August 2023 Newsletter

Welcome to the inaugural issue of the Income Investing for Nomads Newsletter!

Thank you for taking the time to read what we have to say, I hope you find it enlightening and educational. I hope it sparks not only ideas for your own investing, but gives you the desire and drive to find, fund and enjoy your passions.

How This All Started

Many people ask how did I get to this point? Well an ill-fated and hypothermia induced hike up Clingmans Dome in the Smoky Mountains is where the journey started. Yes, I nearly froze to death and we had to sleep in the trunk of a 2003 Chevy Cavalier. But from that trip and sleeping in the trunk in particular, the idea for income investing and funding my passion was born. It was there that our #vanlife dream began.

If you want our full story check out **Near-Death Experiences and Epic Fails** on our podcast.

After countless hours of research and watching videos, I concluded that living out of a van was the dream life for me. Me being pragmatic as I am, my only thought after seeing that this life was an option, was how to fund this lifestyle. Now we didn't have much, and waiting 25 years until we had "enough to draw upon" was not an option. I needed to find how to make as much as we needed with what we had. Funny how passion can fuel a determined person to find solutions. I stumbled across numerous strategies, some showed real promise, others (how do I put this) sucked ass. It was during my research that my phrase "your money should always be making money" was coined. What countless people do is leave money in the bank, earning some serious bank hahaha. In all seriousness the banks pay you 0.15-0.25% on your money, all while they make 5-7% lending out your money. $50,000 will earn you $75 a year. HIstorically, the stock market returns about 10% per year, maybe a little more depending on the source. $50,000 will earn you $5,000. So simply putting your money into the market will gain you $4,925 per year. But $5,000 isn't enough to fund my travels and you'd have to sell assets to cash in. I needed to maximize my returns. But to do that required risks I was not comfortable with.

Hello Income Investing

This is where I came across income investing. I know my definition is not the definition used by so many others. To me, income investing is living off your returns, not your principal. How much you make each month in dividends, interest or partnerships is how much you can spend. Living this way is how your principal at worst stays the same. Once I found out how I could fuel my travels with wayyyyy less, I got to work on researching what were the best equities to own that provided the highest yields coupled with the lowest risk. It took years, over 3 years to be exact, to come up with a portfolio and our portfolio is always changing as new data is presented. There are so many equities that yield over 10%, but not all high yields are created equal. The trick is finding those that have a high yield due to growth or cash flow.

When investing for income, having precise buy-in points are not as important as when you are value or growth investing. Simply put, so long as you don't buy at the absolute top of the stock's price range you should be okay to invest. Some investments, I'm looking at you close ended funds, even have the premium or discount price listed when you do your research. Bonds are another investment you should never pay a premium on, the par number is listed in the research. Why would you ever pay more than an asset is worth? It is seriously like going to any store and once it is time to pay for your item, you pay more than the price tag says. I will throughout the course of our time together offer recommendations for different equities (many of which we hold currently, have held previously, or will hold in the future once the price or fundamentals swing to our favor), and when I do, I will offer a price which you can buy without overpaying. I will describe the investment and why it is a good candidate for income investing. For example, buy AT&T (**T**) up to $16.50.

I know not everyone's story will mirror mine, but I do know that everyone has passions. I want every person to have the freedom and security to pursue whatever their passions are. If I can help anyone in any way reach financial freedom, this will all be worthwhile. I encourage each and everyone of you reading this to email me thoughts, questions, concerns or even your own income investing suggestions. On with the meat and potatoes.

Stocks To Add To Your Portfolio Today!

In this month's issue I will highlight 3 stocks that if I was starting today I would add to my portfolio. These equities are **CALM**, **JEPQ** and **ABR**. The average yield of these 3 stocks is 9.8%.

Ticker	Current Price	52 Week Low	52 Week High	% Yield	Dividend Amount	Frequency
CALM	$45.09	$43.29	$65.32	11.40%	$0.755	Quarterly (variable)
JEPQ	$48.90	$39.61	$49.63	8.22%	$0.47	Monthly (variable)
ABR	$16.93	$10.10	$17.74	9.76%	$0.43	Quarterly

CALM

Cal-Maine Foods, Inc., together with its subsidiaries, produces, grades, packages, markets, and distributes shell eggs.The company offers specialty shell eggs, such as nutritionally enhanced, cage free, organic, free-range, pasture-raised, and brown eggs under the Egg-Land's Best, Land O' Lakes, Farmhouse Eggs, Sunups, Sunny Meadow, and 4Grain brand names. It sells its products to various customers, including national and regional grocery store chains, club stores, independent supermarkets, foodservice distributors, and egg product consumers primarily in the southwestern, southeastern, mid-western, and mid-Atlantic regions of the United States. Cal-Maine Foods, Inc. was founded in 1957 and is headquartered in Ridgeland, Mississippi.

This is a rare income paying stock that is also a growth stock. Granted CALM is down 17% YTD at the time of this writing, which means it is a perfect buying opportunity as it trades at 3.1P/E which is ridiculously low for a low beta, high yield stock. CALM reported earnings on 07/26/82023 and absolutely killed it with:

EPS: US$15.57 (up from US$2.73 in FY 2022).
Revenue: US$3.15b (up 77% from FY 2022).
Net income: US$758.0m (up 471% from FY 2022).
Profit margin: 24% (up from 7.5% in FY 2022).
The increase in margin was driven by higher revenue.

If you want to see an income investing unicorn, look no farther than CALM. As of 2020, CALM has ***ZERO*** debt. I actually had to double and triple check this data to verify that before buying this stock. Now CALM did suspend its dividend payment during COVID craziness and didn't restart paying it until 04/2021 and then did skip another 3 quarters before finally getting back on track to the quarterly payments that they had paid from 1998-2019. I look at the history before COVID craziness and the fact that CALM kept paying its dividend during the 2008-2009 meltdown to me is more indicative that the dividend is quality and safe than not paying it during the COVID era, but that is my opinion. Even though it is a variable rate, which is based on a formula of “one-third of quarterly net income” , which is I guess the company speak way of saying that if we make money after all expenses and liabilities are paid we give our shareholders some money too. The variable thing does scare off a lot of income investors, but as I will address in a podcast in the near future, you can actually have a good but of uncertainty in your portfolio and still have a high degree of certainty. Anywhoo, because CALM has zero debt and because the dividend is paid out of net income profits, the dividend is always safe for this company.

And what I really freaking dig about this company is they try to roll with changes based on customer sentiment. For example, CALM is currently in the process of expanding its cage free egg capabilities, which is awesome. Chickens should not be in cages for so many reasons but the top 2 being, the chickens health and humans health. DUH. CALM is primarily engaged in the production, grading, packaging, marketing and distribution of fresh shell eggs, including conventional, cage-free, organic, brown, free-range, pasture-raised and nutritionally enhanced eggs. Who knew you could actually have a high yield growth stock in the egg world? I did not until a few months ago hahaha.

CALM is a ***BUY*** up to $49.00 which locks in a 10% yield based on past 12 month payouts.

JEPQ

Let me first state, I would wait for a little pullback before buying this stock. It is trading a little high when if you wait a week or two you could totally get it for 5% less or more.

JEPQ seeks current income while maintaining prospects for capital appreciation. The fund seeks to achieve this objective by (1) creating an actively managed portfolio of equity securities comprised significantly of those included in the fund's primary benchmark, the Nasdaq-100 Index® (the Benchmark), and (2) through equity-linked notes (ELNs), selling call options with exposure to the Benchmark. It is non-diversified.

If you want to receive dividends from companies like Apple, Google, Microsoft, Amazon and Nivida you may want to consider JEPQ. JEPQ holds all of these investments and many more. If you want the growth power this is not the investment for you. While AAPL, GOOG, MSFT, NVDA, AMZN all shot up 30% to 195% YTD, JEPQ has only gone up 21% YTD at the time of this writing. But to me, and hopefully all other income investors, 21% capital appreciation plus 10% plus dividend payouts is just as good. I have held this investment since it came out in 06/2022. And I will always hold this investment, even though it is a variable yield fund. It is well run, and they are always adding and subtracting investments based on fundamentals and sentiment. It always trades at a slight premium, which means you are always over-paying slightly. By slightly, I mean .02-.05% premium. If, like in 01/2023 or 03/2023, it is trades at .20+% premium, wait to buy.

There are no earnings to watch, or report for JEPQ which is nice as it makes it simple. Just watch the price, know the range where you want to buy, and pull the trigger once it is in your range. I love that it is a monthly dividend payer, even if that dividend is always changing. While we are talking about variable yields, how I figure out the yield is take the last 12 months of payouts, add them together and divide by share price. So JEPQ has paid out $4.02 in dividends the last 12 months, divided by $48.90 equals 8.22%. Now this is below my 10% yield that I like, but because JEPQ changes the payout every month this number is always changing. For the most part, it yields between 10-12% generally but we are currently higher in price and lower in dividends than normal.

JEPQ is a ***BUY*** anytime, but I would target the $44 to $46 range as my entry point. DRIP should be left on this investment so that you are always acquiring additional shares each month.

ABR

Arbor Realty Trust, Inc. invests in a diversified portfolio of structured finance assets in the multifamily, single-family rental, and commercial real estate markets in the United States. The company operates in two segments, Structured Business and Agency Business. It primarily invests in bridge and mezzanine loans, including junior participating interests in first mortgages, and preferred and direct equity, as well as real estate-related joint ventures, real estate-related notes, and various mortgage-related securities. The company offers bridge financing products to borrowers who seek short-term capital to be used in an acquisition of property; financing by making preferred equity investments in entities that directly or indirectly own real property; mezzanine financing in the form of loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction; junior participation financing in the form of a junior participating interest in the senior debt; and financing products to borrowers who are looking to acquire conventional, workforce, and affordable single-family housing. Further, it underwrites, originates, sells, and services multifamily mortgage loans through conduit/commercial mortgage-backed securities programs. The company qualifies as a real estate investment trust (REIT) for federal income tax purposes. It generally would not be subject to federal corporate income taxes if it distributes at least 90% of its taxable income to its stockholders.

If you are not familiar with REITs or real estate investment trusts, you are missing out on a huge income generator for your portfolio. A lot of “experts” don’t discuss these investments for some reason. I really don’t know why. It is a chance for any investor to own real estate without the headache of actually owning property. No tenants, no repairs required, no lawns needing mowed, just sit back and collect dividends, I.E. “rent”. What’s not to like? I do feel that most “experts” think they are risky because of the high yields. I have found in my years of research that anything that yields over 5% is a high yield investment. And high yield, yes you guessed it, is almost always perceived as risky. But REIT’s a chance to diversify your portfolio, and rather easily actually. You can invest in single family, multi-family, commercial, retail, office, health related properties, etc. And the part the “experts” will never admit, REITs perform just as good as stocks. Look at any research, REITs perform just as good as stocks short term, and actually better than stocks long term. And this data does not include DRIP. Basically, you’re crazy if you don’t have at least one or two REITs in your portfolio. Not only for the returns, but generally REIT’s are less volatile than the market. Generally, the beta (or market volatility compared to the S&P) is less than 1. 17 of the 18 REIT’s on the S&P 500 have a beta under 1. A beta of 1 means a stock moves and behaves identical to the S&P.

With all this being said, one of the best REITs on the market today is ABR. ABR has grown by 31.6% year over year for the past 5 years. True, ABR has slowed down from Q4 2022 to Q2 2023, actually reporting negative growth, I am not too concerned though. ABR is projected to grow 3-5% per year for the next 5 years, not a high level of growth I know, but still more than enough to keep slinging 10+% yields to us for the foreseeable future. The reason for the slow down in growth is due to higher debt levels taken on to expand. The expansion has occurred now the debt levels must be dealt with. Debt has almost increased 1,200% since 2016. Since Q3 2022 almost 1.5 billion dollars in debt has been paid down. I don’t particularly care how long the debt requires to pay off so long as the income obtained from ABR continues at a reliable level for the near future. Because ABR is a REIT it is required to provide at least 90% of its taxable income to shareholders. The payouts from ABR have been awesome. The dividend has increased more than 30% in the last 3 years and I fully expect the dividend hikes to continue. This may be one of the best REITs to own in your portfolio because of the consistent dividend hikes as well as the growth this company has shown and will show in the future.

ABR just reported earnings as this was going to the editor and beat on both revenue and EPS. This caused a jump in price. ABR also increased dividend payout for $0.42 to $0.43 per share.

ABR is a ***BUY*** up to $16. Wait for a pullback below $16 to pick this equity up. The pullback is coming as ABR was overbought after earnings, it has already dropped from $17.50 to under $17.

There you have it, the first edition of the Income Investing for Nomads newsletter. I truly hope you enjoyed it, learned a little something and have at least one idea for your portfolio. I'm writing this for you, the reader. I want you to have the potential for financial freedom.

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