Valuentum Securities, Inc.

"Exclusive Analysis for the Discerning Investor"

Value-Focused, *Momentum*-Based Dividend Growth Investing

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American Association of Individual Investors, Cleveland Chapter

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About the Speaker

Brian Nelson is the President of Equity Research and ETF Analysis at Valuentum Securities. Before founding Valuentum in early 2011, Mr. Nelson worked as a director at Morningstar, where he was responsible for training and methodology development within the firm's equity and credit research department. Prior to that position, he served as a senior industrials securities analyst, covering aerospace, airlines, construction and environmental services companies. Before joining Morningstar in February 2006, Mr. Nelson worked for a small capitalization fund covering a variety of sectors for an aggressive growth investment management firm in Chicago. He holds a Bachelor's degree in finance and a minor in mathematics, magna cum laude, from Benedictine University. Mr. Nelson has an MBA from the University of Chicago Booth School of Business and also holds the Chartered Financial Analyst (CFA) designation.

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Agenda

- About Valuentum
- 13 Steps to Understand the Market
- Gaining Conviction in the Valuentum Process
- The Benefits of Dividend Growth Investing
- Introducing the Valuentum Dividend Cushion™
- Hands On: Conducting a Cash-flow Based Dividend Analysis
- Microsoft (MSFT): One of Our Favorite Dividend Growth Ideas
- The Dividend Growth Newsletter

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About Valuentum Securities

Valuentum (val·u·n·tum) [val-yoo-en-tuh-m] Securities Inc. is an independent investment research provider, offering premium equity reports and dividend reports, as well as commentary across all sectors/companies, a Best Ideas Newsletter (spanning market caps, asset classes), a Dividend Growth Newsletter, modeling tools/products, and more. Independence and integrity remain our core, and we strive to be a champion of the investor. Valuentum is based in the Chicagoland area.

Valuentum serves money-management institutions, financial advisors, and individual investors.

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Investment Research Services

- Stocks, Dividends & ETFs
  - An unmatched value for the Financial Advisor and Individual Investor
  - Fully transparent research services and best-in-class support

Valuentum's Investment Research	FREE	PREMIUM	ADVISOR	INSTITUTION
Premium Valuentum Commentary & Articles		X	X	X
16-page Stock Research Reports		**X**	**X**	**X**
Fair Value Estimates		**X**	**X**	**X**
Valuentum Value Rating™		**X**	**X**	**X**
Valuentum Buying Index™ Scores		**X**	**X**	**X**
Valuentum Proprietary Stock Information		X	X	X
Valuentum ValueCreation™ Rating		X	X	X
Valuentum ValueRisk™ Rating		X	X	X
Valuentum ValueTrend™ Rating		X	X	X
Dividend Reports		X	X	X
Valuentum Dividend Cushion™		X	X	X
Discounts on Modeling Tools & Products		X	X	X
Access to Actively-Managed Portfolios*		**X**	**X**	**X**
Best Ideas Portfolio*		**X**	**X**	**X**
Dividend Growth Portfolio*		**X**	**X**	**X**
Our Best Ideas Newsletter*		**X**	**X**	**X**
Our Dividend Growth Newsletter*		**X**	**X**	**X**
An Experienced Opinion on Stocks in Your Portfolio		X	X	X
Valuentum *Ideas100*			X	X
Valuentum *Dividend100*			X	X
Valuentum *DataScreener500*			X	X
Training & Support			X	X
Distribution Rights to Clients/Prospects			X	X
Access to DCF Valuation Models (a $10,000 value)			**X (thru 2013)**	**X**
Customized Research & Analysis				X
Advanced Access to Valuentum Analyst Team				X
Advanced Valuation Infrastructure				X
Public Valuentum Commentary	X	X	X	X
New Investing Book Reviews, pre-public release	X	X	X	X
Basic Access to Valuentum Analyst Team	X	X	X	X
Open Forum – Discussion Board	X	X	X	X

* Dependent on Choice of Membership Plan.

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13 Steps to Understand the Stock Market

- The Stock Market Is a Market
- There Is No Long Term
- Stocks Do Not Magically Converge to Intrinsic Value or to a Target Price
- Everything in the Stock Market Is a Self-Fulfilling Prophecy
- The Stronger the Competitive Advantage, the Lower the Stock Return
- Earnings Surprises Are Analyst Misses Not the Company's

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13 Steps to Understand the Stock Market, cont

- The Recent Trend Toward Dividend Investing May Be Good (and Bad) for the Individual Investor
- The P/E Ratio Is a Short Cut and Used Incorrectly
- Value Is a Range and Not a Point Estimate
- You Will Be Wrong
- Growth Is a Component of Value
- Value and Momentum Outperform Everywhere
- Keynes Was Right

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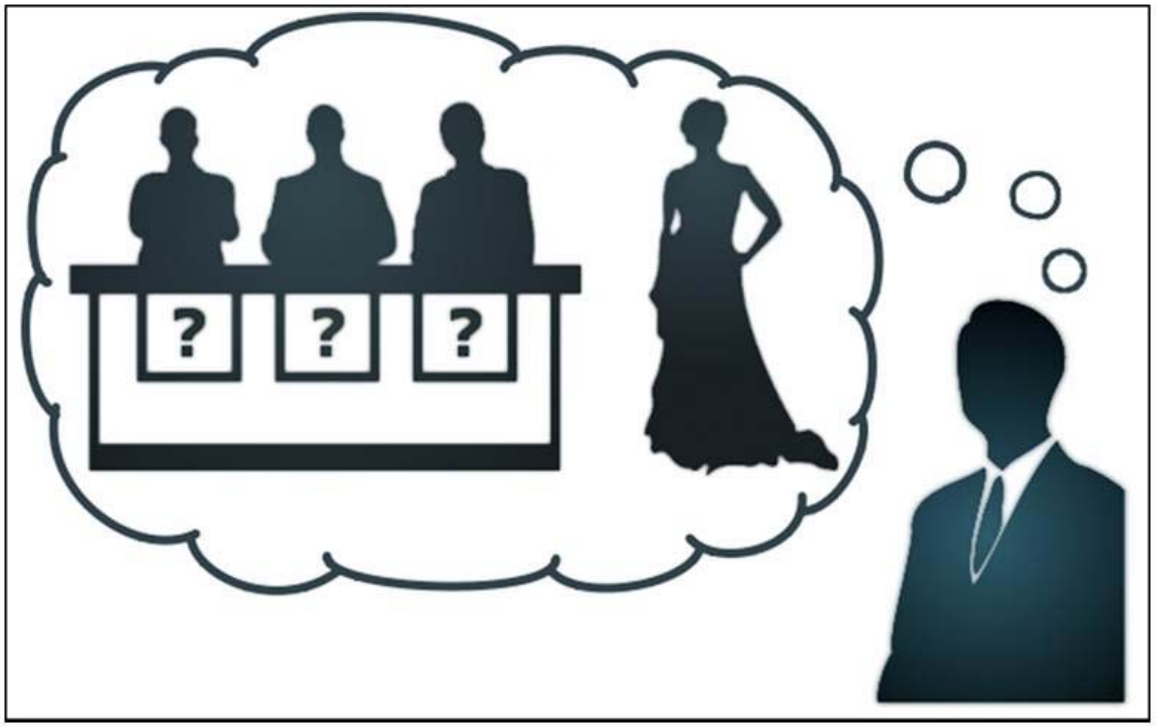

The Valuentum investor (bottom right) is an intelligent breed who understands that stock prices are driven by the buy and sell decisions of other investors. The Valuentum investor focuses on discounted cash-flow analysis, relative valuation analysis and technical/momentum analysis to predict the decisions of other investors and future stock prices – much like a person selects the winner of a beauty contest by understanding what the judges prefer in a winner. John Maynard Keynes' beauty contest (pictured above).

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Momentum: “It Does Exist”

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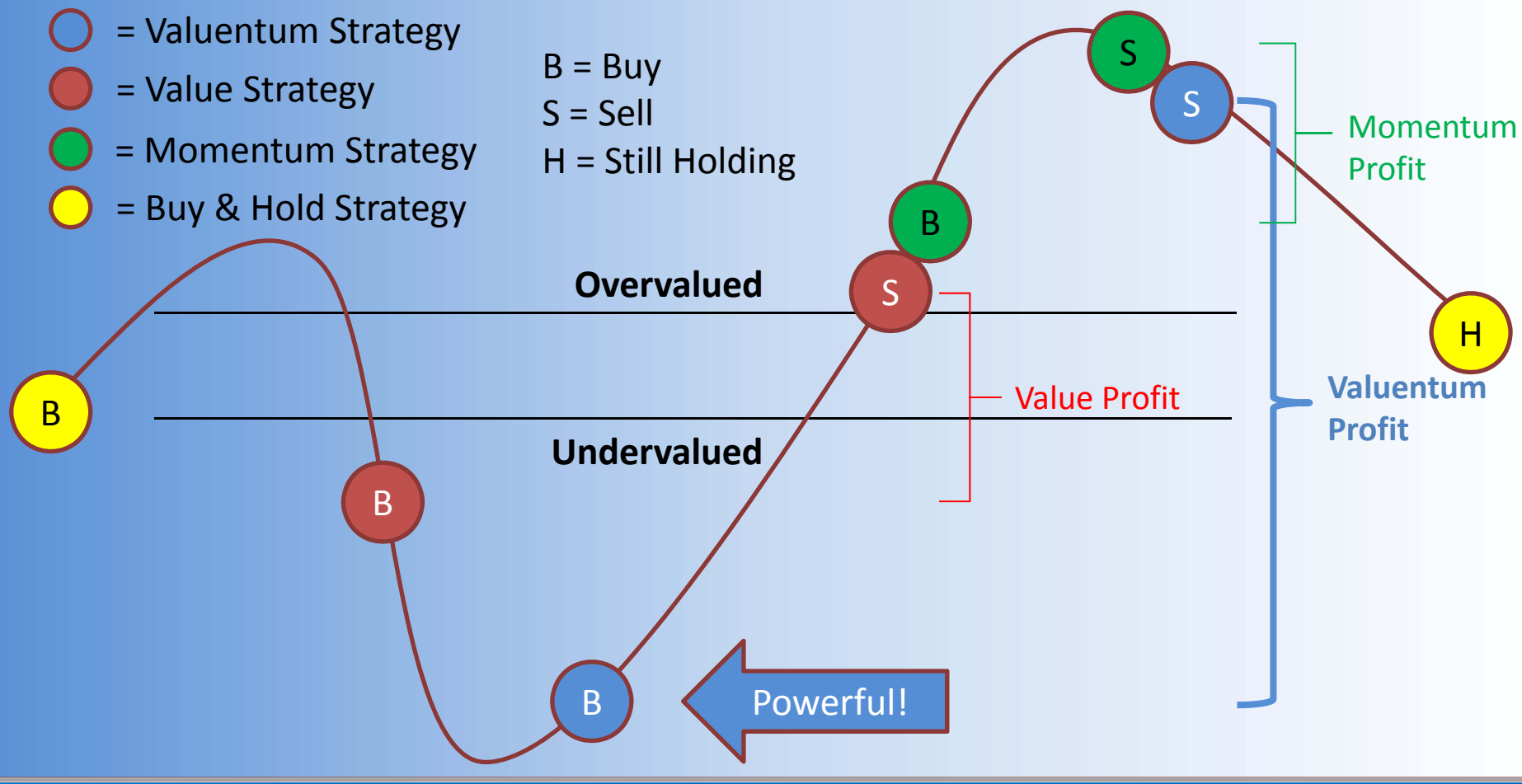
The Valuentum Strategy Has the Greatest Profit Potential



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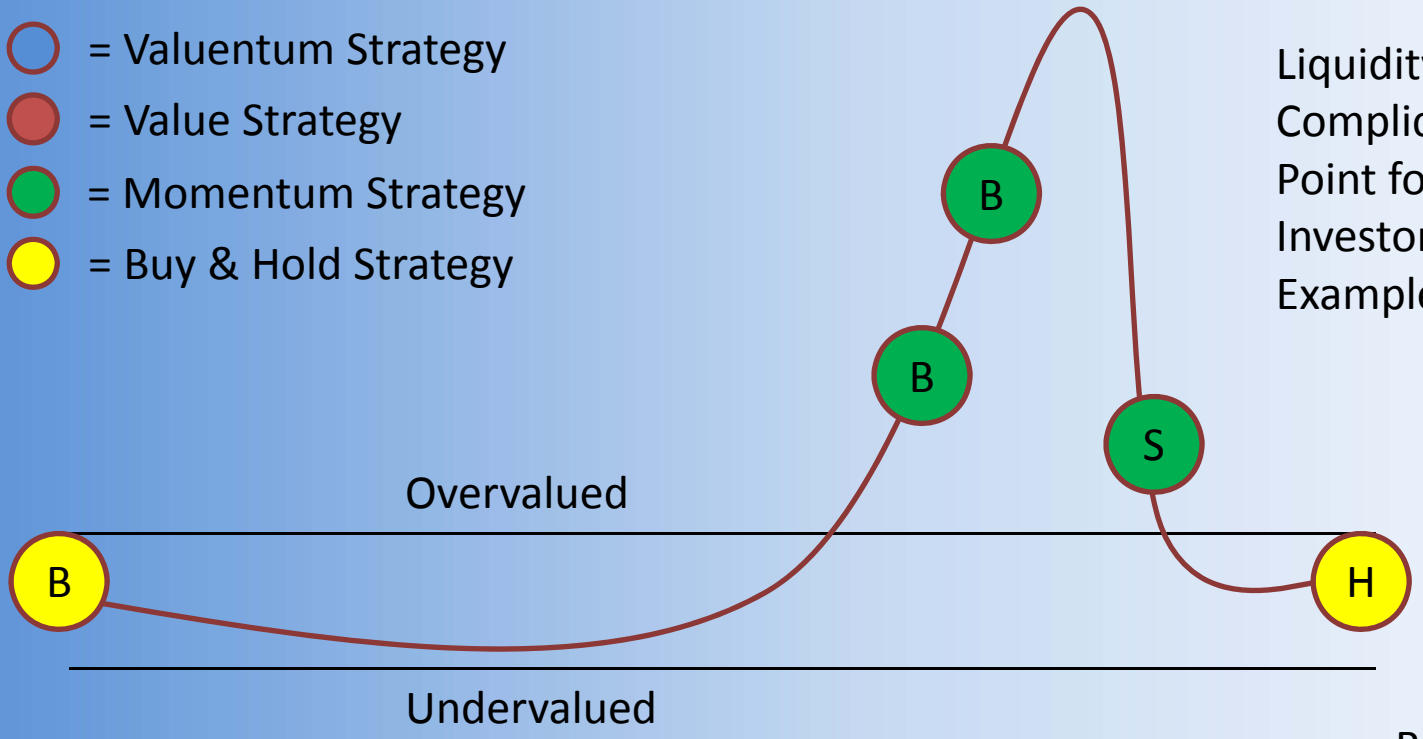
The Valuentum Strategy Helps Avoid Overpriced Extremes – We Don't Get Involved!

= Valuentum Strategy
= Value Strategy
= Momentum Strategy
= Buy & Hold Strategy



Liquidity Squeeze Complicates Exit Point for Momentum Investors in This Example

We're *not* momentum investors. We're Valuentum investors.

B = Buy
S = Sell
H = Still Holding

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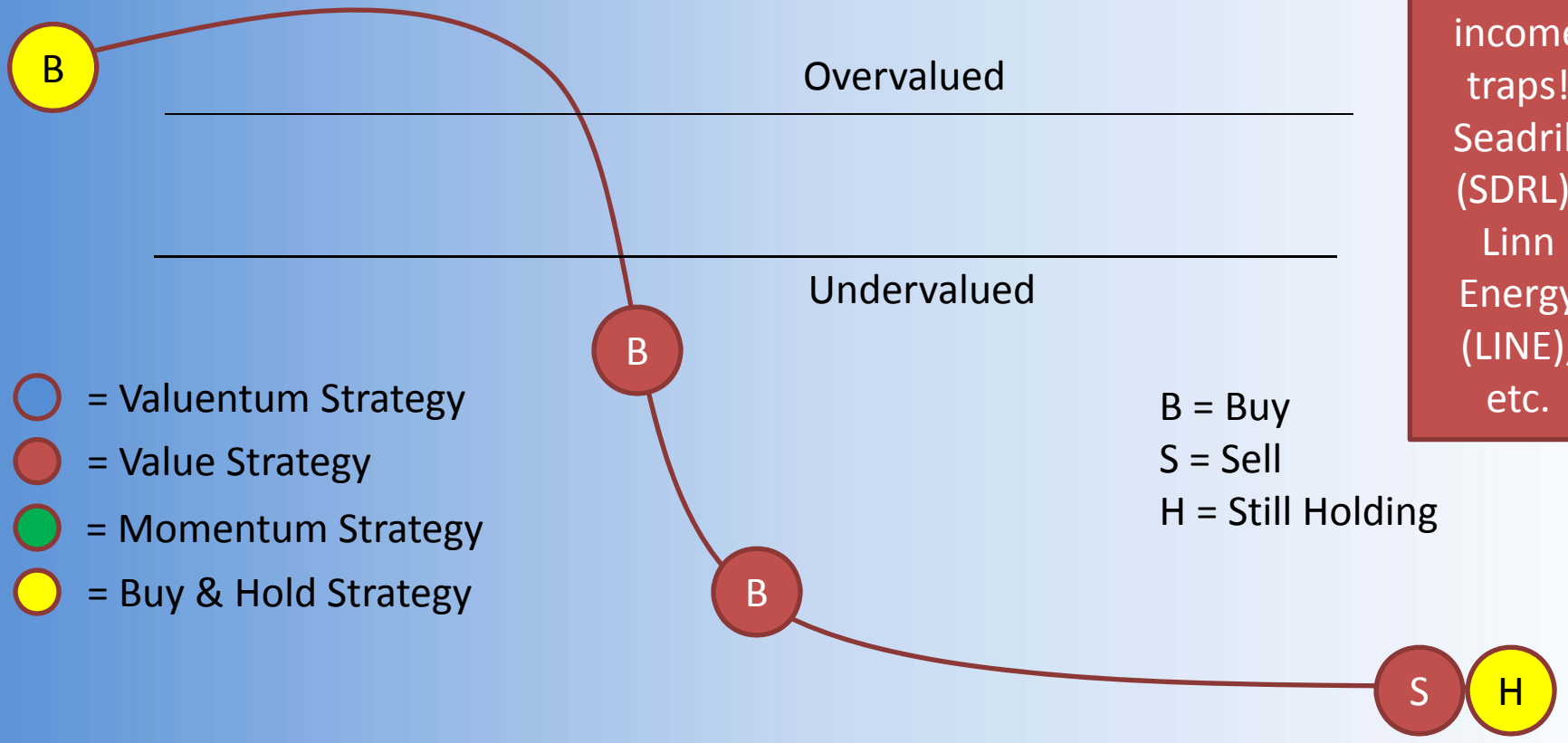
The Valuentum Strategy Helps Avoid Value Traps – We Don't Get Involved!



We avoid income traps! Seadrill (SDRL), Linn Energy (LINE), etc.

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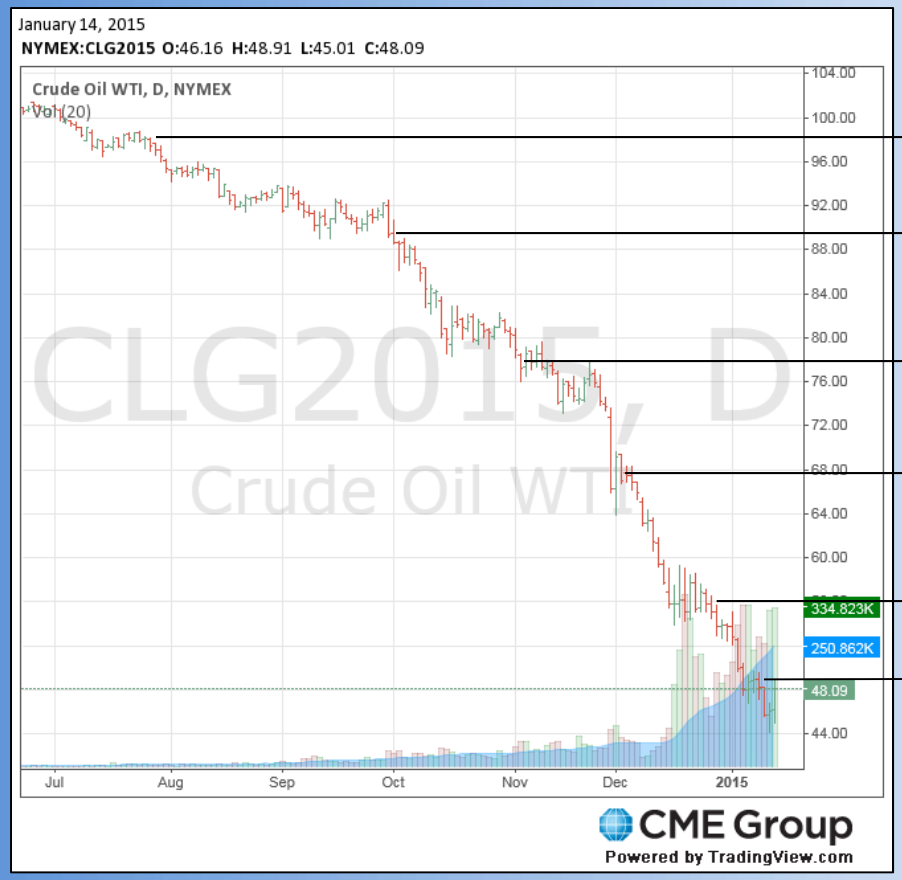
Recent Illustration in Oil Equities

We avoid falling knives!



Value Investor: Energy stocks are cheap!

Your Broker: Energy stocks are really cheap!

Deep Value Guys: Oil stocks are dirt cheap!

Your Broker Again: An unbelievable deal!

Value Investors: Now I'm insolvent!!!

Valuentum: We're going to let the market tell us when the bottom is in. Valuentum investors don't fall into value traps, falling knives.

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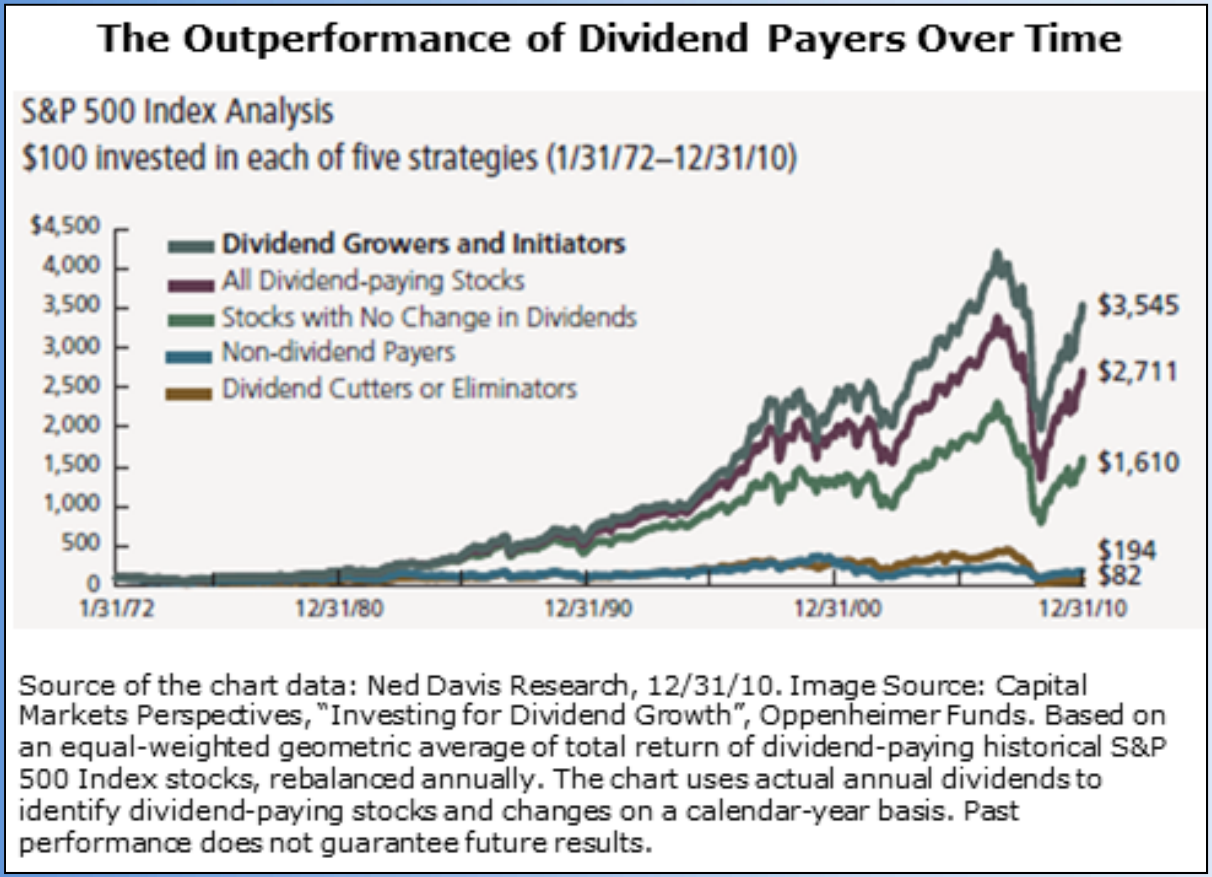
Benefits of Dividend Growth Investing



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.

Valuentum is working diligently on an independent study to provide further granularity of the long-term benefits of dividend growth investing.

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Valuentum's Dividend Growth Tenets

- Capital preservation is paramount.
- The focus on valuation should not be sacrificed to "chase" yield.
- A company's dividend growth track record is important, but its future dividend growth and safety is more important.
- A comprehensive analysis of its business model, future free cash flows and balance sheet health will uncover the strongest dividend growers.
- The Dividend Cushion ratio offers a more comprehensive measure of the safety of a dividend than the payout ratio
- Substantial dividend growth over time should provide for an adequate yield on cost in time.
- Its not about finding the best dividend growers of the past 25 years, but its finding the best dividend growers for the next 25 years…

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Introducing: The Dividend Cushion Ratio™

- An objective, cash-flow based fundamental ratio that gauges a company's ability to *continue raising* its dividend long **into the future**.
- Adds five-year forecast of free cash flow (CFO less capex) to net balance sheet (cash less long-term debt) and divides that sum by five-year forecast of expected cash dividends paid.
- It is pure cash-flow dividend coverage ratio that considers the health of a firm's balance sheet, which is a key funding source for dividend expansion.
- **The bigger the positive number above 1 the better**. Anything less than 0 (a negative number) signals trouble.
- A better, more comprehensive measure of growth and safety than the dividend payout ratio (dividends per share divided by earnings per share).

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The Valuentum Dividend Cushion™ Helps Dividend Growth Investors Avoid Dividend Cuts

- The Valuentum Dividend Cushion measure has predicted, in *real-time*, the dividend cuts, of SuperValu (SVU), Roundy's (RNDY), Dover Downs (DDE), Strayer (STRA), Exelon (EXC), Cliffs Natural (CLF), Pitney Bowes (PBI), CenturyLink (CTL) and JC Penney (JCP)…and more.

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 Foords (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.

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The Dividend Cushion: Some Finance Definitions

- Cash flow from operations (CFO)
  - Found on the cash flow statement
  - A good measure of cash earnings
  - Takes into consideration changes in working capital (inventory, accounts receivable, accounts payable)
- Capital expenditures (capex)
  - Found on the cash flow statement
  - Growth and maintenance spending necessary to continue growing cash from operations
- Traditional free cash flow (FCF)
  - Derived by analyst
  - Cash from operations less capital expenditures
- Long-term debt
  - Found on the balance sheet
  - Debt due after one-year
- Total cash and cash equivalents
  - Found on the balance sheet
  - Cash that can generally be used for dividends, share repurchases, and/or acquisitions
- Cash dividends paid
  - Found on the cash flow statement
  - The actual cash going out the door in the form of cash dividend payments

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Microsoft: By the Numbers

Cumulative 5-year Forecasted Cash from Operations	190,536
Culumative 5-year Forecasted Capital Expenditures	-34,344
Cumulative 5-year Forecasted Free Cash Flow (CFO - capex)	156,192
Total Cash - Last Fiscal Year	85,709
Total Long-term Debt - Last Fiscal Year	20,645
Net Cash (total cash less total long-term debt)	65,064
Cumulative 5-year Forecasted Dividends Paid (from CF statement)	67,015
Valuentum Dividend Cushion Score (greater than 1.25 = good)	3.30

In USD millions

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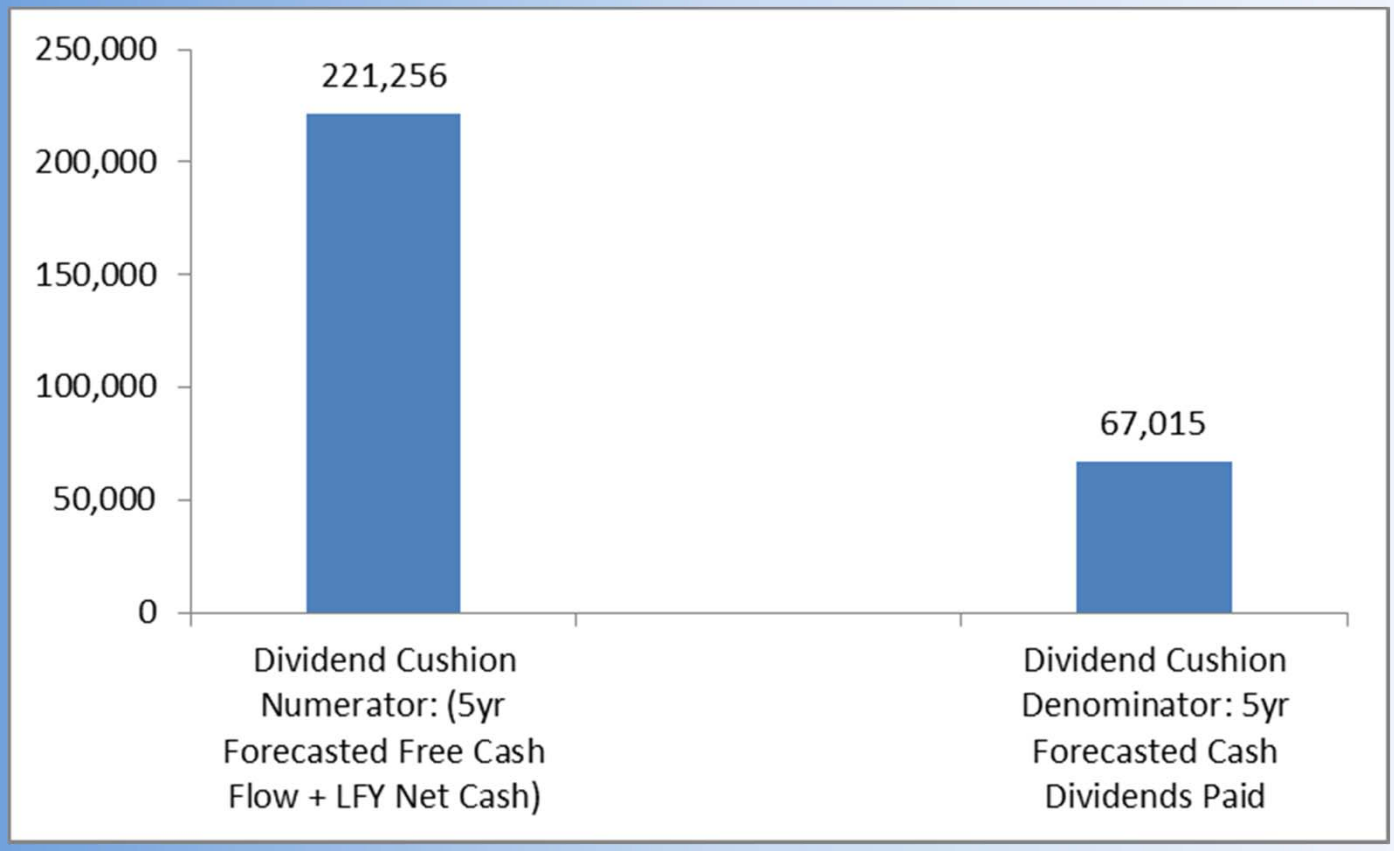
Microsoft: Dividend Cushion Derived



In USD millions

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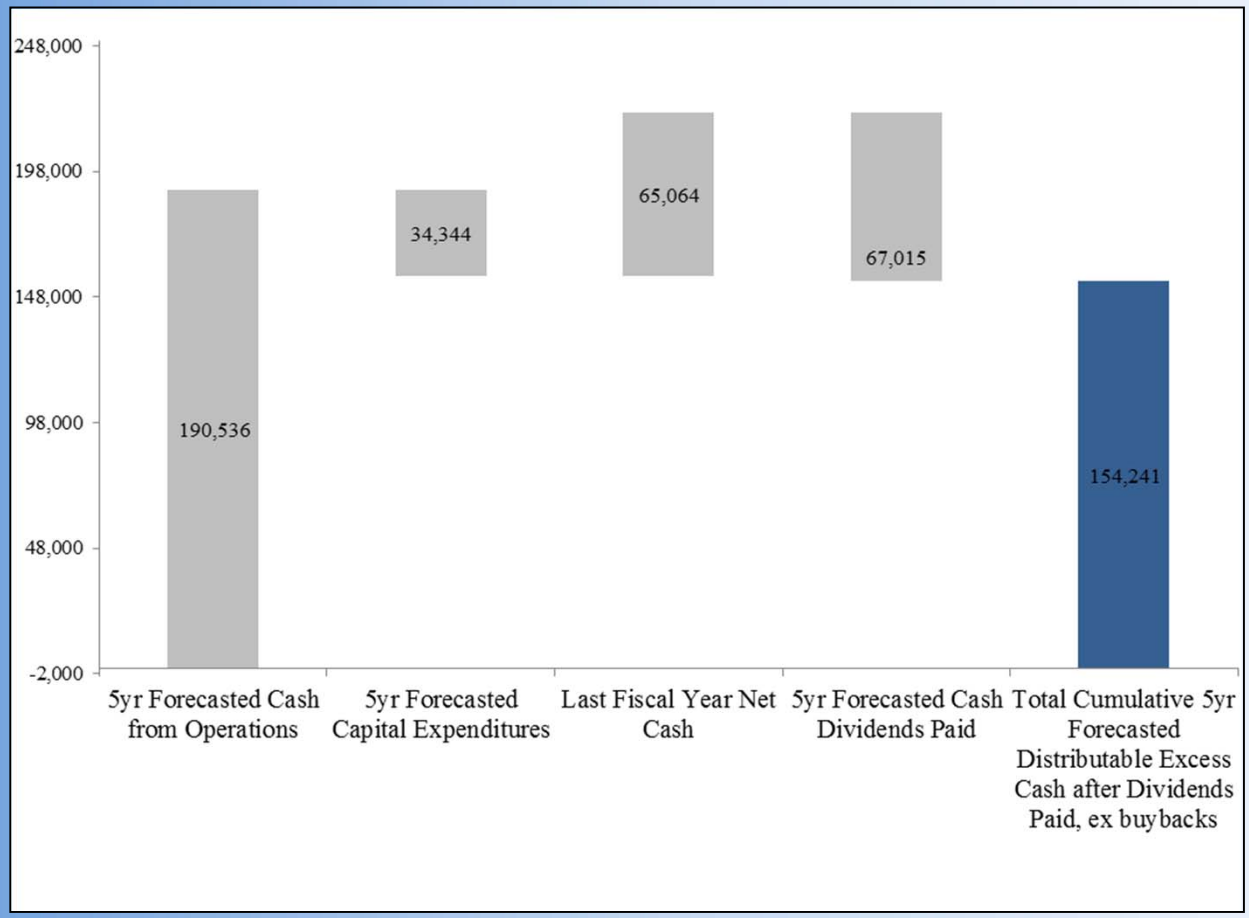
Microsoft Dividend Cushion Cash-Flow Bridge



In USD millions

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What Does This Mean for Microsoft?

- Annual Dividend Yield: 2.8% ($1.24/share)
- Valuentum Dividend Cushion™ Ratio: **3.3**
- Translation: Microsoft can cover its *growing* dividend with expected free cash flow and its net cash position **more than 3 times** over the measurement period!
- The company has fantastic dividend growth prospects on the basis of its cash-flow profile and balance sheet.

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What Does This Mean for Microsoft? (cont)

- Question: Could Microsoft *double its dividend* and still have room to grow the payout? *Yes.*
- These are the types of solid and secure dividend growth ideas we seek to deliver to members in the Dividend Growth portfolio.

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Some of Our Favorite Dividend Growth Ideas

DIVIDEND GROWTH PORTFOLIO -- as of July 1, 2015 - interim

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	4.25%	mid-Sep 2015	mid Sep 2015 (quart)	1.2	GOOD	GOOD	$51.00	3	0.96
Apple (AAPL)	2.08	1.65%	early Aug 2015	Aug 2015 (quart)	5.0	EXCELLENT	EXCELLENT	$148.00	6	0.85
Cisco (CSCO)	0.84	3.08%	early July 2015	early July 2015 (quart)	3.1	EXCELLENT	EXCELLENT	$36.00	7	0.76
Coach (COH)	1.35	3.85%	early Sep 2015	early Sep 2015 (quart)	2.1	GOOD	EXCELLENT	$50.00	6	0.70
Energy Sector SPDR (XLE)	2.06	2.78%	late Sep 2015	early Sep 2015 (quart)	-	GOOD	NEUTRAL	-	-	-
Energy Transfer (ETP)	4.06	7.89%	early Aug 2015	Aug 2015 (quart)	2.1	GOOD	GOOD	$62.00	4	0.83
General Electric (GE)	0.92	3.47%	early Sep 2015	Sep 2015 (quart)	2.0	GOOD	GOOD	$30.00	7	0.88
Hasbro (HAS)	1.84	2.44%	late Jul 2015	mid Aug 2015 (quart)	1.7	GOOD	EXCELLENT	$66.00	6	1.14
HCP (HCP)	2.26	6.15%	early Aug 2015	early Aug 2015 (quart)	1.8	GOOD	EXCELLENT	$46.00	3	0.80
Intel (INTC)	0.96	3.19%	early Aug 2015	early Sep 2015 (quart)	2.4	GOOD	GOOD	$38.00	4	0.79
Johnson & Johnson (JNJ)	3.00	3.05%	late Aug 2015	early Sep 2015 (quart)	2.6	GOOD	EXCELLENT	$111.00	5	0.89
Medtronic (MDT)	1.22	1.65%	late Sep 2015	Sep 2015 (quart)	2.0	GOOD	EXCELLENT	$72.00	4	1.03
Microsoft (MSFT)	1.24	2.80%	mid Aug 2015	mid Sep 2015 (quart)	3.1	EXCELLENT	EXCELLENT	$56.00	6	0.79
Proctor & Gamble (PG)	2.65	3.33%	mid Aug 2015	early Aug 2015 (quart)	1.5	GOOD	EXCELLENT	$74.00	4	1.07
PP&L (PPL)	1.49	5.04%	early Sep 2015	early Sep 2015 (quart)	Held for diversification reasons.			$30.00	3	0.99
Realty Income (O)	2.27	5.05%	monthly	monthly	2.0	GOOD	GOOD	$60.00	6	0.75
Talen Energy (TLN)	NA	NA	NA	NA	-	-	-	-	-	-

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Important Risks for Dividend Growth Investors

- Beware of financially-engineered dividends as in the case of MLPs and some REITs.
- If the dividend yield is too good to be true, it probably is… (8%+ = danger!).
- Rising interest rates could complicate the strategy. Higher rates could cause significant capital depreciation in income-oriented equity holdings.
- Don’t fall in love with the past – the future is all that matters.

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What We Learned

- Dividend growth investing has both advantages and unique risks.
- Adding criteria related to value and momentum can augment the core dividend growth process.
- A focus on valuation helps limit exposure to overpriced ideas.
- A focus on momentum helps build conviction in underpriced ideas.
- A value-focused, momentum-based dividend growth process is a tool for your kit.

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Competitive Advantages of Valuentum's Approach

- Completely independent - NO conflicts of interest
- Integrity and systematic application of analytical process
- Comprehensive equity research provider – from value through momentum investing
- Breadth and depth of coverage
- Commitment to expanding coverage
- Strong performance track record
- Valuation expertise

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