Master Limited Partnerships (MLPs) Have Shined Since The Start Of The New Millennium

View from the Observation Deck

1. From 12/31/99-7/31/14, the Alerian MLP Index posted a cumulative total return of 1,231.79%, or an average annualized gain of 19.42%. The S&P 500 Energy Index was up 346.16% (10.79% annualized).
2. Energy MLPs are primarily in the business of distribution and storage. Most equity investors are likely more familiar with energy companies involved in exploration and production, equipment, refining, and drilling.
3. MLPs are limited partnerships that are publicly traded on a U.S. securities exchange. They are traditionally high cash flow businesses that pay out a majority of that cash to investors.
4. Because MLPs distribute cash to the investor, their underlying value can be influenced by fluctuations in interest rates, particularly in the near-term. But that isn’t the whole story.
5. The cash flow distributed by MLPs is not fixed. MLP revenues are based more on the demand for energy products than the price of said products.
6. If interest rates are rising due to an acceleration in economic activity, the demand for energy could also rise, and that could boost revenues. The opposite scenario could apply as well.
7. Since 2000, there were five calendar years (2003, 2005, 2006, 2009 & 2013) where the yield on the 10-Year Treasury Note finished the year above where it started. The Alerian MLP Index posted a positive return in all five. Of course, past performance is no guarantee of future results.
8. As indicated in the chart, MLPs plunged in 2008 due to the fallout from the financial crisis. Those investors who remained invested in MLPs through 2009 and beyond have been rewarded.
9. With the U.S. moving towards energy independence, investors may want to consider having exposure to both the distribution and production sides of the energy sector, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The Alerian MLP Index is a capitalization-weighted composite of energy master limited partnerships. The S&P 500 Energy Sector Index is capitalization-weighted and comprised of S&P 500 constituents representing the energy sector.