OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

February 1, 2015
Volume 4 Issue 2

Valuentum Securities Inc.
www.valuentum.com info@valuentum.com

Latest Alert: We removed half of the position in Microsoft (MSFT) in the DG portfolio on January 27 at $42.34 per share.

Annualized Return	Annualized Goal	Outperformance
15.7%	Mid-High Single Digits	8.2pts

*Please see note below regarding performance measurement.

Inside This Issue

1 Wealth or Income? You Decide.

3 One Dividend Suspension and Five Other Disappointments (see article for tickers)

5 The Dividend Growth Portfolio

6 There's More Rough Sledding Ahead; Removing Half of Microsoft from DG Portfolio (ticker: MSFT)

8 The Time to Own McDonald's Has Passed (ticker: MCD)

9 Apple's Powerful "Valuentum-style" Attributes Remain (ticker: AAPL)

10 Stocks with High VBI Ratings and Strong Dividend Growth Prospects (see article for tickers)

11 The Dividend Growth Watch List

12 Yields to Avoid

13 GE, Honeywell Fourth-Quarter Results Solid (tickers: GE, HON)

14 Commercial Aerospace is Flying High and Boeing Loves It (ticker: BA)

18 About the Dividend Cushion™

21 Valuentum Definitions

© 2014 Valuentum. All rights reserved. Reproduction by any means is prohibited.

"I'm growing concerned that some advisors are risking their clients' capital and income by ignoring cash-flow-based analysis. The Dividend Cushion should be in everyone's toolkit." – Brian Nelson, CFA

***NOTE:** The Dividend Growth portfolio's goal is to generate a mid-to-high single digit annual return (about 7.5%) over rolling 3-5 year periods. As of today, February 1, 2015, the portfolio is significantly exceeding this goal.

Wealth or Income? You Decide.

By Brian Nelson, CFA

Brian Nelson, CFA
President, Equity Research
brian@valuentum.com

Best Dividend Growth Ideas: MO, AAPL, COH, CSCO, CVX, ETP, GE, HAS, HCP, INTC, JNJ, KMI, MDT, MSFT, O, PG, PPL

I know better than to jump up and down in sheer bliss with the S&P 500 (SPY) basing at 2,000. Frankly, the chart looks toppy and "tired," and with the ongoing series of lower tops, I wouldn't be surprised that we break down in the coming weeks. Earnings disappointments have been rampant, and following one of the strongest periods of economic expansion in some time during the third quarter (+5%), the pace of US GDP growth in the fourth quarter barely edged out half of the preceding period's rate of expansion (+2.6%). But that's yesterday's news (well, last year's really), and what concerns me most is that first-quarter GDP will be quite disappointing, even with the stimulus brought about by the precipitous decline in the price of crude oil. "Window dressing" (short covering) in advance of the quarter end helped buoy the oil markets Friday, but one day a trend does not make.

Chart of the S&P 500

Will we test the October lows? Perhaps. But I do know one thing for sure. If we get there, we will get there in a hurry. Investors are looking for a reason to sell in this overpriced market, while others have fallen asleep at the wheel. Their sense of complacency is reverberating in every overpriced dividend growth stock on the market today.

Please see *Wealth or Income…*on next page

***Wealth or Income…*from previous page**

We're not ready to layer on another series of put options like we did in advance of the market slide in early October, but we're certainly thinking hard about it. The market, in my view, is hanging on by a thread, or better yet, it is hanging on the Fed's word, and any hint of an interest rate hike may mark the end of this 6-year bull market from the depths of the panic bottom of March 2009, something I won't ever forget.

The S&P 500 finished January down ~3.1%. Bring on the tarot card readers and horoscope writers with the old saying, "as goes January, so goes the year." Obviously, such a statement has little bearing on what actually might happen in 2015. After all, the markets declined in January 2014, and we finished the year materially higher. But for reasons completely unrelated, the January barometer might be correct this year. Must I remind you that the markets have tripled since the Financial Crisis, and a 20% pullback or more would simply be negligible compared to this decade's vast gains? For those that depend on the Super Bowl indicator, you'll be rooting for the NFC's Seattle Seahawks in this Sunday's big game. I don't pay too much attention to such nonsense, but such historical trends are entertaining, even if they offer little real value to the analytical mind. Such is the case with most historical data. It's history.

Apple's (AAPL) and Altria's (MO) cadence has been more than welcome for followers of the Dividend Growth portfolio. Even though we were expecting a blow-out calendar fourth-quarter from Apple, it's always good to be right (see page 9). The iPhone maker may turn some heads with its dividend increase this year. We also can't be disappointed with Altria's fourth-quarter results, which revealed adjusted earnings per share growth of ~16%. One wouldn't think that cigarette volumes are in permanent decline with such profit growth. That's just the significance of pricing power, the defining characteristic of only the strongest of businesses.

Altria forecasts 2015 full-year adjusted diluted earnings per share to be in the range of $2.75-$2.80, offering a growth rate of 7%-9% over the most recently-completed year's performance. Dividend growth investors should anticipate a dividend increase of a similar magnitude. SABMiller (SBMRY) remains the firm's key, hidden asset that speaks of sustainability to the payout. The liquidation of its stake would only mean more cash on the balance sheet, and a special one-time dividend would almost surely send shares higher, as implied value would turn into realized value.

We've talked too much about the slide in crude oil to report any real incremental news since the latest emails updates. The capital spending cuts across the industry have been showing up in droves from the biggest players to the smallest, almost like clockwork. It almost leads me to believe that there has been some signaling in the oil markets, and participants are now acting as one. Implicit collusion is legal, and I'm not sure if anyone can prove coordinated action among players, especially given the telegraphed actions revealed in conference calls across the sector.

In the oil and gas space, we prefer the well-entrenched midstream operates such as Kinder Morgan (KMI) and Energy Transfer Partners (ETP), both of which raised their dividends in the midst of the slide in crude oil. How's that for reinforcing your confidence in our dividend growth process through thick and thin. Kinder Morgan upped its quarterly payout 2.3%, to $0.45 per share, and Energy Transfer Partners raised its own by 2.1%, to $0.995 per share on a quarterly basis. We were pleased.

Please see *Wealth or Income…*on next page

*Wealth or Income…*from previous page

The other direct energy play in the Dividend Growth portfolio, Chevron (CVX) has opted to cut capex for 2015 and suspend buybacks, two actions that will support the dividend. Chevron's head honcho John Watson has stressed that the dividend is the company's "highest priority." We like what we heard, but we'll still be watching its financials like a hawk. We continue to believe Chevron is best-positioned among the majors given its comparatively lower net debt position.

If I haven't convinced you to pay attention to the Dividend Cushion ratio of firms in your portfolio by now, I have failed. I received an email from an ex-subscriber that mentioned that she lost income using another service (emphasis on ex). Sometimes it's hard for me to fathom why members cancel, only to be suckered in by someone else's superficial prose lacking any substantial cash-flow-based work. Penny wise, pound foolish? For those that keep our archived Dividend Growth Newsletters, in the January 2015 edition on page 12, in the list of 'Dividend Yields to Avoid,' you'll find Cliffs Natural Resources (CLF) and Peabody Energy (BTU). Both of them cut their dividends since the last update.

The Dividend Cushion ratio is incredible, and I really mean it, though I shouldn't act so surprised since it is based on forward-looking cash-flow based analysis, the core of what we do at Valuentum. Spread the word about this fantastic tool. It will only help investors of all types.

All-in, your baseline expectations should be a multi-month downtrend in the equity markets. Like the wind blowing fiercely in from left field, even the hardest hit balls that otherwise would be homeruns on mild, sunny afternoons, in such a turbulent environment, they become just long fly outs.

Deciding what to do to prepare for the rest of 2015 depends on whether you're after wealth creation or income growth. No stock is ever a perpetual buy and hold, and Bill Gross almost has it correct: "the time for (excessive) risk taking has passed." I added "excessive." This year could be a difficult year for the equity markets, so plan accordingly.

You are. You're reading this. Don't let complacency be your downfall. Stay engaged.

One Dividend Suspension and Five Other Disappointments

By Brian Nelson, CFA

The wreckage in crude oil prices has left many in awe of the range of probable outcomes for the commodity even over a multi-month period, let alone a multi-year period. The precipitous decline has forced high-yielding equities such as Linn Energy (LINE) and Seadrill (SDRL) to slash their income payouts and begin the long road to recovery, as it has pushed the backs of others, including Legacy Reserves (LGCY), against the wall. Investor confidence, once lost, however may never be regained, and management teams know this. A dividend cut will always be the last resort, but crude oil hasn't been the only commodity falling out of favor. Copper and iron ore have also seen much better days, too.

January 26 brought news that global iron ore producer Cliffs Natural (CLF) would suspend its dividend, a move that had been telegraphed by the firm's very poor Dividend Cushion ratio. For those just getting familiar with this fundamental-based dividend coverage ratio, the Dividend Cushion ratio, which is proprietary to Valuentum, is forward-looking and derived from future financial forecasts of free cash flow (cash flow from operations less capital spending), a company's net balance sheet (cash less debt), and future expected cash dividends paid. It can be found in each firm's dividend report.

Please see *One Dividend Suspension…*on next page

*One Dividend Suspension…*from previous page

The higher the Dividend Cushion ratio above 1, the healthier the dividend. It means that the firm can cover expected growth in the dividends with future expected free cash flow and net cash on the balance sheet. On the other hand, the lower the Dividend Cushion ratio below 0, the riskier the dividend, all else equal. Cliffs Natural's Dividend Cushion ratio was -5.2 (negative 5.2) before the cut, so the suspension was all but guaranteed, in our view, with timing the only true variable. This is yet another example of the importance of forward-looking cash-flow based analysis, which is second to none both in equity valuation and dividend growth analysis.

The list of 'Dividend Yields to Avoid' can always be found in the left column of the website under the 'Stock Screens' section, and you'll see that Cliffs made that list. Because a company's balance sheet and cash-flow profile do not change much on a daily basis, we update the list on a monthly basis and include it in the monthly Dividend Growth Newsletter.

Other firms that are at risk of a dividend cut include the aforementioned Legacy Reserves, Peabody Energy (BTU), Tidewater (TDW), Roundy's (RNDY), Windstream (WIN), Frontier (FTR), and Centurylink (CTL) among others. These are relative high-yielding equities so many income investors may hold these firms without knowing the significant risk related to the long-term sustainability of their dividend payment. Much of the uncertainty in these cases rests on the massive debt obligations on the balance sheet that take priority over any dividend payment to shareholders.

Our best dividend growth ideas are always included in the Dividend Growth portfolio (see page 5) and we use a combination of high yield, strong Dividend Cushion, and valuation to assess whether a company is worthy of inclusion. At the moment, there are 17 holdings in the Dividend Growth portfolio, which is updated in each edition of the monthly Dividend Growth Newsletter that we email to members on the first of each month.

The start of earnings season brought a number of disappointments. (1) Brookdale Senior Living (BKD) lowered its 2015 CFFO guidance to $2.60-$2.75 per share from $2.95-$3.10, and shares are taking a hit. Hard drive giant (2) Seagate's (STX) sales outlook for the calendar first quarter came in a bit lower than expectations, and peers such as Western Digital (WDC) and Hutchinson (HTCH) are facing selling pressure on the news.

Toy maker (3) Mattel (MAT) announced the resignation of its CEO as it lowered its fourth-quarter guidance. Shares of Mattel have been punished significantly the past many months, and we continue to point to long-time Dividend Growth portfolio holding Hasbro (HAS) as the clear winner in that rivalry. Industrial distributor (4) Grainger (GWW) also announced lower expected sales growth in 2015 (now 3%-7%, was 5%-9%), and homebuilder (5) NVR (NVR) issued weaker than expected fourth-quarter performance, though D.R. Horton's (DHI) more optimistic tone about January sales has mitigated some of the concerns across the industry.

All in all, earnings disappointments have been proliferating, and we talk more about them on page 6. As your sifting through the wreckage in commodity-linked industries, please don't forget to pay attention to the Dividend Cushion ratio when evaluating dividend health. Don't be penny wise, and pound foolish. Stay on top of changes in a company's Dividend Cushion ratio.

The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
15.7%	Mid-High Single Digits	8.2pts

DIVIDEND GROWTH PORTFOLIO -- as of February 1, 2015 — Dividend Growth Portfolio Inception Date: January 1, 2012

Company Name	First Purchase	Avg Cost ($)	# of Shares	Total Cost ($)	Last Close	Current Value ($)	% of Portfolio	Exp. Yrly Div's ($)
Altria (MO)	12/30/2011	29.65	202	5,996.30	53.10	10,726.20	6.8%	420.16
Apple (AAPL)	7/24/2013	63.17	77	4,870.76	117.16	9,021.32	5.8%	144.76
Chevron (CVX)	12/30/2011	106.40	56	5,965.40	102.53	5,741.68	3.7%	239.68
Cisco (CSCO)	11/14/2014	26.15	100	2,622.00	26.37	2,637.00	1.7%	76.00
Coach (COH)	9/19/2014	37.55	80	3,011.00	37.19	2,975.20	1.9%	108.00
Energy Transfer (ETP)	12/30/2011	45.85	142	6,517.70	61.40	8,718.80	5.6%	565.16
General Electric (GE)	10/21/2013	26.18	240	6,290.20	23.89	5,733.60	3.7%	220.80
Hasbro (HAS)	12/30/2011	31.89	220	7,022.80	54.92	12,082.40	7.7%	378.40
HCP (HCP)	9/19/2014	40.11	75	3,015.25	47.29	3,546.75	2.3%	163.50
Intel (INTC)	12/30/2011	24.25	289	7,015.25	33.04	9,548.56	6.1%	277.44
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	100.14	10,714.98	6.8%	299.60
Kinder Morgan (KMI)	10/22/2014	38.72	157	6,086.04	41.05	6,444.85	4.1%	282.60
Medtronic (MDT)	12/30/2011	38.25	157	6,012.25	71.40	11,209.80	7.2%	191.54
Microsoft (MSFT)	12/30/2011	25.96	154	4,004.84	40.40	6,221.60	4.0%	190.96
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	84.29	8,850.45	5.6%	269.85
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	35.50	8,449.00	5.4%	354.62
Realty Income (O)	7/24/2013	44.35	60	2,668.00	54.31	3,258.60	2.1%	136.20

Last Trade: The position in MSFT was trimmed on January 27.

Cash	2,363.42	30,873.23	19.7%	4,319.27
Dividend Growth Portfolio	100,000.00	**156,754.02**	100.0%	**TBD**

DG Portfolio Annualized Return (from inception through current date)	**15.7%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)	7.5%
DG Portfolio Annualized Return Outperformance	**8.2%**

UR = Under Review

**Upper bound of fair value range noted.

****The yield an investor would have received if they had held the fund over the last 12 months assuming the most recent NAV.

This portfolio is not a real money portfolio. Data as of February 1, 2015. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of February 1, 2015

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Ex Div Date	Next Pay Date (cycl)	Div Cushion™	Div Safety	Div Growth	Fair Value	VBI Score	Price/Fair Value
Altria (MO)	2.08	3.92%	mid-Mar 2015	mid Mar 2015 (quart)	1.1	GOOD	GOOD	$47.00	6	1.13
Apple (AAPL)	1.88	1.60%	early-Feb 2015	Feb 2015 (quart)	4.7	EXCELLENT	EXCELLENT	$135.00	6	0.87
Chevron (CVX)	4.28	4.17%	mid-Feb 2015	early Mar 2015 (quart)	1.3	GOOD	EXCELLENT	$116.00	3	0.88
Cisco (CSCO)	0.76	2.88%	early Apr 2015	early Apr 2015 (quart)	3.4	EXCELLENT	EXCELLENT	$33.00	9	0.80
Coach (COH)	1.35	3.63%	early Mar 2014	early Mar 2015 (quart)	1.9	GOOD	EXCELLENT	$49.00	9	0.76
Energy Transfer (ETP)	3.98	6.48%	late Jan 2015	Feb 2015 (quart)	2.5	GOOD	GOOD	$67.00	7	0.92
General Electric (GE)	0.92	3.85%	early Mar 2015	Mar 2015 (quart)	2.3	GOOD	GOOD	$32.00	6	0.75
Hasbro (HAS)	1.72	3.13%	late Apr 2015	mid May 2015 (quart)	1.9	GOOD	EXCELLENT	$62.00	6	0.89
HCP (HCP)	2.18	4.61%	early Feb 2015	early Feb 2015 (quart)	1.8	GOOD	GOOD	$47.00	6	1.01
Intel (INTC)	0.96	2.91%	early Feb 2015	early Mar 2015 (quart)	2.1	GOOD	EXCELLENT	$35.00	6	0.94
Johnson & Johnson (JNJ)	2.80	2.80%	late Feb 2015	early Mar 2015 (quart)	2.3	GOOD	EXCELLENT	$110.00	6	0.91
Kinder Morgan (KMI)	1.80	4.38%	late Apr 2015	mid May 2015 (quart)	1.2	GOOD	GOOD	$41.00	6	1.00
Medtronic (MDT)	1.22	1.71%	early Apr 2015	Apr 2015 (quart)	4.1	EXCELLENT	EXCELLENT	$72.00	7	0.99
Microsoft (MSFT)	1.24	3.07%	mid Feb 2015	mid Mar 2015 (quart)	3.2	EXCELLENT	EXCELLENT	$55.00	6	0.73
Proctor & Gamble (PG)	2.57	3.05%	mid Apr 2015	early May 2015 (quart)	1.7	GOOD	EXCELLENT	$84.00	7	1.00
PP&L (PPL)	1.49	4.20%	early Mar 2015	early Mar 2015 (quart)	Held for diversification reasons.			$35.00	6	1.01
Realty Income (O)	2.27	4.18%	monthly	monthly	1.9	GOOD	GOOD	$60.00	7	0.91

Standard Disclaimer: Our Dividend Growth portfolio is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of our Dividend Growth Newsletter and accepts no liability for how readers may choose to utilize the content.

There's More Rough Sledding Ahead; We Removed Half of Microsoft from DG Portfolio

By Brian Nelson, CFA

Reverberations of the collapse in commodity prices have influenced much more than the commodity producers themselves. The slide has impacted business in a variety of sectors, almost across the board, as suppliers and customers seemed to pause to assess the damage and opportunities. The strengthening dollar is also having an unprecedented impact on the growth of global entities. If the disappointments that we talked about on page 5 didn't signal an inflection point in the markets, then the following surely have.

It was just this week that we reiterated our view that Peabody Energy's (BTU) dividend was at risk, and almost on cue, the firm announced today that it would slash its payout more than 97%, to $0.085 per share on a quarterly basis. The Dividend Cushion ratio for Peabody Energy was -7.6 (negative 7.6), even worse than that of Cliffs Natural (CLF), which also cut its dividend. A Dividend Cushion ratio below 0 signals significant long-term risk to the payout. Both firms were on the 'Dividend Yields to Avoid' list. The Dividend Cushion ratio is updated at least quarterly.

Cliffs Natural, in our view, is one of the best examples revealing how management can often be too optimistic with respect to their payout. As recently as Cliffs Natural's third-quarter earnings call (a few months ago), management reassured investors that they were comfortable with the dividend. Apparently, the board decided otherwise. The reality is that numbers don't lie, and the Dividend Cushion ratio is derived directly from the firm's forecasted financial statements. Financial statement analysis will always be the key to success in the markets, regardless of what else you hear.

Freeport McMoran (FCX) may be next in line to slash its dividend.

There was a plethora of additional disappointments. Dover (DV) pointed to the combination of falling crude oil and foreign exchange losses for why earnings per share in 2015 will be $4.70-$4.95 per share (was $5.05-$5.30), below consensus of $5 per share. The company had expected revenue expansion of 3%-6%, but due to lower energy revenue estimates, revenue could fall as much as 2%.

Steady-eddy industrial conglomerate 3M (MMM), while reaffirming its 2015 outlook for the top and bottom line, revealed weaker-than expected revenue in the fourth quarter. Organic local-currency growth was north of 6% in the period, so we can't be too disappointed in 3M's results, even if the "miss" suggests that the *pace* of growth may be slowing relative to expectations, if ever so slightly. All five of the company's major business segments achieved expansion.

Caterpillar's (CAT) outlook for 2015, however, may be most telling of the tumultuous environment commodity-linked companies are facing. The company said that the precipitous decline in crude oil prices is harming its Energy & Transportation business as it damages its construction operations in key oil producing regions. Lower prices for copper, coal and iron ore are also damping sales of the firm's mining equipment. The economic environment in China is also becoming increasingly more challenging for Cat.

Please see *There's More Rough Sledding...*on next page

*There's More Rough Sledding…*from previous page

Even with all the renewed geopolitical uncertainty across the globe, defense contractor Lockheed Martin (LMT) said that 2015 earnings per share would fall below consensus expectations, to the range of $10.80-$11.10. The company's backlog fell to $80.5 billion at the end of 2014 versus $82.6 billion at the end of last year. Though not an unexpected decline, it does speak to an ongoing tightening of defense budgets. The company's dividend remains very healthy, however.

The chemical industry has not been spared from the uncertain market climate caused by declining commodity prices either. DuPont (DD) now expects earnings per share of $4-$4.20 per share for 2015, below consensus expectations. The company cited a whole host of reasons, including "significant market and macroeconomic challenges, including a weaker Ag economy, a stronger dollar and a difficult market pricing environment."

I talked about the difficult revenue environment facing Microsoft (MSFT) in this video here: http://www.valuentum.com/articles/20150127_1, and while we acknowledge that short-term performance in the equity will be muted at best, Microsoft's dividend growth thesis remains firmly intact. Still, we took profits on half of the position in Microsoft in the Dividend Growth portfolio, even as the firm falls below the low end of the fair value range.

ALERT: Specifically, we removed from the Dividend Growth portfolio 154 shares of Microsoft at $42.34 each. We're most concerned that a 4% dividend yield, a level where significant fundamental support rests in Microsoft's shares, isn't until $31 per share. Though there is material technical support in the $40 per-share range, general market weakness could threaten those levels. Shares are trading north of $42 at present.

Microsoft was added to the Dividend Growth portfolio in the mid-$20s. Stocks do not go straight up forever, unfortunately, and locking in gains is one of the most important aspects of investing.

All-in, we continue to encourage members in this environment to stick to high-quality undervalued ideas that have solid balance sheets, as measured by a firm's net cash position (not necessarily its credit rating). As we had warned in the most recent edition of the Best Ideas portfolio, the equity markets appear vulnerable and perhaps are setting up for a multi-month downtrend.

Your baseline expectation should be for the market to pressure portfolio returns in the coming weeks. This is no reason to abandon your attention to the markets, however. Instead, it means you should pay even close attention to your holdings.

The Time to Own McDonald's Has Passed

By Brian Nelson, CFA

McDonald's (MCD) CEO Don Thompson's admission that 2014 was a challenging year is an understatement. The restaurant has been mired in food scandals throughout much of the year, and consumer confidence in the fast food giant has been shaken to the core. McDonald's sourcing relationship with Shanghai Husi Food, the firm responsible for the mishandling of meat in its China operations, coupled with recent reports of vinyl being found in Chicken McNuggets sold in Japan has given the Dow component a black eye. I talked about McDonald's on CNBC following its third-quarter report last October, and frankly, the outlook is not much different after its fourth-quarter release.

The time to own McDonald's has passed, even as we wave goodbye to Thompson, who announced his resignation this week.

It is easy to characterize the food scandals as temporary and peripheral, but we think it speaks of a more serious issue: management has dropped the ball. Though the planned efforts to revitalize the brand in 2015 are notable, we don't think the consumer environment is as forgiving as we originally thought, and we think competition will only intensify. McDonald's challenge, in our view, has to do with its ongoing inability to connect with the millennials demographic, or those born from the early 1980s to the early 2000s. Unlike the generation before it, Generation X (early 1960s to the early 1980s), millennials do not have as positive of a perception of the Golden Arches. Many millennials, for example, are opting for healthier alternatives such as Panera (PNRA) and Chipotle (CMG), or even more trendy establishments such as Noodles (NDLS). They are just not interested in the 510-calorie, 27g-fat, 36-carb triple cheeseburger. It won't matter how much they discount it. The millenials aren't buying, and parents certainly aren't taking their kids to load up on the 1150mg of sodium that the triple cheeseburger packs.

The McCafe was McDonald's last hoorah, and it was a huge shot in the arm for the restaurant. However, competition from Starbucks (SBUX) in premium coffee is not letting up, and McDonald's continues to have a difficult time with its menu, especially in appealing to value customers, its bread-and-butter market. Yum! Brands' (YUM) Taco Bell has more bang for the buck, and its foray into breakfast is having an impact, albeit gradually. Burger King (QSR) is not backing down either, and the promotional environment has never been this intense. Burger King is selling 10 chicken nuggets for just $1.49. There's very little margin, and it's a race to the bottom with price in this category. McDonald's will have to do something other than compete on price, but its best days of innovation are behind it. There are only so many variants of fast food the consumer can handle.

McDonald's fourth-quarter global comparable sales fell 0.9% as guest traffic slowed, while consolidated revenue fell 7%, a rather large number due in part to currency headwinds. Fourth-quarter comparable sales fell 1.7% in the US, 1.1% in Europe, and 4.8% in Asia. Consolidated operating income dropped a painful 20% (15% in constant currencies), and for us to even write such a staggering percentage, it's a shocker. Diluted earnings per share fell 19%, to $1.13. The company remains as shareholder friendly as companies come, returning cash in the form of dividends and buybacks, but operationally, McDonald's is in a whole host of trouble.

The restaurant is on the defensive as well. 2015 will mark its lowest capital budget in 5 years, as it slows openings in its most challenged markets. Instead of aggressively pursuing improvements, McDonald's is giving up ground that we think it will not be able to regain. Fast-casual operators have changed the game, and McDonald's will be playing catch up for the foreseeable future. Management emphasized that January comparable sales are expected to be negative and that results will remain pressured for the first half of the year. Though its dividend is healthy, growth in it will be subdued, and we can think of a great many firms that have better investment prospects. We won't be adding McDonald's to either newsletter portfolio anytime soon.

Apple's Powerful "Valuentum-style" Attributes Remain

By Brian Nelson, CFA

We were expecting "an absolute blow-out holiday quarter for Apple," and the company did not disappoint. Revenue growth of ~30% and earnings per share of $3.06 (up ~50%) blew by analyst expectations and set new records in its fiscal first quarter, as the tech giant sold an all-time quarterly best 74.5 million iPhones, simply a monumental number.

Was there really any doubt that Apple (AAPL) was going to beat expectations?

The iPhone maker's "Valuentum-style" attributes also remain intact. We talk quite a bit about the importance of combining both valuation and technical/momentum qualities in individual equity analysis, and perhaps the best example of any idea we've added to the newsletter portfolios showcasing the efficacy of such a process is Apple.

Throw in a fantastic dividend yield and a safe and growing payout to a solid valuation and technical/momentum thesis, and we have a real winner. Since being added to the Dividend Growth portfolio in July 2013, Apple has roughly doubled. The company is also a leading performer in the Best Ideas portfolio. We see no reason to make any changes to the firm's weighting in either newsletter portfolio.

The most important dynamic in the investment equation is the relationship between price and value, and Apple still looks cheap. Looking at the 16-page report on Apple's landing page here, our fair value estimate of Apple is $135 per share, and we see upside in the valuation equation to nearly $160 per share. Since valuation analysis is based on future expectations, and the future is has yet to be written, a fair value range will always be the correct way to assess a company's intrinsic worth.

Apple's outlook for its fiscal second quarter revenue of $52-$55 billion indicates the good times will continue, and we very much liked its gross margin performance in the most recently-completed quarter, performance that was bolstered by a higher iPhone mix. Gross margin in the holiday quarter was 39.9% compared to 37.9% in the year-ago period, and top brass is targeting a range of 38.5%-39.5% in the current quarter. Sales in Asia, a new smart watch, and tumbling gas prices will be key sources of revenue upside in the fiscal second period.

You can say what you want about Apple, but for a company that generated a quarterly-record $33.7 billion in operating cash flow in the period, it's just hard *not* to like the company. The executive suite continues to buy back undervalued stock, and the firm remains a highly-rated Economic Castle. Consumers can't get enough of the larger iPhones, and Apple has only recently been able to meet demand with supply. Apple is doing almost everything right. Kudos to CEO Tim Cook (and Apple shareholders).

Stocks with High Valuentum Buying Index Ratings and Strong Dividend Growth Prospects

By Valuentum Analysts

The table below showcases firms in our coverage universe that have high Valuentum Buying Index™ ratings and strong dividend growth prospects. The table represents a list of interesting dividend-paying stocks that are *among* the most timely dividend growth ideas based on our stock-selection methodology. You'll see that many of them are already holdings in our Dividend Growth portfolio (see page 5).

Though our dividend-growth portfolio is near fully-invested, we may swap in firms on this list or firms on our dividend-growth watch list (see the next page) at the right price or if our analyst team determines that a new add has more potential total return opportunity than a current holding. At any time, however, our favorite dividend growth ideas are included in the Dividend Growth portfolio.

Name	Symbol	Industry	Div Yield	VBI	Div Growth	Div Cushion
Energy Transfer Partners	ETP	Oil & Gas Pipelines	5.8%	7	GOOD	2.5
Universal Health Realty	UHT	REIT - Healthcare	5.6%	6	GOOD	2.1
Holly Energy	HEP	Oil & Gas Pipelines	5.5%	6	EXCELLENT	1.8
Corrections Corp	CXW	Management Services	5.5%	7	EXCELLENT	1.3
Omega Healthcare	OHI	REIT - Healthcare	5.4%	7	EXCELLENT	1.9
HCP	HCP	REIT - Healthcare	5.0%	6	GOOD	1.8
Realty Income Corp	O	REIT - Retail	4.8%	7	EXCELLENT	1.9
Healthcare Realty Trust	HR	REIT - Healthcare	4.8%	6	GOOD	1.9
Health Care REIT	HCN	REIT - Healthcare	4.7%	6	GOOD	2.1
Reynolds American	RAI	Tobacco	4.6%	7	GOOD	1.1
Brookfield Infrastructure	BIP	Utilities	4.5%	6	GOOD	0.9
Kinder Morgan	KMI	Oil & Gas Pipelines	4.4%	6	GOOD	1.2
Verizon	VZ	Telecom Services - diversified	4.4%	7	GOOD	2.0
Ventas	VTR	REIT - Healthcare	4.4%	7	EXCELLENT	1.6
Courier Corp	CRRC	Book Publishing	4.3%	6	GOOD	2.3
Rio Tinto	RIO	Mining - diversified	4.2%	6	EXCELLENT	1.9
Altria Group	MO	Tobacco	4.2%	6	GOOD	1.1
Retail Properties of America	RPAI	REIT - Retail	4.1%	6	EXCELLENT	2.8
Entergy	ETR	Utilities - Large	4.0%	6	GOOD	1.5
Unilever N.V.	UN	Food Products - Large	3.8%	7	EXCELLENT	1.3
Staples	SPLS	Specialty Retailers	3.7%	7	EXCELLENT	2.2
Unilever PLC	UL	Food Products - Large	3.7%	7	EXCELLENT	1.3
Coach	COH	Luxury - Ultra & Aspirational	3.7%	9	EXCELLENT	1.9
Computer Prog and Syst	CPSI	Medical Srvc Providers	3.6%	6	EXCELLENT	1.6
Thomson Reuters Corp	TRI	Securities Research	3.5%	7	GOOD	1.2
Ameren	AEE	Utilities	3.5%	6	GOOD	1.5
American Eagle	AEO	Retail - Under 30	3.5%	6	EXCELLENT	2.4

At any time, our favorite dividend growth ideas are included in the Dividend Growth portfolio, page 5.

The Dividend Growth Watch List

By Valuentum Analysts

The dividend growth watch list, which is proprietary to the Dividend Growth Newsletter, showcases firms commonly held in many dividend growth portfolios. As with the list on the previous page, we may replace firms held in the Dividend Growth portfolio (see page 5) with companies found in the table below should their dividend growth potential (and/or total return potential) become relatively more attractive than portfolio constituents'. We find tremendous value in keeping track of dividend growth firms in order to better monitor ideal entry points. We continue to scour our coverage universe for firms to add to our dividend growth watch list, which we update in every edition of our Dividend Growth Newsletter.

DIVIDEND GROWTH WATCH LIST - as of February 1, 2015

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Div Cushion™	Div Safety	Div Growth	Fair Value	VBI Score	Price/Fair Value	Price ($)
3M (MMM)	4.10	2.53%	1.9	GOOD	EXCELLENT	$123.00	6	1.32	162.30
Abbott (ABT)	0.96	2.14%	3.2	EXCELLENT	GOOD	$43.00	3	1.04	44.76
AbbVie (ABBV)	1.96	3.25%	1.9	GOOD	EXCELLENT	$71.00	3	0.85	60.35
ADP (ADP)	1.96	2.37%	6.0	EXCELLENT	EXCELLENT	$94.00	3	0.88	82.53
Analog Devices (ADI)	1.48	2.84%	2.8	EXCELLENT	EXCELLENT	$52.00	3	1.00	52.11
Becton, Dickinson (BDX)	2.40	1.74%	2.5	GOOD	EXCELLENT	$108.00	3	1.28	138.08
Bob Evans (BOBE)	1.24	2.20%	1.6	GOOD	EXCELLENT	$44.00	3	1.28	56.37
Boeing (BA)	3.64	2.50%	3.1	EXCELLENT	EXCELLENT	$134.00	6	1.08	145.37
Chicago Rivet (CVR)	0.72	2.31%	2.9	EXCELLENT	GOOD	$33.00	3	0.94	31.15
Coca-Cola (KO)	1.22	2.96%	1.7	GOOD	EXCELLENT	$37.00	6	1.11	41.17
Colgate-Palmolive (CL)	1.44	2.13%	1.9	GOOD	EXCELLENT	$56.00	3	1.21	67.52
Cracker Barrel (CBRL)	4.00	2.97%	1.4	GOOD	GOOD	$130.00	6	1.03	134.51
Deere (DE)	2.40	2.82%	1.9	GOOD	EXCELLENT	$88.00	6	0.97	85.19
Dover (DOV)	1.60	2.28%	2.1	GOOD	EXCELLENT	$77.00	4	0.91	70.04
DuPont (DD)	1.88	2.64%	2.1	GOOD	GOOD	$66.00	6	1.08	71.21
Eli Lilly (LLY)	2.00	2.78%	2.0	GOOD	GOOD	$61.00	6	1.18	72.00
Exxon Mobil (XOM)	2.76	3.16%	1.9	GOOD	EXCELLENT	$91.00	3	0.96	87.42
General Dynamics (GD)	2.48	1.86%	3.6	EXCELLENT	EXCELLENT	$122.00	3	1.09	133.21
Genuine Parts (GPC)	2.30	2.47%	1.8	GOOD	EXCELLENT	$81.00	6	1.15	92.94
H&R Block (HRB)	0.80	2.33%	4.4	EXCELLENT	GOOD	$35.00	3	0.98	34.28
Harris (HRS)	1.88	2.80%	1.9	GOOD	EXCELLENT	$72.00	3	0.93	67.13
Honeywell (HON)	2.07	2.12%	3.1	EXCELLENT	EXCELLENT	$92.00	3	1.06	97.76
Hormel Foods (HRL)	1.00	1.95%	3.1	EXCELLENT	EXCELLENT	$45.00	4	1.14	51.22
IBM (IBM)	4.40	2.87%	2.6	GOOD	EXCELLENT	$173.00	3	0.89	153.31
Illinois Tool Works (ITW)	1.94	2.08%	2.6	GOOD	EXCELLENT	$82.00	6	1.14	93.09
Kimberly-Clark (KMB)	3.36	3.11%	1.3	GOOD	EXCELLENT	$103.00	4	1.05	107.96
Lockheed Martin (LMT)	6.00	3.19%	1.7	GOOD	EXCELLENT	$169.00	6	1.11	188.37
Mattel (MAT)	1.52	5.65%	1.3	GOOD	EXCELLENT	$36.00	4	0.75	26.90
Merck (MRK)	1.80	2.99%	2.2	GOOD	GOOD	$54.00	6	1.12	60.28
Northrop Grumman (NOC)	2.80	1.78%	2.8	EXCELLENT	EXCELLENT	$137.00	6	1.15	156.95
Occidental Petrol (OXY)	2.88	3.60%	1.3	GOOD	EXCELLENT	$78.00	3	1.03	80.00
Owens & Minor (OMI)	1.00	2.92%	1.7	GOOD	EXCELLENT	$33.00	4	1.04	34.23
Paychex (PAYX)	1.52	3.36%	2.9	EXCELLENT	EXCELLENT	$42.00	6	1.08	45.26
Phillip Morris (PM)	4.00	4.99%	1.0	GOOD	GOOD	$86.00	4	0.93	80.24
Raytheon (RTN)	2.42	2.42%	2.8	EXCELLENT	EXCELLENT	$92.00	6	1.09	100.05
St. Jude (STJ)	1.08	1.64%	2.9	EXCELLENT	EXCELLENT	$70.00	4	0.94	65.87
Texas Instr (TXN)	1.36	2.54%	1.6	GOOD	EXCELLENT	$41.00	3	1.30	53.45
United Technologies (UTX)	2.36	2.06%	1.8	GOOD	EXCELLENT	$113.00	4	1.02	114.78
UPS (UPS)	2.68	2.71%	2.0	GOOD	EXCELLENT	$102.00	6	0.97	98.84
VF Corp (VFC)	1.28	1.85%	2.3	GOOD	EXCELLENT	$54.00	7	1.28	69.37
Verizon (VZ)	2.20	4.81%	2.0	GOOD	GOOD	$56.00	7	0.82	45.71
Walgreen (WBA)	1.35	1.83%	1.9	GOOD	EXCELLENT	$58.00	3	1.27	73.75
Wal-Mart (WMT)	1.92	2.26%	1.5	GOOD	EXCELLENT	$75.00	6	1.13	84.98

UR = Under Review

Yields to Avoid

By Valuentum Analysts

A Banner Month for the Cushion!

As many investors know, firms can often become cheap for good reasons. That is, they are not trading cheaply because of Mr. Market's irrational behavior, but instead are trading at depressed levels due to deteriorating underlying fundamental characteristics that actually justify its current share price, even if traditional valuation techniques suggest the firm's shares are inexpensive. On a similar note, firms that boast high dividend yields may do so because the market has little confidence in the sustainability of its dividend and believes a cut may be just around the corner.

Though we fall short of saying the following list of firms will slash their respective dividends anytime soon, our dividend-cut predictive indicator—the Valuentum Dividend Cushion™--indicates that the firms below are at significant risk for a dividend cut in coming years. We think the dividend-growth investor should steer clear of the following firms' shares:

Name	Symbol	Industry	Est. Div Yield	Div Safety	Div Cushion
CONSOL Energy	CNX	Industrial Minerals	0.7%	VERY POOR	-10.7
Range Resources	RRC	Independent Oil & Gas	0.2%	VERY POOR	-10.1
Ryder System	R	Rental and Leasing	1.6%	VERY POOR	-8.8
Barrick Gold	ABX	Metals & Mining - gold	1.2%	VERY POOR	-8.6
Cablevision	CVC	Media - CATV	2.9%	VERY POOR	-7.7
Peabody Energy	BTU	Industrial Minerals	2.8%	VERY POOR	-7.6
Tidewater	TDW	Energy Equipment	3.0%	VERY POOR	-5.3
Roundy's Inc	RNDY	Food Retailers	14.5%	VERY POOR	-5.3
Chesapeake	CHK	Independent Oil & Gas	1.3%	VERY POOR	-5.3
Cliffs Natural Resources	CLF	Mining - diversified	8.9%	VERY POOR	-5.2
Newmont Mining	NEM	Metals & Mining - gold	0.4%	VERY POOR	-3.7
TAL Intl	TAL	Rental and Leasing	6.4%	VERY POOR	-3.2
MDC	MDC	Homebuilders	4.0%	VERY POOR	-3.2
Textainer	TGH	Rental and Leasing	5.3%	VERY POOR	-3.1
Service Corp Intl	SCI	Personal Services	1.5%	VERY POOR	-2.6
Yamana Gold	AUY	Metals & Mining - gold	2.1%	VERY POOR	-2.5
Quad/Graphics Inc	QUAD	Book Publishing	6.1%	VERY POOR	-2.1
DineEquity	DIN	Restaurants - Fast Cas & Full Svc	3.6%	VERY POOR	-2.0
Windstream	WIN	Telecom Services - diversified	10.0%	VERY POOR	-1.9
Murphy Oil	MUR	Refiners	2.5%	VERY POOR	-1.6
Frontier Comm	FTR	Telecom Services - diversified	5.8%	VERY POOR	-1.5
Time Warner Cable	TWC	Media - CATV	2.0%	VERY POOR	-1.5
Noble Energy	NBL	Independent Oil & Gas	1.0%	VERY POOR	-1.4
Centurylink	CTL	Telecom Services - diversified	5.3%	VERY POOR	-1.4
American Tower	AMT	Wireless Telecom Services	1.4%	VERY POOR	-1.1
ConAgra Foods	CAG	Food Products - Large	2.7%	VERY POOR	-1.0
Regal	RGC	Movie Production	4.6%	VERY POOR	-1.0
Apache	APA	Independent Oil & Gas	1.0%	VERY POOR	-1.0

CUT!

CUT!

The Dividend Cushion has done it again! Since the last update, it predicted the dividend cuts of Cliffs Natural (CLF) and Peabody Energy (BTU). The Dividend Cushion is derived directly from the future free cash flow forecasts that are used in Valuentum's enterprise free cash flow process.

For more information on the Dividend Cushion ratio, please select the following link (login required):

http://www.valuentum.com/articles/20130528

GE, Honeywell Fourth-Quarter Results Solid

By Brian Nelson, CFA

General Electric (GE) and Honeywell (HON) are tied to the energy markets, and we had thought the fourth quarter would be challenging for the industrial conglomerates in light of declining crude oil prices and general weakness in commodity prices, almost across the board. The reality, however, is that both GE and Honeywell navigated the tumultuous energy and commodity-price environment extremely well, registering solid fourth-quarter results January 23. We plan to continue to hold GE in the newsletter portfolios for the foreseeable future.

Revenue and industrial segment profit in GE's fourth quarter jumped 4% and 9%, respectively, with 6 of its 7 business segments growing earnings in the period. Industrial segment organic revenue leapt an impressive 9%, which is strong for any company, but for one of GE's size, the pace of internal expansion is fantastic. The industrial giant noted that fourth-quarter margins advanced 50 basis points thanks in part to the company's ongoing focus on reducing industrial structural costs. Fourth-quarter GAAP EPS from continuing operations jumped 6%, to $0.52 per share.

It's hard not to like GE's strong cash flow generation, and management noted that its oil and gas business, our primary concern heading into the quarter, was only modestly weak. In its oil and gas division, for example, orders fell just 4% and revenue was flat on an organic basis. GE's path to its 2016 transformation remains on track, and the company's $261 billion backlog at the end of 2014 will offer strong top- and bottom-line support. Annualizing GE's fourth-quarter GAAP earnings indicates the company is trading at just 12 times. The company's yield is very healthy at nearly 4%.

Image Source: General Electric

Honeywell's fourth-quarter results were equally strong. Organic sales growth was 4% in the fourth quarter, and the industrial conglomerate registered 110 basis points in operating income margin improvement, excluding certain pension items. Adjusted earnings per share leapt 15% in the quarter, as both cash flow from operations and free cash flow advanced 6%. The results for the period exceeded the high end of its guidance range, showcasing the firm's resilience in the face of not only difficult commodity markets but an overall uncertain global economy.

Looking ahead, Honeywell pointed to its balanced portfolio mix of short- and long-cycle businesses as the primary reason why the company is well-positioned to deliver higher organic sales, continued margin expansion, and double-digit earnings growth in 2015. CEO Dave Cote also indicated that its five-year plan is on target, and given the strength in the fourth quarter in the face of an extremely volatile business climate, management's credibility is solid. Organic revenue is expected to climb 4% in 2015, driving 7%-11% growth in adjusted earnings per share, buoyed by as much as 190 basis points of operating income margin expansion. Free cash flow of $4.2-$4.3 billion will be 8%-10% higher than that of 2014.

Please see *GE, Honeywell...*on next page

*GE, Honeywell...*from previous page

We were quite surprised at the strength of these two industrial bellwethers in the fourth quarter, and their outlooks for 2015 are quite encouraging in that the executive suites have factored in weak commodity-price markets. We like GE both in the context of our coverage universe and relative to Honeywell, though we don't necessarily dislike the latter. Not only is GE trading at a bargain-basement valuation, but it is de-risking its business model as it pays a very healthy ~4% dividend yield. The sell-side will eventually come around on GE's shares. The majority of analysts appear to have a 'hold' rating on the firm.

Commercial Aerospace Is Flying High and Boeing Loves It

By Brian Nelson, CFA

What more can we say about one of the strongest companies in one of the strongest industries in our coverage? How's this: Boeing (BA) is executing fantastically, and its visibility may be better than any other firm in the world. The company's commercial aerospace backlog of $440 billion is more than 7 times its annual commercial revenue run-rate, and airlines and lessors can't get its planes fast enough. Though we generally prefer the commercial aerospace supply chain, Boeing is simply firing on all cylinders. Let's take a look at the commercial aerospace giant's shares and derive a fair value estimate of them.

Boeing's Investment Considerations

Investment Considerations	
DCF Valuation	FAIRLY VALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	VERY BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	129.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Investment Highlights

• Boeing earns a ValueCreation rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 43.7% from 29.7% during the next two years. The company has an attractive Economic Castle rating. If you know about moats, you should know about castles, too. Have a read here: http://www.valuentum.com/articles/Valuentums_Economic_Castle_Rating.

• To perhaps say the obvious, Boeing is the largest manufacturer of commercial jetliners and military aircraft combined. Boeing also makes rotorcraft, electronic and defense systems, missiles, satellites, launch vehicles and advanced information and communication systems. The firm is a major service provider to NASA.

Please see *Boeing...*on next page

Boeing...from previous page

• The aerospace giant is benefiting from a benign operating environment. Global economic growth continues (albeit modestly), air passenger traffic is healthy, defense markets are firming with renewed threats, and commercial aviation remains a long-term growth market.

• Boeing's massive commercial aerospace backlog of unfulfilled deliveries gives it excellent visibility and a growth trajectory better than most other firms of similar size. Its revolutionary 787 has changed the economics of air travel, and we expect deliveries to surge in coming years. Technical concerns with the plane are a big risk, however.

• Boeing earns an "A" rating from the credit agencies, and the firm's cash and marketable securities were comfortably higher than both Boeing's and Boeing Capital Corp's debt. We think the firm has learned from the recent global financial crisis.

Boeing's Robust Backlog

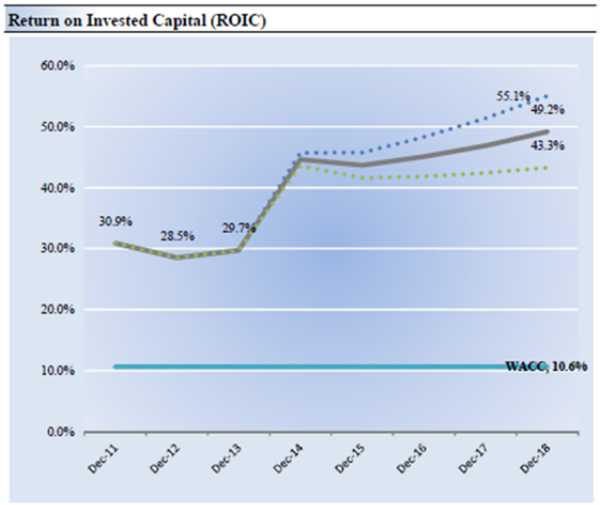
Contractual backlog (Dollars in billions)	**December 31 2014**	September 30 2014	December 31 2013
Commercial Airplanes	**$440.1**	$429.6	$373.0
Defense, Space & Security:			
Boeing Military Aircraft	**21.1**	21.2	23.6
Network & Space Systems	**8.9**	8.8	9.8
Global Services & Support	**16.9**	15.5	16.2
Total Defense, Space & Security	**46.9**	45.5	49.6
Total contractual backlog	**$487.0**	$475.1	$422.6
Unobligated backlog	**$15.3**	$14.9	$18.3
Total backlog	**$502.3**	$490.0	$440.9
Workforce	**165,500**	168,000	168,400

Image Source: Boeing

Economic Profit Analysis

The best measure of a firm's ability to create value for shareholders is expressed by comparing its return on invested capital with its weighted average cost of capital. The gap or difference between ROIC and WACC is called the firm's economic profit spread. Boeing's three-year historical return on invested capital (without goodwill) is 29.7%, which is above the estimate of its cost of capital of 10.6%.

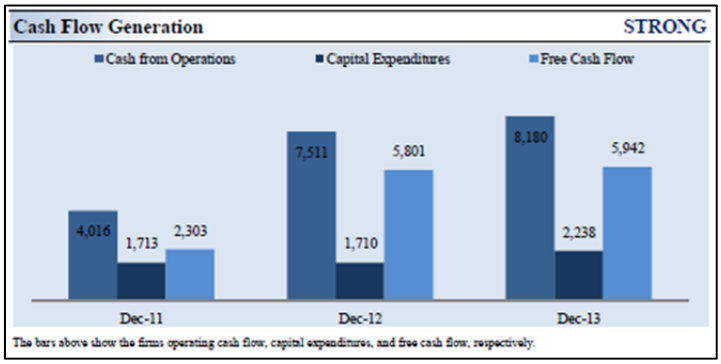
As such, we assign the firm a ValueCreation rating of EXCELLENT. In the chart to the right, we show the probable path of ROIC in the years ahead based on the estimated volatility of key drivers behind the measure. The solid gray line reflects the most likely outcome, in our opinion, and represents the scenario that results in our fair value estimate.



The graph above shows the firm's ROIC (excluding goodwill) compared with historical averages and its WACC.

Please see *Boeing*...on next page

Cash Flow Analysis



Firms that generate a free cash flow margin (free cash flow divided by total revenue) above 5% are usually considered cash cows. Boeing's free cash flow margin has averaged about 5.8% during the past three years. As such, we think the firm's cash flow generation is relatively STRONG. The free cash flow measure shown above is derived by taking cash flow from operations less capital expenditures and differs from enterprise free cash flow (FCFF), which we use in deriving our fair value estimate for the company. At Boeing, cash flow from operations has doubled from levels registered two years ago, while capital expenditures expanded about 31% over the same time period.

Valuation Analysis

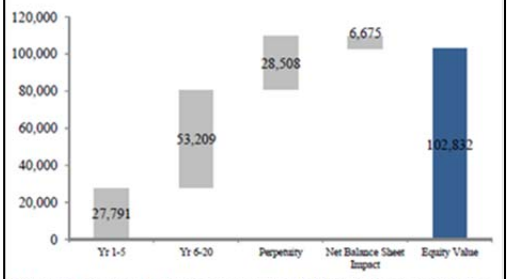
We think Boeing's shares are worth between $101-$167 each. All of what is known is in the past, and all of which has value is in the future. Because the future is not yet written, we use a fair value range to bound our fair value estimate. The margin of safety around our fair value estimate is driven by the firm's MEDIUM ValueRisk rating, which is derived from the historical volatility of key valuation drivers. The high end of the fair value range implies that there's upside potential in Boeing's shares.

Valuation Assumptions

In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	5.1%	
Avg. EBIT Margin %	10.7%	
Avg. Cash Tax Rate %	26.4%	
Earnings Before Interest CAGR %	13.5%	
Earnings Per Share CAGR %	13.7%	
Free Cash Flow to the Firm CAGR %	-281.2%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	3.6% (II)	3% (III)
Cost of Equity %	10.8%	
After-tax Cost of Debt %	4.1%	
Discount Rate (WACC) %	10.6%	
Synthetic credit spread = 1.217%	Results	
Phase I Present Value	27,791	
Phase II Present Value	53,209	
Phase III Present Value	28,508	
Total Firm Value	109,507	
Net Balance Sheet Impact	-6,675	
Total Equity Value	102,832	
Diluted Shares Outstanding	767.6	
Fair Value per Share	$134.00	

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Boeing and the break down to the firm's total equity value, which we estimate to be about 102.83USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact, which considers the firm's pension and finance sub, is displayed. We divide total equity value by diluted shares outstanding to arrive at our $134 per share fair value estimate.



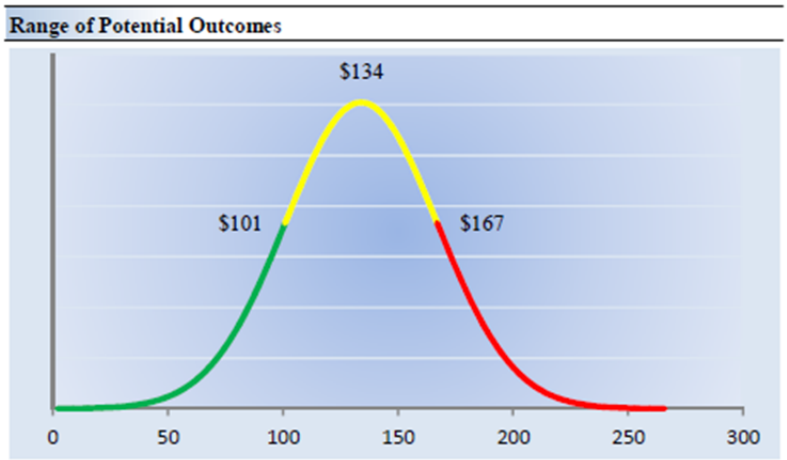
In addition to the firm's cap structure, the net balance sheet impact considers the funded status of the firm's pension (-18294) and our estimate of the value of its finance sub (2550). In Millions of USD

Our valuation model, which is used to derive the intrinsic value estimate of the company, reflects a compound annual revenue growth rate of 5.1% during the next five years, a pace that is lower than the firm's three-year historical compound annual growth rate of 10.4%. Our model reflects a five-year projected average operating margin of 10.7%, which is above Boeing's trailing three-year average. Beyond year 5, we assume free cash flow will grow at an annual rate of 3.6% for the next 15 years and 3% in perpetuity. For Boeing, we use a 10.6% weighted average cost of capital to discount future free cash flows.

Please see *Boeing...*on next page

Boeing...from previous page

Margin of Safety Analysis



Our discounted cash flow process values each firm on the basis of the present value of all future free cash flows. Although we estimate the firm's fair value at about $134 per share, every company has a range of probable fair values that's created by the uncertainty of key valuation drivers (like future revenue or earnings, for example). After all, if the future was known with certainty, we wouldn't see much volatility in the markets as stocks would trade precisely at their known fair values.

Our ValueRisk rating sets the margin of safety or the fair value range we assign to each stock. In the graph above, we show this probable range of fair values for Boeing. We think the firm is attractive below $101 per share (the green line), but quite expensive above $167 per share (the red line). The prices that fall along the yellow line, which includes our fair value estimate, represent a reasonable valuation for the firm, in our opinion.

As an investor, it's helpful to think in this framework. Any research that says that a firm is worth precisely this or precisely that is precisely wrong. A company's future cash flow determines its intrinsic worth, and the future, by definition, has yet to be written. A range-of-outcomes approach is most valid in thinking about intrinsic worth.

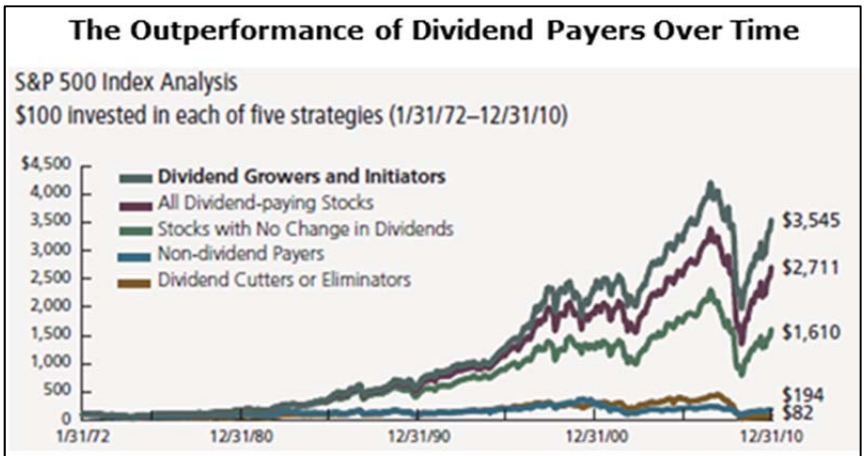
Boeing may fall within our fair value range at the moment, but its large commercial backlog and the visibility that comes with it makes it worth keeping a close eye on. Thinking in terms of range-of-outcomes helps you become a better investor. Precision in investing can never be attained, and anyone that tells you otherwise is fibbing.

Dividend growth investors should keep Boeing on their minds. The commercial aerospace cycle has legs.

About the Valuentum Dividend Cushion™

By Valuentum Analysts

History has revealed that the best performing stocks during the previous decades have been those that shelled out ever-increasing cash to shareholders in the form of dividends. In a recent study, S&P 500 stocks that initiated dividends or grew them over time registered roughly a 9.6% annualized return since 1972 (through 2010), while stocks that did not pay out dividends or cut them performed poorly over the same time period.



Source of the chart data: Ned Davis Research, 12/31/10. Image Source: Capital Markets Perspectives, "Investing for Dividend Growth", Oppenheimer Funds. Based on an equal-weighted geometric average of total return of dividend-paying historical S&P 500 Index stocks, rebalanced annually. The chart uses actual annual dividends to identify dividend-paying stocks and changes on a calendar-year basis. Past performance does not guarantee future results.

Such analysis is difficult to ignore, and we believe investors may be well-rewarded in future periods by finding the best dividend-growth stocks out there. As such, we've developed a rigorous dividend investment methodology that uncovers firms that not only have the safest dividends but also ones that are poised to grow them long into the future.

How did we do this? Well, first of all, we scoured our stock universe for firms that have cut their dividends in the past to uncover the major drivers behind the dividend cut. This is what we found out: The major reasons why firms cut their dividend had to do with preserving cash in the midst of a secular or cyclical downturn in demand for their products/services or when faced with excessive leverage (how much debt they held on their respective balance sheets).

The Importance of Forward-Looking Dividend Analysis

Armed with this knowledge, we developed the forward-looking Valuentum Dividend Cushion™, which is a ratio that gauges the safety of a dividend over time.

Most dividend analysis that we've seen out there is backward-looking – meaning it rests on what the firm has done in the past. Although analyzing historical trends is important, we think assessing what may happen in the future is even more important. The S&P 500 Dividend Aristocrat List, or a grouping of firms that have raised their dividends for the past 25 years, is a great example of why backward-looking analysis can be painful. One only has to look over the past few years to see the removal of well-known names from the Dividend Aristocrat List (including General Electric and Pfizer) to understand that backward-looking analysis is hardly worth your time. After all, you're investing for the future, so the future is all you should care about.

Please see *About Our Valuentum Dividend Cushion…*on next page

About Our Valuentum Dividend Cushion…**from previous page**

We want to find stocks that will increase their dividends for 25 years into the future, not use a rear-view mirror to build a portfolio of names that may already be past their prime dividend growth years. The Valuentum Dividend Cushion™ measures just how safe the dividend is in the future. It considers the firm's net cash on its balance sheet (cash and cash equivalents less debt) and adds that to its forecasted future free cash flows (cash from operations less capital expenditures) and divides that sum by the firm's future expected dividend payments. At its core, it tells investors whether the firm has enough cash to pay out its dividends in the future, while considering its debt load. If a firm has a Valuentum Dividend Cushion™ above 1, it can cover its dividend, but if it falls below 1, trouble may be on the horizon.

In our study, the Valuentum Dividend Cushion™ process caught every dividend cut made by a non-financial, operating firm that we have in our database, except for one (Marriott). But interestingly, the Valuentum Dividend Cushion™ indicated that Marriott should have never cut its dividend, and sure enough, two years after the firm did so, it raised it to levels that were higher than before the cut.

Here are the results of the study (a Valuentum Dividend Cushion™ below 1 indicates the dividend may be in trouble). The Valuentum Dividend Cushion™ score shown in the table below is the measure in the year before the firm cut its dividend, so it represents a predictive indicator. The measure continues to do well by members in real-time as well (beyond the constraints of any academic study).

The Valuentum Dividend Cushion Caught These Dividend Cuts in Advance

A Valuentum Dividend Cushion Score Below 1 Indicates a Firm's Dividend is At Risk in the Years Ahead

Dividend Cutter	Cut Date	Dividend Cushion (Before Cut)	Reason for Dividend Cut
Avery Dennison (AVY)	31-Jul-09	0.66	Reduced dividend to support debt-reduction efforts.
ConAgra Foods (CAG)	16-Mar-06	-0.59 (1)	Restructuring, divestitures.
Constellation (CEG)	18-Feb-09	-4.36	Refocus on core business of generating and selling power.
DR Horton (DHI)	6-May-08	-0.03	Housing turmoil.
Gannett Co. (GCI)	25-Feb-09	-0.06	Excessive debt; preserve cash amid downturn of newspaper industry.
La-Z-Boy (LZB)	17-Feb-09	0.89	Suspended dividend to preserve cash amid downturn in home furnishings.
Marriott Intl (MAR)	1-May-09	2.18 (2)	Suspended dividend in the wake of weak business travel, but dividend achieved record highs again, May 6, 2011.
Masco Corp (MAS)	11-Feb-09	-0.74	Cut dividend to ensure ability to fund operations and service debt coming due.
New York Times (NYT)	20-Nov-08	0.04	Effort to preserve cash. Downturn in newspaper industry. Loss of investment-grade credit rating.
Pfizer (PFE)	26-Jan-09	0.54	Bought Wyeth to diversify revenue base. Raised $22 billion+ in debt.
Sara Lee Corp (SLE)	8-Aug-06	0.70	Streamlining operations, business unit divestitures to raise cash.
Sunoco Inc. (SUN)	6-Oct-09	-0.85 (3)	Poor margins, overseas competition.
SuperValu (SVU)	20-Oct-09	-5.78	Rising unemployment, competition from Wal-Mart, etc.
Valero Energy (VLO)	27-Jan-10	0.15	Lower demand for gas and diesel.
Vulcan Materials (VMC)	14-Oct-11	-1.42	Free up much-needed cash amid downturn in aggregate demand.

(1) Forecast period for ConAgra, 2007 through 2011.

(2) Marriott is an instance where management prematurely cut its dividend, in our opinion. The Cushion reflected little risk at the time of cut, and sure enough Marriott restored its payout to record high

(3) Forecast adjusted to reflect Sunoco's poor free cash flow trends beyond last reported year.

Backtesting Methodology: Net balance sheet (year prior to dividend cut). Free cash flow for years beginning in year of dividend cut through reported years. If reported years do not total five, last reported year is extrapolated for remainder of forecast period. Dividends paid reflects what the dividends would be ex dividend cut.

At the very least, using the Valuentum Dividend Cushion™ can help you avoid firms that are at risk of cutting their dividends in the future. And we are the only firm out there that does this type of in-depth analysis for you. We provide the Valuentum Dividend Cushion™ score in the dividend reports and monthly Dividend Growth Newsletter, and we also scale the safety of a firm's dividend based on this measure in simple terms: Excellent, Good, Poor, Very Poor.

Please see *About Our Valuentum Dividend Cushion…*on next page

*About Our Valuentum Dividend Cushion...*from previous page

Here's a glimpse of the Valuentum Dividend Cushion™ score (as of November 2011) for a sample set of firms in our coverage universe. Please note that the current score on these and hundreds more are available with a membership to our website:

Company Name	Dividend Cushion
Abbott Labs (ABT)	2.3
Coca-Cola (KO)	1.9
Family Dollar (FDO)	4.4
International Business Machines (IBM)	3.7
Johnson & Johnson (JNJ)	2.5
Merck (MRK)	2.5
Molex (MOLX)	2.5
Pepsi (PEP)	1.3
Proctor & Gamble (PG)	1.4
Wal-Mart (WMT)	1.4

Subscribe to Valuentum to monitor the Dividend Cushion of firms you own.

Understanding Dividend Growth

It takes time to accumulate wealth through dividends, so dividend growth investing requires a long-term perspective. We assess the long-term future growth potential of a firm's dividend, and we don't take management's word for it. Instead, we dive into the financial statements and make our own forecasts of the future to see if what management is saying is actually achievable. We use the Valuentum Dividend Cushion™ as a way to judge the capacity for management to raise its dividend – how much cushion it has – and we couple that assessment with the firm's dividend track record, or management's willingness to raise the dividend.

In many cases, we may have a different view of a firm's dividend growth potential than what may be widely held in the investment community. That's fine by us, as our dividend-growth investment horizon is often longer than others'. We want to make sure that the firm has the capacity and willingness to increase the dividend years into the future and will not be weighed down by an excessive debt load or cyclical or secular problems in fundamental demand for their products/services. We scale our dividend-growth assessment in an easily-interpreted fashion: Excellent, Good, Poor, Very Poor.

What Are the Dividend Ideas We Seek to Deliver to You in Our Newsletter?

First of all, we're looking for stocks with dividend yields that are greater than the average of the S&P 500, or about 2% (but preferably north of 3%). This excludes many names, but we think such a cutoff eliminates firms whose dividend streams aren't yet large enough to generate sufficient income. Second, we're looking for firms that register an 'EXCELLENT' or 'GOOD' rating on our scale for both safety and future potential growth. And third, we're looking for firms that have a relatively lower risk of capital loss, as measured by our estimate of the company's fair value.

The Valuentum Dividend Cushion™ has an excellent track record of predicting dividend cuts. For more information, please select the following link (login required):

http://www.valuentum.com/articles/20130528

Valuentum Dividend Growth Newsletter: Volume 4, Issue 2

Valuentum's Dividend Growth Newsletter is published monthly. To receive this newletter on a monthly basis, please subscribe to Valuentum by visiting our website at http://www.valuentum.com. Or contact us at info@valuentum.com.

Fair Value Range. The fair value range represents an upper bound and lower bound, between which we would consider the firm to be fairly valued. The range considers our estimate of the firm's fair value and the margin of safety suggested by the volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow (the determinants behind our ValueRisk™ rating).

ValueRisk™. This is a proprietary Valuentum measure. ValueRisk™ indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

Dividend Track Record. We assess each firm's dividend track record based on whether the fundamentals of the firm have ever forced it to cut its dividend. If the firm has ever cut its dividend (within the last 10 years), we view its track record as RISKY. If the firm has maintained and/or raised its dividend each year (over the past 10 years), we view its track record as HEALTHY.

Dividend Safety. We measure the safety of a firm's dividend by adding its net cash to our forecast of its future cash flows and divide that sum by our forecast of its future dividend payments. This process results in a ratio called the Dividend Cushion™. Scale: Above 2.75 = EXCELLENT; Between 1.25 and 2.75 = GOOD; Between 0.5 and 1.25 = POOR; Below 0.5 = VERY POOR.

Valuentum Dividend Cushion™. This is a proprietary Valuentum measure that drives our assessment of the firm's Dividend Safety rating. The forward-looking measure assesses dividend coverage via the cash characteristics of the business.

Dividend Growth Potential. We blend our analysis of a firm's Dividend Safety with its historical Track Record, while also considering historical dividend growth trends. We believe such a combination captures a firm's capacity (cash flow) and willingness (track record) to raise its dividend in the future. Scale: EXCELLENT, GOOD, POOR, VERY POOR.

Risk of Capital Loss. We think capital preservation is key for the dividend investor. As such, we evalute the risk of capital loss by assessing the intrinsic value of each firm based on our discounted cash-flow process. If a firm is significantly OVERVALUED, we think the risk of capital loss is HIGH. If a firm is FAIRLY VALUED, we think the risk of capital loss is MEDIUM, and if a firm is UNDERVALUED, we think the risk of capital loss is LOW.

Dividend Strength. Our assessment of the firm's dividend strength is expressed in a matrix. If the safety of a firm's dividend is EXCELLENT and its growth prospects are also EXCELLENT, it scores high on our matrix (top right). If the firm's dividend safety and the potential future growth are VERY POOR, it scores lower on our scale (bottom left).

Excerpt from *The 13 Steps to Understand the Stock Market*

Step #12: **Valu**e and Mom**entum** Outperform Everywhere

Momentum is the biggest embarrassment to efficient markets (according to the "father of modern finance" and Nobel laureate in Economics, Eugene Fama), academic research continues to conclude that 'Value and Momentum' combined outperform in every market across every asset class, and we continue to demonstrate empirical evidence of the superiority of a combined value-momentum process in the portfolio of our Best Ideas Newsletter. Key takeaway: Value and momentum combined outperform in every market across every asset class.

-- The **Valu**-**entum** Team

© Valuentum Securities

© Valuentum Securities, Inc. All rights Reserved. The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational and educational purposes only and should not be considered a solicitation to buy or sell any security. The securities mentioned herein may not be suitable for all types of investors. The information contained in this report does not constitute any investment advice, but especially on the tax consequences of making any particular investment decision. This material is not intended for any specific type of investor and does not take into account an investor's particular investment objectives, financial situation or needs.

This report is not intended as a recommendation of the securities highlighted or any particular investment strategy. Before acting on any information found in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice. This report has not been tailored to suit any particular person's portfolio or holdings.

Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report and accepts no liability for how readers may choose to utilize the content. In no event shall Valuentum be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document. Investors should consider this report as only a single factor in making their investment decision. Redistribution is prohibited without written permission.

Valuentum is not a registered investment advisor, has not given its consent to be deemed an "expert" under the Federal Securities Act of 1933, does not offer brokerage or investment banking services, and adheres to professional standards and abides by formal codes of ethics that put the interests of clients and subscribers ahead of their own. As of the date of this report, Valuentum has not received any compensation from companies highlighted in this report. Valuentum, its employees, and affiliates may have long, short or derivative positions in the stock or stocks mentioned herein.

No warranty is made regarding the accuracy of any data or any opinions. The portfolio in the Valuentum Dividend Growth Newsletter is hypothetical and does not represent real money. Performance assessment of the Valuentum Buying Index™ is currently ongoing, and we intend to update investors as soon as such results are available. Past performance is not a guarantee of future results.

For general information about Valuentum's products and services, please contact us at info@valuentum.com.