July 26, 2013

"Buy, buy, buy, says the sign in the shop window. Why, why, why, says the junk in the backyard?" -PAUL MCCARTNEY

"Ahhh…Wings, the band the Beatles could have become." -BRITISH COMEDIAN, ALAN PARTRIDGE

Get back to where you once belonged. Admittedly, my mind is wired differently than those of most members of the human species. One example is that I'm constantly running time-back/time-forward types of mental exercises which I've discovered over the years hardly anybody else does.

For instance, as a result of an event I attended last Friday at Seattle's Safeco Field, I started ruminating on the fact that fifty years ago Paul McCartney was one of the biggest stars known to mankind. Fifty years before that, it was Charlie Chaplin. But half a century after the erstwhile Beatle first became a bona fide superstar, he still puts on one of the greatest shows on earth and continues to pack some of the world's largest stadiums to the rafters. Somehow, I don't think Charlie Chaplin could have sold out Shea Stadium back in 1964.

It's hard to describe how fabulous Sir Paul's show was, before a crowd of nearly 50,000, but I guess that's what a former member of the Fab Four is supposed to do. But come on! I mean, the bloke is 71! He performed non-stop for almost three hours, save for a couple of short breaks after his main set before returning for multiple encores at the insistence of an adoring audience. His voice remains remarkably strong and he displays the on-stage agility and energy of a 41-year old. Maybe there is something to all that vegetarian stuff after all!

McCartney played so many classic tunes from his 60 gold records, I can't possibly say which was best, but among the seemingly never-ending parade of peerless songs, *Maybe I'm Amazed* left me feeling just that. Another song that sent the stadium into rapture was the 1969 classic *Get Back*, the song the band was playing on the roof of Apple Studios when the police interrupted perhaps the most famous impromptu performance of all time.

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Get Back was recorded live and it represented Paul's attempt to bring the band back to its original spontaneous rock and roll roots (what boomer can forget the Beatles' hyperkinetic appearance on "The Ed Sullivan Show" in 1964?) However, instead of reviving the band's camaraderie, *Get Back* ended up being the last song on the Beatles' final album, *Let It Be*.

If you are now reasonably wondering where I'm going with my paean to Paul, it has to do with this week's change-of-pace *EVA*, an audio version. It, too, was recorded live and impromptu, though neither the sound quality nor the content is even remotely comparable to that of the group once known as Johnny and the Moondogs (certainly one of the better name changes in music history!) However, it was created at the John Mauldin/Altegris Strategic Investment Conference this past May, which featured a long list of rock stars from the investment world.

As you will soon hear, it was a brief interview with yours truly and the good news for those of you in fast-forward mode is that it only runs a bit longer than a Beatles song.   It's on a topic that, as far as I know, Paul and his mates never covered: master limited partnerships (MLPs). While this subject isn't quite as captivating as love, world peace, or even lovely meter maids (pronounced "meeta," of course), it's one that investors care about—or at least they should if they are interested in high and steady returns. (My apologies to those EVA readers who receive John Mauldin's *Yield Shark* service, where this first ran, and have already heard it.)

Yet, it's what has happened with non-MLP income investments since my comments were recorded that has me excited about being able to get back to where I once belonged—being an active buyer of fallen-star yield vehicles with serious comeback potential.

As usual, my team and I seem to be in the minority as most investors appear to have concluded that most high cash flow vehicles have become backyard junk they never should have bought. Consequently, they are definitely getting back—to the return-free "safety" of cash.

Hello, goodbye! In the financial game, yesterday's Beatles can become tomorrow's Monkee's, as once wildly popular asset classes fall out of favor with the investing public. This interview only took place two and half months ago and yet the yield complex has been turned upside down (showing how fickle things are in the investment world these days).   Investors who not long ago were saying enthusiastic hellos to income investments are now shouting emphatic goodbyes.

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MLPs, however, continue to bask in the warm glow of investor adoration, having returned 22% already this year, appreciating even further from when I recorded these comments. This has caused us to actively harvest profits for our clients. As noted in recent EVAs, this is highly unusual given the magnitude of the rate run-up we've seen since May (MLPs generally fall when yields rise). It is important to note that we continue to maintain a core position in this sector due to its still attractive cash flow attributes and advantageous positioning at the nexus of the US energy resurgence. It's just that we aren't as invested in MLPs as we were earlier in the year.

On the other hand, municipal bonds, and particularly the leveraged closed-end funds that invest in them, have seen their ranking on the pop charts absolutely crater.   As a result, it is now possible to attain 6% to 7% (largely tax-free yields) from these vehicles.   Additionally, they are selling at discounts to net asset value rather than premiums.

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We are also intrigued by closed-end emerging market debt funds, both in local currency and in US dollars, that have been deserted by their fan base. Once the heartthrobs of retail and institutional investors alike, they are now being relegated to the equivalent of playing lounge shows in Vegas.   Yields here are in the 7% to 8% range and, as with muni funds, they are trading at discounts to the fair market value of their underlying securities.

Candidly, if I were interviewed today I would be focusing on the merits of these instruments, which don't play lovely musical notes but do pay out substantial sums of the bank note variety. While it's certainly unlikely closed-end muni funds will set a generation's toes tapping, or cause audiences to scream hysterically for more, they do offer the elevated returns that, in a yield-starved world, are definitely a most desirable Ticket to Ride.

(Due to our long-term positive view of MLPs, and their increasingly important role in the US economy, I would encourage those who haven't heard this interview to invest a few minutes to learn more about the sector's current condition and future outlook.)

Click here to listen to the Mauldin conference interview

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