Cabot
DIVIDEND INVESTOR
Safe Income and Dividend Growth

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Don't Fear the Risk, Exploit It

This market is spectacular. The S&P 500 is up over 12% year to date after soaring 21.9% in 2023. In fact, stocks have rallied a staggering 50% since October of 2022.

But there is reason for caution going forward. Because of sticky inflation, interest rates remain near the highest levels in 20 years and may continue to stay high or, God forbid, go higher until they drive the economy down. A hugely contentious presidential election is about to take place. And there are two significant global wars going on.

Even if we somehow tango through the inflation and high interest rate situation without a recession, there is a good chance of market turmoil resulting from a disputed election outcome or an escalation of the wars in Ukraine and Israel or a new problem. Caution is warranted.

I don't mean to be gloomy. I still think the market will trend higher. But there could be some trouble along the way. If you would have invested in just the **SPDR S&P 500 ETF Trust (SPY)** five years ago, in June of 2019. You would have gotten a 101% return and doubled your money. Your average annual return would have been 15%, more than 50% higher than the long-term historical yearly average. But there was some trouble along the way.

There was the global pandemic that crashed the U.S. and world economies for more than a year. It was followed by the worst inflation in 40 years and the highest interest rates in 20 years. There was also the worst conflict in Europe since World War II and the worst Middle East conflict in decades. All hell broke loose, and you still doubled your money.

The market has an upward bias and tends to rise over time, even amid tremendous disruptions. If you just stay invested and ride things out, you'll do fine. But you can do much better than fine. If you purchased individual stocks during the down periods in that five-year period, you could have gotten much higher returns, and faster.

The S&P 500 crashed 30% in record time at the onset of the pandemic in 2020. There was also a bear market in 2022 during which the S&P fell more than 20% and the Nasdaq plunged well over 30%. Of course, most stocks were down a lot more than the indexes. If you targeted some of the very best stocks at fire sale prices you could have gotten amazing returns.

In this issue, I highlight a way to target the purchase of the very best stocks at fire sale prices amid market turmoil that may occur from the potentially market-roiling issues this year or next. Most investors don't buy when the market is crashing because it's natural not to want to try and catch a falling knife. But there's a way to take emotion out of the equation and calmly plot a way to fantastic returns.

The world is a crazy place. It's getting crazier. There's nothing you can do about that. But making a lot of money is terrific therapy.

What to Do Now

I'm not expecting a market crash of any kind. It's just that over the course of the next year or two, it could certainly happen, as it has in the past. It's prudent to prepare for the possibility of a steep market selloff and to actually take advantage of it instead of just hiding under the bed.

As I've mentioned in previous issues and updates, I believe the market will likely be fine for the rest of the year if interest rates do not rise to new highs or the economy doesn't spin out toward recession. In the absence of those two extremes, the market should end the year higher than it is now, although it will probably be more sideways than it was for the past six months.

The market seems to want to go higher, and it probably will. Artificial intelligence will continue to add a strong upside catalyst for the technology sector. But that upside will be somewhat offset when investors finally realize that the Fed will not be doing any rate cuts this year.

Anything is possible of course, but I believe there is a good possibility of a flatter market for the rest of the year. In such markets, dividend income provides a great benefit. The high yields from the midstream energy companies including **Enterprise Product Partners (EPD)**, **ONEOK (OKE)**, and **The Williams Companies (WMB)** should be a good place to be, as will the new Business Development Companies **Main Street Capital (MAIN)** and **FS KKR Capital Corp. (FSK).**

Qualcomm (QCOM) should also perform well if you don't own it already. Artificial intelligence isn't going away no matter what the Fed does or who is elected President. The company is very well positioned for the next wave of AI in the mobile device arena.

Recent Activity

May 8
Purchased [redacted] **- $19.40**
[redacted] **- Rating change "BUY" to "HOLD"**
SOLD [redacted] **- $54.93**

June 5
SOLD [redacted] **- $54.03**

June 12
[redacted] **- Rating change "BUY" to "HOLD"**
GTC order [redacted] **- $580**
GTC order [redacted] **- $1,000**

Featured Actions

Good 'Til Canceled (GTC)

Unfortunately, buying market dips isn't nearly as easy as it may seem. Sure, the market has clearly demonstrated an upward bias over time. Buying the dips makes perfect sense intellectually. You'd get it right on a test. But during a real market selloff, few people are interested in buying. We don't want to throw good money after bad. I'm guilty of that fear myself.

We have a natural instinct to avoid danger. When the market is crashing, we don't want to go anywhere near it. Like with an earthquake, there's always the fear that this crash is "the big one." We tell ourselves that we will wait until the market finishes falling and then consider buying something. The problem is that we only know the market is done falling after the fact. And by then, it has rebounded, and much of the opportunity for big gains is gone.

Preparation is the remedy. Instead of relying on overcoming our natural emotions in the heat of the moment, we can calmly plan for a market drop ahead of time, safely away from the tumult of the moment. Specifically, we can target great stocks at bargain basement prices that may only be hit in the market overreactions during irrational selling. We can do this with a good 'til canceled (GTC) order.

Good 'til canceled means that you'll buy the stock if it drops to your targeted price at any time, unless, of course, you cancel the order. There are many stocks that would be great to own. But great stocks tend to be rather expensive in a good market. This method enables you to target a stock at a dream price and have a chance of getting it in a turbulent market selloff. Of course, the stock may never hit the price. But you don't lose anything for trying.

Below, I highlight GTC target prices on two stocks that have been very successful in the portfolio. Both these stocks continue to deliver stellar returns and have moved well beyond the targeted buy price and seldom ever pull back. They are both rated "HOLD" and only have one-half positions remaining. But in a market with irrational selling, the stocks could be purchased at prices well below where they would ever be under any other conditions.

Eli Lilly and Company (LLY)
Current price - $865
GTC target - $580

This is a pharmaceutical giant that has delivered staggering returns. Since being added to the portfolio in August of 2020, LLY has returned about 500% with an average annual return of 59% for that period.

The boring old pharmaceutical stock has dwarfed the returns of most of the much-heralded "Magnificent 7" stocks. Not only that but LLY has outperformed the group with a small fraction of the volatility. It has a beta of just 0.31, meaning it is less than one-third as volatile as the S&P 500.

LLY rarely pulls back since investors have focused on its two new potential mega-blockbuster drugs. It surges higher, then goes sideways for a while, then surges higher again. LLY did have a rare dip in price in February of last year, when I recommended subscribers buy it at that cheap price. It's up about 160% since.

Indiana-based Eli Lilly is a global pharmaceutical giant with over $36 billion in annual revenue, 41,000 employees, and sales in 110 countries. Founded in 1876, Lilly is noteworthy for its unusually high focus on R&D, where it allocates over 25% of sales compared to an average of high teens for the industry. The R&D focus pays off as Lilly has arguably the very best pipeline and lineup of recently launched drugs in the industry.

The catalyst for the stock recently has been two new potential mega-blockbuster drugs. Its new weight loss drug, Zepbound, gained FDA approval this past November. These weight loss drugs are the biggest thing going on right now in big pharma because of the enormous market potential and Lilly's drug has delivered better results than anything on the market for weight loss in trials.

Obesity is a massive problem, and some analysts speculate that this drug, and its follow-up drugs, could eventually generate over $20 billion a year, the level of the best-selling drug of all time so far. The drug sold over $500 in its first full quarter. Lilly is also investing heavily in production facilities to meet the soaring demand.

On top of that, FDA approval for Lilly's Alzheimer's drug Donanemab is expected in the months ahead. The FDA has a low threshold for approval because there is only one other drug for Alzheimer's on the market, and Lilly's is better. This drug also has mega-blockbuster potential. **Novo Nordisk (NVO)** received approval for their Alzheimer's drug last year and Lilly's is widely regarded as superior. This week the FDA Panel gave the drug rave reviews, making approval more likely and sooner.

The stock seldom pulls back because of the game-changing earning potential of these new drugs. But a panicked market doesn't care about things like that and you could potentially get one of the very best stocks on the market at a very cheap price.

The GTC target price of $580 per share is because that price is in the first range of significant technical resistance if the stock price falls a lot.

Broadcom (AVGO)
Current price - $1,400
GTC target - $1,000

Few stocks have benefited from the AI craze like AVGO has. In the spring of last year, **Nvidia (NVDA)** reported blowout earnings from demand for AI chips that blew away expectations. That's when the AI craze got real in terms of bottom lines and stock prices. Other AI stocks also took off including AVGO and the stock price has more than doubled since. The stock is also up over 33% YTD and 248% since being added to the portfolio in January of 2021.

But AVGO never really pulls back. Over the last year-plus, the stock has had periodic surges higher. When the surge ends, it just sort of goes sideways for a while until the next surge. Stocks that seldom pull back and provide good entry points are ideal to target during times of market panic where everything gets pummeled.

Broadcom is a global infrastructure technology leader and an industry Goliath with $39 billion in annual net revenues. It's an icon of the technology revolution with roots that trace back over 50 years to the old AT&T/Bell Labs. The company has many category-leading products in semiconductors and infrastructure software solutions.

Broadcom provides components that enable networks to operate together and communicate with each other from the service provider all the way to the end user and device. That may sound complicated. But there are two simple reasons to own AVGO. One, it will continue to benefit from businesses moving online and into cloud-based applications. Two, it is getting a huge benefit from the fever to adopt artificial intelligence technology.

The company is an early comer to the technology party that provides crucial infrastructure that enables other technologies that come along the way. The company is so entrenched in the infrastructure of today's technology that 90% of internet traffic uses Broadcom's systems.

Broadcom benefits from AI in a brilliant way. It makes generative AI chips. These chips don't provide AI functions per se but rather the technology that enables AI to connect to all other systems, which it must do to be of any use. The sheer volume increases from the new technology as well as soaring demand for the next generations of its chips should enable Broadcom to achieve a much higher level of profit growth for years to come.

The GTC target price was chosen in a more arbitrary way than for LLY. The stock has risen so steadily over the past year that there is no significant technical resistance until around the $850 price level, which is probably a bridge too far even during most irrational selloffs. Instead, I choose the psychologically important $1,000 level.

Current Allocation	
Stocks	***59.4%***
Fixed Income	***19.5%***
Cash	***21.1%***

Portfolio Recap

High Yield Tier										
Security (Symbol)	**Date Added**	**Price Added**	**Div Freq.**	**Indicated Annual Dividend**	**Yield On Cost**	**Price on close 06/10/24**	**Total Return**	**Current Yield**	**CDI Opinion**	**Pos. Size**
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Dividend Growth Tier										
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Safe Income Tier										
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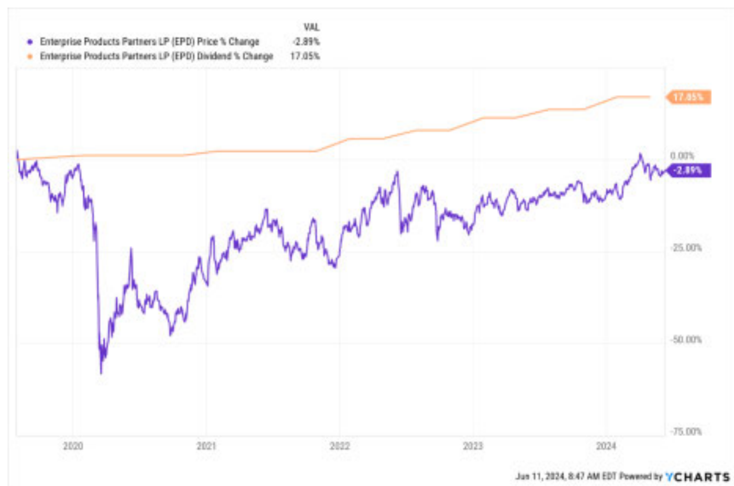
High Yield Tier

The investments in our High Yield Tier have been chosen for their high current payouts. These investments will often be riskier or have less capital appreciation potential than those in our other two tiers, but they're appropriate for investors who want to generate maximum income from their portfolios right now.

Brookfield Infrastructure Partners (BIP – yield 5.7%) – The infrastructure partnership pulled back over the past month from the recent high in the middle of May. It's been a wild ride on the current interest rate narrative for this infrastructure powerhouse. It was an awful first half of April as the stock fell about 20% in the first two weeks. But Brookfield reported strong earnings and the company rallied to make up for all of that dip. Now it's floundering again. Brookfield did report solid earnings and raised the distribution by 6%. Management has reason to be confident in the historically very reliable earnings. (*This security generates a K-1 form at tax time.*) **BUY**

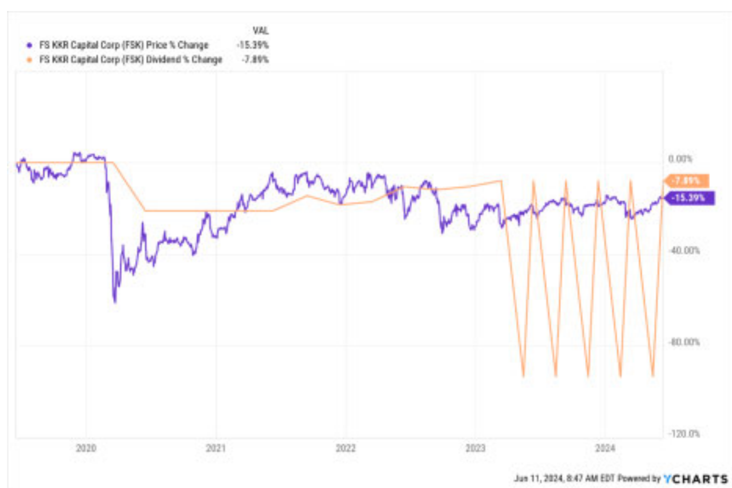
Brookfield Infrastructure Partners (BIP)
Next ex-div date: August 31, 2024, est.

Enterprise Product Partners (EPD – yield 7.2%) – This midstream energy partnership pulled back a little bit from the high of early April but mostly it has just stopped going higher for now. The energy sector has been weaker because of falling oil prices and the more beaten down dividend stocks, like utilities, have rallied. Earnings again showed Enterprise is solid operationally and that huge distribution yield is safe. The earnings didn't reflect much change in an already solid story. I expect EPD to continue to pay the massive distribution and trend higher at a snail's pace. (*This security generates a K-1 form at tax time.*) **BUY**

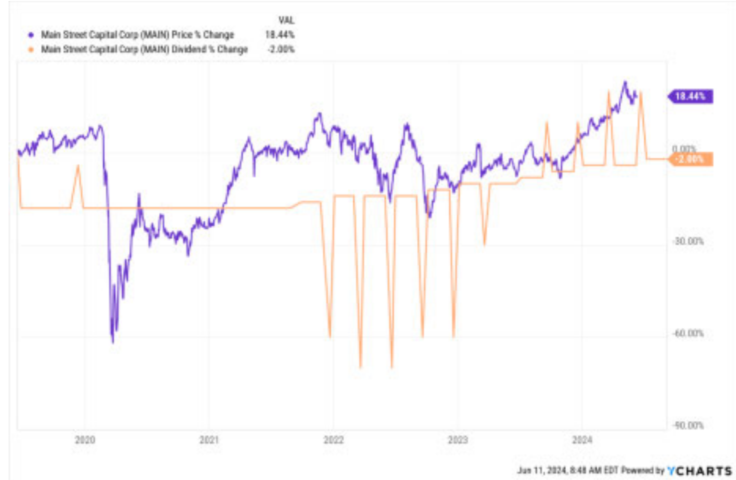


Enterprise Product Partners (EPD)
Next ex-div date: July 30, 2024, est.

FS KKR Capital Corp. (FSK – yield 13.6%) – So far, FSK is delivering as advertised. It's continued to pay the massive dividend and the price has appreciated since it was added to the portfolio. The ultra-high-yielding Business Development Company reported solid earnings that were roughly in line with estimates. FS also announced a second-quarter regular dividend of $0.70 per share and a supplemental dividend of $0.05, reflecting confidence in the BDC's ability to cover the payout and support shareholders. FSK is within pennies of the 52-week high and continues to look strong. **BUY**



FS KKR Capital Corp. (FSK)
Next ex-div date: June 12, 2024



Main Street Capital Corporation (MAIN – yield 5.9%) – This Business Development Company paid a regular monthly dividend of $0.72 per share in the second quarter, marking a 6.7% increase year over year, as well as a $0.30 supplemental dividend in the quarter. But the stock has pulled back a few dollars from the early-May high. Perhaps there was some selling after the dividend and some good earnings news. MAIN has also shown resilience in tough markets. The safe and high yield pays dividends every single month with a strong possibility of supplemental dividends over the course of the year as well. MAIN often pays supplemental dividends, but I only use the regular dividend to calculate the yield. With the supplements, the trailing yield is 8.47%. **BUY**

Main Street Capital Corp. (MAIN)
Next ex-div date: June 21, 2024

ONEOK Inc. (OKE – yield 5.0%) – The stellar performing midstream energy company is a few bucks off the high. Oil prices have moved lower over the past couple of months and the energy sector has struggled. The midstream energy subsector, which is not reliant on commodity price for earnings, has been weaker in sympathy. But I'm encouraged by the fact that midstream companies are only down a little in the recent market. The high yield and hedge against inflation is still a big draw for investors and I expect it to remain so for at least the rest of this year. Analysts expect 30% revenue growth and 29% earnings growth from ONEOK for this year over last year. **BUY**

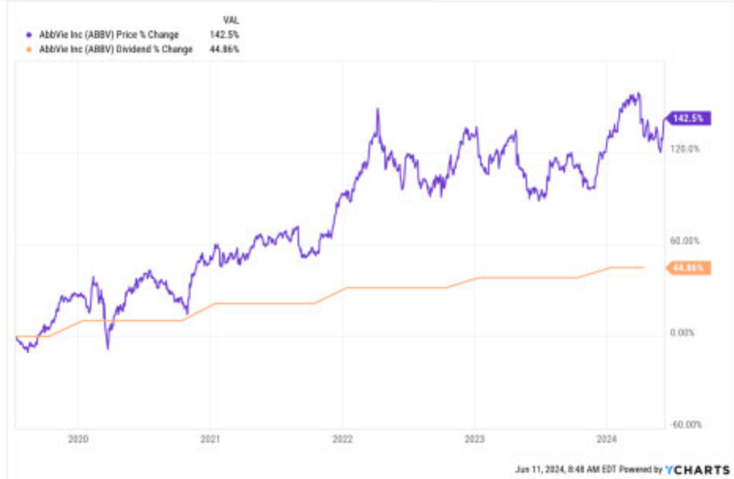
ONEOK Inc. (OKE)
Next ex-div date: July 30, 2024, est.

The Williams Companies, Inc. (WMB – yield 4.6%) – The midstream energy company tends to be the least volatile of the midstream companies in the portfolio. That's a good thing when the market is weaker for the subsector. Consequently, WMB is still within pennies of the high. Williams soundly beat earnings estimates on both net income and earnings per share and guided to the upper half of 2024 guidance. Williams also posted a stellar 2.6 times dividend coverage. It's a stable, high-yield stock and the company should deliver solid and dependable earnings in just about any economy. **BUY**

The Williams Companies, Inc. (WMB)
Next ex-div date: September 7, 2024, est.

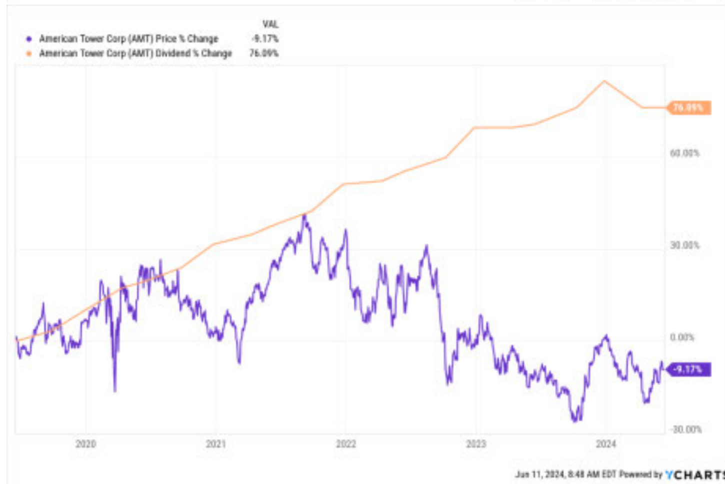
Dividend Growth Tier

To be chosen for the Dividend Growth tier, investments must have a strong history of dividend increases and indicate both good potential for and high prioritization of continued dividend growth.



AbbVie (ABBV – yield 3.6%) – ABBV is back in business. The stock jumped over 10% in the past couple of weeks and appears to have broken out of its recent funk. ABBV had given back about half of the big surge late last year and early this year, which is normal behavior for this stock. But several good news reports for drugs in the pipeline might usher in a lasting move higher. The company has one of the best pipelines and new drugs in the industry and it usually doesn't stay down for long. It's still cheap ahead of what is a likely return to robust earnings growth next year. **BUY**

AbbVie Inc. (ABBV)
Next ex-div date: July 12, 2024, est.



American Tower Corporation (AMT – yield 3.3%) – AMT has been bouncing around with the interest rate narrative. But the cell tower REIT has struggled a little more because of a dividend cut (which was not impactful in a meaningful way) so AMT is still far from the 52-week high. American Tower rallied strongly after the REIT beat estimates on both revenue and earnings with 9.8% adjusted funds from operations per share growth over last year's quarter. The REIT also raised guidance for 2024. It's a solid REIT with stronger growth than most of its peers but interest rates will be the biggest determinant of performance in the near term. **BUY**

American Tower Corporation (AMT)
Next ex-div date: June 14, 2024

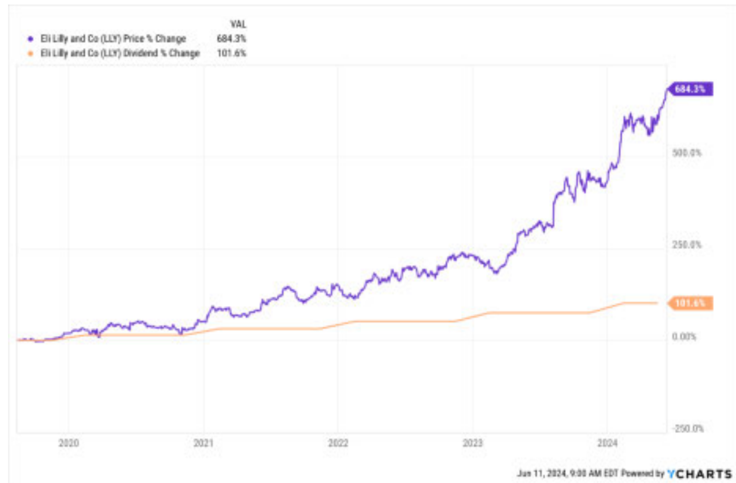
Broadcom Inc. (AVGO – yield 1.5%) – This infrastructure software and semiconductor company is getting a huge catalyst from artificial intelligence. It's been on a tear since Nvidia posted blowout growth in demand for AI products last year and ignited the craze. AVGO just made another new all-time high ahead of earnings, which are due to come out today (Wednesday), after this issue went to print. Earnings have beaten estimates the last four reports and good news is likely. We'll see if the report just gives it a bump or ignites another upside surge. **HOLD**

Broadcom Inc. (AVGO)
Next ex-div date: June 20, 2024, est.

Digital Realty Trust, Inc. (DLR – yield 3.3%) – The data center REIT has been trending higher for 13 months. The uptrend sort of sputtered in April and May. But it's moving higher again this month and just cracked the 150 per share level again for the first time since February. DLR isn't far from the high and could be on the cusp of a breakout. We'll see. Management recently stated that the REIT is seeing accelerating demand for AI-oriented opportunities. A big reason the stock was added to the portfolio was the additional growth catalyst provided by AI. The statement indicates that is happening. **BUY**

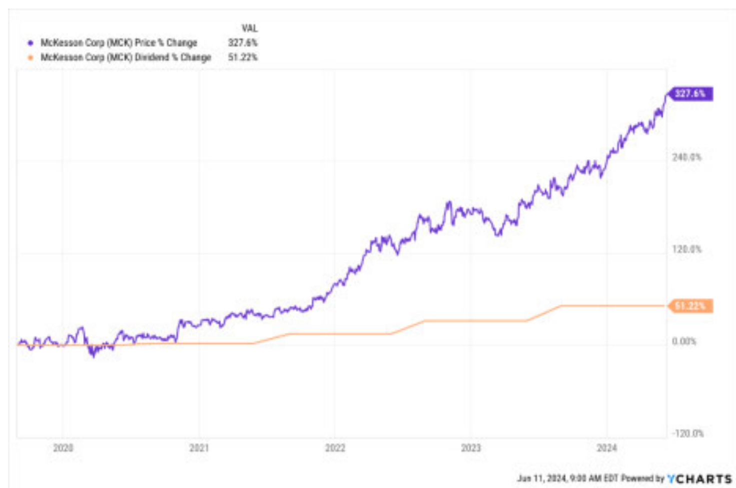
Digital Realty Trust, Inc. (DLR)
Next ex-div date: June 14, 2024

Eli Lilly and Company (LLY – yield 0.6%) – This superstar pharmaceutical company just hit a new all-time high this week. The catalyst this time is good news from its Alzheimer's drug Donanemab. The drug got a very favorable report from the FDA Panel which has a huge input on whether a drug is approved or not. The report was practically a rave. Between the need for the drug, the prior approval of Novo Nordisk's (NVO) inferior drug, and the panel nod, it is now a near certainty the drug will gain FDA approval, and probably soon. **HOLD**



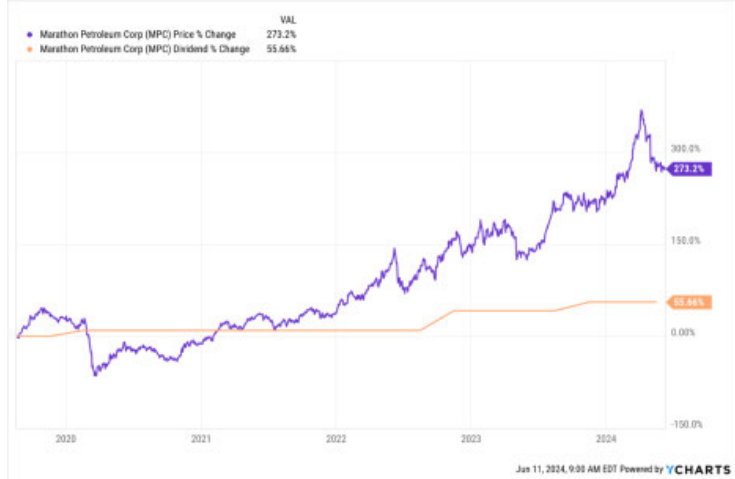
Eli Lilly and Company (LLY)
Next ex-div date: August 15, 2024, est.

McKesson Corporation (MCK – yield 0.4%) – Nothing new. Another week. Another new all-time high. The latest high was made this week. MCK moves slowly, at least compared to a lot of growth stocks. But it trends unmistakably higher. The wholesale pharmaceutical giant indicated earnings growth of 14% to 17% for this year and the stock has trended higher since the report. In fact, MCK has been trending higher with few interruptions since March of 2023. It just continues to forge quietly higher while no one seems to notice. MCK is up 30% since being added to the portfolio last fall. I have no doubt it will bore you up to a 40% gain in the next few months. The pharmaceutical supply chain Goliath dominates a market that grows all by itself because of the aging population. **BUY**



McKesson Corporation (MCK)
Next ex-div date: September 3, 2024, est.

Marathon Petroleum Corporation (MPC – yield 1.9%) – The country's largest refiner fell significantly after reporting lower earnings amid record maintenance shutdowns. But things aren't nearly as bad as they seem. The company beat earnings and revenue forecasts. Earnings are down because of reduced crack spreads versus last year's near-record first quarter, but profits are still historically high. The maintenance shutdowns are necessary and set the company up well for increased volumes ahead of the driving season. The stock was red hot, then turned ice cold, but has been leveling off this month. The energy sector has been weak. But it can heat up again fast. **HOLD**

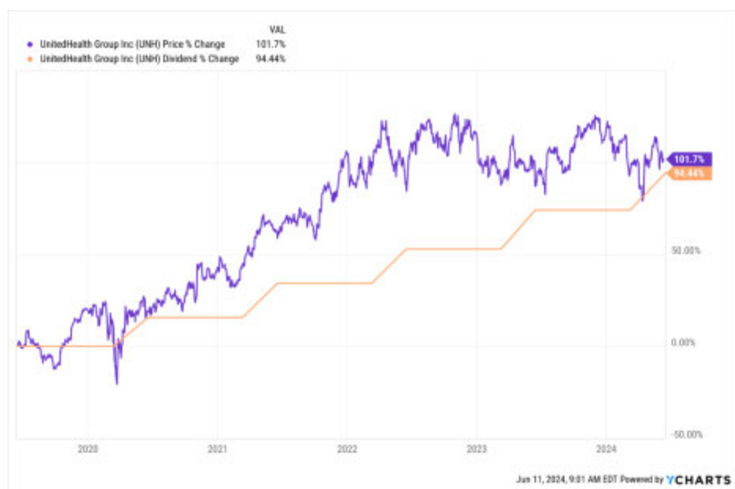


Marathon Petroleum Corporation (MPC)
Next ex-div date: August 15, 2024, est.

Qualcomm Inc. (QCOM – yield 1.6%) – The mobile device chipmaker stock finally cooled off over the last few weeks after its torrid advance since the earnings report last month. QCOM had soared nearly 40% since April 19. Earnings beat estimates and the company raised earnings guidance for 2024. But the real excitement is the growing talk about artificial intelligence coming to smartphones and Qualcomm as a major beneficiary of the upgrade cycle. It has been a while since phones had a significant upgrade and sales growth has been dwindling. But more analysts are contending that an AI-driven super cycle is coming soon. Qualcomm is at the leading edge of chips that enable AI for smartphones and should benefit mightily. **BUY**

Qualcomm Inc. (QCOM)
Next ex-div date: August 30, 2024, est.

UnitedHealth Group Inc. (UNH – yield 1.7%) – The stock reversed its negative course after earnings put fears about the hacking to rest. UnitedHealth reported earnings last month that soundly beat expectations with an 8.6% revenue rise and a better than 10% increase in adjusted earnings from last year's quarter. The company also issued strong guidance. The stock rose about 20% after the report but has given back about a third of that surge in the past three weeks. I'm disappointed. UNH has a great track record but can never get going anywhere. Look at MCK. It's a health Goliath that has been in the portfolio six months less than UNH and it's up 30%. I'll stay with it for now because it's defensive and has a great track record. But my patience is wearing thin. **BUY**



UnitedHealth Group Inc. (UNH)
Next ex-div date: June 17, 2024

Visa Inc. (V – yield 0.8%) – Sorry, I still don't have anything new to say about this one. The payment processing global Goliath again reported stellar earnings. It reported a 10% jump in revenue and a 20% increase in adjusted earnings per share over last year's quarter. It is still thriving from cross-border transactions and benefits from the recent economic news. Visa also reported upbeat guidance for the rest of this year. But somehow it has been floundering since March. Although performance has leveled off, V should be solid if the economy holds up. **HOLD**

Visa Inc. (V)
Next ex-div date: August 16, 2024, est.

Safe Income Tier

The Safe Income tier of our portfolio holds long-term positions in high-quality stocks and other investments that generate steady income with minimal volatility and low risk. These positions are appropriate for all investors, but are meant to be held for the long term, primarily for income—don't buy these thinking you'll double your money in a year.

Alexandria Real Estate Equities, Inc. (ARE – yield 4.6%) – The recent good interest rate news hit a wall over the past couple of weeks. After bouncing around with the interest rate narrative for the past few years, this one-of-a-kind life science property REIT was having a good month in May. But it gave up most of the gains. This is a solid REIT that reported strong earnings and raised the dividend in the last quarter. ARE will likely bounce around somewhat at the mercy of the interest rate narrative and not significantly surge higher until rates muster a sustained move downward. **BUY**

Alexandria Real Estate Equities, Inc. (ARE)
Next ex-div date: June 28, 2024

Rating change "BUY" to "HOLD"

NextEra Energy (NEE – yield 2.7%) – In a little more than a year, NEE has a roughly flat total return performance. But it was noisy getting that flat performance. The stock was way down most of last year but gained everything back in the last several months. NEE has been on fire since early March and has soared 40% since. That's a big move in a short time for a utility stock. The company posted solid earnings in the recent quarter, which also added to the stock's revitalization. But the stock rise has apparently come to an end as shares have been moving lower this past week. I expect solid performance going forward over the longer term, but it may have peaked in the short term after such a fast run higher. **HOLD**

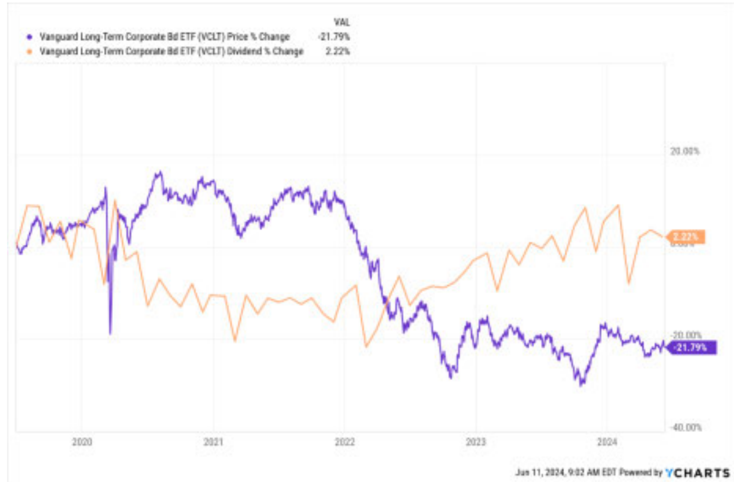
NextEra Energy Inc. (NEE)
Next ex-div date: September 3, 2024, est

USB Depository Shares (USB-PS – yield 5.7%) – This preferred stock has just weathered a strong interest rate storm and has still returned about 15% since being added to the portfolio. I believe it is unlikely that rates will eclipse the high of this cycle. Even if they do, this security can handle it well. It's also quite possible that rates will fall from here and the stock behaves very well. **BUY**

U.S. Bancorp Depository Shares (USB-PS)
Next ex-div date: July 15, 2024

Vanguard Long-Term Corp. Bd. Index Fund (VCLT – yield 5.0%) – Ditto for VCLT. It doesn't like rising rates. But that's OK unless rates rise to new levels beyond what has been seen in this cycle. I believe that VCLT is still well positioned after the worst two years for fixed income ever. **BUY**

Vanguard Long-Term Corp. Bd. Index Fd. (VCLT)
Next ex-div date: July 1, 2024, est.



Dividend Calendar

Ex-Dividend Dates are in ***RED** and italics*. Dividend Payments Dates are in **GREEN**. Confirmed dates are in bold, all other dates are estimated. See the Guide to Cabot Dividend Investor for an explanation of how dates are estimated.

Jun 2024

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

JUL 2024

Aug 2024

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
30	1 VCLT 0.302	2 FSK 0.06	3	4 Independence Day	5	6
7	8	9	10	11	12 ABBV AMT 1.62	13
14	15 MAIN 0.24 USB-PS 1.125	16	17	18	19	20
21	22 MAIN	23	24	25	26	27
28	29	30 EPD OKE	31	1	2	3

The next *Cabot Dividend Investor* issue will be published on July 10, 2024.

Cabot Wealth Network

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