Forbes

CEO Makes Massive Purchase Of This 13% Dividend Stock

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Nov 22, 2023, 08:15 a.m. EST

A key insider has quietly snapped up 10,000 shares of his 13%-yielding stock. And we contrarian income seekers are putting the ticker on our buy list, too.

That's because insider buying *really* is the ultimate "buy alert." Legendary value investor Peter Lynch said it best:

"Insiders might sell their shares for any number of reasons, but they only buy for one: ***they think the price will rise****."*

Heck, I can almost see my regular readers nodding along to this one. We've talked about it again and again in my *Contrarian Income Report* service. In fact, we'd go one step further than Lynch:

Insiders buy because ***they think the dividend will rise****, too.*

Which brings me to the news that crossed my desk last week: that Ivan Kaufman, who founded **Arbor Realty Trust (ABR)** 40 years ago, and is still CEO today, recently dropped $124,000 to pick up about 10,000 common shares of the stock.

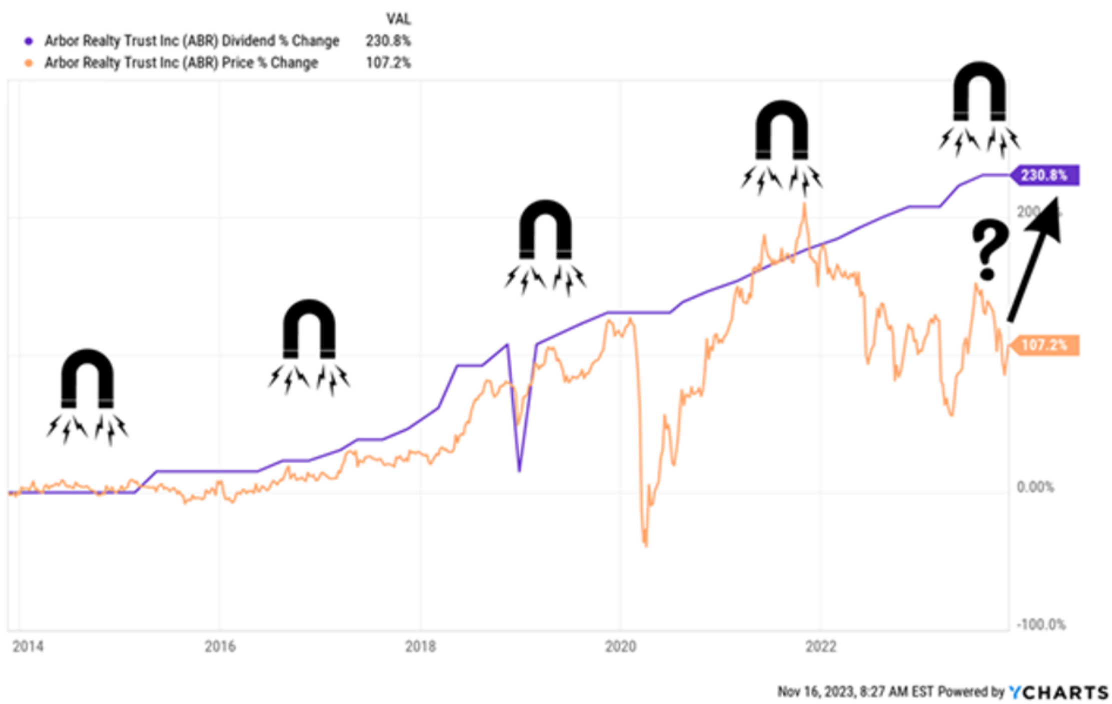
That brought his total direct holding in the real-estate lender to 1,033,412 common shares. With each of those shares dishing $0.43 in quarterly dividends, that amounts to a $444,000 payout *every quarter*.

Talk about living on dividends alone! Ivan has far more than enough for most of us to pull that off in *one quarter's* worth of dividends—from just one holding!

So we won't expect to see Ivan on our *CIR* subscriber list anytime soon. But those of us who *aren't* CEOs of $2.6-billion companies can benefit by riding along with Ivan's latest buy.

Because he knows what we know: Arbor—a holding in our *CIR* portfolio, is *cheap*. And, of course, it yields that 13% I mentioned a second ago, too.

And that 13% payout has been growing, too:



ABR Price/Dividend YCHARTS

When a divvy yields double digits and zooms up 231% in a decade, it has our attention. Especially when the share price and payout part company, as is clearly the case here. As we've discussed previously, a rising dividend acts like a magnet on a company's share price. So when we see a gap between a stock and its "Dividend Magnet," we know it means "baked in" upside for us.

As the price gains, the current yield will fall, so if you want to make sure you're getting that 13% payout *in full*, this is the time to buy and "lock in."

A “Mislabeled” Lender

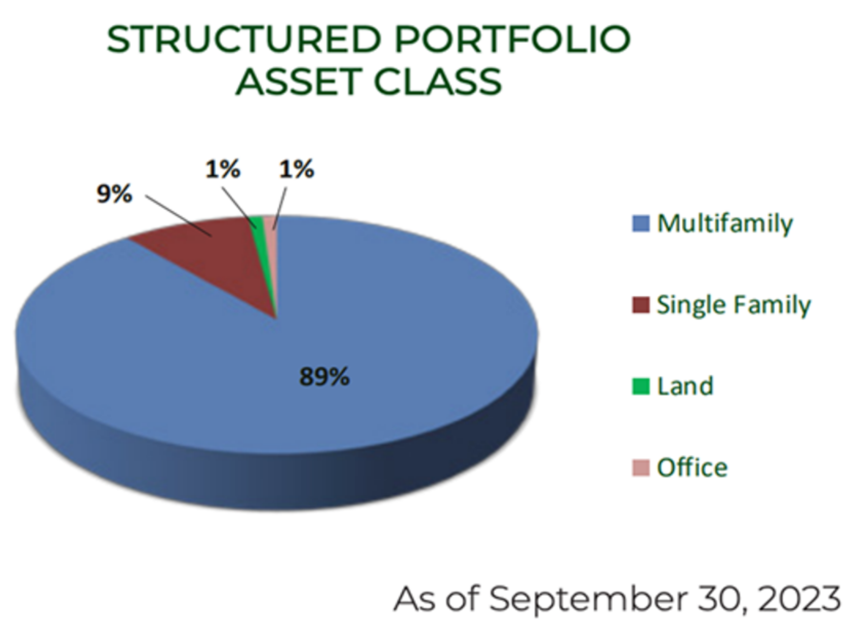
Arbor is one of those companies that often gets tossed out because investors misunderstand its business: founder Kaufman set Arbor up as a lender for single-family mortgages. True to its name, Arbor sent every new homeowner a tree at loan closing!

In the 1990s, Arbor expanded its lending to multifamily and commercial properties. It found a “sweet spot” in loans between $1 million and $5 million—too small for the big players, too big for the small players, but plenty profitable for Arbor.

This was the first of *many* smart business pivots for Arbor. Ivan is our type of entrepreneur. He’s always looking ahead.

Mortgage rates have pulled back a bit with bond yields, but they’re still near 23-year highs. Fortunately, Arbor is long gone from the residential-lending business, having sold its residential operation to **Bank of America** BAC +0.4% **(BAC)** in 1995. Today, it favors much more profitable multifamily lending.

It’s also diversified away from commercial real estate. Which, quite frankly, is the reason the stock is so cheap. “Going to the office” will never be the same after COVID. But Arbor is lumped with commercial lenders and landlords—ridiculous given that these loans make up just 1% of its overall portfolio:



ABR Portfolio Breakdown ARBOR REALTY TRUST THIRD-QUARTER FACT SHEET

In the mid 2010s the company bought a commercial mortgage-lending agency and its in-house technology platform. It was another canny "insider" move, as Arbor had spun off this business in 2004, so Ivan was already familiar with it.

It was also a smart move because it created a new stream of loan-servicing income—a steady, long-duration business. This grew to one-third of Arbor's total sales in just two years—a diversified *and* protected income stream!

Today, Ivan refers to this as Arbor's *service income annuity*. It amounts to about $240 million of annual profits, which equates to $1.20 per share.

ABR's quarterly dividend is $0.43 per share. *This annuity covers two-thirds of it off the bat*. Throw in the money it still makes lending and ABR has a comfortable, for a real estate investment trust (REIT), 78% payout ratio, based on its latest distributable earnings and quarterly payout.

No wonder Ivan's buying now. Further payout growth would steadily build on the 13% "starter yield" on a buy made now.