5 HIGH-YIELD MONTHLY DIVIDEND PAYERS YOU COULD OWN TODAY

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A quarterly dividend payment is the standard practice for U.S. dividend paying companies. However, most of us have bills and expenses that like to be paid every month.

This fact of life makes the possibility of monthly dividends appealing. There are stocks and other publicly traded investments that do have monthly dividend payment schedules.

My long experience with dividend paying stocks has shown that a long of monthly dividend payers use that fact to hide substandard performance.

I evaluate every dividend stock using my strict criteria for performance and dividend paying ability. When I find a monthly pay stock that meets my standards, I am doubly happy to recommend it to Dividend Hunter subscribers.

Here are five stocks out of the Dividend Hunter recommendations list that pay monthly dividends.

- **Reaves Utility Income Fund (UTG)**
- **Main Street Capital Corporation (MAIN)**
- **The InfraCap MLP ETF (AMZA)**
- **Virtus InfraCap U.S. Preferred Stock ETF (PFFA)**
- **Global X Nasdaq 100 Covered Call ETF (QYLD)**

Reaves Utility Income Fund (UTG)

Reaves Utility Income Fund (UTG) is the Dividend Hunter recommended investment for exposure to the utility company sector. This closed-end fund has been a steady income producer.

The UTG dividend was increased on June 21, 2021, marking the fourth increase since I added it to my recommendations list**. In fact, this is the twelfth increase of the distribution since the Fund's inception in February 2004.**

Utility companies have long been viewed as safe-haven dividend stocks. These are the highly-regulated companies that provide electric power, natural gas, and water to homes and commercial customers.

The regulatory agencies approve the rates of utility charges. Rates are set so that the utility can cover the infrastructure spending to maintain and upgrade its assets and then earn a fixed rate of return above the necessary capital spending.

The locked in regulated profit margins gives a high level of cash flow predictability. As a result, utility stocks are favored as steady and moderate dividend growth payers.

I do not include any individual utility companies in The Dividend Hunter recommendations list because yields have been low compared to stocks in the other income-focused sectors. For example, the Utilities Select Sector SPDR ETF (XLU) yields about 3.12%, well below my Dividend Hunter usual minimum of 5%.

So, I was pleased to discover the Reaves Utility Income Fund (UTG), which gives utility sector exposure and a current 6.4% yield with a $0.19 payout every month. The fund is sizeable at over $2.5 billion in assets.

As of June 30, 2021, UTG held positions in 42 different stocks. About 60% of the portfolio is traditional electricity, gas, water utilities and telecom stocks. The fund also owns media companies like Verizon Communications Inc. and Comcast Corp., and energy and utility infrastructure companies as smaller percentages of the portfolio. Real Estate Investment Trusts (REITS) currently account for almost 20% of its portfolio. The fund has been diversifying lately, with fully 25% of current holdings invested in international markets.

As is typical for a closed-end fund, UTG uses a moderate amount of leverage to increase its dividend cash flow. Currently leverage is at 20%, which reflects an increase of $50 million of debt from fiscal 2020, but still very manageable. Closed-end funds like UTG can trade at a premium or discount to NAV.

Over the last year, the share price has ranged from a 12.7% premium to a 14.6% discount. The shares normally trade close to NAV. UTG is currently trading at a slight premium of 3.33%, which makes them attractive right now.

The fact that UTG has been able to survive two major market crashes while maintaining and raising the shareholder payout qualifies the shares as a solid holding for us as income investors.

Main Street Capital Corporation (MAIN)

This business development company (BDC) has been a tremendous stock for income focused investors. In fact, on August 3, 2021, MAIN raised the monthly dividend by 2.4% to $0.21 per share. Since my first recommendation, the monthly dividend paid by MAIN has been increased nine times, and through 2019 the company paid two special dividends per year

Prior to the market crash in spring 2020 MAIN had been hinting at discontinuing the special dividend payouts and just increasing the regular monthly dividends by the amount they would have paid in the special dividends. Shortly after the crash MAIN suspended the special dividend. Nonetheless MAIN is a powerful dividend income stock and it is time to re-review this best in class business development company.

It is also one of the most popular holdings among Dividend Hunter subscribers.

Legally, a BDC is a closed-end investment company, like closed-end mutual funds (CEF). The difference is that a CEF owns stock shares and bonds, while a BDC makes direct investments into its client companies.

A BDC will have up to hundreds of outstanding investments to spread the risk across many small companies. The client companies of a BDC will be corporations that are too small or too new to be able to issue stock or bonds into the publicly traded markets.

As a risk control factor, BDCs are limited to debt of no more than two times its equity.

This means that if a BDC has $500 million of equity raised from selling shares, it can borrow $1 billion. The company can then make $1.5 billion of loans or equity investments.

Main Street Capital Corp. is really quite different from the rest of the BDC crowd. Since its 2007 IPO, MAIN has tripled the total return average of its BDC peers.

Here are some of the reasons why this company stands apart from its peers:

- MAIN is internally managed with insiders owning over 3.98 million shares. Cofounder and Chairman Vince Foster is the single largest individual shareholder with over 1.88 million shares. The company has a long-term focus on delivering shareholders sustainable growth in net asset value and recurring dividends per share

- MAIN is the most conservatively managed BDC in the industry and holds an investment grade BBB credit rating from Standard & Poor's Rating Services. Investment grade is rare among the BDC crowd and allows Main Street to borrow at a much lower cost of capital compared to most other BDCs.

- Operating, admin, and management costs are 1.4% of assets compared to over 3% for the average BDC and 2.5% for commercial banks. The company has over $4.9 billion in capital under management, with over $3.8 billion internally and over $1.1 billion as a sub-adviser to a third party.

- The share price is about 1.77 times the book or Net Asset Value (NAV).

- Efficient operating structure provides operating leverage to grow distributable net investment income, and dividends paid, as investment portfolio and total investment income grow

- MAIN has delivered an 91% increase in monthly dividends since its IPO in Q4 2007, jumping from $0.33 to $0.63 per share in the fourth quarter of fiscal 2021. The company has never decreased its regular monthly dividends.

- Based upon the current annualized monthly dividends for the fourth quarter of 2021, the annual effective yield on MAIN's stock is 6.04%.

- MAIN uses a three-tier approach to its portfolio. This unique strategy allows Main Street to generate a high level of interest income and capital gains from equity investments.

Houston-based Main Street Capital has helped over 200 private companies grow or transition by providing flexible private equity and debt capital solutions.

The company provides “one-stop” capital solutions (private debt and private equity capital) to lower middle market companies and debt capital to middle market companies. Main Street's lower middle market (LMM) companies generally have annual revenues between $10 million and $150 million. While Main Street's middle market debt investments are made in businesses that are generally larger in size.

The company’s investment portfolio consists of approximately 45% LMM, 29% private loan, 15% middle market and 11% other portfolio investments.

On June 30, 2021, Main Street Capital had 39 middle market clients with an average loan amount of $12.1 million. The loans total over $434 million or about 17% of MAIN's total portfolio. Middle market loans are floating rate and match with MAIN's floating rate debt facility. The average 7.7% yield on this group of loans is 4.25% higher than Main Street's debt used to fund the loans to clients. The 4.25% interest margin is almost pure cash flow that can be used to help pay dividends on MAIN's stock shares.

The largest portion of the portfolio is lower middle market (LMM), where the company takes equity stakes along with providing debt financing. The equity provides a significant boost to the total returns generated. Lower middle market companies are smaller than the typical BDC client and have annual revenues between $10 and $150 million. There are over 175,000 companies in this revenue bracket in the U.S., and MAIN has 69 lower middle market clients with loans and equity investments worth $1.3 billion. The loans to the companies in this part of the portfolio have an average yield of 11.4%.

The equity position gives an average 39% ownership of the client companies. The equity stakes are what have allowed MAIN’s net asset value (NAV) to increase from $12.85 in 2007 to $23.42 on June 30, 2021 – 82% growth.

The equity investments are what set MAIN apart from most other BDCs. The rules under which these companies operate prevent them from setting aside loan loss reserves. Because a BDC makes higher risk loans, there will be loan losses.

These losses have a direct negative effect on a BDC's book or net asset value. That is why most BDCs struggle to maintain their book values compared to the growing value built by Main Street Capital.

In recent years, Main Street has been growing what it calls its Private Loan Portfolio. These are loans originated through strategic relationships with other investment funds on a collaborative basis and are often referred to in the debt markets as “club deals”. The private loan portfolio makes up 29% (69 loans for $863.6 million) of the overall MAIN portfolio and carries an average yield of 8.4 %. The loans have floating interest rates and benefit from lower overhead costs.

This three-tier investment portfolio is what sets MAIN apart from the rest of the BDC crowd, and what makes it an income stock for all seasons. The lower middle market client, middle market client, and private loans mix provides a combination of net interest income to support MAIN's very excellent history of dividend payments. Plus, MAIN holds an industry leading position in cost efficiency, with an Operating Expense to Assets Ratio of 1.4%.

The result has been a BDC that has generated both regular dividend growth for investors and special dividends to pay out capital gains as an additional bonus, MAIN pays monthly dividends, smoothing out the cash flow into your brokerage account. MAIN should be a core holding for any income focused investor.

InfraCap MLT ETF (AMZA)

The InfraCap MLP ETF (AMZA) provides very high yield exposure to the energy midstream, master limited partnership (MLP) sector. The company invests at least 80% of its net assets in equity securities of MLPs in the energy infrastructure sector.

MLPs own and operate the backbone of U.S. energy sector operations.

These include pipelines, processing plants, storage facilities and loading/unloading terminals. The companies in the sector are organized as publicly traded limited partnerships and are intended to pay out the majority of free cash flow as distributions to limited partner unit holders.

AMZA's top holdings include Western Midstream Partners LP (WES), and Magellan Midstream Partners (MMP), which are midstream MLP companies focused on oil and gas production and services.

Being a LP investor is tax advantaged, but also entails additional reporting work at tax time.

The energy sector crash of 2015 into early 2016 was very hard on many MLPs and market values went into a deep, extended bear market. Many companies were forced to restructure their finances to lower debt loads and pay a smaller portion of free cash flow to investors.

The fundamentals for the sector started to improve in late 2017, and in the latter days of 2019 MLP market values had started a meaningful recovery.

The COVID outbreak was devastating to MLP share values, but it seems that the devastation of the energy fields is slowly passing away. Positive vaccine news has boosted the global markets as well as brightened the demand outlook of the energy sector.

The stronger fundamentals point to an eventual strong bull market for MLPs.

AMZA owns a portfolio of MLPs. The fund is actively managed.

The Fund typically invests in 25-35 MLPs but the portfolio weights are based on fundamental analysis and not simply on market cap size. t The fund managers can also use a modest amount of leverage, usually a maximum of 20-30% to reduce volatility.

The factor that sets AMZA apart from the MLP fund pack is the use of call option selling to boost portfolio income. A covered call amounts to buying shares, then selling someone else the right to buy the shares from you at a higher price. This covered call strategy allows AMZA to have a double-digit yield in the form of monthly dividends.

With AMZA it is important to understand that the value will track the MLP sector. That group is overdue for its next bull market. The large monthly dividends mean you get paid handsomely even as share prices start to rally.

Coming out of the Covid affected summer of 2020, AMZA along with the entire energy sector has performed very well. The twelve months through August 2021, the AMZA share price appreciated by over 60%. From here, MLPs still look undervalued and the monthly dividend gives investors a 10% yield.

Virtus InfraCap U.S. Preferred Stock ETF (PFFA)

The Virtus InfraCap U.S. Preferred Stock ETF (PFFA) offers an attractive monthly yield from a very safe asset category.

Preferred stock is issued by corporations as a form of capital that fits in between debt and common stock. The issuer does not have to pay the preferred dividends, but it cannot pay a common stock dividend if the preferred dividend payments are suspended. As a result, the preferred dividends from quality dividend paying companies are very secure. Unlike bonds, preferred shares do not usually have a maturity date. This fact makes them a long term income vehicle. However, many preferred issues are callable, which can be a danger to investors who are counting on high yield preferred stock dividend payments.

With PFFA the fund managers at InfraCap use the iShares U.S. Preferred Stock ETF (PFF) as their benchmark and starting point from which to differentiate PFFA as a better way to invest in preferred stocks. As a traditional ETF, PFF must contain preferred stock holdings to match the S&P U.S. Preferred Stock Index. There is a wide range of quality and risk in the preferred stock universe. An index-tracking ETF like PFF will own a lot of bad along with the average and the good.

This opens an opportunity for an actively managed fund like PFFA to provide superior performance.

PFFA holds a portfolio of over 100 preferred securities issued by U.S. companies with market capitalizations of over $100 million. It focuses primarily on preferred stocks issued by micro-cap companies with either high growth potential or strong value characteristics.

PFFA's top three holdings are preferred shares of American Finance Trust Inc. (AFIN), a real estate investment trust (REIT) focused on traditional retail and commercial real estate properties; RLJ Lodging Trust (RLJ), a REIT with a portfolio of hotels; and DCP Midstream LP (DCP), a midstream natural gas company.

Here are the added attributes of PFFA compared to PFF:

- Active investment selection, which includes evaluating potential investments on a variety of key variables, including the competitive position of a company; the perceived ability of the company to earn a high return on capital; the historical and projected stability and reliability of the profits of the company; and the anticipated ability of the company to generate cash in excess of its growth needs.

- Underweight or eliminate callable preferred securities exhibiting a low or negative yield-to-call ratio. This is a big deal when owning preferred shares. Many investors have been shocked to see negative returns when preferred stocks with prices over par have been called in by the issuer.

- Employ option overlay strategies primarily to seek to provide additional current income; opportunistic short positions may be employed to hedge interest rate risk. This is primarily covered call writing for the extra income. PFFA pays a stable monthly dividend of $.016 and currently yields 6.83%, with $482 million under management.

PFFA has delivered a solid 40.7% total return over the last 12 months with a reasonable expense ratio of 1.47%, clearly outclassing its competitors in the preferred sector.

In the current low interest environment, investors are being forced into thinking more about alternative income strategies. Preferred stocks, offer a higher yield profile with relatively lower risk profiles.

PFFA’s proven track record actively managing preferred stocks and delivering reliable, monthly dividends makes it an ideal fit for us as income investors.

Global X Nasdaq 100 Covered Call ETF (QYLD)

The **Global X Nasdaq 100 Covered Call ETF (QYLD)** uses a covered call strategy to generate cash income, which is paid out as monthly dividends. A covered call amounts to buying shares, then selling someone else the right to buy the shares from you at a higher price.

The fund's strategy is to buy the stocks in the Nasdaq 100 Index and "write" or "sell" corresponding one-month call options on the same index that expire at the end of each month.

This is a tech stock heavy index and covered calls are a good way to lower risk, while increasing income.

Here are some features of the options used:

- Unlike single stock options that can be exercised at any time, index options cannot be called/exercised early.
- Settle in cash, not in delivering the underlying index holdings.
- Higher index volatility can lead to larger premiums.
- If there are gains from writing calls, they are taxed at 60% long term capital gains rates and 40% short term capital gains.
- Since the index options cannot be called early, it only matters where the index finishes for the month.
- Prior to expiration, all market swings that take place throughout the month don't matter.

Currently, QYLD has assets of $3.0 billion. The net expense ratio is 0.60%. While the fund portfolio is tech stock heavy, do not expect tremendous capital gains. Selling call options puts a limit on the upside share appreciation potential for each month.

It is apparent from the high dividend yield that the fund is managed to maximize the option income, which leaves little room for share price appreciation.

The good news is that the dividend yield is very attractive, paying around 11.8% at the time of this writing. Monthly dividends have been paid since January 2014.

The monthly dividends are variable, so they will change each month. For the past 12 months, the dividend has ranged from $0.233 per share up to $0.2288. The average is around 22 cents per share.

More importantly, the fund has a one-year return or 21.7% and a five-year return of 72.6%, which fits perfectly with our strategy as income investors.

QYLD was added to the recommendations list in July 2020.

Land, Fly or Die,

Tim Plaehn
Editor
The Dividend Hunter