Let The Truth Be Known

http://www.marketwatch.com/story/how-to-elude-the-feds-attack-on-savers-2012-01-26
By Jon D. Markman, Market Watch - January 28, 2012

Stocks lunged forward into a hollow darkness Wednesday after the Federal Reserve announced a policy of free money forever, or at least the next two years, whichever comes first.

On the surface, the Fed's decision to keep rates at 300-year lows was spun as an effort to help the U.S. stay in its slow grind higher. But from a personal-finance standpoint, it is one of the most outrageous ripoffs of all time -- a massive theft from the savers and retirees of this country for the benefit of banks and big business.

You might think of Fed chief Ben Bernanke as a reverse Robin Hood -- stealing the savings from the older people who built this country into the powerhouse that it is today and giving it to enterprises that absolutely, positively do not need interest rates near zero to make their businesses work. And if they do, they don't deserve help anyway.

If you have money in a passbook savings account or certificate of deposit, or in Treasurys, as so many retirees do, then the Fed's decision Wednesday ensures that for the next two years, banks and the federal government will pay you less than 1%, which is in turn eroded by inflation, leaving you with -1%. You are thus essentially paying the banks to take your money, which they then pay to themselves as bonuses and lend primarily to the most creditworthy of their cronies, not to the small businesses that actually could use a hand.

Even worse, a lot of the savings that you are lending the banks and government for pennies under the zero interest rate policy, or ZIRP, is being shipped to Europe in the form of "swaps" and other arcane instruments they don't want you to understand to help bail out holders of Greek, Portuguese, Italian and Spanish debt. This is terrible public policy, as it has forced grandmothers and grandfathers to take much more risk than they can really tolerate in order to stay ahead of inflation, much less earn a few extra bucks to make ends meet. They are being forced to own higher risk corporate bonds, and energy partnerships and the like at a time of their lives when they should not have to worry about principal risk.

Not only that, but the mad Zirpistas at Bernanke & Co. are messing with the financial equivalent of Mother Nature. By artificially keeping rates near zero for this long, which has never happened before in the West, they are tampering with the natural supply and demand for money. There's really no telling what grotesque deformities will result from this, but I assure you they will emerge.

The last time rates were kept artificially low for an extended time, after the 2000-2002 bear market, cheap mortgages led to the mid-2000s home-building boom, which in turn led to the mortgage financing fiasco, the great credit crisis, the bear market of 2007-2009 and almost the end of the financial system.

Behind the scenes were pension fund managers so desperate for yield in a world where Treasurys paid just 2% that they were willing to buy bundles of rotten mortgages so long as they provided 5%-plus in annual income. And now it's even worse because Treasurys are paying almost nothing.

Once we get over the outrage of it all, we have to buckle down and recognize who the likely winners and losers are in the financial world.

The winners for now will be high-quality, high-yield stocks. Fund managers have already started running up drug makers like **Eli Lilly** & Co. LLY +0.49% , paying a 4.8% yield, and **AT&T** Inc. T +0.41% , paying a 5.8% yield. And I bet they keep running these stocks up until they yield more like 2% to 3%. And now the latest spurt higher in the Dow Jones Industrials means they are going farther down the dividend chain to industrials like **DuPont** DD +0.20% , paying 3.8%.

I tend to think the energy master limited partnerships will end up with the most appeal because they obtain their income primarily as gatekeepers of energy volume, not on the vagaries of commodity pricing. Also, over time, valuations have enough room to stretch to accommodate more fund managers and individuals seeking yield.

Leaders will include **Kinder Morgan Energy Partners** KMP +0.22% , paying 5.3%; **Enterprise Products Partners** EPD -3.14% , 5.2%; **MarkWest Energy Partners** MWE -0.35% , 5.1%; and many others. For funds, investors will focus on the likes of **JPMorgan Alerian MLP ETN** AMJ -1.17% , paying 4.9%, or its leveraged equivalent, **UBS 2x Long MLP** MLPL -1.30% , which pays 9.8%.

Kinder Morgan is the jewel in the set, as one of the largest energy pipeline and storage companies in the country, with over 37,000 miles of pipelines and 180 terminals. Its extensive pipeline network transports natural gas, crude oil, and other refined petroleum products. The company is also able to store and handle an array of products at the terminals, including gasoline, jet fuel, ethanol and coal.

The ownership structure of Kinder Morgan is unique, as **Kinder Morgan Energy** Partners actually owns most of the assets, like the pipelines. KMP is set up as a master limited partnership and is one of the largest in country.

The general partner of the partnership is owned by **Kinder Morgan** , while a third entity, **Kinder Morgan Management** , manages and controls these business units, as well as several other related subsidiaries.

KMR owns roughly 30% of KMP and its shares trade pari passu , or in step, with units of KMP, thus the dividend we receive is equal to the cash distribution that the asset holder KMP, pays out. The primary difference is that KMR shareholders are paid out in shares, similar to a dividend reinvestment program.

As a result, KMR doesn't own any properties and its success is dependent upon its operation and management of KMP. The combined Kinder Morgan entity has more than 8,000 employees and an enterprise value of nearly $60 billion.

KMR has been a pillar of consistency since going public in 2001, logging a compound annual growth rate of 15%. Additionally, the primary asset holder, KMP, has achieved its budgeted cash distribution target ten out of the last eleven years, including growing distributions 7% annually for the last five years.

In October last year, Kinder Morgan agreed to purchase **El Paso Corp.** EP -0.60% for $38 billion. This will push Kinder Morgan to over 80,000 miles of pipeline and create both the largest midstream energy company and the largest natural gas pipeline company in North America.

The management team has proven itself adept at integrating significant transactions of this nature, having acquired Santa Fe Pacific Partners, KN Energy, and Terasen Gas all in the last 20 years. Acquisitions have totaled $11.5 billion, and another $13 billion in expansion projects.

The deal should be immediately accretive to cash flows and although still subject to shareholder and regulatory approval, is expected to close in the second quarter of 2012.

Kinder Morgan is one of the most transparent S&P 500 companies you'll ever encounter. It's one of the few publicly traded firms that publishes its annual budget on its web site, for example. It doesn't have a Political Action Committee, and it doesn't make any political contributions, which is also rare for a company with its size and breadth. Additionally, it doesn't have unnecessary overhead expenses like corporate aircraft, sponsorships, sports tickets or other executive perks.

This philosophy is taken directly from chairman and chief executive Richard Kinder, who takes a salary of $1 per year and receives no bonuses or stock options. As simply a shareholder, Mr. Kinder has directly aligned his interests with those of the company. Impressive.

The former president of Enron well before that company turned south, Kinder left in 1996 to start his own pipeline company with an old college friend, William Morgan. He is director of the National Petroleum Council and sits on the board of several firms.

According to a Morningstar analyst, "Rich Kinder is the rarest kind of visionary. Not only did he see the potential for a hard assets business while at Enron, but he has a focus on execution that has enabled him to build one of the largest pipeline companies in the country, bit by bit."

You would be hard pressed to find another company as fiscally responsible as Kinder Morgan, while at the same time achieving aggressive growth and operational excellence. Its reliable yield and shareholder friendly stance make it a suitable way for conservative investors to zip past the Zirp.