

Lowly Analyst Free Newsletter

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The Market

The market is still in decline with no upturn in sight. This is still a time for having a low volatility portfolio and concentrating on preserving assets.

Obama is making a valiant effort to revive the economy.

Everywhere good businesses are going bankrupt and jobs are being destroyed. Global income per person is falling for the first time in 19 years. GDP in the developed world is shrinking, and growth in the emerging countries is declining.

The mirage of financial prosperity has collapsed. Our financial system is in ruins. A few smart people prosper while many ordinary folks are losing their jobs, health insurance, houses, and cars.

As the financial crisis widens, our political system is in danger of attack from those who lost the most. We are already shifting to more government control. We will get out of this great depression, but it will take several years.

Asset Classes: For the past month: Large Growth -5%, Small Growth -7%, Mid Growth -8%, Mid Value -11%, Micro -11%, Large Value -12%, Small Value -14%.

Sector ETF's: For the past month: Silver 12%, Gold 6%, Covered Calls 5%, Semiconductors 1%, Oil Eqpmt & Srv 0%, Biotech 0%, Utilities -1%, Healthcare -2%, Energy -2%, Software -3%, Natrl Res -3%, Agric Commodities -5%, Technology -6%, Intrntl Energy -7%, Basic Mtrls -8%, Euro -8%, Cons Goods -8%, GSCI Commodities -10%, Industrials -11% Oil -12%, Transportation -17%, Real Estate -18%, Natural Gas -22%, Financial Services -26%.

Foreign Investing: For the past month: Brazil 2%, Latin Am -2%, Hong Kong -3%, Malaysia -4%, Canada -4%, So Korea -5%, BRIC -5%, Emerging Mrkts -5%, Belgium -6%, India -7%, Austria -8%, US -8%, Singapore -8%, UK -9%, Taiwan -10%, Japan -12%, World-US -13%, Frn Lrg Div -13%, China -14%, So Afrca -14%, Mexico -14%, Europe 350 -15%, Pac-J -15%, Italy -17%, France -17%, Russia -17%, Australia -17%, Spain -50, Germany -19%.

Bonds: For the past month: Ultra Shrt 20+ Trs 27%, Floating Rate Inc 6-21%, Emerging Mrkt Sovereign Debt, 9%, Morgan Stanley Prime Inc 5%, Covered Calls 5%, Lehman Munis 3%, Insured Natl Munis 2%, Money Market 2%, TIPS 0%, Shrt Term Trs 0%, GNMA 0%.

Master Limited Partnerships

1. Introduction

We will be discussing Master Limited Partnerships, MLPs. The advantages of MLPs are that they have a higher income than stocks and bonds and also tax advantages.

2. What are Master Limited Partnerships?

MLPs are exchange traded partnerships that must distribute all of their earnings to shareholders. By law they can be in only a limited number of businesses. All of the MLPs discussed here are in the oil and gas distribution or energy business.

MLPs must pay their limited partners each quarter a contractually specified amount. Failure to pay is a default. MLPs offer stable high dividend yields and are therefore good for individuals seeking high current income. For this reason MLPs are limited to businesses with a steady cash flow.

Income correlates with the demand for energy and is less volatile than energy prices. MLPs correlation with energy stocks is 36% and with oil prices it is 20%.

3. Advantage of Master Limited Partnerships

As you can see from the table below, for the period 7-01 to 10-08 MLPs had higher yields than stocks and bonds at about the same volatility as stocks even without considering their tax advantage in taxable accounts. In tax deferred accounts such as IRAs, earnings of more than \$1,000 may incur tax liabilities.

	Bonds	Stocks	MLPs
Annual Return	4.5%	-0.8%	9.3%
Yield	5.7%	2.9%	8.4%
Annual Volatility	3.8%	14.8%	14.7%
Correlation vs MLPs	11.8%	39.7%	

Source: Standard & Poor's.

MLPs currently yield 8%-18% and higher, with many yielding over 9%.

Historically dividends have increased 6.4% per year, more than other assets due to increasing cash flow. For comparison REITs have increased 3.1%

Cash flows are relatively stable and immune to business cycles.

MLPs partnership structure avoids double taxation of dividends by transferring the tax liability to the limited partner.

MLPs are particularly attractive in low interest rate environments, like today, since in that environment their relative yield advantage is greatest.

MLPs have low correlation with stocks and bonds.

Depreciation is passed through to the limited partners.

4. Disadvantages of Master Limited Partnerships

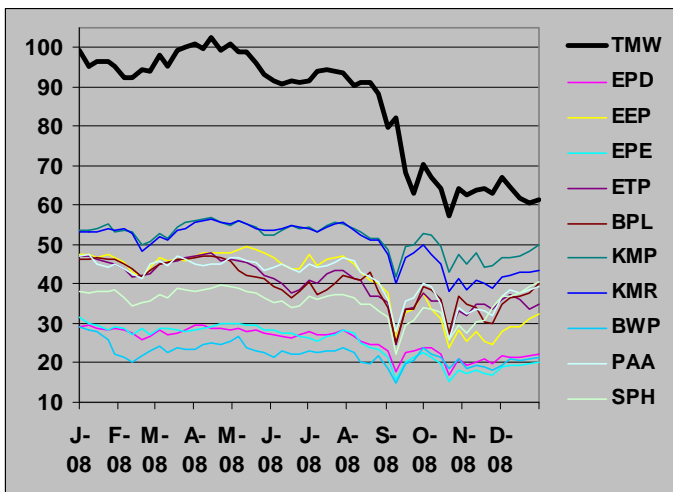
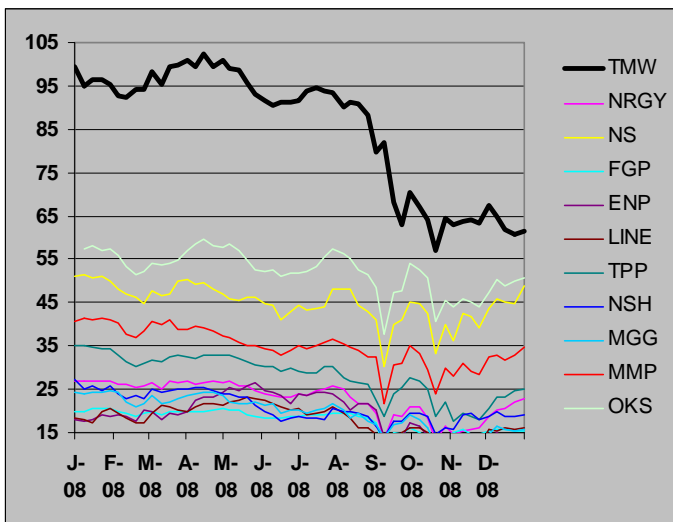
A disadvantage of MLPs is the risk of changing regulations. MLPs businesses are subject to regulation as is their tax status. Currently the regulatory climate is favorable for MLPs.

MLPs' income above \$1000 in tax deferred accounts such as IRAs may be subject to taxation as unrelated business income.

MLPs, as with high yielding equities, are most attractive in low interest environments like the current environment. As interest rates increase as they eventually must, their relative attractiveness and price will decrease.

5. Performance of Master Limited Partnerships

The two graphs below compare the performance of MLPs to the total US stock market, TMW.



6. Examples of Master Limited Partnerships

The table below shows the one year standard deviation STD, 1 month and 1 year total return and the current yield, YLD. The MLPs are arranged by 1 year return divided by one year standard deviation.

NRGY The partnership, markets, distributes, and stores propane to the retail and wholesale trade.

NS is a leading independent operator of oil and refined products pipelines and terminal storage facilities.

		STD	1Mo Rt	1Yr Rt	YLD
US Total Market	TMW	17%	-7%	-1%	2.8%
Inergy LP	NRGY	18%	37%	2%	10.7%
NuStar Energy LP	NS	10%	20%	1%	8.6%
Ferrellgas Partners	FGP	14%	4%	0%	13.2%
Encore Energy Prtnrs	ENP	23%	12%	0%	13.1%
Linn Energy, LLC	LINE	19%	9%	0%	15.4%
TEPPCO Partners	TPP	18%	32%	0%	11.1%
NuStar GP Holdings	NSH	16%	7%	0%	8.8%
Magellan Midstream	MGG	18%	12%	-1%	9.0%
Martin Midstream	MMP	13%	14%	-1%	8.1%
ONEOK Partners LP	OKS	9%	13%	-1%	8.5%
Enterprise Products	EPD	13%	8%	-1%	9.5%
Enbridge Energy Prtnrs	EEP	20%	25%	-2%	12.0%
Enterprise GP Holdings	EPE	19%	17%	-2%	9.1%
Energy Transfer	ETP	14%	2%	-1%	10.2%
Buckeye Partners LP	BPL	13%	23%	-1%	8.6%
Kinder Morgan Energy	KMP	7%	-7%	-1%	8.4%
Kinder Morgan Mngmt	KMR	11%	7%	-2%	9.3%
Boardwalk Pipeline	BWP	12%	18%	-2%	8.6%
Plains All Am Pipeline	PAA	13%	10%	-3%	9.1%
Suburban Propane	SPH	11%	9%	-5%	7.9%

7. Bottom Line

- MLPs provide steady, rising, high income - currently 8-9% and more.
- MLPs income is higher than either stocks or bonds and is increasing faster.
- MLPs volatility is about the same as that of stocks.
- MLPs in taxable accounts have tax advantages.
- MLPs in tax deferred accounts may trigger income taxes on earnings over \$1000.