

Insiders Are Reinvesting Back into MLPs

It'll be a while before Master Limited Partnerships (MLPs) will fairly be described as no longer in a bear market. So far the low point was on February 11th, at which point the Alerian Index was 58.2% below its all-time high of August 2014. The following day, SEC filings revealed institutional purchases by Berkshire Hathaway (BRK), hedge fund Appaloosa and the Oklahoma Teachers Retirement System (see *Real Money Moves Into Real Assets*), and this seems to have been the catalyst for a modest improvement in investor sentiment. Rising crude didn't hurt either, and the result has been that the 30.2% three week bounce in MLPs since that February 11th low is the largest rally since making their August 2014 high.

A technically driven rally is nice, but it's also interesting to see the level of insider buying in recent months. Just among eight stocks that we follow, we've calculated almost half a billion dollars of insider purchases over the past twelve months. Enterprise Products Partners (EPD) is the biggest at \$185MM, funded in part by the constant reinvestment of distributions by management. Other purchases of note include \$108MM at Energy Transfer Equity (ETE). Crestwood Equity Partners (CEQP), a speculative and therefore appropriately small investment of ours, saw insiders purchase a startling 9.4% of the public float during 4Q15. Tallgrass Energy GP (TEGP) also saw insiders buy 1.7% of the float. It's worth remembering that these purchases and others are generally funded by distributions paid out to those very same investors. MLPs are highly cash generative businesses.

| Selected Insider Buying in Past 12 Months | | | |
|--|---------------|-----------------------|-----------------------------|
| Company | Ticker | Amount (\$MMs) | % of Float Purchased |

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|------------------------|------|-----|------|
| Crestwood Equity | CEQP | 90 | 9.4% |
| Enterprise Products | EPD | 185 | 0.5% |
| EQT GP Holdings | EQGP | 5 | 0.8% |
| Energy Transfer Equity | ETE | 108 | 0.4% |
| Kinder Morgan | KMI | 43 | 0.1% |
| NuStar GP Holdings | NSH | 16 | 1.8% |
| Plains GP Holdings | PAGP | 16 | 0.9% |
| Tallgrass Energy GP | TEGP | 23 | 1.7% |

There have been other informed buyers beyond the institutions and insiders mentioned above. Plains All America (PAA) issued \$1.6BN in convertible preferred units to a group of private equity investors that were already invested in Plains and therefore know the business well. They included EnCap Investments, First Reserve and Stonepeak Infrastructure Partners. Targa Resources (TRGP) issued \$500MM in similar securities to Stonepeak.

I was chatting with a friend who is a financial advisor the other day, and I asked him what sector of the equity market (apart from MLPs) offers the best opportunity right now. He felt that low volatility, dividend paying stocks could provide a return of better than 10% over the next four quarters. We like that sector too, and we have run a Low Vol Strategy for many years that regularly generates attractive returns (see *Why the Tortoise Beats the Hare*). It's a great place to be

invested. And yet, there are MLPs yielding well over 10%.

As we noted in last week's blog (*MLP Managements Talk Business*), any equity security which confounds the skeptics by paying its dividend for a year will, assuming this draws in additional buyers that drive its yield down by 2%, deliver a 30%+ total return to those who invested a year earlier. Many MLPs still offer this possibility. Given the collapse in MLPs since August 2014, they ought to offer this kind of potential return. In early February after only 9 business days, MLPs were down 19%. Today's MLP investors have endured some torrid days. But if you invest where you assess a high probability of continued distributions, it's hard to think of another asset class or sector that comes close. There's increasing evidence that insiders and institutional investors are acting on that belief.

By way of example of the high yields in the sector, Williams Companies (WMB) on Friday declared a \$0.64 dividend. At \$19.15, where it closed on Friday, this would be a respectable 3.3% yield if the \$0.64 was an annual dividend. But it's actually a quarterly dividend, so WMB yields 13.37%. Some investors were probably not expecting another WMB dividend so it was a welcome surprise. If the merger with Energy Transfer Equity (ETE) goes through on current terms, when it closes WMB investors will receive dividends of \$1.74 annually from the 1.5274 shares of Energy Transfer Corp (ETC) they'll swap for their WMB shares. But they'll also receive a one-time \$8 cash payment plus a \$0.10 special dividend, so \$1.74 on an \$11.05 stock price (\$19.15 less the \$8.10 payments) is 15.75%. The Presidential election is not the only thing that can make your jaw drop.

We are invested in BRK, CEQP, EPD, EQGP, ETE, KMI, NSH, PAGP, TEGP and WMB

Wall Street Potholes – Insights From Top Money Managers on Avoiding Dangerous Products

On Monday, March 14th at 6:15pm, at the Hilton Hasbrouck Heights, Hasbrouck Heights, NJ, I'll be giving a presentation on my new book, *Wall Street Potholes*, to the American Association of Independent Investors, Northern New Jersey Chapter. There is a modest entry fee. I'll also be giving a similar presentation on Wednesday, March 23rd at 7pm at the Westfield Memorial Library, Westfield, NJ. Attendance is free.