

Frazier's Strategic Allocator

Avoid the big downturns and profit from the upturns



Trade Alert

January 15, 2014

CORE INVESTMENT PORTFOLIO

Action: Buy Bank of America Corp.

Ticker Symbol: BAC

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term (12 months or longer) investment holdings.

Action: Buy JPMorgan Chase & Co.

Ticker Symbol: JPM

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term (12 months or longer) investment holdings.

Action: Buy Select Sector SPDR-Technology

Ticker Symbol: XLK

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term (12 months or longer) investment holdings.

- Continued Below -

SPECULATIVE PORTFOLIO

Action: Buy Bank of America Corp.

Ticker Symbol: BAC

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

Action: Buy JPMorgan Chase & Co.

Ticker Symbol: JPM

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

Action: Buy Apple

Ticker Symbol: AAPL

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

Action: Buy Silicon Motion Technology

Ticker Symbol: SIMO

Buy Price: At the Market

Allocation: 3% of the amount of your financial market assets that you plan to use for speculation purposes.

- Continued Below -

INCOME PORTFOLIO

Action: Buy Nuveen Equity Premium Opportunity Fund

Ticker Symbol: JSN

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

Action: Nuveen Equity Premium Income Fund

Ticker Symbol: JPZ

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

Action: JP Morgan Alerian MLP Index ETN

Ticker Symbol: AMJ

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

Action: UBS E-TRACS Alerian MLP Infrastructure

Ticker Symbol: MLPI

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

Action: Vanguard REIT ETF

Ticker Symbol: VNQ

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

- Continued Below -

Dear Member,

As I stated in recent editions of our Weekly Market Commentary & Portfolio Updates, an increasing number of leading economic indicators for the United States, as well as for most other regions of the world, suggest that the pace of economic growth around the globe will accelerate over the next 12 months.

For example, the Federal Reserve Bank of New York reported this morning that manufacturing activity in the tri-state area of New York, New Jersey and Connecticut rose substantially during the first two weeks of January, with its general business conditions index rising to the highest level since May 2012.

That report follows similar reports on the manufacturing sector from the Institute of Supply Management and Markit Economics, which showed that manufacturing activity throughout the United States, as well as in Europe, China and Japan, rose substantially over the past five months.

Separately, the U.S. Department of Commerce announced yesterday that sales at U.S. retail outlets rose 4.2% during December, after rising 4.2% and 4.0%, respectively, during the prior two months.

Lastly, the Mortgage Bankers Association reported this morning that mortgage applications rose by 11.9% last week, as compared to the prior week.

Those announcements are very encouraging because they illustrate that economic activity has been increasing in sectors of the economy that tend to be the main drivers of economic growth.

In regard to the recent trading action in the U.S. stock market, the cumulative advance-decline line for the New York Stock Exchange rose yesterday and again today to new all-time highs. Meanwhile, the percentage of NYSE-stocks that have closed above their 200-day moving average moved higher over the past few weeks after trending lower from July 24 to December 12, 2013. Lastly, the ratio of volume of trading in OTC Bulletin Board stocks to the volume of trading in NYSE stocks – in very speculative stocks versus well-capitalized large-company stocks – rose during each of the past three months. Historically, stock prices, in general, have tended to trend higher for at least a few weeks following that type of trading action.

More importantly, stocks have tended to trend higher for several months whenever the readings on an increasing number of leading economic indicators improve.

Therefore, I advise you to purchase all of the securities outlined on pages 1-3 of this Trade Alert in accordance with the trade instructions specified on those pages.

The section below highlights some important factors concerning those securities.

Bank of America (BAC)

Bank of America reported today that its net income rose 173% during the year ended December 31, 2013, as compared to the same period during 2012. As a result of the company's substantial repurchases of its common stock during 2013, the bank's earnings per diluted common share rose a whopping 260% – to \$0.90 per share, from \$0.25 per share during 2012.

While reducing its long-term debt, provisions for loan losses, and overall operating expenses during 2013, Bank of America increased its revenues substantially from the company's Merrill Lynch subsidiary.

Revenues from investment and brokerage services rose by 7.8% while revenues from investment banking and equity investments rose by 15.6% and 40.1%, respectively during the year ended December 31, 2013, as compared to the same period a year ago.

With my research indicating that the pace of economic growth in most regions of the world will increase considerably over the next 12-18 months, I expect Bank of America and its stock to continue to perform well over at least the next couple of years.

There are three major drivers that I expect to propel BAC higher: (1) Continuing improvements in the U.S. employment market, (2) similar improvements in the U.S. housing market, and (3) increases in the demand for wealth management services.

Although last Friday's employment report from the U.S. Department of Labor was somewhat disappointing, certain elements of that report were encouraging. For example, the Labor Department reported that the number of hours worked by manufacturing production employees, as well as the number of over-time hours worked by those persons, rose substantially over the past two months. Historically, those economic series have served as very reliable leading economic indicators, meaning that the pace of economic growth in the United States has tended to accelerate for at least several months following increases in the readings on those economic indicators.

Meanwhile, the Conference Board, a leading economic forecasting firm, announced last Wednesday that the number of employment advertisements posted on Internet web sites rose substantially during December. Separately, ADP, Inc., a global payroll services company, announced on that same day that the number of jobs created in the private sector of the U.S. economy – non-government jobs – continued to increase over the past three months, rising in excess of 200,000 jobs during each of those months. Those announcements suggest that other than government jobs, the employment situation is improving in the United States.

As a result of those improvements, I expect American households, in the aggregate, to increase their spending on various types of goods and services during the coming months. If that were to occur, I would also expect U.S. businesses to increase their spending, especially on manufacturing facilities and business equipment, in an effort to satisfy any increases in the demand for their goods and services. A portion of that spending would likely be funded by bank loans. Any such development would bode well for Bank of America, which derives a large percentage of its revenues from loans to U.S. households and businesses.

In regard to the U.S. housing market, the construction of new homes continued to trend higher over the past few months, rising by approximately 31% from July-November, 2013, the latest period for which data is available. That's a very positive development because substantial increases in new housing starts have, historically, been followed by increases in the pace of economic growth in the United States. Hence, a continuation of the recent increases in housing starts would suggest that the employment situation in the United States would continue to improve during the months ahead.

Being a reliable leading indicator for sales of both new and previously-owned homes, the recent increases in the construction of new homes, indicate that home sales will also increase during the months ahead. Like the other factors mentioned above, any such development would bode well for Bank of America, which derives a considerable portion of its revenues from mortgage loans.

Although you might think that increases in mortgage rates would slow the demand for homes, sales of homes have, historically, risen for approximately 12-18 months following increases in mortgage rates. That's because those rate increases tend to lead persons who were thinking of buying a home to do so before rates rise to a level that would prevent them from doing so.

Another factor that bodes well for Bank of America is that many individual investors failed to participate in the huge stock market increases that occurred over the past few years, and many of those same investors are now concerned about the potentially negative effect that any increases in lending rates might have on their investment portfolios. That's because an increasing number of those investors have been turning to financial advisors like the persons employed by Bank of America's Merrill Lynch subsidiary for help with their portfolios.

With approximately 15,600 financial advisors meeting with individual investors on a regular basis, Bank of America is in an excellent position to capitalize on that trend.

As a testimony to that claim, the amount of assets under management at Bank of America rose by 81% during the year ended December 31, 2013, as compared to the same period a year ago.

Some other factors and developments that bode well for Bank of America are outlined on the following page.

Other factors that bode well for Bank of America:

- The company plans to continue to repurchase substantial amounts of its common stock during 2014, after purchasing 232 million shares valued at \$3.2 billion during 2013. Specifically, Bank of America plans to repurchase up to an additional \$1.8 billion of its common stock.
- In an effort to increase the company's number of investment brokerage accounts, Bank of America is in the process of placing a substantially-larger number of its Merrill Lynch Advisors at the company's commercial bank locations. The company is convinced that by doing so it will be in a position to broaden and deepen its relationships with the bank's customers, thereby placing it in a better position to increase the number and types of accounts that its customers maintain at the bank.
- The potential financial burdens that the company faced over the past few years as a result of the 2008 mortgage debacle appear to be coming to an end, with Bank of America announcing on December 2 that it had made an agreement with the Federal Home Loan Mortgage Corporation (Freddie Mac) to resolve all remaining claims for residential mortgage loans sold to Freddie Mac from January 1, 2000 to December 31, 2009.

Meanwhile, the company is awaiting a decision from the New York State Supreme Court regarding its offer to pay \$8.5 billion to settle all claims held against the bank regarding mortgage-backed securities issued by Countrywide Financial Corp, which the company acquired during 2008. If approved by the Court, the deal would be binding on all claimants. (Opponents to the deal now number 15, down from 44, which constitutes less than 7 percent of certificate holders in the 530 trusts covered by the accord).

One of the world's larger financial institutions and the second-largest bank in the United States, Bank of America provides a diversified range of financial services and products through five business segments: Consumer & Business Banking, Consumer Real Estate Services, Global Banking, Global Markets, and Global Wealth & Investment Management.

The company operates in all 50 states and more than 40 countries around the globe, with approximately 5,200 bank locations and 16,200 ATMs in the United States serving approximately 51 million individuals and businesses. The bank's Merrill Lynch & Co. subsidiary has more than \$2 trillion under management.

JPMorgan Chase & Co. (JPM)

Although I have not yet completed a thorough review of JPMorgan Chase, which is the largest financial institution in the United States, and the eighth largest in the world in terms of total assets, the analysis that I have done on JPM indicates that it will also perform well over the next 12-18 months.

Apple (AAPL)

After pulling back a bit from December 24 to January 13, AAPL bounced off a major price-support level of around \$530 on Monday and rallied approximately 5.2% over the past two days.

With the company announcing on December 23 that it signed a multi-year agreement with China Mobile – the world's largest mobile telecommunications company – to begin offering its iPhone to China's 1.4 billion consumers, I expect AAPL to continue to trend higher during the months ahead.

In regard to that announcement, Apple said that it will offer the company's iPhone 5s and iPhone 5c to Chinese consumers via China Mobile's expansive network of retail stores, as well as Apple's retail stores, across mainland China beginning January 17.

In light of the fact that China Mobile has approximately 760 million customers and that it controls approximately 65% of the mobile phone market in China, Apple's agreement with China Mobile appears to be a very positive development.

Although Apple's revenues slowed considerably and its net profit declined during the company's fiscal year ended September 30, 2013, I expect the agreement with China Mobile to lead to substantially higher revenues and earnings over the next 12-18 months.

Meanwhile, Apple's strong financial condition and the company's ability to consistently increase its cash flows from operating activities places Apple in a position to continue to buy back large amounts of its outstanding stock.

That's a very significant factor because any such purchases would enable Apple to grow its earnings per share at an even faster pace than the company is able to grow its net profits, as those profits would accrue to a smaller number of shareholders. (Note: During April 2013, Apple's Board of Directors authorized the company to repurchase up to \$60 billion of its stock. Over the 12 months ended September 30, 2013, the company had already bought back \$22.9 billion of its stock).

With my research indicating that Apple will grow its earnings at an annualized rate of around 20% over the next three years, and its stock closing today at a price-to-earnings multiple (P/E Ratio) of only 14, AAPL appears to be trading at a bargain price.

Investment legend Carl Icahn seems to agree with my thoughts, saying recently that he thinks "It's just extremely cheap".

A proxy statement filed by Icahn during December with the U.S. Securities and Exchange Commission shows that he's putting his money where his mouth is, with Icahn and his partners owing 4,730,739 shares of Apple's outstanding stock as of December 4, 2013.

The economic outlook for China, the United States, and most other countries around the globe also bodes well for Apple, with numerous leading economic indicators suggesting that the pace of worldwide economic growth will increase during the year ahead.

Silicon Motion Technology (SIMO)

Silicon Motion Technology (SIMO) is a Taiwan-based semiconductor company that designs and develops high-performance semiconductor applications for the multimedia consumer electronics market.

The company sells NAND flash memory controllers for mobile storage devices and mobile communications devices, and solid-state drives ("SSDs") for desktop and laptop computers.

Although you might not have heard of Silicon Motion Technology, there's a good chance that you've used their products, indirectly, on many occasions.

NAND flash memory is a type of non-volatile storage technology that does not require power to retain data. It has become the primary semiconductor technology for mass digital data storage. The benefits of NAND flash includes high data storage capacity at a low cost, fast data read and write access time, low operating power requirements, and shock resistance.

Flash memory controllers manage the data that's stored on flash memory cards, enabling those devices to communicate with computers and consumer electronic devices. For example, they enable USB flash drives to communicate with personal computers through USB ports. In addition, they enable solid-state drives ("SSDs") to store data on laptop computers.

The company's memory controllers are integral components of secure digital ("SD") cards, CompactFlash cards and similar media that are used in smartphones, tablet computers, digital cameras, MP3 players and video game consoles. They're also components of those tiny flash drives that you've probably used to transport your laptop and desktop computer files; (see the third picture to the right to view the inside of a flash drive).

Silicon Motion Technology's controllers are used in more NAND flash memory products than controllers made by any other company – regardless of whether those products are produced by Intel, Micron, Samsung, SanDisk, SK Hynix, or Toshiba.

During each of the past three years, Samsung was the company's largest customer, accounting for approximately 35%, 28%, and 13% of revenues, respectively, during 2012, 2011, and 2010. Silicon Motion Technology has, historically, has been at the forefront of preparing for new trends in the consumer electronics market by investing heavily in research and development projects. For example, during each of the five years ended December 31, 2012, the company invested at least 18% of its revenues in R&D activities.

During 2013, Silicon Motion continued to invest heavily in R&D projects in response to the increasing demand for its eMMC products – flash memory products that use embedded Multi-Media Controllers. Specifically, the company invested approximately 20% of its revenues in research and development activities during the nine months ended September 30, 2013.

An embedded Multi-Media Controller consists of a multimedia memory card interface, flash memory, and a flash memory controller integrated on the same silicon die.

The bundling of those components directly onto a flash drive, as opposed to outside of the drive, has become increasingly important for modern mobile communication devices because of the vastly increased storage density of those devices.

eMMC is suitable for numerous high performance applications, including smartphones, tablet computers, MM3 players, digital cameras, navigational systems and scientific instruments.

As a result of those investments, sales of the company's solid-state embedded drive controllers, led by sales of its eMMC products, rose approximately 10% during the quarter ended September 30, 2013, as compared to the prior quarter. For the entire nine months ended September 30, the company's revenues from its SSD controllers rose a whopping 110%, as compared to the same period during 2012.

Looking forward, Silicon Motion's President and CEO, Wallace Kou, stated on October 24, 2013 in the company's third quarter earnings that due to design wins associated with the company's eMMC products it is "on track to achieve 15 to 20% of the global market for eMMC controllers this year."

As of February 30, 2013, Silicon Motion Technology had 287 patents in China, Japan, Korea, Taiwan, and the United States and 727 patents pending. The company has continued to file additional patent applications in each of those countries.

Silicon Motion appears to have a very capable management team, with members of its team having expertise and many years of experience in computer software engineering and system architecture, as well as in marketing of information technology products and corporate finance.

With industry analysts estimating that the demand for the company's flash memory controllers will continue to increase at a fast rate, the outlook for Silicon Motion Technology over the next few years appears to be very bright.

Electronics Weekly estimates that the demand for NAND flash memory products will grow at an average annual rate of 16% over the next three years. Separately, IHS iSuppli, a market research firm that provides research to the consumer electronics industry, expects the demand for tablet computers to also continue to grow at a fast pace and to account for 17% of the global demand for NAND Flash memory products within the next two years – up from 9% during 2011.

Meanwhile, the competitive nature of the consumer electronics market is forcing makers of mobile communications devices to offer an increasing number of features for their products. Those features, which require large amounts of memory, are expected to lead to a greater demand for the types of flash memory controllers made by Silicon Motion Technology.

The increasing demand for solid-state drives also bodes well for the company, with shipments of those products rising by more than 7-fold from 2009 to 2013. Looking forward, industry analysts expect the demand for SSDs to almost triple between now and the end of 2017.

In regard to Silicon Motion's operating results, the company's recent financial results have been disappointing, with its revenues and earnings declining during each of the past three quarters. Specifically, the company's revenues fell by 26%, 16%, and 10%, respectively, during the quarters ended September 30, June 30 and March 31, 2013, as compared to the same periods during the prior year. Meanwhile, the company's net earnings per share declined by 37%, 31% and 64%, respectively, during those quarters.

On a positive note, Silicon Motion's cash flows from operating activities rose substantially during the 2011 and 2012. Although cash flow information is not provided by the company for the nine months ended September 30, 2013, its cash flows were positive for the three months ended on that date. The discrepancy between the company's net income and its cash flows is due, largely, to the fact that Silicon Motion pays a large portion of its management's salaries in the form of stock options.

In regard to the company's financial condition, Silicon Motion is very strong, with its quick ratio (current assets minus inventories, divided by current liabilities) equal to 4.9 as of September 30, 2013. In comparison, other companies operating in the semiconductor industry had a quick ratio of only 2.6 at the end of September 2013.

The company's cash and short-term investments alone covered its total financial obligations by a ratio of 3.4-to-1 as of September 30, 2013.

That strong financial condition enables Silicon Motion to withstand any temporary business downturns, and it places the company in a position to diversify its product lines and to acquire competitors. It also makes Silicon Motion Technology a viable takeover candidate.

Although Silicon Motion's recent operating performance has been disappointing, the expected demand over the next few years for the types of products that the company designs suggests to me that Silicon Motion is a very feasible turnaround opportunity, meaning that I think there's a good chance that the company's revenues and earnings are in the process of bottoming and that its financial operating results will improve considerably over the next couple of years.

The fact that the company's revenues from its SSD controllers more than doubled over the nine months ended September 30, 2013, as compared to the same period during the prior year, seems to support that forecast. If my expectations were turn out to be correct, I would expect the company's stock to rise sharply over the next 12 months.

Separately, the fact that the company has an extensive number of patents and patent pendings on design techniques that are crucial for the successful development of memory-intensive consumer electronics products, and that it has a huge amount of cash in relation to its financial liabilities, makes Silicon Motion Technology a very feasible takeover candidate.

With a price-to-earnings (P/E) ratio of only 15 as of January 15, and a potential earnings growth rate of around 20% for the next two years, SIMO appears to be a solid value play.

Select Sector SPDR-Technology (XLK)

With my research indicating that the pace of economic growth in most regions of the world will increase over the next 6-12 months, I expect stocks of companies that operate in the technology sector to be among the better performing stocks during that period.

Nuveen Equity Premium Opportunity Fund (JSN) and Nuveen Equity Premium Income Fund (JPZ)

For those of you who are seeking to generate a relatively high level of income from your investments, the Nuveen Equity Premium Opportunity Fund and Nuveen Equity Premium Income Fund appear to be two very good choices.

In the event that you're not familiar with covered call ETFs, those funds invest the majority of their assets into securities that compose a major stock market index, such as the S&P 500 Index and/or the NASDAQ Composite Index, and then write call options on those securities. By doing so, the fund is able to generate regular income from the premiums that it receives for writing those options.

If the value of the securities on which the fund wrote call options rises above a pre-determined price, the fund is required to sell those securities. Hence, if the fund chooses to reinvest the proceeds from those sales into the same basket of securities, it will likely be forced to buy back those securities at prices that are higher than the prices at which those securities were sold.

In contrast, if the value of the securities on which option contracts are written remains near the level that they were when the fund wrote those options, or the securities decline in value, the fund will continue to hold those securities.

Because of the option-writing features mentioned above, covered call funds tend to underperform their benchmark indices during bull markets and to outperform those indices during bear markets and periods when those indices trade in a narrow sideways range.

However, persons who invest in covered call funds receive regular income from those investments regardless of the direction of the securities held by the fund, as option premiums received by the fund are passed onto investors in the form of dividends.

With my research indicating that the S&P 500 Index will continue to trend higher over the next 12-18 months, and JSN and JPZ paying an annualized yield of 8.93% and 8.68%, respectively, as of January 15, I advise those of you who follow our Income Portfolio to buy those closed-end funds in accordance with the trade instructions outlined above.

I also advise those of you who follow our Income Portfolio to buy the JP Morgan Alerian MLP Index ETN (AMJ), the UBS E-TRACS Alerian MLP Infrastructure ETN (MLPI), and the Vanguard REIT ETF (VNQ) in accordance with those trade instructions.

JP Morgan Alerian MLP Index ETN (AMJ) and E-TRACS Alerian MLP Infrastructure ETN (MLPI)

The JP Morgan Alerian MLP Index ETN (AMJ) tracks the investment performance of 50 mid-stream energy MLPs – master limited partnerships that invest, primarily, in companies that store and transport oil and gas. As of December 20, the top-10 MLPs that compose AMJ's underlying index – the Alerian MLP Index – accounted for approximately 60% of that index.

The index's top holding, Enterprise Products Partners L.P., is the largest energy transportation and storage company in North America, offering a range of processing, transportation, and storage services. The company's operations include natural gas processing, NGL fractionation, petrochemical services, and crude oil transportation, including 50,700 miles of pipelines, 14 billion cubic feet of natural gas storage, and 190 million barrels of NGL, refined products, and crude oil storage capacity. It also owns and operates approximately 125 barges and 60 tow boats.

The index's second-largest holding, Kinder Morgan Energy Partners LP, holds stakes in more than 37,000 miles of natural gas and petroleum product pipelines and owns 180 bulk terminals and rail transloading facilities. Those facilities have 200 millions barrels of storage capacity that handle 100 million tons of coal, petroleum coke, and bulk products annually. The company transports refined petroleum products (gasoline, diesel, and jet fuel) through 8,400 miles of pipelines and stores those products in 60 terminals in the United States.

Plains All American Pipeline LP, the index's third-sized holding, operates approximately 17,000 miles of oil and gas pipelines in the United States and Canada. It also operates a fleet of 582 trailers, 104 barges, and 51

transport tugs. Its storage facilities hold approximately 23 million barrels of oil.

The index's other holdings include companies that operate coal mines, store propane, produce natural gas, and own natural gas storage facilities.

One of its holdings, Calumet Specialty Products Partners L.P., processes crude oil into lubricating oils, solvents, waxes, and other petroleum products that the company sells to industrial customers who use those products in the manufacture of automotive, consumer, and industrial goods. It also produces asphalt.

Exchange-Traded Notes ("ETN's") are senior, unsecured, unsubordinated debt securities issued by underwriting banks. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. Because those issuers tend to be very large, international investment banking firms, the financial backing provided by those issuers tends to be reliable during most investing environments.

Although ETNs are not equities or index funds, they share several characteristics of index funds. Similar to equities, they are traded on an exchange and can be sold short. Similar to index funds, ETNs are linked to the return of a benchmark index. But as debt securities, they don't actually own anything that they track.

Since the time that AMJ began trading during April 2009, it has paid a very reliable quarterly cash distribution, ranging from a low of \$ 0.4361 per share on September 8, 2009 to a high of \$0.5787 on December 13 of this year.

The total return performance of AMJ has also been impressive, with it returning 207%, including re-invested distributions, since its inception on April 2, 2009 to December 31, 2013. In comparison, the S&P 500 Total Return Index returned 144% during that period.

The UBS E-TRACS Alerian MLP Infrastructure Index ETN (MLPI) is similar to the JP Morgan Alerian MLP Index ETN (AMJ), with the fund tracking the same top-10 holdings of the index that AMJ tracks. However, MLPI is more concentrated than AMJ, with its underlying index, the Alerian MLP infrastructure index, composed of 25 energy-infrastructure MLPs. As of September 30, 2013, the latest date for which data is available, the top-10 index components tracked by MLPI accounted for approximately 66% of the master limited partnerships that it tracks.

Like AMJ, MLPI has paid a reliable quarterly cash distribution since its inception on April 1, 2010, ranging from \$0.35 to \$0.45 per share. And, its total returns since the ETN's inception on April 1, 2010 have also been impressive, outperforming the S&P 500 Total Return Index by 17 percentage points through December 31, 2013.

Unlike investing directly into MLPs, AMJ and MLPI do not require investors to file a form K-1 with the IRS. Instead, investors in those ETNs report the coupon interest that they receive as ordinary income on IRS Form 1099.

With AMJ and MLPI paying annualized yields of 5.10% and 4.73%, respectively, as of January 15, and my research indicating that master limited partnerships that invest in mid-stream energy companies will continue to perform well during the year ahead, I advise those of you who are seeking reliable, regular income from your investments to allocate a portion of your assets to each of those ETNs.

Vanguard REIT ETF (VNQ)

The Vanguard REIT ETF tracks the performance of the MSCI US REIT Index, which includes publicly-traded REITS that that account for approximately two-thirds of the value of the entire U.S. REIT market.

Composed of 131 REITS as of November 30, 2013, the Vanguard REIT holds REITs that invest in industrial properties, office buildings, retail shopping centers, and apartment buildings. Its top-10 holdings, which account for approximately 40% of the ETF's total holdings, include Simon Property Group, the largest owner of shopping malls in the United States, Public Storage, one of the larger self-storage companies in the United States, and Prologis, an owner and developer of warehouses and distribution facilities for approximately 4,500 businesses.

Other top-10 holdings include Boston Properties, which invests in, develops, and manages approximately 160 office buildings in large U.S. cities; Vornado Realty Trust, which owns approximately 115 strip-malls and six regional shopping malls; and AvalonBay Communities, which owns and operates approximately 180 up-scale apartment communities in high barrier-to-entry markets such as Boston, Los Angeles, New York City, San Francisco, Seattle, and Washington, DC.

Over the past three years, VNQ generated a 9.4% average annual compounded rate of return while paying investors regular quarterly dividends that resulted in average dividend yield of 4.04% during 2013. Looking forward, I expect VNQ to continue to perform well and to pay investors a similar yield.

With the latest readings on numerous leading economic indicators suggesting that the pace of economic growth in the United States, as well as in most other regions around the world, will increase over the next 12 months, I expect REITS that invest in hotels, shopping malls and other commercial properties to perform well over the next 12 months. Meanwhile, the recent increase in U.S. home prices will enable owners of apartment buildings to increase their rental rates during the months ahead. Any such rate increases would bode well for REITs that invest in apartment complexes.



David N. Frazier
President and Chief Market Strategist
Frazier & Mayer Research, LLC
dba TheMarketMonk.com

David N. Frazier

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