have some big crises and recessions attached to them... including the recent financial crisis, the dot-com bubble, and the oil crisis and massive inflation in the 1970s.

This tells me that absent a recession, we may be closer to the bottom than the financial media would have you believe.



Income Intelligence Portfolio

Prices as of December 19, 2018

THE INCOME PORTFOLIO

Our flagship, diversified, income-generating portfolio.

Stock	Ticker	Description	Ref. Date	Ref. Price	Recent Price	Dividend	Yield	Return	Advice	Buy Up To	Sell Stop
Enterprise* ‡	EPD	Pipeline operator	10/16/08	\$11.01	\$25.02	\$14.22	6.9%	256.4%	Buy	\$35	\$20.12
Nuveen Quality Preferred Income Fund 2	JPS	Preferred stock	7/22/13	\$8.57	\$7.66	\$3.85	9.2%	34.3%	Buy	\$10	\$7.22
AllianceBernstein	AB	Financial MLP	11/21/13	\$21.56	\$25.12	\$10.58	11.2%	65.6%	Buy	\$30	\$19.50
Nuveen Quality Preferred Income Fund 2	JPS	Preferred stock	1/16/14	\$8.38	\$7.66	\$3.52	9.2%	33.4%	Buy	\$10	\$7.22
CME Group	CME	Global exchanges	10/16/14	\$79.31	\$185.53	\$21.26	1.5%	160.7%	Hold	\$105	\$167.69
Eaton Vance Enhanced Equity Income Fund	EOI	Covered-call fund	12/17/15	\$13.01	\$12.60	\$3.11	8.1%	20.8%	Buy	\$16	\$12.05
Wells Fargo - Series W	WFC-W	Preferred stock	3/17/16	\$25.34	\$24.10	\$3.92	5.9%	10.6%	Buy	\$26	-
PNC - Series P	PNC-P	Preferred stock	3/17/16	\$28.67	\$25.67	\$4.21	5.5%	4.2%	Buy	\$28	-
Vanguard REIT Fund	VNQ	REIT index fund	6/16/16	\$85.30	\$76.59	\$10.10	6.2%	1.6%	Buy	\$85	\$61.95
iShares Investment Grade Corp Bond Fund	LQD	Investment-grade bonds	8/18/16	\$123.50	\$112.81	\$9.50	3.6%	-1.0%	Buy	\$120	\$87.95
iShares Select Dividend Fund	DVY	Growing dividends	8/18/16	\$86.69	\$90.09	\$7.54	3.5%	12.6%	Buy	\$105	\$75.48
WisdomTree Emerging Market Dividend Fund	DEM	Emerging markets	2/16/17	\$40.92	\$40.03	\$3.23	4.6%	5.7%	Buy	\$52	\$36.37
iShares MSCI Japan Fund	EWJ	Japanese stocks	5/18/17	\$52.48	\$51.51	\$1.61	1.7%	1.2%	Buy	\$68	\$47.76
Blackstone Mortgage Trust	BXMT	Commercial MREIT	7/20/17	\$31.03	\$33.36	\$3.10	7.3%	17.5%	Buy	\$35	\$26.58
Nestlé	NSRGY	Global staples	10/19/17	\$86.30	\$81.50	\$2.42	2.8%	-2.8%	Buy	\$90	\$64.58
Essex Property Trust	ESS	California real estate	11/16/17	\$252.15	\$255.60	\$7.33	2.8%	4.3%	Hold	\$245	\$226.14
Williams Companies ^	WMB	Pipeline operator	4/19/18	\$23.53	\$22.32	\$1.02	6.1%	-0.8%	Buy	\$35	\$21.88
Altaera Cogedim	ALTA.PA	Parisian real estate	6/21/18	€ 202.00	€ 169.80	€ 0.00	6.2%	-15.9%	Buy	€ 205	€ 153.00
VanEck JPM Emerging Markets LC Bond Fund ±	EMLC	Emerging market debt	7/19/18	\$34.40	\$32.69	\$0.88	6.5%	-2.4%	Buy	\$41	\$25.50
Cracker Barrel	CBRL	Restaurant dividends	8/16/18	\$149.69	\$166.98	\$1.25	2.9%	12.4%	Buy	\$175	\$154.20
Service Corp International	SCI	Funeral provider	9/20/18	\$43.11	\$41.62	\$0.17	1.6%	-3.1%	Buy	\$50	\$37.03
Franco-Nevada Corp	FNV	Gold royalties	10/18/18	\$65.33	\$69.04	\$0.48	2.0%	6.4%	Buy	\$70	\$55.67
Invesco Value Municipal Income Trust	IIM	Municipal bonds	10/18/18	\$13.17	\$13.45	\$0.12	5.5%	3.0%	Buy	\$15	\$10.22
International Paper	IP	Cardboard	11/15/18	\$45.59	\$40.60	\$0.00	4.7%	-10.9%	Buy	\$50	\$38.43
Blackstone	BX	Private equity	12/20/18	\$27.60	\$27.60	\$0.00	8.8%	0.0%	Buy	\$32	\$20.70
Macquarie Infrastructure	MIC	Infrastructure	12/20/18	\$38.03	\$38.03	\$0.00	10.4%	0.0%	Buy	\$44	\$28.52

To see our collection of World Dominating Dividend Growers – a collection of long-term dividend-raisers that dominate their industries – [please click here for our online portfolio](#).

* Represents positions transferred from The 12% Letter. Entry dates may pre-date Income Intelligence.

‡ EPD prices adjusted for a 2:1 stock split on August 22, 2014.

^ WMB prices adjusted for purchase of WPZ on April 19, 2018 and WPZ dividends.

± EMLC adjusted for reverse split October 26, 2018

Note: All dividends received while holding this position in the model portfolio.