SEVENS REPORT *alpha*

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In Today's Issue

- Finding "invisible yield" through special dividends
- Screening 17,000-plus stocks to find the most consistent—and substantial—special dividend payers.
- A list of 24 elite special dividend payers.

Uncovering "Special" Dividend Yields

Although the Fed has raised interest rates four times (25 basis points a clip) in the past 22 months, there's been little-to-no pickup in the rates of most traditional fixed-income vehicles.

Here are the national average rates paid by banks on jumbo deposits greater than $100,000:

- 0.04% for an interest checking account
- 0.06% for a savings account
- 0.14% for a money market account
- 0.31%, 0.46% and 0.59% for a 12-month CD, 24-month CD and 36-month CD, respectively.

Shorter-dated government, corporate and municipal bond average rates are higher. But, they're still painfully low:

- 1.42% for a 1-year US Treasury Bill
- 1.84% for a 2-year, A-rated corporate bond
- 1.14% for a 2-year, A-rated municipal bond.

Again, better, but still not adequate for most income-seeking investors. So, it's no surprise many investors have sought out yield in the stock market. (In many cases, ignoring the increased risk profile with equity investments.)

Fund families (mutual funds, ETFs and closed-end funds) have accommodated with approximately 500 dividend-focused fund offerings. (We've given you some of our lesser-known favorites: DIVY, REGL and SMDV.)

The problem is many of these dividend funds are comprised of stocks whose prices have been bid up significantly and whose yields have compressed.

For example, the S&P 500 has a P/E ratio of 25.7 and a dividend yield of 1.8%.

So, where can you find sufficient dividend yield in an income-guzzled stock market?

Today, I'm going to show you a way to find sizable, hidden income in the stock market.

I use the term "hidden," because very few investors know this niche area of the markets exists. As a matter of fact, I'm confident no one in this business has done the kind of intense research we have on this niche are of the markets.

I'm referring to stocks that consistently pay **special dividends**.

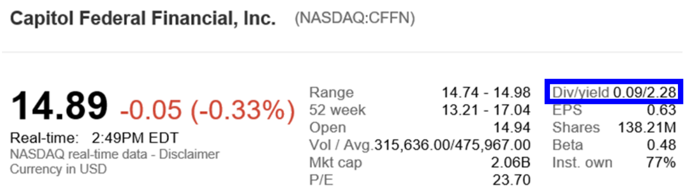
Special dividends, also known as "one-time dividends," are payouts companies make to shareholders that are declared to be separate from regular dividends. Companies pay special dividends when they want to return extra cash to shareholders, but they don't want to cause a temporary spike in their regular dividend history or initiate a regular dividend-paying expectation.

By nature, special dividends are sporadic, non-recurring payments. However, even though they are irregular dividend payments, there's a short list of companies that pay them with regularity.

The extraordinary thing about special dividends is they are not factored into a stock's reported yield because they are deemed irregular payments.

Let me show you what I mean…

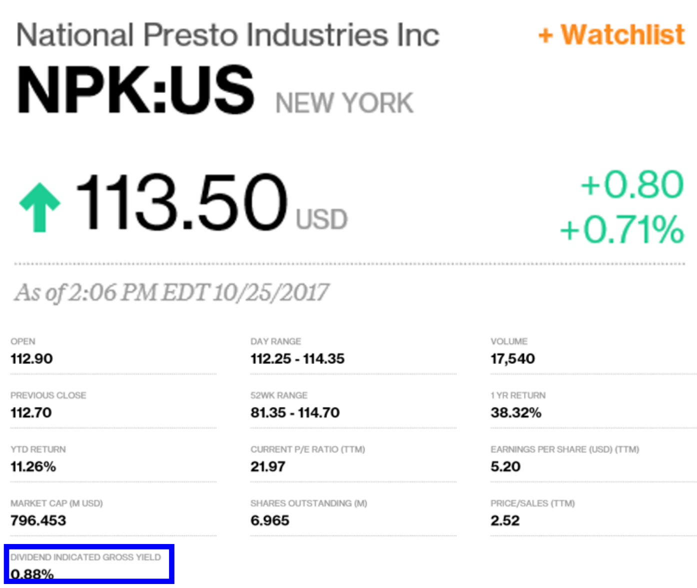
Capitol Federal Financial (CFFN) is a Midwest community bank that's off most investors' radars. Google Finance shows its dividend yield is 2.3%.



But, it's true yield is "invisible." If you're do the work, you would discover CFFN has paid special dividends for 10 straight years (counting 2017). Its first special dividend payment was in 2002. Since then, it has paid a special dividend in 14 of 16 calendar years. Sometimes, it pays more than one special dividend per year. (For example, from 2011 to 2016, it paid two special dividends each year.)

In the last five years, its real yield (regular + special dividends) has averaged 6.6% instead of its reported 2-3%. Basically, CFFN's actual yield has been 3X its stated yield.

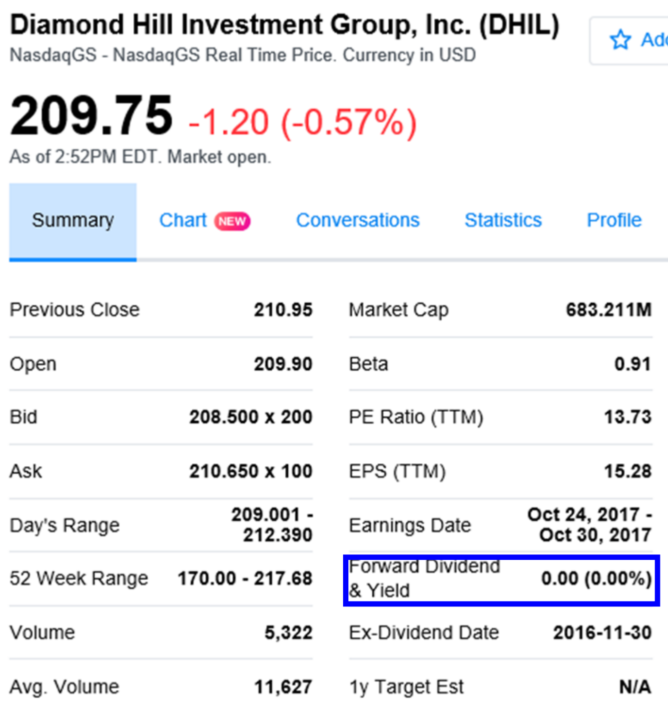
National Presto Industries (NPK) is a small Wisconsin-based company that sells pressure cookers, ammunition and adult incontinence products. This stock doesn't get much notice from Wall Street or Main Street. Bloomberg reports NPK's dividend yield is 0.9%



But, the company has paid a special dividend an amazing 14 consecutive years.

Over the last five years, Presto's combined yield (regular + special dividends) has averaged 7.3% instead vs. its reported 1% yield. That means an undercover yield—7X its stated yield—has been concealed.

Diamond Hill Investment Group (DHIL) is a small Ohio asset management firm missing from all income investors' portfolios and watch lists. Yahoo Finance shows its dividend yield is zero. The company doesn't pay a regular dividend.



But, it has paid a special dividend every year since 2008.

Its unreported yield over the last five years, due to its perennial special dividend payments, has averaged 4.6% instead of its reported 0%. This one—with its non-dividend paying appearance—certainly isn't showing up on any dividend screens.

It doesn't matter whether it's Google Finance, MarketWatch, Yahoo Finance, CNBC or *The Wall Street Journal*… These financial websites—and all other popular ones—either don't report special dividends, or they make them extremely difficult to track down.

The interesting part of this phenomenon is threefold.

First, these stocks don't get much fanfare. Rarely will you see a news story on a special dividend payment, unless it's from a blue-chip company.

Second, financial websites don't calculate this information because these types of payments are made at irregular intervals. That means the swarms of income-parched investors don't know about—and don't know how to locate—special-dividend paying companies.

And third, like the three examples I just illustrated (CFFN, NPK and DHIL), there are a small handful of other companies that consistently pay large special dividends. Their true, camouflaged yields blow away the yields of conventional, fixed-income instruments. And they are also much higher than the yields of classic dividend-paying stocks.

So, I set out to find the most steady special dividend paying stocks on the planet. Honestly, going into this, I had no idea how comprehensive this research project would be...

Fortunately, an analyst friend of mine has been tracking special dividends stocks for several years. (He might be the lone analyst in the business doing this!) He also had the ability to run a complex screen through an expensive database that everyday investors and most financial professionals don't have access to.

Obviously, I enlisted his help.

An Extensive Screening Process

Using Compustat as the database, his starting universe was 17,070 publicly traded stocks in North America.

Next, he utilized a SQL table to narrow down the list to companies that paid at least three special dividends in the last five calendar years (2012-2016).

The results were 133 stocks.

From there, the search went from quantitative to qualitative, if you will.

My analyst went through all 133 stocks, one-by-one, to find the most consistent—and substantial—special dividend payers. He combed through several years of dividend payments on each stock and applied the following criteria:

- At least, four special dividend payments in the last five calendar years
- Special dividends of significant size
- Total yield (regular + special dividends) higher than the S&P 500's yield
- Adequate market capitalization and liquidity

In the end, the quant screen and manual labor produced two dozen stocks—or just 0.1% of our original universe.

The Top 24 Special Dividends Payers

The final tally spit out 24 stocks of different market capitalizations (large caps, mid caps, small caps and micro caps). And, the stocks spread across various sectors and industries.

These stocks sport an average hidden yield of 3.4%. In fact, each stock's total yield is at least 50% higher than the S&P 500's yield of 1.8%. (One stock has an all-in yield that is more than 600% higher.)

This culled list has paid special dividends in the range of four to 10 special dividends over the last five years.

And every stock possesses a market capitalization over $250 million.

See our exclusive list on Page 6.

What Else is Special About These Consistent Special-Dividend Payers

Beyond their impressive special dividend-paying histories and above-average hidden yields, many of our 24 special dividend-paying companies possess other "special" characteristics, too.

Simple business models. Many of these companies have simple business models. You'll notice there are no technology stocks on the list. Instead, these companies specialize in some of the following fields: asset management, insurance, banking, trucking, furniture, mattresses and nut processing.

Lower valuations. Remember, income chasers can't see these super-charged yields. So, these stocks tend to fly under the radar. As a result, these stocks are often not overbought and their valuations tend to remain low. For example, the S&P 500 has a trailing P/E ratio of 25.7, while our 24 stocks have an average trailing P/E ratio of 19.7 (23% cheaper than the market). Essentially, this increases our chances at benefitting from share price appreciation, too.

Solid balance sheets. Stable cash flows are needed to support these large bonus dividend payments. A large majority of these companies have steady earnings, reliable cash flows, significant cash positions and low debt levels. To illustrate, half the companies on our list have zero debt on their books.

Market-beating performance. All of these favorable components add up to solid returns—by and large—over the years.

We analyzed the five-year annualized returns on this group of 24 stocks and discovered they've outperformed the market by a significant margin. (Clearly, part of the outperformance is due to their generous special dividend payments.)

- 24 Special Dividend Champions average: 17.8%
- SPY: 14.8%

We also examined their performance during 2008. Sure, not all of these companies paid special dividends then (although, some did). But, since we've been in a major bull market with very few corrections to speak of, we wanted to gauge how this group could potentially hold up during the next major downturn.

- 24 Special Dividend Champions average: -23.8%
- SPY: -36.8%

Not too bad, considering the financial sector exposure (asset managers, banks and insurance companies) within the list. Notably, seven of the 24 stocks—almost one-third—posted positive returns in 2008.

I know this isn't a mutual fund or ETF this time around (there will be plenty more of those to come.) But, I believe there are multiple ways you can utilize our research, and this one-of-a-kind list, to your advantage.

A List to Impress Appropriate Clients

I think there are numerous ways an advisor can use—and benefit from—this list.

1) Share the entire list with income-seeking or dividend yield-focused clients. This list could be popular with retirees, or soon-to-be retirees, who are searching for stocks with higher dividend yields.

I've had advisors tell me that clients ask them: What's your best idea? Do you have any unconventional investment recommendations? Where can I find adequate yield outside the bond market? What separates you from the other financial advisor I just met with?

This list can serve as a great value-add for existing or potential clients.

I can pretty much guarantee no other advisor will be speaking about this topic. Even if there's a remote chance another advisor knows about this secluded space in the markets, they certainly won't have done this level of research.

With our research on special dividend payers, you have a unique story (i.e. stealth dividends). Plus, you have a list of two dozen stocks to put in front of clients.

This could especially make an impression on specific clients who like to trade stocks on their own.

2) Track this list yourself. Update it monthly, quarterly or annually. Keep it in your back pocket for those clients that are pushing you for creative and alternative ideas.

For those clients you've presented it to, make a point to let them know when one of these companies announces a new special dividend payment.

3) Hone in on distinct opportunities from this list.

- Stocks with the longest histories of paying special dividends. Southside Bancshares (SBSI) has paid special dividends every year since 2004 (plus, it has distributed a 5% stock dividend every year since 1998). National Presto Industries (NPK) has paid a special dividend for 14 consecutive years. Capitol Federal Financial (CFFN) has paid special dividends for 10 years in a row (the company pays them with such regularity… it actually nicknames them in press releases: "Cash True-Up," "True Blue Capitol," "True Blue Too," "Welcome," etc.). Gluskin Sheff + Associates (GS.TO) has paid a special dividend each of the last nine calendar years. Diamond Hill Investment Group (DHIL) has paid special dividends for nine continuous years. RLI (RLI) has paid special dividends for seven straight years.

- Stocks with the biggest combined yields. The 10 highest yielders on our list, over the last five years, have all averaged 6%-plus yields: Gluskin Sheff + Associates (GS.TO) 12.8%, TransDigm Group (TDG) 9.1%, Main Street Capital (MAIN) 7.9%, Vale SA ADR (VALE) 7.7%, Buckle (BKE) 7.6%, National Presto (NPK) 7.3%, Capitol Federal Financial (CFFN) 6.6%, Oritani Financial (ORIT) 6.4%, RLI (RLI) 6.1% and ProAssurance (PRA) 6%.

- Stocks with discounted valuations. As I mentioned, these stocks, on average, trade well below the market's P/E multiple. These are the eight cheapest in terms of trailing P/E ratios: Universal Insurance (UVE) 8.5, Buckle (BKE) 9.4, Vale SA ADR (VALE) 10.4, American Financial Group (AFG) 11.9, Gluskin Sheff + Associates (GS.TO) 12.5, Lazard (LAZ) 12.5, Main Street Capital (MAIN) 13.1 and Diamond Hill Investment Group (DHIL) 13.8.

- Stocks with other catalysts. We wrote about the cutting-edge transformation underway in the manner that people and goods get from "point A to point B." This shift is includes electric vehicles, ride-hailing/car-sharing and autonomous vehicles. PACCAR (PCAR) is one of the largest manufacturers of medium- and heavy-duty commercial vehicles. But what few investors know is this company has partnered with Nvidia to develop an autonomous truck platform and artificial intelligence. While this is a twist from *self-driving cars*, the potential reach here for *autonomous 18-wheelers*—albeit, a bit scary—could be massive. If this plays out, PCAR's special dividends could rise considerably.

In summary, use this list to your advantage in any way you see fit.

Use our research on special dividends. Talk about the sizable hidden yields. Highlight the consistency of these special dividend-paying companies. And feel free to rebrand it under your name or your firm's name.

We're attaching a separate document—in Microsoft Word—that you can edit accordingly and share directly with select clients in-person or through email.

Have a good day,

Tom

Company	Symbol	Description	Mkt Cap	Stated Yield	Com-bined Yield*	No. of Special Divs Paid 2012-2016
American Financial Group	AFG	Insurance	$9.3B	1.2%	2.8%	5
Bassett Furniture	BSET	Home Furnishings	$425M	1.0%	3.8%	4
Buckle	BKE	Specialty Retail	$845M	5.7%	7.6%	4
Capitol Fed Financial	CFFN	Community Bank	$2.1B	2.3%	6.6%	10
CME Group	CME	Financial Exchanges	$46.4B	1.9%	5.5%	5
Cohen & Steers	CNS	Asset Management	$1.9B	2.6%	5.2%	5
Culp	CULP	Fabrics	$394M	1.0%	2.7%	5
Diamond Hill Inv Group	DHIL	Asset Management	$732M	0.0%	4.6%	5
Gluskin Sheff	GS.TO	Asset Management	$488M	5.9%	12.8%	8
HFF	HF	Real Estate	$1.7B	0.0%	5.4%	4
John B. Sanfilippo & Son	JBSS	Snacks	$779M	0.7%	5.1%	6
Lazard	LAZ	Asset Management	$5.5B	3.4%	4.1%	4
Main Street Capital	MAIN	BDC	$2.3B	5.6%	7.9%	9
National Presto	NPK	Conglomerate	$793M	0.9%	7.3%	5
Oritani Financial	ORIT	Community Bank	$787M	4.1%	6.4%	5
PACCAR	PCAR	Truck Manufacturing	$25.3B	1.3%	3.3%	5
ProAssurance	PRA	Insurance	$3.0B	2.2%	6.0%	4
RLI	RLI	Insurance	$2.6B	1.4%	6.1%	5
Saga Communications	SGA	Broadcasting	$263M	2.7%	3.3%	5
Southside Bancshares	SBSI	Community Bank	$1.1B	2.8%	3.7%	5
Sun Hydraulics	SNHY	Fluid Power Systems	$1.5B	0.6%	2.7%	6
TransDigm Group	TDG	Aircraft Components	$14.2B	0.0%	9.1%	4
Universal Insurance	UVE	Insurance	$856M	2.3%	4.3%	6
Vale SA ADR	VALE	Metals & Mining	$50.9B	2.9%	7.7%	7

* Average combined dividend yield (regular + special dividends) over the last five calendar years.

Sevens Report Alpha ETF & Stock Ideas

ETF/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
KWEB **(PGJ as an alternative if KWEB is not available from your B/D).**	*KWEB (KraneShares CSI China Internet ETF) is a play on an index rebalance, where by Chinese "N" shares (ADRs of major Chinese companies like BIDU, WB, etc.) will be added to MSCI Emerging Market Indices between now and June 2018.* ***What to do now: Buy.***	**Issue 1:** **8/17/17** **8/24/17**	**1.81%**	**6.10%**
RSP **(Guggenheim S&P 500 Equal Weight ETF)**	*RSP has massively outperformed SPY over longer-term time frames (314% vs. 112% over 17 years). In 2017, RSP has lagged (so far) due to significant tech sector outperformance, but we view this as a short-term dislocation and an opportunity to buy this ETF at a discount compared to SPY.* ***What to do now: Buy.***	**Issue 2:** **9/7/17**	**3.83%**	**4.47%**
Self-Driving Car Basket **SNSR (Global X Internet of Things ETF).** **ROBO (ROBO Global Robotics & Automation Index ETF).** **AMBA (Ambarella)** **QCOM (Qualcomm)**	*Massive changes to the auto industry, including self-driving technology, are closer to the mainstream than most investors think. The foundational changes to the auto industry could be the next "Megatrend" in investing that can provide outperformance for years to come.* *There is no pure play "self-driving" ETF yet, but SNSR and ROBO offer exposure to many tech companies that are best-positioned in the space.* *AMBA and QCOM are two of the better stocks with unique exposure to the growing self-driving car industry.* ***What to do now: Buy. We remain long-term bullish on each idea. However, if you are sitting on near 20% gains in AMBA and want to book some profits and re-enter later, that's certainly understandable.***	**Issue 3:** **9/21/17**	**SNSR:** **4.85%** **ROBO:** **4.40%** **AMBA** **19.59%** **QCOM** **5.05%**	**2.91%**
Electric Car Battery Plays **LIT (Global X Lithium & Battery Tech ETF).** **ALB (Albemarle)**	*The trend towards the widespread adoption of electric cars is accelerating, with US auto companies planning massive roll outs and several countries putting end dates on the internal combustion engine.* *There is no pure-play "electric car" ETF, but the key here is better technology, specifically lithium.* *LIT is a lithium ETF. Albemarle Corp (ALB) is one of the leading lithium plays in the market today.* ***What to do now: Longer-term investors can buy now, but as we said in the issue, LIT and ALB ran up big following the Chinese electric car decision. Both have digested those gains, but both remain over bought. Waiting for a lower entry point for shorter/medium-term investors is certainly understandable.***	**Issue 3:** **9/21/17**	**LIT:** **2.61%** **ALB:** **3.48%**	**2.91%**
Dividend Growth Strategy **DIVY (Reality Shares DIVS ETF)** **REGL (ProShares S&P MidCap 400 Dividend Aristocrats ETF)** **SMDV (ProShares Russell 2000 Dividend Growers ETF)**	*Dividends are responsible for half of the market's total return historically. So, they are an essential component of long-term outperformance. But while most investors simply go for high-yielding dividend stocks, our research shows that focusing on dividend growth can generate better long-term returns.* *DIVY is the only ETF that isolates pure dividend growth. This ETF is a fixed income alternative that should provide steady single-digit returns with low volatility and true diversification.* *REGL and SMDV are ETFs provide exposure to the "Dividend Aristocrats" of tomorrow.* ***What to do now: Buy.***	**Issue 4:** **10/4/17**	**DIVY:** **0.81%** **REGL:** **0.97%** **SMDV:** **-2.04%**	**AGG:** **0.05%** **MDY:** **0.63%** **IWM:** **-1.11%**
Merger Arbitrage **GABCX (Gabelli ABC Fund)** **MNA IQ Merger Arbitrage ETF**	*Merger arbitrage is a time-tested hedge fund strategy. It seeks to profit from the timely completion of mergers, takeovers and other corporate re-orgs and has produced solid absolute returns with low correlations to stocks and bonds.* *GABCX and MNA are the two best-performing—and cheapest—options to invest in this space.* ***What to do now: Buy.***	**Issue 5:** **10/17/17**	**GABCX:** **0.00%** **MNA:** **0.62%**	**BIL:** **0.03%**

Benchmark Information: KWEB, RSP, SNSR, ROBO, AMBA, QCOM, LIT and ALB are all benchmarked to SPY. DIVY is benchmarked to AGG (iShares Core U.S. Aggregate Bond ETF). REGL is benchmarked to MDY (SPDR S&P MidCap 400 ETF). SMDV is benchmarked to IWM (iShares Russell 2000 ETF). And GABCX and MNA are benchmarked to BIL (SPDR Bloomberg Barclays 1-3 Month T-Bill ETF).