

# INFINITE INCOME

## Making Sure You Never Run out of Income



MIKE BURNICK, EDITOR

April 2018  
Volume 1 Issue 4

### INSIDE THIS ISSUE

#### The Fattest Yields on The Planet

Business development companies (BDC's) are a corner of the market that get little to no attention but are a must have for income focused investors. Our first recommendation this month is the best-run BDC in the world and has a exceptional track record to prove it. Plus, a dividend payout thats been increasing like clockwork...

#### Recession-Resistant Profit

Inflation has a bad reputation, but can also grow your portfolio if you know how to take advantage of it. That's exactly what my top dividend-paying commodity stock can do for you. It's an under-the-radar company that specializes in a consistently profitable market...

#### Portfolio Positions

Buy Main Street Capital (NYSE:MAIN) at market.

Buy Compass Minerals International Inc. (NYSE:CMP) at market.

## The ABCs of BDCs: The Highest-Yielding Stocks for Big Profits

It's no secret. Private and high net worth investors have all the fun.

After all, you have to spend money to make money, right?

But private companies are hard to invest in. You have to qualify. You have to invest a lot. And depending on the private company you're involved in, there's bigger chance you get no return on your investment.

But when private equity investors strike it big — watch out! The payoff is huge.

Today, I'm going to tell you about a corner of the market that mostly goes unnoticed to everyday investors — but it has the ability to produce some of the highest yielding stocks on the market...

It's the closest to investing "privately" that you're likely to see. And the gain potential is enormous, without the risk of losing your shirt.

I'm talking about business development companies.

What's that, you say?

Business development companies, or BDCs, have been around since 1980, but not a lot of investors know about them.

That's a shame because like I mentioned, BDCs are one of the highest-yielding stocks on the market. Honestly, if you're an income-focused investor you need BDC's in your portfolio.

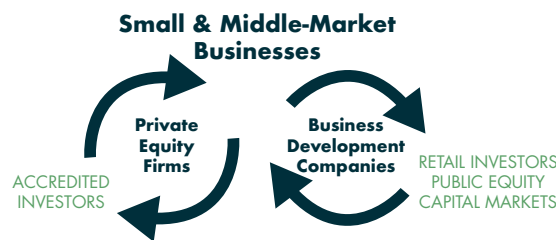
BDCs were authorized by Congress in 1980 under the Small Business Investment Incentive Act to address the need for small businesses to raise capital more easily, spark business/job growth and make it possible for regular investors to tap into what had previously only been available to private equity (high-net-worth) investors.

Today, BDCs are publicly registered companies that provide financing to small and midsize businesses.

They are essentially publicly traded closed-end funds that make investments in private companies with a transparent portfolio of loans.

#### What Are BDCs?

BDCs provide businesses with capital, and in turn, give people access to investments that were once exclusive to the wealthy via private equity.



Source: Saratoga Investment Corp.

It's a nice hybrid between private equity and venture capital — but for regular people like you and me — and pay some of the fattest yields on the planet.

In addition, BDCs trade as closed-end funds (CEFs) with a finite number of shares outstanding. As a result, BDCs can trade at a premium, when the market price exceeds net asset value (NAV), or a discount, if a fund's share price is below its net asset value.

Good news: The average BDC is currently trading at a 15% discount to its net asset value, allowing you to buy for only dimes on the dollar!<sup>1</sup>

## The BDC Rules

To qualify as a BDC, several requirements must be met:

BDCs must derive at least 90% of their income from dividends, interest, payments on loans and gains from the sale of stock or other securities. BDCs are NOT traditional operating businesses like Boeing or Microsoft.

Similar to REITs, BDCs must distribute at least 98% of their interest income and 98% of their capital gains to shareholders every year. This is why BDC yields are so high!

They must satisfy diversification requirements by not investing more than 5% of their assets in any single security and controlling no more than 10% of a company's voting rights.<sup>2</sup>

Moreover, BDCs may not invest more than 25% into any single industry.<sup>3</sup>

BDCs are required by law to invest at least 70% of assets in private U.S. companies and must keep debt/equity ratio below 1.0, meaning \$1 in debt for every \$1 in assets.<sup>4</sup>

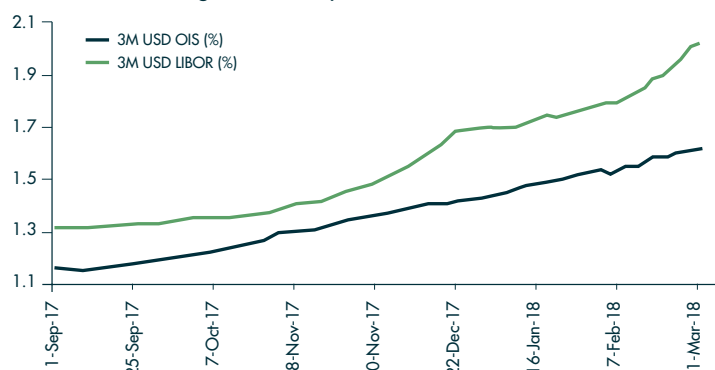
That's a lot to take in, I know. So in short, BDCs are well-regulated investment companies that make loans to young, small businesses that are too large for traditional banks to handle but too small to get listed on the NYSE or Nasdaq.

The small and midsize private companies that BDCs loan to are typically either rated below investment grade or not rated at all because of their size. In essence, BDCs are subprime lenders to small and midsize companies.

Don't let that scare you off. BDCs have historically offered higher yields than, and competitive risk/return trade-off with, junk bonds — and have done so without significant interest rate risk.<sup>5</sup>

On average, 70% of the loans made by BDCs are floating-rate in nature, and interest payments rise/fall with the three-month Libor rate. With three-month Libor currently over 1.1%, many BDCs' loan portfolios may now benefit from the floating-rate feature by adjusting their yields upward should interest rates further increase.

**3 Month Spread**  
Libor Vs. The Overnight Index Swap



Source: Bloomberg, BofA Merrill Lynch Global Research

For the first time since 2008, the three-month Libor rate is higher than 2%, which means BDCs will be making even *more money* this year than last. And if the Fed continues to raise interest rates as widely expected, BDC profits will climb even higher.<sup>6</sup>

Better yet, the spread between BDC yields and junk bonds is now at a historically high level. The average BDC yield is 10.7%, while the average B-rated corporate bond is paying 6.3%, a 4.4% difference!

As you can see, BDCs are a great value, and now is a GREAT time to invest in them.<sup>7</sup>



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## BDC Beats Out Corporate Bond Yield



Of course, not all BDCs are created equal; some are awful, most are mediocre and only a few are worthy of your investment dollars.

One in particular, Main Street Capital (NYSE: MAIN), is the absolute cream of the BDC crop.

## The “Berkshire Hathaway” of BDCs

Hands down, Main Street Capital is the best-run BDC in the world and has been called the Berkshire Hathaway of BDCs.

Like all BDCs, Main Street Capital makes loans. How and to whom it makes those loans is very unique.



Requirements include loans to lower-midmarket and midmarket companies that have between \$10 million and \$150 million in annual revenue, EDITDA of \$3 million to \$20 million and stable, positive cash flow. In short, it makes safe but highly profitable loans.

It specializes in making loans to private, well-established, multigenerational family-run businesses. In many cases, these closely held family businesses often need financing for the founders to pass the company to his/her heirs.

The loans are floating-rate first liens and/or highly collateralized senior-position loans, which substantially reduces risk from rising interest rates.

But Main Street Capital doesn’t just make loans. It often takes a sizable equity position to profit from the growth of the company.

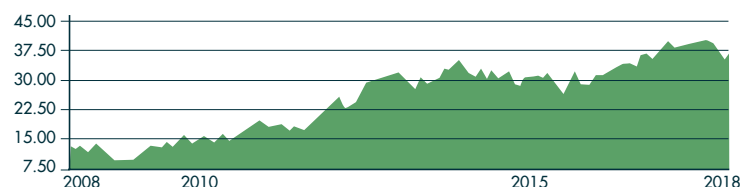
Main Street Capital visits every company it loans to, which sounds like common sense but is something that most BDCs don’t do. That hands-on research is why nine out of every 10 loans it makes are profitable.

That strategy has worked like a charm. Main Street Capital has a great track record — up 35% in 2016 and 15% last year — and hasn’t stumbled since 2008 (didn’t everybody?). Since then, its worst year was 2014, when it lost 2.7%.

## Main Street Capital Corp (MAIN)

Track Record 2008–2018

MAIN -23.20 | +169.59%



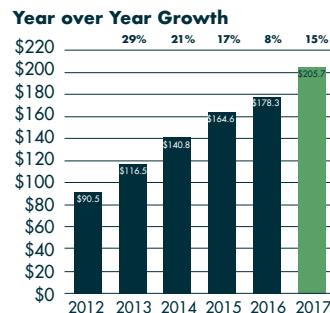
What else makes Main Street Capital a great stock?

## Five Reasons To Buy Main Street Capital Right Now

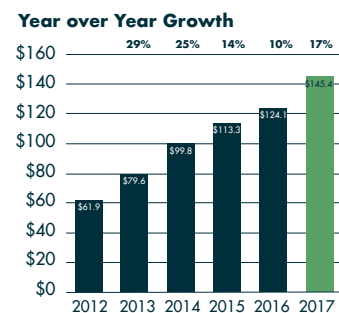
**Reason #1: Clocklike Growth of Profits.** Main Street Capital has been able to grow its investment income with boring but profitable regularity.

### MAIN Financial Performance (\$ in millions)

#### Total Investment Income



#### Distributable Net Investment Income



Source: Main Street Capital Corporation

In the last six years, Main Street Capital has increased its net income from \$90.7 million to \$205.7 million. And business is getting even better: Q4 net income of \$37.4 million was a 23% increase over the last 12 months.

Plus, net asset value went up from \$22.10 million in Q4 of 2016 to \$23.53 in the fourth quarter of 2017, a 6.4% increase.

**Reason #2: Interest Rates Are Rising... GREAT!** 72% of Main Street Capital's loans are floating-rate (and have minimum "floors" that average 1.05%), so it stands to benefit — not be hurt — from rising interest rates.<sup>8</sup>

## Positive Impact from Rising Interest Rates

**MAIN's capital structure and investment portfolio provides downside protection and the opportunity for significant benefits from a rising interest rate environment**

- 92% of MAIN's outstanding debt obligations have fixed interest rates<sup>3</sup>, limiting the increase in interest expense
- 72% of MAIN's debt investments bear interest at floating rates<sup>3</sup>, the majority of which contain contractual minimum index rates, or "interest rate floors" (weighted-average being approximately 105 basis points)<sup>4</sup>
- Provides MAIN the opportunity to achieve significant increases in net investment income if interest rates rise

The following table illustrates the approximate annual changes in the components of MAIN's net investment income due to hypothetical increases (decreases) in interest rates<sup>1</sup> (*Dollars in thousands*):

Basis Point Increase (Decrease) in Interest Rate	Increase (Decrease) in Interest Income	(Increase) Decrease in Interest Expense <sup>2</sup>	Increase (Decrease) in Net Investment Income	Increase (Decrease) in Net Investment Income per Share <sup>5</sup>
(50)	(5,679)	320	(5,359)	0.09
(25)	(2,870)	160	(2,710)	0.05
25	2,877	(160)	2,717	0.05
50	5,753	(320)	5,433	0.09
100	11,565	(640)	10,925	0.19
200	23,205	(1,280)	21,925	0.37
300	34,844	(1,920)	32,924	0.56
400	46,483	(2,560)	43,923	0.75

Source: Main Street Capital Corporation

In fact, Main Street Capital estimates that a 50-basis-point increase in interest rates would add \$5.4 million of net income (profits) to its bottom line. And a 100-basis-point increase would goose profits by \$10.9 million, or 19 cents per share!

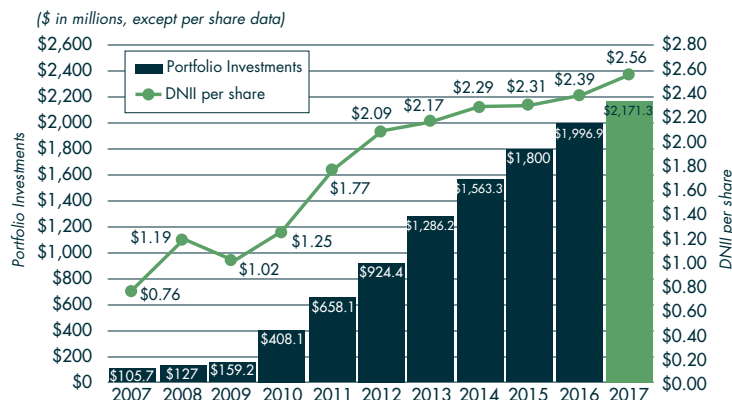
**Reason #3: Portfolio Growth = Profit Growth.** In 2017, Main Street was able to grow its loan book by \$175 million, to \$2.17 billion.

Since 2007, Main Street Capital has increased its loan portfolio by 1,954%, or an average of 214% a year. That's a crucial metric, because the more money Main Street Capital loans out, the more money it makes.

Can Main Street Capital continue to grow without hurting performance? "We could triple in size, given the market here in Texas and around the country. There are plenty of opportunities in this growing economy," said CEO Vince Foster.

## Long-Term Portfolio and DNII Per Share Growth

Since 2007, MAIN has accretively grown Portfolio Investments by 1954%, (or by 214% on a per share basis) and DNII per share by 237%



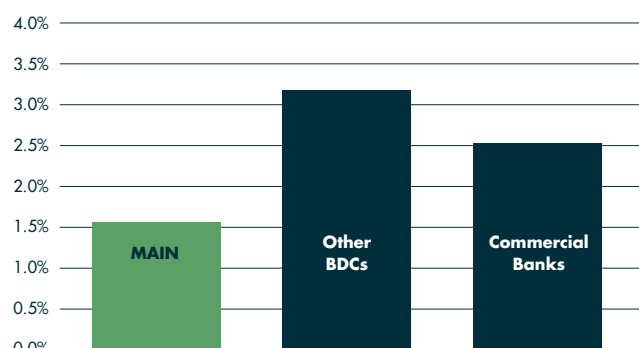
Source: Main Street Capital Corporation

**Reason #4: The Low-Cost Leader.** The most important characteristic that separates crappy BDCs from great BDCs is internal versus external management.

The majority of BDCs are externally managed, which means that BDC management sits in their fancy offices and buys loans originated from outside specialists. External management simply adds another layer of costs/fees. Most BDCs are effectively run like hedge funds, where external managers get paid both a percentage of assets as well as a large cut of any growth (as much as 2% and 20%, respectively).

## MAIN Maintains a Significant Operating Cost Advantage

Operating Expenses as a Percentage of Total Assets



Main Street is one of the few BDCs with an internal management team, which means that management directly works for shareholders and charges one of the lowest operating costs in the industry: about 1.5% of assets.<sup>9</sup>

Plus, management owns 6.3% of outstanding shares, which highly aligns their interests with shareholders.

**Reason #5: Huge but Unqualified Dividend.** BDCs are required by law to distribute 98% of taxable net

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*Main Street Capital is the only company in the U.S. that pays a monthly dividend plus two special dividends a year. Main Street Capital has a rising dividend policy and has been increasing its dividend like clockwork since 2011.*

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income a year, but those dividend are “un-qualified,” which means they are eligible for the 20% maximum dividend tax rate.

That’s OK, because Main Street Capital pays a whopper of a dividend: \$2.83 in 2017. The payout schedule, however, is very unique, with 12 monthly dividends plus twice-a-year “special” dividends. As far as I know, Main Street Capital is the only company in the U.S. that pays a monthly dividend plus two special dividends a year.

Main Street Capital currently pays shareholders a monthly dividend of 19 cents/share and a semiannual dividend of 27.5 cents/share. Total annual dividend payout: \$2.83/share, or about 7.5%.

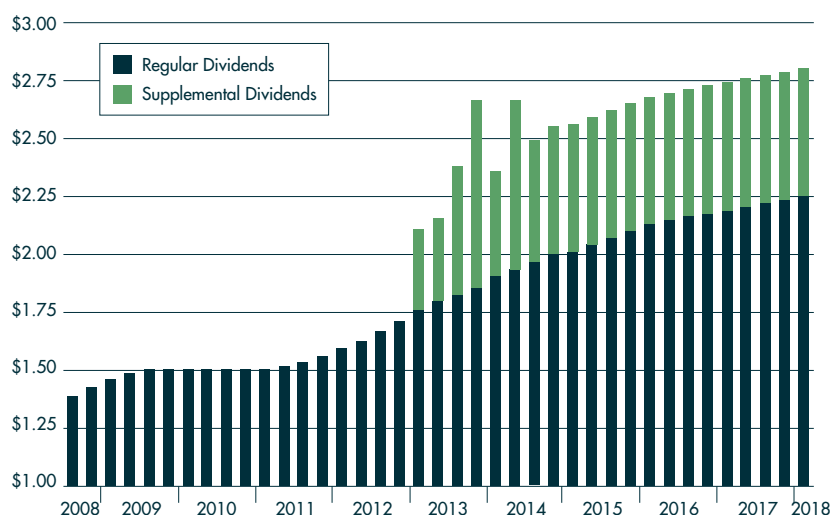
Main Street Capital paid dividends every month of the year plus two 2.75-cent dividends in June 2017 and December 2017.<sup>10</sup>

Main Street Capital has a rising dividend policy and has been increasing its dividend like clockwork since 2011.

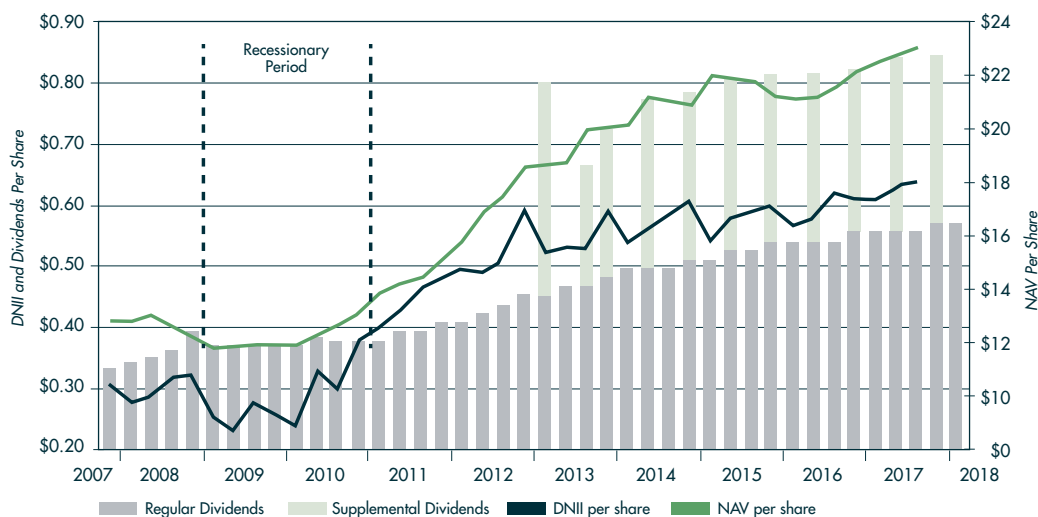
And if you’re worried about where we are in the economic cycle, Main Street Capital has an exceptional track record even during recessions. During the 2008–09 financial crisis, Main Street Capital not only maintained its dividend payout, but its DNII (distributable net investment income) and net asset value both increased. Talk about all-weather performance!

The monthly dividend is paid out around the 15–20th of each month, so you won’t have to wait long for your first dividend check.

**TTM Dividends Per Share**



**Main Street Capital**  
Steady Increase Across The Board



**RECOMMENDATION:**

**Buy Main Street Capital Corp. (NYSE: MAIN) at the market. Allocate up to 5% of your portfolio for this service.**



# Be Careful What You Wish For — Inflation Is Back. Here's How To Profit From It!

*"We currently see inflation converging toward our aim over the medium term, and we are more confident than in the past this convergence will come to pass."*<sup>11</sup>

— Mario Draghi, March 14, 2018

For years, the Federal Reserve has been desperately trying to kick-start a new cycle of inflation.<sup>12</sup>

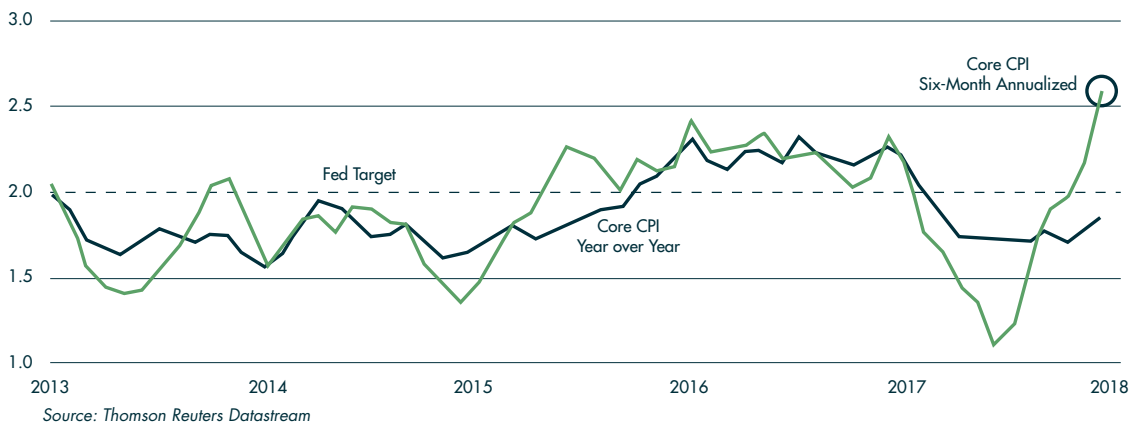
Way back in 2012, the Fed set a 2% target inflation rate, but inflation has been below that target rate for 66 out of 72 months.

However, as Mario Draghi says, the Fed is about to get its inflationary wish.

**Wishful Thinking #1:** The "core" consumer price index, which excludes food and energy, showed a 0.2% from January and raised the three-month annualized gain to 3.1%.<sup>13</sup>

## US Inflation is on an Upward Trend

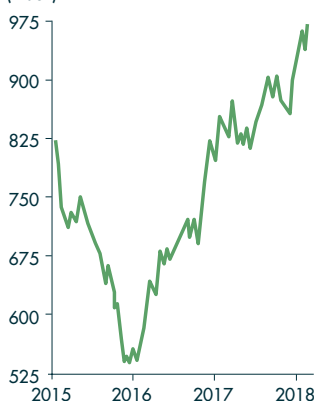
Inflation Rates, Percent



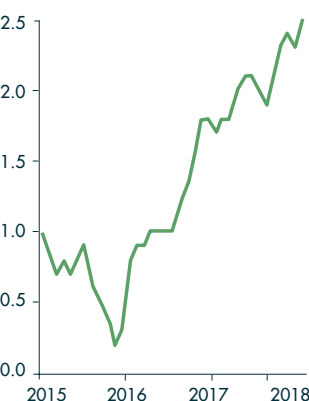
## Cyclical Pressures Build

United States

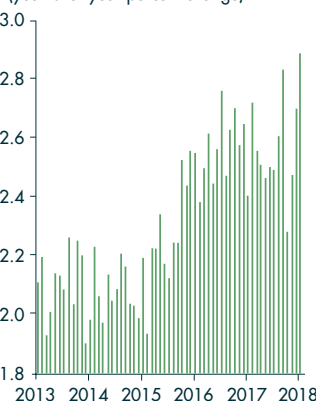
CRB Metals Index (index)



PPI less food, energy, and trade



Average Hourly Earnings (year-over-year percent change)



Source: Haver Analytics, Gluskin Sheff

**Wishful Thinking #2:** Inflation on the whole is more troublesome. The producer price index was up 0.2% in February, but the "core" rate — minus food and energy — was up 0.4%, double what Wall Street was expecting.<sup>14</sup>

**Wishful Thinking #3:** Commodities prices and wages are taking off.

The Bloomberg Commodity Index is up 20% and the MSCI World Metals & Mining Index is up by 90% since the start of 2016.<sup>15</sup>

Average hourly earnings in January jumped by an annualized 2.9% in January, the largest year-over-year gain since 2009. Wage growth is a powerful inflationary force.<sup>16</sup>

**Wishful Thinking #4:** The new trade tariffs — 25% on

steel, 10% on aluminum and 2.5% on cars — are dangerous to economic growth but immediately inflationary. "And if we raise tariffs, if we raise prices on goods, that as well is inflationary," said bond king Jeff Gundlach.<sup>17</sup>

Inflation has a bad reputation for destroying wealth, but inflation can

grow your portfolio if you know how to take advantage of it.

That's exactly what we're going to do today!

According to a recent JPMorgan report, "Rising inflation is beneficial for commodities. In fact, metals, both base and precious, exhibit their best performance... when inflation has reached the Fed's 2% target."<sup>18</sup>

As the accompanying table

shows, commodity prices are already on the rise, but those gains have yet to meaningfully show up in commodity stock prices.

Commodity	Spot Indices	YTD	1-Year	3-Year	5-Year
Cocoa	S&P Gsci Cocoa	35.1%	24.2%	-9.3%	20.0%
Wheat	S&P Gsci Wheat	14.5%	13.5%	-2.6%	-32.6%
Corn	S&P Gsci Corn	10.8%	7.3%	2.2%	-45.7%
Lean Hogs	S&P Gsci Lean Hogs	9.2%	-1.0%	3.9%	-13.4%
Nickel	S&P Gsci Nickel	8.5%	35.3%	-2.1%	-19.7%
Unleaded Gasoline	S&P Gsci Unleaded Gasoline	7.6%	20.7%	9.9%	-38.2%
Soybeans	S&P Gsci Soybeans	7.3%	3.3%	6.0%	-28.1%
Cotton	S&P Gsci Cotton	6.1%	8.2%	37.9%	-8.2%
Platinum	S&P Gsci Platinum	3.0%	2.6%	+13.5%	-39.4%
Gold	S&P Gsci Gold	1.7%	10.4%	15.4%	-16.4%
Crude Oil	S&P Gsci Crude Oil	-0.7%	26.5%	22.3%	-37.5%
Zinc	S&P Gsci Zinc	-3.1%	17.4%	60.6%	64.0%
Brent Crude	S&P Gsci Brent Crude	-3.2%	26.7%	15.9%	-40.3%
Lead	S&P Gsci Lead	-3.3%	8.2%	35.5%	7.2%
Copper	S&P Gsci Copper	-3.5%	20.0%	19.0%	-10.4%
Silver	S&P Gsci Silver	-3.5%	-2.3%	6.7%	-42.6%
Coffee	S&P Gsci Coffee	-4.1%	-14.3%	-6.7%	-13.3%
Live Cattle	S&P Gsci Live Cattle	-6.8%	5.9%	-22.0%	-8.0%
Palladium	S&P Gsci Palladium	-7.2%	32.8%	24.9%	27.8%
Aluminum	S&P Gsci Aluminum	-8.1%	12.3%	17.9%	5.9%
Heating Oil	S&P Gsci Heating Oil	-8.5%	26.2%	11.5%	-37.2%
Sugar	S&P Gsci Sugar	-15.8%	-29.7%	0.5%	-32.3%
Commodity Index	S&P Gsci Commodity Index	-0.4%	17.3%	13.2%	-32.3%

Despite the recent gains, commodities are the cheapest they have been in 50 years relative to the S&P 500.<sup>19</sup>

Great! That gives us time to increase our allocation to commodity producers above the two that we already own, Royal Dutch Shell (NYSE: RDS-B) and Energy Transfer Partners (NYSE: ETP), both part of the energy food chain.

My top dividend-paying commodity stock is an under-the-radar company, **Compass Minerals International** (NYSE: CMP), which is the largest miner/supplier of road salt in North America and a major producer of essential agricultural nutrients, including sulfate of potash, or SOP.<sup>20</sup>

De-icing salt isn't glamorous, but it is an extremely reliable, recession-resistant business, and Compass

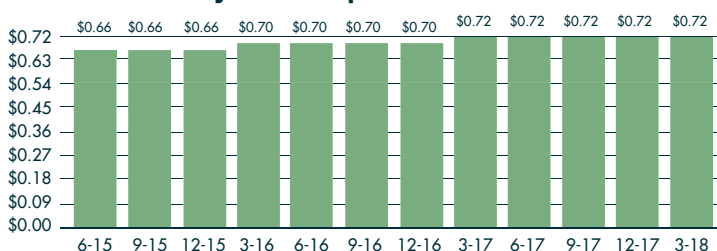
Minerals is sitting on a mother lode of salt<sup>21</sup>:

- Winsford Mine: 31-year supply
- Goderich Mine: 86-year supply
- Cote Blanche Mine: 104-year supply.

Plus, its agricultural nutrient business is booming and now generates 43% of CMP's revenues. The result is Compass Mineral has a unique combination of steady business from state/local governments as well as a key beneficiary of booming commodity prices.

Look at the chart of commodity returns and it is clear that agriculture is the sweet spot of the commodity food chain.

#### Dividend History for Compass Minerals International



Compass Minerals pays a \$2.88 annual dividend, which works out to a juicy 4.6% dividend yield. The next dividend is payable in late May.



#### RECOMMENDATION:

**Buy Compass Minerals International Inc. (NYSE: CMP) at the market. Allocate up to 5% of your portfolio for this service.**

To growing your income,

*M. Burnick*

Mike Burnick

# Infinite Income Open Positions 2018

COMPANY	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	DIVIDEND % YIELD	PORTFOLIO ALLOCATION	CLAIM %	RECOMMENDATION
China Mobile Limited	CHL	1/8/18	\$49.88	\$44.56	3.73%	5%	-11%	Buy at market
Royal Dutch Shell PLC Class B	RDS.B	1/8/18	\$70.61	\$64.01	3.76%	5%	-9%	Hold
Vanguard Total International Bond ETF	BNDX	1/29/18	\$54.09	\$54.56	1.09%	10%	1%	Buy at market
AbbVie Inc.	ABBV	2/5/18	\$112.39	\$97.46	2.44%	5%	-13%	Buy at market
Energy Transfer Partners LP	ETP	2/5/18	\$18.83	\$16.16	11.61%	5%	-14%	Buy at market
Anheuser-Busch InBev SA/NV	BUD	3/5/18	\$111.66	\$106.80	3.44%	5%	-4%	Hold
Seaspan Corp.	SSW	3/5/18	\$6.09	\$6.53	8.20%	5%	7%	Buy at market
<b>Main Street Capital</b>	<b>MAIN</b>	<b>3/26/18</b>	<b>NEW!</b>	<b>NEW!</b>	<b>6.16%</b>	<b>5%</b>	<b>0%</b>	<b>Buy at market</b>
<b>Compass Minerals International Inc.</b>	<b>CMP</b>	<b>3/26/18</b>	<b>NEW!</b>	<b>NEW!</b>	<b>4.74%</b>	<b>5%</b>	<b>0%</b>	<b>Buy at market</b>

**Note:** Returns are based on recommended entry and exit prices as mentioned in the *Infinite Income* e-mail alerts. Brokers' fees are not taken into consideration when calculating returns. If you are not receiving the *Infinite Income* e-mail alerts, please send us an e-mail to [feedback@sevenfigurepublishing.com](mailto:feedback@sevenfigurepublishing.com). All numbers are believed to be correct. **Prices as of 3/23/18.**

For citations and references used in this issue, [click here](#).

## WHY FIRING YOUR INTERNET PROVIDER COULD SAVE YOU \$19,494

A brand-new technology — code named "Halo-Fi" — could kill off your overpriced cable company for good... beaming lightning-fast internet to your home for an estimated \$7 a month.

This is undoubtedly the beginning of the end for "Big 3" internet providers.

Forward-thinking investors in Halo-Fi are lining up to get rich. [Click here for more details...](#)