

Master Limited Partnerships (MLPs)

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Today's yield hungry investor is finding it difficult to generate income. At the time this article was written the 10yr Treasury was yielding a scant 2.94%. Master Limited Partnerships (MLPs) may be one solution for income investors and retirees seeking a little extra yield. MLPs are primarily companies that handle the distribution, transportation and storage of fuel. Think of the spider web of oil and natural gas pipelines that stretch across the country. These companies are often compared to toll booths that get paid as oil and gas passes through their miles of pipeline.

MLPs have been rewarding investors for decades. The Alerian MLP index has outperformed the S&P 500 for the 10 year period ending March 31, 2011 with a return of 17.3% vs. 3.3% for the S&P 500 and accomplished this with almost identical standard deviations 16.6% vs. 16.0% respectively. One of the most appealing aspects of MLPs is that they are set up as partnerships and as such MLPs offer very favorable yields and strong tax advantages. MLPs partnership structure requires that they pay out at least 90% of their income and as of the end of Q1 2011 the index was yielding a healthy 5.95% dividend. A large portion of MLP's income is considered a return of capital which is not immediately taxable. These distributions in turn reduce investor's cost basis and aren't taxed until the MLP is sold, usually resulting in a long term capital gains tax vs. having to pay income tax. There are added risks to consider in that MLPs trade like stocks and are formed as partnerships.

These unique investments have been gaining in popularity for good reason. MLPs can create a competitive, tax advantaged income stream for investors who are willing to accept stock market volatility. Please consult with a professional before buying and speak with your accountant as to whether the tax advantages may benefit yourself.

The Alerian Infrastructure MLP index is a rules based, modified capitalization weighted, float adjusted index intended to give investors a means of tracking the overall performance of the United States energy infrastructure Master Limited Partnership asset class. The S&P 500 index measures the performance of the large-capitalization sector of the U.S. equity market. The information provided is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. Past performance may not be indicative of future results. Securities offered through National Securities Corporation (NSC), Member FINRA/SIPC. Advisory Services offered through National Asset Management, Inc. (NAM) a Registered Investment Advisor with the SEC and affiliate of National Securities Corp. NAM, NSC, nor Scholar provide advice on tax, legal or mortgage issues. These matters should be discussed with an appropriate professional.