User Guide

How to Get The Most Out of Your Subscription
Welcome!

Do you need more income?
Are you having difficulty getting a high enough payout from your savings and investments in this environment?

If so, follow my lead and Cabot Income Advisor will be your answer.

But I first recommend that you go through this guide before getting started. It will make a big difference. And if this type of investing is new to you, I suggest you also read this section to help you get started.

In this advisory, I employ more than three decades of investment experience and expertise to share my insights and advice every week. The purpose of Cabot Income Advisor is to provide you with regular, actionable ideas that will enable you to generate a high level of current income with a reasonable level of risk.

This new service is truly unique for a key reason. While the vast majority of financial services are designed to grow your wealth for some future date, Cabot Income Advisor offers a tangible windfall for the here and now by providing you with the tools to generate a regular stream of additional paychecks.

As we embark on this financial journey together, our goal is to be your trusted and reliable partner in finding ways to generate a healthy cash flow in a way that saves and builds wealth for the future. I’m thrilled to be in a position to do what I do best and provide you with the necessary information to make that happen.

If you have any questions, please email me at Tom@CabotWealth.com

I’m always happy to help.

Yours in Money,

Tom Hutchinson
Chief Analyst, Cabot Income Advisor
What’s in this guide...

All the benefits of Your *Cabot Income Advisor* subscription 4

**Our Investment Strategies** 5
– How We’ll Make You Money

**New To This Type of Investing?** 6
– Here’s How To Start

**How To Read Your Issue** 7

**Glossary** 9
Your Subscription to Cabot Income Advisor Includes:

**Monthly Issues**
On the fourth Tuesday of every month *Cabot Income Advisor* brings you the latest insights around income-generating investing along with an update on past recommended trades, what actions you should take, a dividend calendar, and other relevant information to build your investing experience.

**Weekly Updates**
Every Wednesday (except the day the issue is published) you get emailed an update on any stocks that have important news since the last update.

**Special Stock Alerts**
When appropriate, special bulletins are emailed to you with important market developments that you need to know immediately.

**Special Reports**
Our catalog of Special Reports provides analysis that lets you dive deeper into the details of investing.

**Direct Email Access**
Whenever you have an investment-related question, you can email me directly at Tom@CabotWealth.com. I promise to get back to you within 48 hours. You can also contact our Cabot Investor Services desk anytime during business hours to speak with someone about your subscription.

**24/7 Archives**
Your subscription gains you access to our vast online library of analysis, including past issues of *Cabot Income Advisor*, reports, and related webinars.

Make sure to visit the *Cabot Income Advisor* hub and bookmark the page!
Cabot Income Advisor is not about providing a decent income while growing principal, although that is still a great strategy for investors who are in the accumulation phase and/or not dependent on investment income to live. The objective of this service is to take income to a level well beyond what current conventional strategies could possibly yield.

Here are the three main strategies and techniques that we’ll employ with the goal of providing you with double-digit annual payout while growing your principal over time.

1. Off-the-radar high dividend stocks

Dividends are the most underrated things in the market today. Since 1926 dividends have accounted for more than 40% of stock market returns. But that’s just the dividends themselves. Stocks that pay dividends have vastly outperformed stocks that don’t.

![Graph showing dividend returns vs. price return]

Between 1972 and 2019 dividend-paying stocks generated an average annual return of over 8.78% while non dividend payers provided just 2.4% returns. Companies with the cash flow and balance sheet to pay dividends tend to be more solid and established companies whose stocks perform well over the long term.

<table>
<thead>
<tr>
<th></th>
<th>Returns</th>
<th>Beta</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Growers &amp; Initiators</td>
<td>9.62%</td>
<td>0.88</td>
<td>15.62%</td>
</tr>
<tr>
<td>Dividend Payers</td>
<td>8.78%</td>
<td>0.94</td>
<td>16.37%</td>
</tr>
<tr>
<td>No Change in Dividend Policy</td>
<td>6.88%</td>
<td>1.00</td>
<td>17.76%</td>
</tr>
<tr>
<td>Dividend Non-Payers</td>
<td>2.40%</td>
<td>1.29</td>
<td>24.34%</td>
</tr>
<tr>
<td>Dividend Cutters &amp; Eliminators</td>
<td>-0.79%</td>
<td>1.21</td>
<td>24.68%</td>
</tr>
<tr>
<td>Equal-Weighted S&amp;P 500 Index</td>
<td>7.30%</td>
<td>1.00</td>
<td>17.26%</td>
</tr>
</tbody>
</table>
But dividend stocks don’t pay out the yields they used to. Historically, the dividend yield for the S&P 500 Index has averaged over 4%. But today that yield is a paltry 2.09%. That said, there are certain classes of stocks that pay much higher dividends than the average. You see, in order to incentivize certain businesses the U.S. government has granted special tax status. Companies with this advantage pay no taxes at the corporate level provided the bulk of earnings are paid out in the form of dividends or distributions. Because these securities are able to pay out money normally lost to taxes, they pay higher yields than regular corporations.

**A. Master Limited Partnerships (MLPs)**

These tax-advantaged securities operate primarily in the energy sector. MLPs are involved in oil and gas exploration, piping and storing infrastructure, and refining and marketing. The Alerian MLP ETF (AMLP), which tracks an index of MLPs in the energy space, currently yields 7.26%.

**B. Real Estate Investment Trusts (REITs)**

You can buy real estate properties and generate an income by charging rent. But that’s a pain in the tweasle. With REITs you can enjoy the income that real estate generates without lifting a finger. REITs are involved in every type of property including commercial, retail, residential and medical. The benchmark Vanguard RET ETF (VNQ) currently yields 4.2%.

**C. Business Development Companies (BDCs)**

These little-known companies make high interest loans and/or take equity stakes in promising start up companies. They provide capital and expertise to take businesses to a higher level and fill a need underserved by banks. These securities have juicy payouts. The Wells Fargo Business Development Index (BDCS) currently yields 7.51%.

**2. Covered call writing**

Investors today have opportunities that simply weren’t available in the past. The proliferation of information and new investment vehicles have created strategies to perform well in just about any market.

A strategy particularly well suited for today’s world is covered call writing. Most investors are unaware of the strategy and that it is one of the best and most low-risk sources of income. A good covered call writing strategy can provide an enormous boost to your regular payouts.

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**Here’s how a covered call works**

Let’s say you own 1000 shares of a $40 stock. You write (or sell) 10 calls (each call represents 100 shares) at a strike price of $44 expiring 3 months from now for $3 each or $3,000. The stock price must rise above $44 for the option to be in-the-money, otherwise it expires worthless. But either way, you collect the $3 premium.

If you write the call option under the above scenario one of three things will happen when the call expires.

1. **The stock trades between $40 and $44**

   In this case the options you sold will expire worthless and you will simply keep the $3,000 premium, supplementing your income. Let’s say the stock price remains at $40. You collect a $3 premium and enhance your percentage income on the stock by 7.5% (the $3 call premium dividend by $40 share price) in just three months time.

2. **The stock price falls below $40**

   Here, the options also expire worthless and you pocket the $3,000 premium. While you still own a stock that has gone down, you still outperform a buy-and-hold investor who just owned the stock by the $3,000 premium.

3. **The stock rises above $44**

   Under this scenario, you must sell the stock (as it is “called away”) and your upside is capped at $44 plus the $3,000 premium collected. While you lose the underlying stock, you do get an impressive income in a short amount of time.

Let’s say the stock price rises to $45. Your total return would be the $4 appreciation in the stock price ($44 minus $40) plus the $3 call premium. The total of $7 per share would be a 17.5% return ($4 plus $3 dividend by $40) in just three months, plus any dividend received during that time.
A call option is essentially a right to buy a stock at a certain price at a specific date in the future. It is generally a bet that the price of the stock will go up. Buying a call is highly speculative because it is likely that the stock will not rise to meet the price and the option will expire worthless, and the investor will lose 100% of his capital.

However, selling or “writing” a call when you own the underlying stock position is a very conservative, low-risk options strategy. Statistics show that about 83% of all options expire worthless. So consider the buyer of a call to be like a gambler at a casino. Every once in a while, he may win, but the odds are stacked against him. When you sell a call you are like the house. In effect, you get on the smart side of the deal.

Covered call writing works best with a stock that you would be happy to continue owning over the longer term. However, in the short term you believe the stock will trade flat to down, or you are happy to sell it at the higher price. You can generate income from the stock by selling calls against your position. If the stock rises above the strike price, you sell the stock. So, you should be willing to sacrifice some capital appreciation potential for extra income in the short term.

Premiums are often 4%, 5% or even 6% of the stock value and can be written on the same security several times a year.

### 3. Dividend Capture

Securities typically pay dividends four times per year, every quarter. Sometimes stocks pay special dividends over and above the regular payout. The thing is that you don't have to own the stock for a long time to get the dividend. You just have to own it on the record date.

The record date is the date, usually several days before the dividend is actually paid, on which the owner of a security is locked in to receive the next dividend. You can actually own securities for just one day and receive the quarterly income. Of course, the stock price often declines by the amount of the dividend, all else being equal, so such trades must be well chosen. And that's my specialty.

**New to this type of investing?**

Here's how to get started

Sifting through stock investment analysis can seem downright daunting, especially if it's a completely new type of investing. And while I make it my mission to make it as easy as possible for you — I read the reports, I watch the market hourly, I research new stocks — your head can sometimes spin if you don't maintain a manageable investment pace.

So if you're just starting out pursuing the types of investments we cover in our advisory, here are some simple tips to keep in mind as you navigate the waters of wealth:

- **Start slow**
  Instead of jumping right in and using these methods on numerous stocks, start out with one or two stocks to get used to the rhythm of the stock selections and strike dates.

- **Remember the short time frame**
  Retirement investing is all about keeping the income coming in while preserving the nest egg. Our methods usually involve a shorter life cycle for the stock, requiring a smaller window of time. So it’s important to keep an eye on the calendar and not miss the strike dates.

- **Be willing to sacrifice some capital**
  Extra income in the short term means there will be some loss of your capital appreciation potential. That’s the tradeoff. But diversifying and balancing your portfolio to support your long-term goals can help minimize, or even cover those losses.

- **Only invest what you’re willing to lose.**
  We don't like to think about losing money, but it happens—especially in the stock market. When determining what you want to spend, it may be best to start small until your comfort level rises.

- **Dial in the Cabot Wealth Network**
  As a new subscriber, you now have a wealth of investment information and education at your fingertips. Besides being able to read your Cabot Income Advisor, take advantage of the institutional level research my fellow analysts and I produce on a daily basis by visiting our online archives and Special Reports.
How To Read Your Cabot Income Advisor

Your Cabot Income Advisor newsletter includes monthly issues, weekly email updates, trade alerts on a regular basis and special reports when necessary. The monthly issues will be available on the fourth Wednesday of every month and the weekly updates will be available every other Wednesday.

Also, on the day after each monthly issue (the fourth Thursday of every month) you can access a video call where I explain the current status of the market and portfolio as well as take questions.

Here's a brief tour of a typical Cabot Income Advisor monthly issue:

1. **This section is the lead.** There is no scripted format for what will be discussed in this section so as to enable flexibility from month to month. I’ll often discuss the current state of the market, relevant current issues, the rationale behind a recommended action in that particular month, or whatever I deem most useful to you in that particular month.

2. **This is the Monthly Recap.** This is simply a list of all the recommended trades that occurred over the past month, or since the last monthly issue. It includes covered call sales and expirations, any changes in recommendations of existing positions, which any change in the rating of “BUY”, “SELL” or “HOLD”, or any newly initiated actions.

3. **This section is titled What to Do Now.** This part will include any recommended actions in the portfolio from this point forward including new ratings changes, purchases and sales.

4. **Featured Action** is the section where a stock purchase, option sales of other trade is highlighted and explained in more depth. It most often includes newly initiated stock positions.
The Portfolio Overview is a table that includes all current positions, including stocks and call options, and information including current unrealized gain or loss, dividend yield and purchase date.

After the Portfolio Overview come the Portfolio Updates. These include our current opinion on each stock and important dividend information as well as any news that's occurred since the last update.

Near the end of each issue you will find the Income Calendar. This includes the dividend status, such as ex-dividend dates and payment dates and amounts over the current month, near its end, and the next month. It also includes covered call premiums collected in the portfolio. Ex-Dividend Dates are in RED and italics. Dividend Payments Dates are in GREEN. Confirmed dates are in bold, all other dates are estimated.

The end of each issue will include and Educational Section which includes information that you are likely to find relevant. This can include virtually any information or issue that applies and remains flexible to adapt to the current market conditions.

Current issues, past issues, trade alerts, special bulletins, updates and educational resources are always available on cabotwealth.com, and if you still have questions, you can email me any time at Tom@CabotWealth.com and I’ll get back to you as soon as possible.

That’s it, so good luck, and have fun!
Stock investing jargon and terminology can sometimes sound like a foreign language. Here are a few terms that are commonly used in the investment methods discussed in *Cabot Income Advisor*.

**Micro-Cap Stocks**
These are publicly traded companies with market capitalizations of less than $250 million but greater than $50 million. Like small-cap stocks, micro-cap stocks have the potential to net very high returns but can carry even greater risk.

**Small-Cap Stocks**
Publicly traded companies with small market capitalization, generally between $250 million and $2 billion. This definition can vary among brokers.

**Annual Return**
The return that an investment provides over a period of time, expressed as a time-weighted annual percentage. Sources of returns can include dividends, returns of capital and capital appreciation. The rate of annual return is measured against the initial amount of the investment and represents a geometric mean rather than a simple arithmetic mean.

**Compound Annual Growth Return (CAGR)**
The mean annual growth rate of an investment over a specified period of time longer than one year. It is one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios, and anything else that can rise or fall in value over time.

**Adjusted Earnings**
The sum of earnings and increases in loss reserves, new business, deficiency reserves, deferred tax liabilities and capital gains from the previous time period to the current time period. Adjusted earnings provide a measurement of how current performance compares with previous years' performance.

**Indicated Annual Dividend**
The estimated amount of cash dividends that would be paid on a share of stock during the next 12 months if each dividend amount were the same as the most recent dividend. The indicated dividend is usually represented by the letter “e” in stock tables.

**Yield on Cost**
A measure of dividend yield calculated by dividing a stock's current dividend by the price initially paid for that stock.

**Dividend Growth Rate**
The annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time. Knowing this rate is a key input for stock valuation models known as dividend discount models.

**Position Size**
Refers to the number of units invested in a particular security by an investor or trader.
Real Estate Investment Trusts (REITs)
A company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors. This makes it possible for individual investors to earn dividends from real estate investments—without having to buy, manage, or finance any properties themselves.

Master Limited Partnerships (MLPs)
Business ventures that exist in the form of a publicly traded limited partnership. They combine the tax benefits of a private partnership—profits are taxed only when investors receive distributions—with the liquidity of a publicly-traded company.

Covered Call
A transaction in the financial market in which the investor selling call options owns the equivalent amount of the underlying security. To execute this an investor holding a long position in an asset then writes (sells) call options on that same asset to generate an income stream. The investor’s long position in the asset is the “cover” because it means the seller can deliver the shares if the buyer of the call option chooses to exercise. If the investor simultaneously buys stock and writes call options against that stock position, it is known as a “buy-write” transaction.

Long-Term Equity Anticipation Securities (LEAPS)
Publicly traded options contracts with expiration dates that are longer than one year. As with all options contracts, LEAPS grant a buyer the advantage, but not the necessity, to purchase or sell—depending on if the option is a call or a put—the underlying asset at the predetermined price on or before its expiration date.

Options Trading
Contracts that give the bearer the right, but not the obligation, to either buy or sell an amount of some underlying asset at a pre-determined price at or before the contract expires. Options can be purchased like most other asset classes with brokerage investment accounts.

Call Option
In options trading, a call option gives its holder the right to buy 100 shares of the underlying security at the strike price any time prior to the option’s expiration date. The seller of the option has the obligation to sell the shares.

Put Option
In options trading, a put option gives its holder the right to sell 100 shares of the underlying security at the strike price, at any time prior to the option’s expiration date. The seller of the option has the obligation to buy the shares.

Strike Price (or Exercise Price)
In options trading, the stated price per share for which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.
About the Expert

Tom Hutchinson is Chief Analyst of Cabot Dividend Investor, Cabot Income Advisor, Cabot Retirement Club and a Wall Street veteran with extensive experience in multiple areas within the financial world. His experience includes specialized work in mortgage banking, commodity trading and as a financial advisor to the nation's largest investment banks.

Tom has created and actively managed investment portfolios for private investors, corporate clients, pension plans and 401Ks. He has a long track record of successfully building wealth as well as providing a high income while maintaining and growing principal. Tom has written extensively on various industries, individual companies and most every kind of investment for Motley Fool, StreetAuthority, NewsMax, and several of the nation’s largest online publications. His experience includes specialized work in mortgage banking, commodity trading and as a financial advisor to the nation’s largest investment banks.

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About Cabot Wealth Network

Cabot Wealth Network, established in 1970, is a trusted independent source of advice for individuals striving to take control of their investments and find the best stocks. Its 20 investment advisory services and annual Summit event deliver high-quality advice to more than 200,000 individual investors and investment professionals in 141 countries. Headquartered in historic Salem, Mass., in a converted 1934 public library Cabot Wealth employees take great pride in providing intelligent investment advice and timely, personal service without the hype and fabricated claims. Cabot is a member of the American Association of Individual Investors, Better Business Bureau, Specialized Information Publishers Association, and the Salem Chamber of Commerce.

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