June 2016 Vol. 1 Issue 4

Investors Alley

Automatic Income Machine

Possibility of a Market Correction

Fellow Investor,

There is an old stock market saying that goes, "the market climbs a wall of worry." This saying comes from the tendency of the market to go up when everyone worries about when the market will again take a tumble. From many of the comments I get in emails and other communications, it appears that the market has its climbing shoes on. May was another positive month for the Automatic Income Machine model portfolio, increasing in value by 3.1%. This is about double the 1.53% positive return posted by the S&P 500. At the same time, the model portfolio is still 32% in cash.

In This Issue

In a moment, I will cover some facts about where the market and our focus sectors trade at in relation to historical values. The feedback I am getting shows that many AIM readers feel the market has gotten too high, and it is destined to go down soon. Personally, I don't know when the market will drop again, but it will. It's the timing that is unpredictable. I have designed the Automatic Income Machine system to allow you to stay in the market and generate above average annual returns over a longer period of time – building real wealth in your portfolio.

Here are a few core principles that I follow and continue to discuss with subscribers when I am on the investor presentation circuit.

1. With a dividend focused strategy, you have to own shares of dividend paying stocks to earn dividends.

2. There will be periods when the market goes down. It happens. Our plan during those times will be to add dividend paying shares and to wait for share prices to recover. Which also always happens.

3. The large cash position currently in the relatively new Automatic Income Machine portfolio allows us to take advantage of any market correction.

4. We will avoid the typical investor cycle of buying high and selling low by focusing on a growing dividend stream, which will drive share prices higher over time – right through the up and down cycles of the stock market.

Lastly, I want to reiterate the use of the Start Out Portfolio. Buying shares of the Automatic Income Machine portfolio stocks to match the Start Out recommendations allows you to participate in the growth going forward, no matter what has happened in the past with my recommendations. The Start Out Portfolio provides exposure to all of the stocks, resulting in dividend earnings, but also starts you out with a significant cash balance that will be used to accelerate future growth.

Finally, I hope you can find the time in your schedule to join me and other subscribers on this month's live session. It is scheduled for Thursday, June 9 at 9:00 pm Eastern time, 6:00 pm Pacific. This is a key benefit to your subscription and your opportunity to ask me questions and get answers right away. In this month's session we'll cover today's Fed announcement and what it means going forward, in addition to a thorough review of all of the portfolio holdings. Hope to see you then.

Click here to reserve your spot for the June 9th Live Strategy Session.

If you have specific questions, ideas, or concerns that you would like me to address, please email them to me at tim.plaehn@investorsalley.com. I will make sure to address them and love to hear what's on your mind.

Best Regards,

Tim Plaehn
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Automatic Income Machine

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RBC Yorkville MLP Distribution Growth Leaders Liquid Index ETN

Out of the 11 stocks currently in the Automatic Income Machine model portfolio, three are Schedule K-1 tax reporting companies. I recommend against owning K-1 stocks in an IRA type account, but I do get emails from subscribers who want to exclusively use qualified retirement plan money to follow the Automatic Income Machine system. This causes a bit of a problem but nothing that can't be remedied.

The K-1 reporting MLPs provide investment exposure to energy infrastructure companies which constitute a necessary part of the overall system that processes and moves energy from the oil and gas wells into your car's fuel tank and the electricity that powers your house.

These stocks have sold off over the last two years with the rest of the energy sector and are poised to provide tremendous returns over the next several years, especially the top tier growth prospects I have selected for the portfolio. To not be able to own these stocks because the available investable assets are in an IRA-type account leaves a big hole in the total return potential for someone following the Automatic Income Machine system.

The first solution that I recommend is to see if other money can be used to buy the three MLPs in a regular brokerage account. However, I know that is not always possible. So, as an alternative IRA investment I am going to recommend buying **RBC Yorkville MLP Distribution Growth Leaders Liquid Index ETN (NYSE:YGRO)**.

If you can own the K-1 reporting MLPs in a regular brokerage account, you do not need to also invest in YGRO.

YGRO is an exchange-traded note (ETN) that tracks an MLP index developed and maintained by Yorkville Capital. The index is designed to do much the same as what I do with the Automatic Income Machine strategy, which is to select those MLPs with the highest distribution growth rate potential. The index includes 25 MLPs. The selection and weighting of index components is strictly rules based. The rules factors include past distribution growth history, future growth forecasts, trading volume, and market capitalization. Almost all of the high growth rate MLPs I follow are included in the index. But, you also have a significant weighting of larger cap, slower growth MLPs. I maintain regular contact with Yorkville Capital and they always answer my questions about the index and/or the ETN.

The YGRO index was re-adjusted in May. The adjustments occur twice a year. With the new portfolio weightings, I calculated current yield and projected distribution growth. Right now, the ETN should yield 5.3%, with a weighted average forecast distribution growth rate of 11.1%. The growth rate is quite a bit lower than what we will get out of the three K-1 MLPs in the portfolio, but 11% growth and a 5% yield points to a very attractive mid-teens total return potential.

Here are four factors concerning buying shares of YGRO:

1) This is an alternate investment option for those subscribers who only have/want to use qualified, IRA-type of funds to follow the Automatic Income Machine system. It is an alternative to the K-1 reporting stocks in the portfolio.

2) Buy enough YGRO to equal the weighting of one of the K-1 MLPs, not a triple weighting to replace all three.

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A single position weighting will give you adequate exposure to the energy infrastructure sector.

3) The YGRO ETN currently has a small market cap and thin Bid to Ask spread. You do not want to try to buy a large number of shares with a single trade. **Build your position in maximum increments of 200 to 300 shares.**

4) To track the results from the YGRO ETN, I am going to put $10,000 of the Automatic Income Machine cash balance into the stock. I repeat, this is an alternative to owning the MLPs; **EQT Midstream Partners LP (NYSE:EQM)**, **Phillips 66 Partners LP (NYSE:PSXP)**, and **Tesoro Logistics LP (NYSE:TLLP)**. It is very unlikely that YGRO will provide the total returns as good as the MLPs, but it will give similar sector exposure in an IRA.

Final note, I personally own some YGRO shares.

A Look at the Recent History of Market Corrections

If you take a look back at the longer-term history of the stock market, a market correction – defined as a 10% drop in the major indexes – occurs on average once a year. A bear market, or a greater than 20% decline lasting longer than 60 days, comes along on average once every 3.5 years. However, the last five bear markets were spread over a period of 34 years, meaning declines of more than 20% have come less frequently than they did in the first 70 years of the 20th century.

Bear markets happen because of some large internal or external economic event such as the 1973 Arab oil embargo, the 1990's tech stock bubble, or the 2007 financial crisis caused by massive fraud in the mortgage securities system. I currently do not see anything in the current markets or economy that is likely to trigger a major bear market.

Now, let's talk about corrections. I view them as the market's way of showing investors that it's not easy to make money in stocks. The noise and fear that accompanies the typical correction far outweighs the actual damage of a short-term 10% decline in markets. While such a correction appears on average once a year, the timing can and will vary widely from that average. Consider recent history.

Coming out of the 2008-2009 bear market, the stock market (as measured by the S&P 500) experienced a 16% correction in mid-2010. The next correction was a 19% drop in late 2011. Then, we went almost four years without a 10% decline. In August and September of 2015, the fear of higher rates from the Fed resulted in a 12% correction. Within months, along came January

and February 2016, when the market dropped by 13%. Out of the last three corrections, there was an almost four year gap between the first two and then a four month gap between the second one and the third. That is not a predictable sequence or timing. If you remember way back to the start of 2016, that big drop early in the year caught almost all of the “market experts” by surprise. Actually, it caught almost everyone by surprise. Everyone except for those people that are always predicting a pending market drop. These people just happen to be wrong the other 98% of the time.

Right now, share prices trade relatively at values that when compared to prices in January, February, and March seem high, but in reality are not. Let's take a closer look at the actual facts concerning some stock market and sector valuations.

The S&P 500 set its record high in March 2015. The overall market as indicated by this major index has been flat since the start of 2015. While writing this, the index sits 1.6% below that peak set over a year ago. The five-year chart on page four shows how the S&P 500 has basically been flat since the start of last year, with the two previously discussed corrections to liven things up.

Note: The market results over the last year and a half fit in with my theory/belief/forecast that the overall market will produce returns well below the historical averages for the foreseeable future. I think broad market index ETF and fund investors will be lucky to average 4% to 6% per year for the next decade. The reason I developed the Automatic Income Machine system is to generate returns well above those expected sub-par stock market results.

Now, take a look at the sectors from which I draw the high dividend growth rate stocks for the Automatic Income Machine Portfolio. The REIT sector peaked in January 2015, and declined by 17% over the next eight months. Currently, the Dow Jones Equity All REIT Index is 3.5% below the high set in early 2015.

The energy sector experienced a true bear market with the **Energy Select Sector SPDR ETF (NYSE:XLE)** dropping by 45% from June 2014 to January 2016. The benchmark Alerian MLP declined by a similar percentage starting in the fall of 2014. Although values have come up nicely since early in 2016, MLP values remain over 30% below the highs set in 2014.

And remember, for the majority of REITs and MLPs, the companies have maintained or grown their dividends right through these bear markets and market corrections. For example, the **Tesoro Logistics LP (NYSE:TLLP)** quarterly distribution is now 27% higher than it was in June 2014.

So to recap, from a big picture point of view, the market and share prices are not too high. At best, they are near where they were at the start of 2015. At the same time, the dividend growth stocks I focus on are paying dividends at significantly higher rates that they were paying a year and two years ago. It is not unreasonable to think that a continued pattern of growing dividends can and will pull stock prices higher when compared to current values.

Portfolio Update

As of the stock market close on May 31, 2016, the Automatic Income Machine model portfolio was valued at $298,188. Of that amount, $97,493 is held in the cash balance. The portfolio is up 19.28% since it was launched in mid-February. I attribute the way-above-expectations gains to some luck of timing as I launched the portfolio near the bottom of the most recent correction. What these quick gains that we have made do show is the power of having cash available to take advantage of market corrections by buying more shares of the portfolio stocks when prices are falling.

Six of the portfolio stocks paid dividends in May: TEGP, PSXP, TLLP, VTTI, EQM and SKT. Nine of the portfolio stocks have paid dividends in the quarter, which means we have two more coming in June.

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Extra Space Storage, Inc. (NYSE:EXR) announced a 32% increase for the dividend that will be paid on June 30. The **Aircastle Limited (NYSE:AYR)** regular dividend will be paid on June 15.

The end of June will mark the end of the first full quarter of the Automatic Income Machine model portfolio. At that time we will have our baseline quarterly dividend earnings. From there, the primary measure of success will be the growth of that quarterly dividend stream.

Currently, 32% of the portfolio is in cash. In a steady to rising market, I would like to see that number in the low 20% range. If we get another market correction, you can expect to see the cash balance go down to 5% to 10% of the portfolio as we put cash to work. Since we are earning dividends every month, we will make some sort of investment each month.

As of the publication date of this newsletter, I am adding to the **EQT Midstream Partners LP (NYSE:EQM)** portfolio position. EQM has the lowest weighting in the portfolio. In the model portfolio, I will increase the shares owned by 10%, adding 20 shares to the current 200. For your portfolio, I recommend a 10% share increase.

If you are a new subscriber who has yet to make any purchases, please see our 'Start out Portfolio' that details how many shares of each stock you should consider purchasing based on the size of your personal portfolio. Click here to access the 'Start Out Portfolio'.

If you have any questions about the stocks in the portfolio or anything we covered in this month's issue, feel free to write to me directly. My personal email address is tim.plaehn@investorsalley.com.

And, be sure to sit in on our June live strategy session on June 9th at 9:00 p.m. ET / 6:00 p.m. PT.

Click here to reserve your spot for the June 9th Live Strategy Session.

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Current Portfolio

Stock	Entry Date	Entry Price	Shares Bought	Recent Price	Total Shares	Value	Dividends	Total Return
Extra Space Storage (EXR)	2/12/2016	$81.39	175	$91.91	200	$18,382.00	$103.25	11.94%
	5/04/2016	$90.43	25					
CyrusOne Inc. (CONE)	2/12/2016	$35.76	400	$51.20	400	$20,480.00	$152.00	44.19%
Aircastle Ltd. (AYR)	2/12/2016	$17.37	800	$21.39	800	$17,112.00	$192.00	24.48%
EQT Midstream Prtns. (EQM)	2/12/2016	$67.47	200	$76.55	220	$16,841.00	$149.00	14.42%
	6/06/2016	$76.36	20					
New Residential (NRZ)	2/12/2016	$10.15	1,400	$13.74	1,470	$20,197.80	$644.00	38.50%
	4/14/2016	$11.870	70					
Philips 66 Partners (PSXP)	2/12/2016	$56.22	250	$56.11	300	$16,833.00	$120.25	0.38%
	5/04/2016	$56.49	50					
SL Green Realty Corp. (SLG)	2/12/2016	$81.01	175	$100.44	175	$17,577.00	$126.00	24.83%
Tallgrass Energy GP (TEGP)	2/12/2016	$21.60	1,250	$24.11	750	$18,082.50	$262.50	13.21%
Tanger Factory Outlet (SKT)	2/12/2016	$30.23	500	$35.85	575	$20,613.75	$162.50	17.14%
	5/17/2016	$34.81	75					
Tesoro Logistics LP (TLLP)	2/12/2016	$38.27	400	$49.35	400	$19,740.00	$324.00	31.03%
VTTI Energy Partners (VTTI)	2/12/2016	$15.99	900	$21.14	900	$19,026.00	$278.77	34.10%
RBC Yorkville MLP Dist. (YGRO)	6/06/2016	$11.20	900	$11.29	900	$10,161.00	-	-0.05%

Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 06/06/16. Stocks highlighted in red are marked because they should not be held in IRA's or other tax advantaged retirement accts.

Sold Positions

Sell Trades	Symbol	Date	Entry Price	Shares Sold	Sell Price	Cash Proceeds	Total Return
Tallgrass Energy GP	TEGP	05/02/16	$11.22	500	$21.60	$10,795.05	92.51%

Entry price is determined by the last "Ask" price at the closing of the market on the day before publication. Recent price is determined by the last "Ask" price at the closing of the market on the day before publication; most recent update 06/06/16. We make no guarantee that any company in the portfolio will continue dividend payments. For a more detailed look at the portfolio, log on at www.investorsalley.com.