It’s All About Oil

Yesterday, Tuesday, September 20, Deutsche Bank strategists released a report to back up their assertion that there’s a 30% chance the U.S. economy will enter recession in the next 12 months.

The good people have a formula for predicting recessions. There are four key conditions that must be in place. Those four conditions are listed in this table Deutsche Bank provided:

FYI, the Fed’s LMCI is the Labor Market Conditions Index. And it turned negative in August. Corporate profits have been falling for two years. Capital expenditure (CAPEX) spending is down 2% from last year. And finally, default rates for high-yield bonds are at 5.7%.

As you can see from the table, all of these conditions have lined up five times in the last 30 years. Only once, in 1986, did the U.S. economy manage to keep its head above water.

Deutsche Bank went on to give us a few interesting stats:

*a) 1986 was the only episode over the past 60 years in which U.S. corporate*
margins declined (from 8.6 percent in the second quarter of 1984 to 6.7 percent in the fourth quarter of 1986) without this leading to a recession

b) it was the only episode over the past 40 years during which capex growth turned negative (driven by falling energy investments) without this leading to a recession

c) it was the only episode over the past 30 years in which speculative default rates rose meaningfully above 5 percent without this leading to a recession.

I like this analysis, I really do. Each of these indicators shows an economy that is not strong and may actually be slowing down.

Still, there are a couple points that need to be added to this work. I will give Deutsche Bank credit for pointing out that the declines in CAPEX are being led by the oil sector.

But what it fails to point out is that the oil sector is also contributing to the decline in profit margins and the rise in the high-yield bond default rate. That's important to know. We need context for this type of research, some way to understand just how each data point is affecting the big picture.

When we see that the price of oil is a common denominator, well, it puts a different spin on things. I continue to say that low oil prices are temporary, due to Saudi market manipulation. And so the threat of recession may be temporary too...

A Shock to the System

There's one critical element to recessions that Deutsche Bank also ignores: a shock to the economic system. No good recession kicks off without one...

In 2008–09, it was the financial crisis. In 2001, it was the 9/11 terrorist attacks. In 1990, it was a spike in gasoline prices after Iraq invaded Kuwait.

Now, in both 1990 and 2001, the economy was already slowing, in part due to interest rate hikes. Each of those occasions just needed a catalyst to kick them over the edge.

In 2008, the economy hadn't actually started to slow. But banks were so over-
leveraged that a bad outcome was unavoidable.

So, while it’s an interesting study comparing 2016 to 1986 and the other years where the economy actually did go into recession, Deutsche Bank strategists should finish their work by telling investors about the missing link, the shock to the system.

I know these strategists get paid to make bold calls, and they probably get paid more when they are right. The problem is that some investors might act on research like this without really digging into it to find out what it’s really measuring.

**But What About Earnings?**

Now, I’m not trying to tell you to simply ignore research like this. Especially the part about earnings, specifically profit margins.

We do have an earnings problem, in that earnings are not rising, even though stock prices are. And while we can certainly say that much of the problem of earnings growth is coming from the energy sector and is likely temporary, we still have to wonder how long it will last. How temporary are low oil prices?

Because right now, the trailing price-to-earnings (P/E) ratio for the S&P 500 is 24. That’s kind of high. But investors are OK with that because analysts see a big 13% jump for earnings in 2017. We haven’t seen that kind of earnings growth since 2011...

And the thing is, earnings estimates are already coming down. Just a couple months ago, analysts thought earnings growth would return in the third quarter. Now the analysts see yet another decline. They have earnings growth at -1.4% now, but that’s likely to come down more in the next couple of weeks.

Even worse, analysts haven’t touched their fourth-quarter numbers, which currently call for 10% earnings growth. If/when those numbers get lowered, we will see a sell-off.

If you remember the first month and half of this year, you know what may be coming. The last two days of 2015 were down days. And the selling didn’t stop until February 11, after the S&P 500 had dropped 12%.

I think it’s likely that happens again, probably before the end of the year. So I
recommend that you start planning now. Raise cash to buy when we get a sell-off. Get your brokerage account approved to sell covered call options on stocks you own to add a little cash to your account.

I never recommend selling everything and going to 100% cash. But you should be prepared to sell the stocks that aren’t performing for you. So, identify the stocks you have that you want to sell and then follow through on the next rally.

And I definitely recommend you get this month’s Feature Recommendation on your radar.

**Feature Recommendation**

Back in the late 1990s, the Internet was just starting to burst onto the scene. Everything about it seemed complex and right out of a science fiction movie. We could communicate instantly via something that we couldn’t see or hear. Most of us couldn’t even comprehend how it worked. Many of us still don’t exactly understand. We just know that life as we know it was forever changed by this new concept.

And there was one company that pretty much made the entire revolution possible. Its routers and switches allowed the entire web to operate and integrated nearly every computer and network into this new thing we called the “World Wide Web.”

Well, the same thing that was happening then is happening now! A new and exciting concept is gathering momentum and will soon become a part of our daily lives. It’ll soon be something, like the Internet and smartphones, that we wonder how we ever lived without.

And there is once again one company right at the center of this second Internet Revolution...

**Internet of Things**

It’s called the Internet of Things — IoT for short — and it’s going to revolutionize our lives much in the same way that the Internet itself did back in the 1990s!

So, what is this Internet of Things, you ask? It’s much easier to explain than the Internet when it was first introduced, but it’s just as exciting. You see, the IoT links
smart devices directly to the Internet so they can be controlled from anywhere in the world, no matter the distance between the user and the device.

Image Credit: Huffington Post

Imagine you leave your house to catch a flight — family vacation, business trip, spur-of-the-moment getaway to some tropical beach. You’re sitting in the airport and realize you left the oven on. Or the lights on the second floor. Or the TV and stereo...

A few years ago, your only recourse was to call that neighbor who has a key and hope they’ve got time to stop by and take care of the things you forgot in your excitement to get out the door. But soon, thanks to the IoT, you’ll just whip out your trusty smartphone, tablet, or laptop and log into your home-monitoring site. There will probably be some flashing red buttons because the site knows you’re not at the house, but the house is still running like you are. You’ll select a setting — vacation mode, perhaps — or just click the buttons individually, and your house will shut down for the trip. Your worries of burning down the neighborhood with that oven or driving up your electric bill with the lights and electronics are gone. And now it’s time to relax and enjoy your trip.

You’ll even be able to let the house know when you’ll be back so you can be greeted by the perfect climate when you return. If it’s hot out, you’ll be able to have the AC kick on a few hours before you get back to cool the place off. If it’s cold, the heat will warm the house before you get back so you’re not seeing your breath when you walk in the door. You won’t have to set timers for your lights,
because the IoT will turn them on and off for you — fooling would-be burglars into thinking someone is home and greeting you with a bright walkway from your car to your kingdom.

The possibilities are practically limitless to what you can control from afar with the IoT. And, just like the Internet when it first became available, while the IoT seems far-fetched and way off in the future, it’s going to evolve more quickly than anyone (even the most exuberant proponents) could predict. Right now, it’s more of a cool addition to expensive real estate, but within a decade or two, it’s going to have infiltrated every part of our lives and nearly every household in the world.

And that’s just households. When it comes to business, the IoT is going to literally be a necessity for every company in the world! With a constantly evolving customer base that demands more and more instant gratification, businesses need a way to react quickly and seamlessly to changing needs.

The IoT will allow manufacturers to change the output of entire assembly lines at plants across the globe with the click of a button in an office somewhere hundreds or even thousands of miles away. No more retrofitting factories or slowly integrating changes. Everything will happen in the blink of an eye.

And if you’re a manager of a corporation whose competitors are able to react and evolve faster than you, you’re going to implement everything you can to get back on top. If you don’t, you’re probably not going to be managing there much longer. And if the entire chain of command fails to act, then there’s not going to be a company left to manage anyway.
From the Internet to the Internet of Things

The company I referenced earlier — the one that essentially made the Internet possible — is at it again with the IoT. And that’s one of the main reasons I’m recommending an investment now — before the IoT takes off and we’re sitting at the top of a new bubble reminiscent of the dot-com boom of the late 1990s.

Cisco Systems, Inc. (NASDAQ: CSCO)

Image Credit: Cisco Systems

Current Price: $30.84
Market Cap: $154.67 billion
52-Week Range: $22.46–$31.95
Shares Outstanding: 5.01 billion
Revenue: $49.25 billion
Dividend Yield: 3.37%
Price Target: $45

Cisco is predicting that by the year 2020 there will be over 50 billion devices connected to the Internet. And it’s laying the groundwork to support those connections today as well as making sure that it’s ready for all of the opportunities the future of the IoT will bring.

Having been at the forefront of the Internet and facilitating its rapid expansion, Cisco already knows a thing or two about innovation and getting in at the beginning of hugely profitable trends. And the IoT is no different.
Cisco is already the world’s leading developer of routers and switches and therefore sits at the epicenter of global network. Its products make sure that everything flows smoothly across desktops, laptops, phones, and servers around the world.

And it’s putting that expertise to work (along with its gigantic bank account) to acquire new technologies — technologies that will allow it to take its place at the epicenter of the IoT, too.

The purchase of Jasper Technologies earlier this year is a perfect example. Now, Cisco has the ability to build the backbone of a new evolution of the web and establish control of the next biggest advancement of the Internet.

Jasper was a programming company that designed and developed software that allows businesses to manage connected devices from vending machines and beer kegs to the heating and cooling systems in offices to company cars, security systems, and even the clocks on the walls.

Jasper was one of the first companies involved with connecting devices. Founded back in 2004, before there were really that many devices to connect, this company is a true innovator. The founders saw the future, and that future was the IoT. Now a part of Cisco’s IoT arm, the technology Jasper pioneered will lead Cisco to the forefront of the IoT and make it, again, the biggest and most profitable company involved with this technological revolution.

**Not a One-Trick Pony**

Don’t get the wrong idea, though. This investment doesn’t hinge only on the successful growth of the IoT. No, no. Cisco is an industry leader in so many other things as well. From cyber security (an industry predicted to grow exponentially over the next few decades), to efficient mining and extraction of raw materials, to leading the way for consumers that want to cut ties with cable companies, Cisco is an industry frontrunner.

Cisco has made a name for itself in the cyber security world by becoming a one-stop-shop for all your enterprise security needs. In fact, it’s already one of the largest such firm in the world, generating over $2 billion in revenue from this segment alone in 2016! And it’s set up for long-term growth, so I expect to see that revenue figure balloon in the coming years.
The company also recently partnered with heavyweight precious metals miner Barrick Gold to bring digital technology to mining. This is the first step down a long path that will help miners run operations much more efficiently and make every mine in the world much more profitable. When other companies see the success Barrick has from this partnership, they’ll be sure to get in on the action by adding the same technology to their own mines. And with Cisco providing the technology and not doing the digging, that means shareholders will see revenues from this project ramp up astronomically as more and more miners bid to partner with the technology bellwether.

Another place Cisco is flexing its tech muscle is in the over-the-top (OTT) television market. As more and more consumers opt for streaming services and cut the cord connecting them to the cable companies, this segment is going to become huge! In fact, according to PricewaterhouseCoopers, over 75% of American consumers already subscribe to some OTT streaming service.
And through its collaboration with cloud video provider Evergent Technologies and its Infinite Video solution platform, Cisco is in a prime position to take advantage of this trend. You see, Infinite Video for OTT supports all major OTT platforms including Apple TV, Roku, Smart TV, Amazon Fire TV, Google Nexus, Web, PlayStation, and Xbox, as well as iOS and Android devices. That means it provides a seamless interface for consumers to access any and all of their OTT streaming subscriptions. No switching back and forth between programs. No buying multiple platforms to run individual services. Just smooth OTT enjoyment.

**Buying Before the Bubble**

With all those facets of profitability, Cisco would make an excellent investment even without the IoT. But when you add that in, we’re talking about a stock that could easily return to its pre-dot-com bubble levels over $100 per share. So before the masses catch on and the mailman starts giving you tips to invest in Cisco Systems, we’re getting our money in the game. And we’re going to get to watch Cisco climb the mountain of IoT profits all the way from the bottom to the top.

*Cisco Systems (NASDAQ: CSCO) is a buy under $35. The 12-month price target is $45.*
The Wealth Advisory Portfolio

The Wealth Advisory portfolio is strategically designed to offer you both long-term dividend growth and capital appreciation. Our rigorous analysis consistently uncovers the best dividend and growth opportunities available today. Here is our current portfolio, along with recent earnings, news, and our thoughts on each position.

Click on the company names to be directed to the original recommendations for more information about each company and our original reasons for entering the positions.

Dividend Growth

The true secret to getting wealthy in the stock market is deceptively simple: Buy solid, dividend-paying stocks, and reinvest those dividends. Studies repeatedly show that as much as 70% of stock market gains come from dividends.

That may sound like a boring, even obvious observation. But it’s actually quite profound — because it takes virtually all of the risk out of investing.

When you buy a dividend stock, you don’t have to wait for the stock to move higher to make money. A dividend stock starts paying back your investment the minute you buy it. And it will continue to pay long after you’ve recouped your initial investment.

By focusing on dividend payments, you can systematically plan for wealth creation.

Alcoa (NYSE: AA)

What It Does: Alcoa engages in engineering and manufacturing lightweight metals worldwide. In 2016, the company plans to split into two separate parts when the “value-add” business segments are spun off into a new entity and the “upstream” business segment remains with the parent company.
Wealth Advisory Earnings Grade: A

- Beat estimates three of the past four quarters

Headlines:

- Alcoa names boards for post-split companies. Alcoa’s board will include former CEOs from KPMG, First Solar, and Caterpillar, among others. The new company, Arconic’s (NYSE: ARNC) board will include former CEOs of Medtronic, Merrill Lynch & Co, and TRW Automotive.

TWA Bottom Line: Alcoa shares took a hit the past month, largely due to a drop in alumina prices. You see, China’s been a huge importer of alumina and bauxite for its aluminum smelters and, this year, its aluminum production fell off significantly. In the short term, that’s bad for companies like AA that sell alumina. But in the long run, that’s really good because Alcoa also sells refined aluminum. With China’s producers dropping out of the game, Alcoa stands to sell a lot more of its finished products. And that’s great news as we approach the split into Alcoa and Arconic. The last hurdle (a lawsuit involving Alcoa’s partner Alumina Limited) was cleared last month as AL withdrew the case. Shares are still up for the year and the stock can easily get to $13 ahead of the breakup. So I’m happy to keep my “buy” rating on Alcoa and maintain my limit entry price of $12.50. But you’ve got the opportunity to scoop them up for far less right now. My 12-month target stays at $18.

Bank of America (NYSE: BAC)

What It Does: Bank of America operates as a bank holding company that offers consumer and retail banking services, real estate financing, wealth management services, global corporate and commercial banking, investment banking, and global fixed income and equities services.

Wealth Advisory Earnings Grade: A+

- Beat or met expectations four of the past four quarters

Headlines:

- At BAC’s current price, CEO Brian Moynihan and company are happy to buy back stock “all day long.”
**TWA Bottom Line:** While there’s been a bit of a drop since the start of September, shares are still up about 4% over the past month. While U.S. banks logged their most profitable quarter ever, the penalty assessed on Wells Fargo for its employees engaging in some scandalous and fraudulent activities has weighed on the entire industry. But I’m not worried — none of the problems at WFC are apparent at BAC, so the stock should recover quickly. On top of that, when the FED increases interest rates (which it will eventually), BAC stands to profit mightily. One of its largest sources of revenues there is interest (around 50% of total income) and as rates increase, BAC will just make more and more cash. I’m adamant about Wealth Advisory members owning this one and have a “strong buy” rating on Bank of America with a 12-month price target of $24.

**Boeing Company (NYSE: BA)**

**What It Does:** The Boeing Company designs, develops, manufactures, sells, services, and supports commercial jetliners, military aircraft, satellites, missile defense, human space flight, and launch systems and services worldwide.

**Wealth Advisory Earnings Grade: A**

- Beat expectations three of the past four quarters

**Headlines:**

- Boeing still waiting on U.S. Government approval to sell jets to Iran. Negotiations with the Islamic republic continue.

**TWA Bottom Line:** At the start of 2016, Boeing’s backlog stood at 5,795 planes. That’s 7 ½ years of production. It delivered a record 762 commercial planes in 2015. The company has averaged over $78 billion per year in commercial airplane sales over the past five years and now controls around 45% of a market that’s expected to generate $5.2 trillion in revenue over the next two decades. That astronomical backlog has fallen some, but not because orders have slowed. The company is running more efficiently and putting out 200 airliners a quarter now! And to top that off, it just got the green light from the U.S. government to sell over $7 billion worth of fighter jets to Qatar and Kuwait. I consider these shares a “buy” on any weakness, but the company is doing so well that I raised my buy-under price to $135. This is the kind of stock you want to pick up on any dips. I’m maintaining my 12-month target at $185, and that’s still a pretty conservative estimate.
Cypress Semiconductors (NASDAQ: CY)

What It Does: Cypress Semiconductor Corporation designs, develops, manufactures, markets, and sells mixed-signal programmable solutions worldwide — think the tiny chips that make your cell phone and tablet so fast.

Wealth Advisory Earnings Grade: A+

- Beat or met expectations four of the past four quarters

Headlines:

- TGP Capital rumored to offer $15 per share for Cypress in takeover bid.

TWA Bottom Line: Like I said last month, we shouldn’t have long to wait for the buyout to materialize. And Cypress just got another offer from TGP Capital at the end of August. Nothing is confirmed yet, but this is the second offer in just a few months, so we’re likely to see even more interest as weeks pass. That would translate into an even higher takeover price and more profits for us. CY is still a buy under $12 with a buyout target of $15.

The Walt Disney Company (NYSE: DIS)

What It Does: The Walt Disney Company operates as a worldwide entertainment company. Through its four business segments, it operates a portfolio of amusement parks and recreational facilities, distributes television content, produces movies, and sells related merchandise.

Wealth Advisory Earnings Grade: A

- Beat estimates three of last four quarters

Headlines:

- ABC scores deal to broadcast the Oscars for the next 12 years. It’s already hosted them for 50 years and will now help celebrate the 100th anniversary.

TWA Bottom Line: Records are being set at the box office, and Disney is winning. The Marvel franchise is doing amazingly well. New Star Wars movies are coming. Finding Dory is currently the highest grossing film of the year with over $951M in
revenue. And Shanghai Disney added huge revenue potential. The only knocks have been ESPN and a pricing snafu at Disney World Orlando. Unfortunately for our shares, those two shortcomings are all the market seems to care about. But Disney is now exploring options for selling ESPN direct to viewers, and has gotten on board with the MLB’s digital content platform, known as MLBAM. That’s an opportunity for Disney to get its content directly to viewers and sell ad space directly to companies. And after such a massive failure of its tiered pricing scheme, I can’t see management continuing that as we head into the busy season in Florida. Zika or not, people are going to be heading south this winter. Disney’s dividend has increased 290% since 2009, and there’s another hike coming soon. It’s tough to find a better stock to hold onto. With that in mind, I’m maintaining my “buy” rating but dropping the limit to $100. The 12-month price target remains at $135, however.

**Juniper Networks (NYSE: JNPR)**

**What It Does:** Juniper sells routing and switching gear to corporations, but in addition to the routers and switches that direct traffic on the Internet, the company also provides software, tech support, and training.

**Wealth Advisory Earnings Grade: A**

- Beat estimates three of the past four quarters

**Headlines:**

- JNPR and other security firms under pressure from Cisco’s discounted offers in industry.

**TWA Bottom Line:** Despite the pressure on its internet security business from Cisco’s increased presence in that market, Juniper Networks is still a solid play on mobile carrier network upgrades, and the explosion of Internet data. And given the company’s excellent performance, constant innovation, and new contracts, I’m not surprised that despite downgrading the stock, Deutsche Bank analysts still have a rosy long-term view of the company. The stock is super cheap, with a P/E of 14, and super undervalued. It’s down for the year mainly due to honest management. The folks in charge know that this isn’t going to be a strong year, and they admitted they’re not expecting the same kind of growth as 2015. But, they’re acting wisely during this slump; buying back shares while prices are low to return capital to shareholders. And I’d rather have a company that under-promises and over-
delivers than the opposite. I'm keeping the limit price at $25, and am maintaining my 12-month target of $36.

**Nokia (NYSE: NOK)**

**What It Does:** Nokia is a wireless infrastructure company with a focus on cell networking equipment.

**Wealth Advisory Earnings Grade: B**

- Beat estimates two of the last four quarters

**Headlines:**

- Nokia offers 3.50 Euro per share for remainder of Alcatel-Lucent — should hit 100% ownership by early Q4.

**TWA Bottom Line:** The next generation of wireless technology (5G) is coming. It promises speeds that are 10 times faster than current networks can offer. And by virtue of its Alcatel acquisition (which should be complete with NOK owning 100% of the company by early Q4), Nokia will be a major player. And don't forget that Nokia gets licensing payments from Samsung and Apple. Ever since exiting the mobile phone business, NOK share price has been in a slump, but within the next few months, it'll be back with a vengeance. And with Samsung having so much trouble with its Galaxy series (the FAA even considers them a fire hazard), this could be the perfect time for a reliable name like Nokia to step in and take back some market share. I still rate Nokia a “strong buy,” but I'm keeping my lowered limit price at $6 or less. These levels are a great opportunity to add to a position or establish a new one. The 12-month price target is $10.

**Starbucks (NASDAQ: SBUX)**

**What It Does:** Starbucks Corporation operates as a roaster, marketer, and retailer of specialty coffee worldwide.

**Wealth Advisory Earnings Grade: A+**

- Beat or met expectations four of past four quarters
Headlines:

- SBUX aims to sell all the tea in China. Well, at least most of it. It’s making a move into the world's biggest tea market ($9.5B per year) with Teavana.

**TWA Bottom Line:** *Wealth Advisory* members have done great with Starbucks. And even though we've got ~150% gains, I will probably always rate Starbucks a buy because its execution is so good. I really can't say enough good things. I mean there's more money on SBUX gift cards than there is on deposit at some publicly traded banks (more than a billion dollars). I raised the target to something more in line with future potential in December to $85 — and that's probably another easy bull's eye to hit. It's been a rough 12 months for the stock price with growth slowing compared to previous years. But as SBUX irons out the wrinkles from its Teavana acquisition (closes Teavana stores and incorporates the products into Starbucks shops), I expect to see the price rebound exponentially. The push into China (and the rest of Asia) has the potential to add billions in revenue over the coming years too. This is another stock all *Wealth Advisory* members should own, and at current prices, it's a steal. I'm keeping the limit at $60, but it would be tough to go wrong buying this coffee roaster at any price. I'm keeping the $85 price target the same because I am so confident in this company and its management.

**Whole Foods Market, Inc. (NASDAQ: WFM)**

**What It Does:** Whole Foods Market operates natural and organic foods supermarkets. Its stores offers produce, packaged goods, bulk, frozen, dairy, meat, bakery, prepared foods, coffee, tea, beer, wine, cheese, nutritional supplements, vitamins, body care, pet foods, grocery, and household goods.

**Wealth Advisory Earnings Grade: B+**

- Beat or met expectations three of past four quarters

Headlines:

- Credit Suisse sees great opportunity in WFM shares, especially at current prices. Cites faith in reinvigorated growth from company repositioning.

**TWA Bottom Line:** Grocery stocks in general have been taking a hit this year. There's reduced consumer spending and fears of deflation weighing the entire industry down. But the company is steadily proceeding with its 365 store debuts.
and that's going to be a big growth driver over the coming years. CS analysts went as far as to say that “the drop in the stock only creates a better set-up” and that they see it as an opportunity to get in on the early stages of the repositioning that will lead to sustained long-term growth. This is a turnaround play, a growth stock. And the growth is far from over. We're looking at prices near the 52-week lows. That reads as a huge opportunity for investors. I hope everyone has been buying shares during the dip. I'm dropping the buy limit to $35 to keep in line with current prices and the 12-month target to $50 to account for the stagnation in the industry.

### Future Dividend Payers

*One of the sweet spots for a dividend stock is that moment when it starts paying dividends. That moment comes when the business has become stable and predictable but there is also plenty of growth ahead.*

*This category may never make up a very large portion of The Wealth Advisory's portfolio. Still, we think it is worthy of your attention.*

### Blue Buffalo Pet Products (NYSE: BUFF)

**What It Does:** Blue Buffalo Pet Products operates as a pet food company in the United States, Canada, Japan, and Mexico.

**Wealth Advisory Earnings Grade:** A+

- Beat expectations four of the past four quarters

**Headlines:**

- BUFF announces offering of secondary shares. Shareholders will unload 14.3M shares at market. This is the original investors cashing in some of their IPO shares.

**TWA Bottom Line:** Americans will spend more than $60 billion on their pets this year. That’s 25% growth in just five years and a great trend for investors. BUFF has a proven new user acquisition strategy and already controls about 6% of the $26 billion pet food market. The share price took a hit on news of a secondary offering, but recovered quickly. There was another offering that closed last week.
— initial investors cashing in on some of their IPO shares. But that’s business as usual for a newly public company — it’s how IPO investors get paid and nothing to worry about. The stock is not cheap, but you’re paying for quality and growth. I’m maintaining my “buy” rating and keeping the limit at $30. I’m also keeping the 12-month target at $40.

**First Solar (NASDAQ: FSLR)**

**What It Does:** First Solar builds solar farms and signs long-term deals to deliver power to utilities so the utilities can meet regulations for solar power generation.

**Wealth Advisory Earnings Grade: A+**

- Beat expectations in four of the past four quarters

**Headlines:**

- Entire solar industry facing headwinds as analysts downgrade all stocks in light of weak performance from some.

**TWA Bottom Line:** Yes, it has been tough sledding for solar stocks. The issue is that the industry planned to build all the big solar installation projects this year, before tax credits expired. So 2016 is a banner year, but there is uncertainty about 2017. Plus, competitor, SunPower slashed its guidance last month, causing the entire industry to take another slide down. But here’s the deal: First Solar is the best solar company in the world. It has tons of cash and practically no debt. It’s beat expectations handily the past four quarters. It doesn’t deserve to be lumped in with other, poorer-run operations. Think long-term and own it. All that cash is going to come in handy when less efficient competitors want to unload valuable assets at discount prices. I am lowering my limit price to $40 — but reiterating that this is one all Wealth Advisory readers must own. I’m keeping the 12-month price target at $85.

**Micron Technology (NASDAQ: MU)**

**What It Does:** Micron Technology offers semiconductor solutions for pretty much every computing resource imaginable.
Wealth Advisory Earnings Grade: A+

- Beat expectations in four of the past four quarters

Headlines:

- MU price target lifted at Morgan Stanley, Deutsche Bank, and Stifel.

TWA Bottom Line: If you’re looking for tech value, Micron is it. When demand starts to ramp back up, streamlined operations will lead to more profits. And the stock price can scream higher. It was a $34 stock at the height of the last cycle. And it's been heading back in that direction all of 2016. Plus there is buyout potential. The price momentum is still going strong — it’s added over $7 in the past six months. This one remains a “Buy” and I'm raising the limit to $18 and the 12-month price target to $30. It’s still a steal at current prices (especially considering a component shortage at HP that suggests increased demand for MU’s products). So if you don’t have a position yet, I’d recommend you establish one soon because it’s not going to stay this cheap for long.

Under Armour, Inc. (NYSE: UA)

What It Does: Under Armour develops, markets, and distributes branded performance apparel, footwear, and accessories for men, women, and youth primarily in North America, Europe, the Middle East, Africa, the Asia-Pacific, and Latin America.

Wealth Advisory Earnings Grade: A

- Beat expectations three of the past four quarters

Headlines:

- UA debuts high-end fashion forward line at New York Fashion Week.

TWA Bottom Line: Nike is valued at $93 billion; Under Armour is valued at $17 billion. There is a lot of growth ahead for UA as it continues to gain on Nike. Along with the stellar job building the UA brand, management makes all the right moves. Most recently a new distribution center focused on e-retailing opened. I can’t tell you exactly when UA will start paying a dividend, but it will happen. UA recently added retail industry veteran Chip Molloy (former CFO of PetSmart) to
the team to bring even more experience and talent to the table. And the Olympics gave revenues an extra boost too. The price has been dropping with the entire retail sector, and a little more after announcements of big spending came out last month. But Under Armour, Inc. (NYSE: UA) is a strong buy under $45. The 12-month target is $60.

**Zoe’s Kitchen (NYSE: ZOES)**

**What It Does:** Zoe’s Kitchen develops and operates a chain of fast-casual restaurants. It operates a range of restaurant formats, including in-line, end-cap, and freestanding restaurants.

**Wealth Advisory Earnings Grade: A**

- Beat or met expectations four of the past four quarters

**Headlines:**

- Tight consumer spending weighs on entire restaurant industry.

**TWA Bottom Line:** Zoe’s Kitchen, our “Next Chipotle” stock, opened a Baltimore location earlier this year as its expansion plans move north. With just ~170 locations Zoe’s has been flying under the radar. That can’t last. In the next year, it will hit the big East Coast markets: New York and Boston. California and Chicago are coming, too. I think investors will flock to this undiscovered “fast-casual” gem. Zoe’s has been one of my favorite stocks for a while now. It got pummeled last month when it missed revenue estimates, but as the expansion continues and the chain hits the bigger markets of NYC, Bean-Town, Cali, and Chi-Town, sales should explode. Accordingly, I am sticking with my “strong buy” rating with a limit entry price of $30 a share. My 12-month price target remains $55. Like First Solar, I have to stress that this is another must-own stock for every Wealth Advisory subscriber.
Real Estate Investment Trusts

It’s generally assumed that REITs are very interest rate-sensitive. But studies show that REITs perform better than regular stocks when interest rates are rising.

I will not be selling out of REITs at the first sign of interest rate trouble. We have nice gains with these stocks, and they consistently raise their dividends. Plus, we know that the Fed is not going on a prolonged rate hike campaign. Three small hikes are not going to impact REITs very much. So, in a general sense, I don’t expect a lot of downside for REITs. I’m actually expecting much upside, even with the rate increases.

Finally, please note the importance of the funds from operations (FFO) metric for REITs. Analysts usually use FFO instead of earnings per share (EPS) when evaluating REITs.

Capstead Mortgage (NYSE: CMO)

What It Does: Capstead is a mortgage REIT, or mREIT. It borrows money at one rate, and then buys mortgage bonds (MBS) that pay a higher rate and profits from the difference, or spread, between borrowing costs and interest rate income.

Wealth Advisory Earnings Grade: B-

• Beat or met expectations two of the past four quarters

Headlines:

• Increasing LIBOR rates could prove favorable to leveraged mortgage REITs.

TWA Bottom Line: There’s no point in sugarcoating it: mREITs are really boring, and there’s not much to update each month. That +10% dividend yield isn’t boring, though, nor is it stopping anytime soon. While there’s been some weakness in price the past month, increasing LIBOR rates could lift cash flows at CMO. Rising rates in repo markets mean cheaper funding costs for leveraged REITs like CMO. If cash flows go up, share price will follow suit. I’m still keeping the shares at “Hold” though since the effect of those rate increases won’t be seen until next quarter. We’ve considered exiting this one to free up some capital, but that big dividend is just too enticing. We’ll continue to hold it, but watch for a sell notice in case we need to free up some capital to put to work elsewhere. I’m keeping my price target at $13.
Communication Sales & Leasing (NASDAQ: CSAL)

**What It Does:** Communications Sales & Leasing engages in the acquisition and construction of infrastructure in the communications industry in the United States.

**Wealth Advisory Earnings Grade:** C+

- Beat expectations one of the past four quarters

**Headlines:**

- CSAL completes purchase of Tower Cloud. This gives it even more exposure to the top wireless carriers — 90% of TS revenue comes from them.

**TWA Bottom Line:** Stocks like Communications Sales & Leasing are why you’re a Wealth Advisory member. You don’t find unknown and underappreciated stocks like this anywhere else. Back in early June, Jim Cramer of Mad Money said he didn’t like the stock at $25. But if he did his homework like I did, he’d have to understand the incredible opportunity here. That’s why CSAL has been on a tear since my February recommendation. We’re up nearly 100%. And there’s more coming. CSAL is perfectly positioned to cash in on the mobile Internet trend. Management is expecting 40% revenue growth and billions of dollars in contracts booked out over the next decade. We’ll be seeing even more big growth ahead. I’m keeping my limit entry price and 12-month target steady for now. CSAL is a strong buy under $35. I’m increasing the 12-month price target to $55.

CoreSite (NYSE: COR)

**What It Does:** CoreSite is a real estate investment trust (REIT) that builds, manages, and leases data center space.

**Wealth Advisory Earnings Grade:** A+

- Beat expectations four of the past four quarters

**Headlines:**

- CoreSite sealed a deal with Gamblit — a leading technology provider in real-money gaming — to be its first U.S-based data center.
**TWA Bottom Line:** Data center REITs have been very hot, and we were on this trend very early. I've said our Internet Royalties stock COR is good for 25% returns for the next several years, and the deal with Ingram Micro and another this month with Gamblit makes that even more clear. Considering the S&P average total return over its lifetime is only 7% per year, that’s not a bad rate for us. Of all the analysts covering CoreSite, I was the most bullish on the stock back when it traded around $33. With growth in cloud computing, IoT, and big data (and more and more companies opting for external IT infrastructure) this data center REIT is in the absolute best place in the absolute best time. Management keeps blowing away expectations and that won’t stop anytime soon. In light of the recent price slump, I'm dropping the limit to $80, but maintaining my 12-month price target of $100.

**Farmland Partners Inc. (NYSE: FPI)**

**What It Does:** Farmland Partners invests in working farms and then rents the land either back to the original farmer or (if the farm comes from an estate sale where the family has no interest in continuing operations) rents it back to one of the largest farming companies in the country.

**Wealth Advisory Earnings Grade:** C-

- Missed expectations the past four quarters

**Headlines:**

- FPI to merge with American Farmland Partners (AFCO) to create largest farmland REIT in the nation.

**TWA Bottom Line:** It’s tough for farmers right now. Prices have fallen since the 2012 boom. And property taxes have increased a lot. The fallout has hit companies like Monsanto and fertilizer companies like Potash Corp and Mosaic. But not Farmland Partners. Management is doing a fantastic job navigating a tough market because it’s run by people with experience in farming instead of at hedge funds. The merger with AFCO adds about 30k acres to the holdings and will make it the biggest and best managed farmland REIT in the U.S. FPI is the best of the farmland REITs, so if you haven’t already picked up shares, I highly recommend doing so at any price under $15. There should be a dividend hike soon. In light of the recent merger announcement, I’m raising the 12-month target to $20.
**Medical Properties Trust Inc. (NYSE: MPW)**

**What It Does:** MPW buys hospitals, leases them to operators, and makes money on the spread between finance costs and rental income.

**Wealth Advisory Earnings Grade: A**

- Beat or met expectations four of the past four quarters

**Headlines:**

- Former MPW Executive VP and Chairman and CIO of Select Strategies Realty elected to board of directors.

**TWA Bottom Line:** Despite a slump the past month due to fear of interest rate increases, MPW is still up around 42% from the February lows. The fears are far overblown, however. Rates would have to rise significantly to affect MPW’s borrowing capacity. And that’s just not going to happen. This is a quality health care REIT that has been undervalued for some time. The forward P/E is low, and the 6.7% dividend is solid. It’s a good idea to accumulate shares or start a new position before the big money comes in to scoop up shares and rebalance benchmark-driven funds and portfolios. I’m keeping the limit at $17.50 and the 12-month target at $22.

**Omega Healthcare Investors (NYSE: OHI)**

**What It Does:** Omega Healthcare Investors, Inc. invests in health care facilities, primarily in long-term health care facilities with a particular focus on skilled-nursing facilities.

**Wealth Advisory Earnings Grade: A+**

- Beat expectations four of the past four quarters

**Headlines:**

- Aviv purchase paying off for Omega Healthcare — continuing to drive yoy quarterly growth

**TWA Bottom Line:** Omega remains my favorite health care REIT and one of my
favorite REITs in general. Of its revenues, 89% are contracted through 2020. OHI is growing faster — and growing its dividend faster — than any other healthcare REIT. Not only does Omega have a habit of increasing its dividend quarterly, but management has also hiked the payout by over 141% over the past decade. OHI is still in growth mode due to the fact that the U.S. need for skilled nursing is just going to increase. And fears of rate hikes are overblown — they’ll go up, but not that much (they just can’t). So we shouldn’t have to deal with deflated prices for long. With a large, stable dividend, strong potential for 20% annual returns, and an attractive forward P/E of 10, I continue to rate Omega Healthcare a “strong buy” under $40. I’m maintaining my 12-month price target at $47.

**Realty Income Corp. (NYSE: O)**

**What It Does:** Realty Income Corporation invests in the real estate markets of the United States mainly through investments in commercial real estate.

**Wealth Advisory Earnings Grade: C**

- Beat expectations one of the past four quarters

**Headlines:**

- Realty Income has a short ratio of 11. That means short-sellers will have to rush to cover trades on any upward movement. That will push the stock even higher.

**TWA Bottom Line:** Realty Income is among the premier REITs on the market and makes a great addition to any income portfolio. The dividend is paid monthly, which makes for faster compounding (4.6% a year for the last 20 years — with consecutive hikes for 19 straight). And that dividend payment is up 33% since 2010. Revenues have continued to grow the past three years as well. It’s increased acquisitions and has a gigantic stockpile of dry powder on the balance sheet. Plus there’s a good chance it’ll get a bump when short-sellers have to cover their trades and buy at any price. I’m keeping my rating of “buy” and the limit price of $70. I’m also holding the 12-month target at $85. Fears of rate hikes are overblown and this is another one to pick up on any weakness.
SmartREIT (TSX: SRU-UN.TO)

**What It Does:** SmartREIT invests in commercial real estate with a focus on shopping malls and outlet centers and is the largest landlord to Wal-Mart in Canada.

**Wealth Advisory Earnings Grade: A**

- Earnings keep growing as properties stay full.

**Headlines:**

- SmartREIT will pay down debt after closing $350 debenture offer.

**TWA Bottom Line:** While SmartREIT might not be the most interesting stock in the Wealth Advisory portfolio, it's certainly one of the safest. And with occupancy rates not straying from 99% for over four-and-a-half years, you can expect more stock price and dividend increases down the road. I'm maintaining my rating of “strong buy” and keeping the limit entry price at $40. The 12-month price target staying at $50, but I wouldn't be surprised if that turns out to be conservative. Keep an eye out for dips to accumulate shares or enter a new position.

**Energy, MLPs, and Royalty Trusts**

*I know it stinks to continually look at the oil stock losses in the Wealth Advisory portfolio, and it may take longer than we'd hoped, but oil prices (and oil stock prices) will recover — we're already seeing some of that upward movement. And we've picked solid companies that will be able to weather the storm and come out on the other side more streamlined and with less competition.*

**Crescent Point Energy (NYSE: CPG)**

**What It Does:** Crescent Point Energy Corp. acquires, explores, develops, and produces oil and natural gas properties in Western Canada and the United States.

**Wealth Advisory Earnings Grade: B-**

- Beat expectations two of the past four quarters
**Headlines:**

- CPG completes sale of $499M stock offering.

**TWA Bottom Line:** Crescent Point has great assets — and now that the PWE purchase went through, it has even more (and got the new ones at a supreme discount). It holds a significant stake in the Torquay shale oil field and in the Utica Basin, both of which are extensions of the Bakken/Three Forks formation in Canada and the northwestern United States. That’s one of the most prolific shale fields in the world. Over the next 12 years, expect Crescent Point to flourish as it drills another 480 wells in this region alone. To make matters better as far as future potential is concerned, CPG managed to cut costs by over 30% during the course of 2015. When prices recover, that’ll just add even more to the profits. Prices have dropped recently due to concerns that the stock offering is diluting shareholder value. But the offering was completed in order to drum up cash for more acquisitions. At a time when quality assets are on sale at rock-bottom prices, that’s not the worst idea in the world. I’m keeping it a “buy” but dropping the limit to $15. The 12-month target remains at $22.50.

**Just Energy Group (NYSE: JE)**

**What It Does:** Just Energy provides electricity, natural gas, and solar and green energy in the U.S., Canada, and the UK. It also sells residential solar installations.

**Wealth Advisory Earnings Grade: B**

- Beat or met expectations two of the past four quarters

**Headlines:**

- JE announced $160M public offering of unsecured debt. Funds will be used to retire older debt that carries a higher interest rate.

**TWA Bottom Line:** Just Energy is another addition to our renewable energy investment list. The company excels at providing green energy solutions to residential and commercial customers. And it’s continuing to expand both its footprint and consumer base. The company has a P/E and P/S way better than the industry average and pays a sweet dividend yield of 7.4%. It’s also an investment in social responsibility — the company helps non-profit organizations get the resources they need to promote the health and well being of communities in need.
The shares took a pretty hard hit last week right after the dividend was paid. More than twice the average volume of shares changed hands and the stock dropped into oversold territory. There was an editorial in the WSJ claiming venture capital was pulling out of clean energy and it looks like the entire renewable industry took a bit of a hit. The price has been recovering since, however. I'd call the drop a good opportunity to establish a position or add to an existing one at a discount. The buy limit on this one remains $7 and the price target is steady at $8.25.

**Pattern Energy Group (NASDAQ: PEGI)**

**What It Does:** Pattern Energy Group is a yieldco that buys power generation assets and gets a steady stream of income from the installation, which it uses to pay dividends and fund other purchases.

**Wealth Advisory Earnings Grade: C-**

- Missed expectations the past four quarters

**Headlines:**

- PEGI announced the acquisition of a 90MW interest in the 180MW Armow Wind power facility in Ontario. The funding comes from its recent stock offering.

**TWA Bottom Line:** After the company announced that Wal-Mart had purchased 58% of the expected output of Pattern’s Dallas wind farm in an effort to switch entirely to renewable energy, the market started to take notice of this company. Since then, it’s been business as usual at PEGI. It’s still up YTD despite some weakness over the past two months and should continue to rise as more projects come online and more companies switch to renewable energy sources. The same article in the WSJ that hit JE last week sent shares of PEGI down as well. But, like JE, PEGI’s stock has started to slowly recover. I continue to rate Pattern Energy Group a “strong buy,” and I am sticking with my buy-under price of $24 and maintaining the 12-month price target at $31. This recent drop gives you an opportunity to buy under the limit if you’re interested in adding to a position or entering a new one.

**Teekay LNG Partners (NYSE: TGP)**

**What It Does:** Teekay LNG Partners is an independent owner of LNG carriers
with a fleet of LNG carriers, LPG/multigas carriers, and conventional tankers that provides its services through a time-charter or bareboat charter contract basis.

*Wealth Advisory Earnings Grade: B*

- Beat expectations two of the past four quarters

**Headlines:**

- TGP upgraded to outperform by Wells Fargo analysts.

*TWA Bottom Line:* Teekay shouldn’t be overly susceptible to lower LNG prices, since, no matter the price, the stuff still has to get shipped somehow. Although the company remains strong, it will need extra cash to fund profitable projects. In a press release from July, the company announced it is making progress securing the necessary funding to continue growth projects through 2020. The company is making solid progress on securing that funding. And with LNG shipments starting to ramp up globally, TGP should see much better operating results. Those translate to higher share prices — something we saw this month as the market started to take notice and Wells Fargo upgraded the stock. I still rate Teekay LNG a “buy.” Look for dips under $14 to add to or start a position. I’m keeping the 12-month target at $25. It’s going to be a tough year in the market but TGP is going to come out on top.
Closed-End Funds (CEFs)

A closed-end fund is like a mutual fund except that the assets in the CEF and the number of shares outstanding are fixed. When you buy into a mutual fund or an ETF, the fund gets larger and has to buy more of the assets it’s committed to holding. That’s not true for CEFs.

Closed-end funds are usually focused on providing dividends. They may own municipal bonds or corporate bonds. They may invest in real estate investment trusts (REITs) or other classes of dividend stocks. Some will even use leverage to generate consistent cash returns to pay to investors as dividends. Finally, management fees for CEFs are usually much lower than for actively managed mutual funds simply due to the lower amount of effort they require from portfolio managers.

The bottom line is CEFs are a cheaper alternative to other types of investment funds, which still provide exposure to all of the same markets as their more expensive and less profitable peers.

Alpine Global Premier Property (NYSE: AWP)

What It Does: This fund gives us exposure to both of the two biggest real estate markets on each of their respective continents — those of the U.S. and Brazil.

Major Holdings

- Multiplan Empreendimentos Imobiliarios — planning, development, marketing, construction, rental, and management of retail outlets.

- Iguatemi Empresa de Shopping Centers — planning, development, marketing, construction, rental, and management of shopping centers.

- Simon Property Group (NYSE: SPG)

- American Capital Agency (NASDAQ: AGNC)

- Colony Financial (NYSE: CLNY)

- Invesco Mortgage Capital (NYSE: IVR)
Largest Individual Holding

- Singapore's ARA Asset Management

Key Facts and Stats

- In 2008, AWP cost $14 and paid a 10% dividend.
- As of now, AWP costs $5.56 and pays a 10.71% dividend.
- AWP has paid a distribution for well over 100 consecutive months.
- NAV sitting at $6.64.
- Current discount to NAV is 16.27%.
- Three-year average discount to NAV is 13.62% — shares are cheap.

TWA Bottom Line: I continue to rate the Alpine Global Premier Property Fund a "buy." I am keeping my 12-month price target at $7.50 in light of fears in global markets.

BlackRock Global Opportunities Fund (NYSE: BOE)

What It Does: The BlackRock Global Opportunities Fund is a leveraged fund that sells individual stock options on the fund's holdings in order to generate income.

Fund Investment Strategy

- 78% invested in large- and mega-cap stocks — market cap $10B to $200B
  - 43% in the U.S./10% in UK
  - 21% in financials/11% in each of IT, consumer staples, and consumer discretionary

Key Facts and Stats

- Current dividend yield — 7.77%.
• Typically outperforms its benchmark — S&P Global Broad Market Index.

• Current NAV holding at $13.71.

• Current discount to NAV is 12.11%.

• Three-year average discount to NAV is 11.37%.

**TWA Bottom Line:** I still rate this fund a “buy” with a limit of $12 and a 12-month target of $15 a share. Look for dips before entering a position or adding to a current one.

**GAMCO Global Gold & Natural Resource Fund (NYSE: GGN)**

**What It Does:** The GAMCO Global Gold, Natural Resources & Income Trust is a leveraged fund that trades derivatives to generate income, which it then distributes as a very nice dividend.

**Major Fund Holdings**

• North American Gold Miners and Royalty Plays
  • Randgold (NASDAQ: GOLD)
  • Goldcorp (NYSE: GG)
  • Newmont Mining (NYSE: NEM)
  • Franco-Nevada Corp (NYSE: FNV)
  • Royal Gold (NASDAQ: RGLD)

• Large International Non-Gold Operation
  • Suncor Energy (TSX: SU)
  • Rio Tinto (ASX: RIO)
Key Facts and Stats

• Current dividend yield — 13.23%.

• Current NAV up to $6.11.

• Current premium to NAV is 3.93%.

• Three-year average discount to NAV is 3.38% — shares are trading above NAV.

**TWA Bottom Line:** My recommendation here was less a bet on the resurgence of gold miners and a rally in gold prices and more about that massive dividend. And while I was content to sit back and collect those gigantic monthly income payments, I was super happy to see investors driving up the price of gold and gold miners alike — as well as the price of GGN. With that in mind, I still rate this fund a “strong buy” under $6.50 a share, but I am sticking with my 12-month price target of $9 because buying seems to have calmed a bit in the gold markets (as I predicted) and the shares are holding pretty steady between $6 and $7.

**Mexico Fund (NYSE: MXF)**

**What It Does:** The Mexico Fund invests in the biggest and best companies based out of Mexico and trading on the Mexican stock exchange.

**Major Fund Holdings**

• America Movil (XMEX: AMXL)

• Cemex (XMEX: CEMEXCPO)

• Wal-Mart de Mexico (XMEX: WALMEX)

• Grupo Financiero (XMEX: GFNORTEO)

• Grupo Televisia (XMEX: TLEVISACPO)

• Kimberly-Clark de Mexico (XMEX: KIMBERA)
Key Facts and Stats

• Current dividend yield — 3.69%.

• Current NAV holding at $17.40.

• Current discount to NAV is 12.32%.

• Three-year average discount to NAV is 4.85% — shares are still unusually cheap.

• Three-year high NAV is $30.83 — potential upside of 100%.

TWA Bottom Line: The Mexico Fund is still a “buy.” I’m dropping the limit to $16.50 and the 12-month price target to $20, however.
Preferred Stocks

Preferred stock has many similarities with common stock, but some stark contrasts set the two apart. These differences often make preferred shares less risky and more profitable than the common stock issued by a company.

Preferred stock gives the owner a higher claim on the corporation's assets and earnings than you get with common stock. Preferred stock generally has a dividend that must be paid out before dividends to common shareholders, though the preferred shares usually do not carry voting rights.

Like common stock, preferred shares trade in the open market, and like common stock, their prices can go up and down based on sentiment about the issuing company. But unlike common stock, preferred stockholders are basically guaranteed a dividend and are given priority above common shareholders when dividends are paid out.

With many of these stocks, the dividends will be paid in arrears, meaning that if the company simply can't pay a distribution, the company can't slash the payment on the preferred shares like it can on common shares.

**Alcoa Class B Preferred Shares (NYSE: AA-PB)**

**What It Does:** Each of these shares represents a one-tenth interest in a share of our 5.375% Class B Mandatory Convertible Preferred Stock, Series 1, par value $1.00 per share of Alcoa.

**Key Facts and Stats**

- Current dividend yield — 8.58%
- TWA Yield on Cost — 9.27%
- Maturity Date — 10/1/2017
- Redeemable — Yes
- Cumulative — Yes
• Liquidation Preference — $50

• Shares Offered — 25 Million

• Original Coupon — 5.375%

• Pay Period — Quarterly

**Pay Dates** — 1-Jan, 1-Apr, 1-Jul, 1-Oct

**Recent Gain/(Loss)** — 16.11%

**TWA Bottom Line:** What we have here is a way to get a super-high yield out of an extremely stable company. I expect to see both price appreciation and sweet dividend yields out of this one for the duration of our investment. I’m maintaining my limit entry price of $35 and my 12-month target at $47.50.
Exchange-Traded Funds (ETFs)

Exchange-traded funds (ETFs) are marketable securities that track an index, commodity, bond, or a basket of assets like an index fund. ETFs trade just like common stock on stock exchanges, and many pay dividends. Unlike mutual funds, ETFs typically have higher liquidity and lower fees.

An ETF owns the underlying assets and divides ownership of those assets into shares. Shareholders do not directly own or have any direct claim to the assets, but they get to profit as the assets increase in value.

By owning an ETF, investors get the diversification of an index fund as well as the ability to sell short, buy on margin, and purchase as little as one share (there are no minimum deposit requirements). Another advantage is that the expense ratios for most ETFs are lower than those of the average mutual fund.

There is also the potential for favorable taxation on cash flows generated by ETFs, since capital gains from sales inside the funds are not passed through to shareholders, as is usually the case with mutual funds.

**Guggenheim S&P Global Water (NYSE: CGW)**

**What It Does:** This fund is composed of 50 equities and seeks results that correspond with the S&P Global Water Index. It invests at least 90% of its assets in common stock and ADRs.

**Major Holdings**

- Geberit AG – 8.95% of assets
- American Water Works Co – 7.28% of assets
- Pentair PLC – 6.32% of assets
- Xylem Inc. – 4.91% of assets
- United Utilities Group – 4.79% of assets

**Key Facts and Stats**
• Total Assets: $432.24 million

• Net Asset Value (NAV): $30.27

• Annual Expense Ratio: 0.63%

**TWA Bottom Line:** Our investment in CGW is based on the fact that water, although it covers the majority of the Earth’s surface, is a finite and extremely limited resource. As global populations continue to grow, so will the need for fresh water. CGW invests in companies that make previously inaccessible water easier to extract, companies that reduce the waste of water in agriculture, and companies that are coming up with ways to make previously non-potable water ready to drink. We’ve seen a bit of a drop towards the middle of this month, but with the fund nearing oversold territory, I expect shares to pop back up shortly. Take this as an opportunity to get in well below the limit price of $31.50. Remember, we’re only entering a half position right now. And also keep in mind that this is a long-term investment that WILL pay off down the road.

**ProShares UltraShort Utilities (NYSE: SDP)**

**What It Does:** This fund seeks to achieve double the inverse of the return of the Dow Jones U.S. Utilities Index.

**Major Holdings**

• Dow Jones U.S. Utilities Index Swap Credit Suisse International — 90.81% of assets

• Dow Jones U.S. Utilities Index Swap Bank of America NA — 85.93% of assets
  Dow Jones U.S. Utilities Index Swap UBS AG — 11.93% of assets

• Dow Jones U.S. Utilities Index Swap Deutsche Bank AG — 6.09%

• Dow Jones U.S. Utilities Index Swap Societe Generale — 3.94% of assets

• Dow Jones U.S. Utilities Index Swap Morgan Stanley & Co International Plc — 1.34%
Key Facts and Stats

- Total Assets: $8.98 million
- Net Asset Value (NAV): $34.22
- Annual Expense Ratio: 0.95%
- ICF International states that grid managers serving the eastern United States plan to cut the amount of electricity they buy from conventional power plants by roughly 1,400 megawatts by 2019.
- Utilities industry average valuations at all-time high levels.
- EIA reports solar will add more electricity to the grid than any other energy source in 2016.

**TWA Bottom Line:** *Bloomberg* agrees! After two of the largest casinos in Vegas called it quits with their utility company, analysts at *Bloomberg* started to understand that this is the start of something much bigger. Solar field and panel installations are growing at the fastest rates ever and the cost of power generated by these installations is nearing parity with conventional sources such as coal and natural gas. Once that threshold is crossed, there’s no reason not to switch to solar power. And as that starts to happen, we’ll see even cheaper costs due to the growing scale of the industry. In addition to that, telecom companies are getting in on the action. Some are offering solar-plus-storage options to customers to cash in on the solar revolution and leverage huge customer bases to sell battery storage units. Getting in on the ground floor as we are with our green investments and with our short position on the utilities industry, we’ll be cashing in big time in the coming years. If you haven’t done so already, buy these shares. I’m keep the limit price at $35 to discourage any price chasing, and maintaining the 12-month price target of $55.

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