OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities
Stock Analysis: From Value through Momentum Investing

January 1, 2014
Volume 3 Issue 1

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

Annualized Return	Annualized Goal	Outperformance
17.0%	Mid-to-High-Single Digits (~7.5%)	9.5%

*Please see note below regarding performance measurement.

INSIDE THIS ISSUE

***NOTE:** Our 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 January 1, 2014, we are significantly exceeding this goal.

Dividend Growth Investors Face Unique Risks in 2014

By Brian Nelson, CFA

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

With 2013 now in the rear-view mirror, we can happily say that the Dividend Growth portfolio (see page 5) significantly exceeded its goals of an annualized return in the mid- to- high-single digits for the year. We know that you've been a part of this journey in 2013, and we wanted to congratulate you as well. In fact, the successful year would not have been so without you, and we wanted to extend a big thank you for that. If you haven't been a member for that long yet, we're expecting an exciting 2014, too!

For one, dividend growth investors are enjoying a time like no other in the history of the equity markets. The attractiveness of dividend growth investing as a style has prompted companies to reevaluate their entire capital allocation decisions, and some firms' boards have even decided to implement material step-ups in dividend payouts. For the most part, earnings expansion has supported the pace of dividend growth in 2013, and just like business owners that enjoy increased operating cash flow, dividend growth investors are enjoying increased dividend payments. It's been a great experience for the dividend growth crowd.

Still, dividend growth investors will face some unique risks in 2014. The markets are ushering in the year with an aggregate price-to-earnings ratio of roughly 15 on S&P 500 constituents, a level above both the 5-year and 10-year averages. The 10-year Treasury has just recently hit the highest level since July 2011, a sign that a) yields on new bond issuances will act as heightened competition for income and b) discount rates applied to equities will increase, pressuring fair value estimates. Investors should not be surprised if overvalued dividend growth entities face pricing pressure in 2014, especially if yields begin to rise and certainly if price-to-earnings ratios contract toward 5- and 10-year averages.

In this environment, it will be very important for dividend growth investors to continue to focus on the underlying cash-flow dynamics of the businesses they've invested in and their respective Valuentum Dividend Cushion scores—a cash-flow coverage measure of the health of the dividend found in each firm's dividend report. After all, dividends are paid in cash, and earnings are but a component of cash flow.

Please see *Dividend Growth Investors Face Unique Risks…*on next page

Dividend Growth Investors Face Unique Risks…**from previous page**

Assessing valuations and applying an appropriate margin of safety will also remain paramount. In overvalued stocks (ones with price-to-fair value ratios above 1), we do not expect to allocate any new capital in the Dividend Growth portfolio to them this year, even if the markets continue to race higher. We would find that to be an irrational move, not supported by underlying cash-flow fundamentals.

Though the markets are making the hunt more difficult, we will continue to look to undervalued, dividend growth gems for the portfolio—companies like Microsoft (MSFT) and Apple (AAPL). These two tech giants, for example, have mountains of net cash on their balance sheets and generate gobs of free cash flow (operating cash flow less capex), making them fantastic dividend growth ideas over the long haul.

Happy New Year! Thank you! And let's keep the outperformance of the Dividend Growth portfolio going into 2014 and beyond!

Financial Analysis 101: Understanding Stock Splits

By Brian Nelson, CFA

There are few topics more misunderstood than stock splits. Some investors wrongly believe that a stock split is a value-creating endeavor brought about by "market forces" that have blessed their company's stock for one reason or another. They wrongly believe that they will get more shares of the company at the same price, thereby doubling their investment as a result.

In reality, however, a stock split is a move made at the complete discretion of the company to reduce the nominal price of its shares such that more individual investors can "afford" to buy more of the stock (increasing its ownership base, so to speak). The primary reason stems from the common belief that (psychologically) the individual investor has an easier time digesting the purchase of 100 shares of stock for $10 each than the purchase of 1 share of stock for $1,000, even though both of the cash outlays are equivalent to $1,000.

As we'll show below, a stock split does nothing to create fundamental economic value for the company and is nothing more than a superficial move akin to that of cutting a $100 bill in half: no matter how many times you cut the bill, it's still only going to be worth $100. In stock-market parlance, a company is worth the same market capitalization (its aggregate price) no matter how may slices (shares) are outstanding. For example, when a 2-for-1 stock split is executed, the number of shares are increased by a factor of 2, while the price of these shares are reduced by half, preserving the original market capitalization (price) of the firm (all else equal).

Market Capitalization (total price of the company) = Price per Share x Shares Outstanding

Please see *Financial Analysis 101…*on next page

*Financial Analysis 101…*from previous page

Let's walk through an example. Recently, MasterCard (MA) announced a 10-for-1 stock split. Effectively, this means that holders of MasterCard's stock will receive 9 additional shares for each share that he or she holds as of a certain date, the record date (January 9, 2013).

The number of MasterCard shares outstanding will increase 10-fold as a result, and the price at which MasterCard's stock trades initially on the date following the ex-split date (January 21, 2014) will be reduced by a factor of 10. Total shares of common stock outstanding will increase from approximately 120 million to 1.2 billion as a result of the move, and if we assume that today was the ex-date, the price of the firm's stock would be reduced from $782.31 to $78.231.

Let's see what happens to MasterCard's market capitalization as a result of this move (see definition above):

120 million x $782.31 = $93,877.2 billion

1.2 billion x $78.231 = $93,877.2 billion

It becomes quite obvious walking through the calculation that MasterCard has merely decided to divvy up its company into smaller pieces and that no aggregate value has actually been created. Holders of MasterCard's stock just get 10 times as many shares of the stock, which will then trade at one-tenth of the pre-split price. MasterCard's intrinsic value calculation would be adjusted in similar fashion – the number of shares outstanding would be increased by a factor of 10, reducing the fair value estimate per share of the firm to one-tenth of its pre-split value. MasterCard, the company, will not be worth one-tenth of its pre-split value (only the company's individual shares will be). Holders of MasterCard's shares are made whole in that they own ten times as many shares – the price of their position in MasterCard has not changed.

Note: At times the announcement of a stock split may generate interest in the firm as a result of the psychological dynamic noted above: Investors tend to like stocks that don't trade for hundreds or thousands of dollars per share and feel more comfortable with comparatively lower-priced stock. This may cause the shares of a company that has announced a stock-split to rise temporarily, but no value has actually been created by the company as a result of the announcement.

Valuentum's Take

You can't create more money by cutting a $100 bill in half, and companies can't create value by executing stock splits. Our fair value estimate per share of MasterCard will be adjusted downward by a factor of 10 following the ex-date, all else equal. Though we're huge fans of MasterCard's business model and applaud its recent dividend hike, we think its peer, Best Ideas portfolio holding Visa (V), offers a more attractive valuation proposition at the moment. Our dividend report on MasterCard will be updated shortly.

McDonald's US Comparable Sales Fall

By Valuentum Analysts

McDonald's (MCD) —3.4% annual dividend yield—reported lackluster November comparable sales. European comparable sales (comps) were solid, up 1.9%, but comps in the APMEA (Asia/Pacific, Middle East and Africa) and US weighed on expansion, falling 2.3% and 0.8%, respectively. Performance in the APMEA was weighed down by weakness in Japan, while US comps suffered from heightened competitive activity and relatively flat industry demand trends that were only partially offset by strength in breakfast, chicken menu choices and expanded value offerings. Systemwide sales advanced 3.1% in constant currencies during the month.

The news from McDonald's is unique in that it runs counter to a report from the National Restaurant Association, released December 2, that the Restaurant Performance Index, RPI (1), hit a four-month high in October. The business association noted that October was driven by broad-based gains in the index components, with solid improvements in same-store sales and customer traffic. The National Restaurant Association also indicated that, looking forward, "restaurant operators are relatively optimistic about sales growth in the months ahead," suggesting to us that McDonald's poor comparable sales performance in November (a month later) may reveal more of a share shift than broader weakness.

(1) "The RPI – a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry – stood at 100.9 in October, up 0.7 percent from September and the strongest level since June. In addition, the RPI stood above 100 for the eighth consecutive month, which signifies expansion in the index of key industry indicators." Source: National Restaurant Association

The "burger business" is becoming increasingly more competitive every day. Burger King (BKW)—1.3% annual dividend yield—has brought back the "Big King" sandwich, which is almost a mirror image of the Big Mac, given its middle bun. Darden's (DRI)—4.3% annual dividend yield—Olive Garden has rolled out an 'Italiano' burger as it can no longer do without a burger menu offering. Wendy's (WEN)—2.3% annual dividend yield—new Pretzel Bacon Cheeseburger helped drive the best two-year stack for same-store sales in the third quarter since 2005. Red Robin Gourmet Burgers (RRGB) seems to have hit the sweet spot with consumers. The firm's high-quality gourmet burgers helped drive its third quarter (ended October 6) company-owned comparable restaurant revenues 5.7% higher than the same period a year ago. Red Robin experienced a 1.1% increase in traffic and a 4.6% increase in the average guest check, revealing that the underlying components of comp expansion were solid. Not only are burger options proliferating, but consumers are also opting for healthier alternatives at Panera (PNRA) and Chipotle (CMG).

Valuentum's Take

Though McDonald's monthly performance has always been quite volatile, the competitive environment hasn't been this tough in a long time. Not only is McDonald's facing a difficult US market, but the company's performance in Japan is hurting systemwide sales. Our fears for negligible same-store sales growth for the entire fourth quarter may be coming to fruition, especially if performance in Japan continues to languish and US results don't improve. McDonald's slowing pace of dividend expansion may be the most telling sign that things could be better. Still, the globally successful firm isn't going away anytime soon, and the fast-food giant remains firmly on our watch list.

Our Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
17.0%	Mid-to-High-Single Digits (~7.5%)	9.5%

DIVIDEND GROWTH PORTFOLIO -- as of January 1, 2014

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	38.39	7,754.78	5.7%	387.84
Apple (AAPL)	7/24/2013	442.16	11	4,870.76	561.02	6,171.22	4.5%	134.20
Chevron (CVX)	12/30/2011	106.40	56	5,965.40	124.91	6,994.96	5.1%	224.00
Emerson Electric (EMR)	12/30/2011	46.59	97	4,526.23	70.18	6,807.46	5.0%	166.84
Energy Transfer (ETP)	12/30/2011	45.85	142	6,517.70	57.25	8,129.50	5.9%	514.04
General Electric (GE)	10/21/2013	26.18	240	6,290.20	28.03	6,727.20	4.9%	211.20
Hasbro (HAS)	12/30/2011	31.89	220	7,022.80	55.01	12,102.20	8.8%	352.00
Intel (INTC)	12/30/2011	24.25	289	7,015.25	25.96	7,502.44	5.5%	260.10
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	91.59	9,800.13	7.2%	282.48
Kinder Morgan (KMP)	12/30/2011	84.95	65	5,528.75	80.66	5,242.90	3.8%	351.00
Medtronic (MDT)	12/30/2011	38.25	157	6,012.25	57.39	9,010.23	6.6%	175.84
Microsoft (MSFT)	12/30/2011	25.96	308	8,002.68	38.13	11,744.04	8.6%	344.96
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	81.41	8,548.05	6.2%	253.05
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	30.09	7,161.42	5.2%	349.86
Phillips 66 (PSX)	5/1/2012	Spin Off	44	Spin Off	77.13	3,393.72	2.5%	68.64
Realty Income (O)	7/24/2013	44.35	60	2,668.00	37.33	2,239.80	1.6%	131.40
Cash				2,363.42		17,644.66	12.9%	4,207.45
Dividend Growth Portfolio				100,000.00		**136,974.71**	100.0%	TBD
DG Portfolio Annualized Return (from inception through current date)								**17.0%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)								7.5%
DG Portfolio Annualized Return Outperformance								**9.5%**

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 January 1, 2014. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of January 1, 2014

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)	1.92	5.00%	mid-March 2014	mid Apr 2014 (quart)	1.2	GOOD	GOOD	$40.00	3	0.96
Apple (AAPL)	12.20	2.17%	early-Feb 2014	Feb 2014 (quart)	2.9	EXCELLENT	EXCELLENT	$610.00	6	0.92
Chevron (CVX)	4.00	3.20%	mid-Feb 2014	early Mar 2014 (quart)	2.1	GOOD	EXCELLENT	$127.00	3	0.98
Emerson Electric (EMR)	1.72	2.45%	mid Feb 2014	early Mar 2014 (quart)	2.3	GOOD	EXCELLENT	$55.00	6	1.28
Energy Transfer (ETP)	3.62	6.32%	late Jan 2014	Feb 2014 (quart)	3.3	EXCELLENT	GOOD	$66.00	7	0.87
General Electric (GE)	0.88	3.14%	mid-Mar 2014	March 2014 (quart)	2.1	GOOD	GOOD	$31.00	7	0.90
Hasbro (HAS)	1.60	2.91%	late Jan 2013	mid-Feb 2013 (quart)	1.9	GOOD	EXCELLENT	$60.00	6	0.92
Intel (INTC)	0.90	3.47%	early Feb 2014	early Mar 2014 (quart)	2.0	GOOD	EXCELLENT	$28.00	6	0.93
Johnson & Johnson (JNJ)	2.64	2.88%	late Feb 2014	early Mar 2014 (quart)	2.2	GOOD	EXCELLENT	$97.00	7	0.94
Kinder Morgan (KMP)	5.40	6.69%	late Jan 2013	mid Feb 2013 (quart)	1.3	GOOD	EXCELLENT	$84.00	3	0.96
Medtronic (MDT)	1.12	1.95%	late Mar 2014	April 2014 (quart)	2.5	GOOD	EXCELLENT	$49.00	6	1.17
Microsoft (MSFT)	1.12	2.94%	mid Feb 2014	mid Mar 2014 (quart)	3.3	EXCELLENT	EXCELLENT	$46.00	6	0.83
Proctor & Gamble (PG)	2.41	2.96%	mid Jan 2013	early Feb 2013 (quart)	1.4	GOOD	EXCELLENT	$73.00	6	1.12
PP&L (PPL)	1.47	4.89%	early Mar 2014	early Apr 2014 (quart)	Held for diversification reasons.			$33.00	6	0.91
Phillips 66 (PSX)	1.56	2.02%	early Feb 2014	late Feb 2014 (quart)	2.8	EXCELLENT	EXCELLENT	$69.00	5	1.12
Realty Income (O)	2.19	5.87%	monthly	monthly	1.8	GOOD	EXCELLENT	$59.00	6	0.63

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.

Kinder Morgan Energy Partners' 2014 Outlook Reveals Distribution Growth

By Valuentum Analysts

Kinder Morgan Energy Partners (KMP)—6.6% annual dividend yield, one of the largest midstream (pipeline) energy companies in North America and a core Dividend Growth portfolio holding, announced expectations for 2014. Kinder Morgan Energy Partners expects to:

"Declare cash distributions of $5.58 per unit for 2014, an approximate 6 percent increase over its 2013 budget target of $5.28 per unit and an approximate 5 percent increase above its current expectation of $5.33.

Generate approximately $6.4 billion in business segment earnings before DD&A (adding back KMP's share of joint venture DD&A), an increase of approximately $750 million over the 2013 forecast.

Distribute over $2.5 billion to its limited partners.

Invest approximately $3.6 billion in expansions (including contributions to joint ventures) and small acquisitions. Almost $720 million of the equity required for this investment program is expected to be funded by KMR share dividends."

Valuentum's Take

We expect to update our dividend report on the pipeline transportation master limited partnership shortly and continue to believe Kinder Morgan Energy Partners represents a core position in the portfolio of our Dividend Growth Newsletter. We're huge fans of Kinder Morgan Energy Partners' stable fee-based cash flow (more than 80% of its business) and note that its asset footprint is unmatched. It remains one of our favorite income ideas, and we would not be surprised if we see upside to the expected distribution in 2014.

Share Buybacks in Vogue for Portfolio Holdings

By Valuentum Analysts

Showcasing strong cash flow generation, portfolio holdings Union Pacific (UNP)—1.9% annual dividend yield—and Phillips 66 (PSX)—2.1% annual dividend yield—have issued new buyback programs recently. On November 21, Union Pacific announced a new share repurchase authorization of up to 60 million common shares by 2017. The new four year authorization allows for the repurchase of roughly 13% of current shares outstanding. On December 6, Phillips 66 approved a new $2 billion share repurchase program. Since the third quarter of 2012, Phillips 66 has authorized a total of $5 billion in share repurchases and has increased dividends from $0.20 per share to $0.39 cents per share on a quarterly basis. Though we tend to prefer immediate dividend growth instead of buyback initiatives for most dividend growth portfolio holdings, the moves speak to the strength of their respective dividend coverage via cash flow. We hold Union Pacific in our Best Ideas portfolio.

Valuentum's Take

At the time of this writing, the Valuentum Dividend Cushion scores for Union Pacific and Phillips 66 were **1.9** and **2.8**, respectively. Said differently, Union Pacific can cover its cash dividend payments (including growth in them as forecast in the dividend report) **1.9** times with free cash flow (CFO less capex) over the next five years, after considering its capital structure. Phillips 66 can cover its cash dividend payments (including growth in them as forecast in the dividend report) **2.8** times with free cash flow (CFO less capex) over the next five years, after considering its capital structure. These are fantastic dividend coverage ratios.

From an economic value standpoint, we think the buybacks are essentially value-neutral as each firm is trading at roughly fair value. We like firms in our Dividend Growth portfolio that show both (cash-flow) capacity and (management) willingness to continue raising their dividends long into the future. We don't expect to put new money to work in Union Pacific or Phillips 66, but we continue to be encouraged by the shareholder-friendliness of both management teams.

Valuentum Members Are Reminded of the mREITs

By Brian Nelson, CFA

Sometimes it's easy to forget that the value of an investment research service not only rests on the ideas that it generates, but also on the pitfalls it helps members avoid. That's why we are so selective with the companies we add to our actively-managed portfolios. We want our portfolios to achieve their respective goals, and sometimes, this means we don't trade very often. However, low portfolio turnover doesn't mean the portfolios aren't working hard to achieve their goals and the ideas held within them aren't the best ideas on the market today. Here's the story behind perhaps the best call of 2013. It wasn't one that we acted on, but rather, it was one that we encouraged members to avoid.

We first initiated coverage on the mortgage REIT industry with a 'VERY POOR' rating September 2012. Here was our independent, objective take on the group at the time:

> …almost all of (the mortgage REITs) generate a return on tangible equity that is less than our estimate of their respective cost of capital (generally 10%). Further, almost all constituents in the group have distribution payout ratios higher than 1, revealing a significant dependence on the healthy functioning of the capital markets for new funding, which cannot be guaranteed and at times can become prohibitively expensive.
>
> Further, the reliance on debt to finance properties exposes residential REITs to the risk that their future cash from operations may at some point in the future be insufficient to make required payments of principal and interest. Leverage, the amount of debt exposed to variable interest rates and future free cash flow generation need to be monitored very closely (as REIT distribution requirements limit available cash on the balance sheet). **The success of a mortgage REIT depends heavily on its ability to acquire assets (agency securities) at favorable spreads over borrowing costs, which can rise materially in the event that short-term interest rates increase or the market value of its investments decline (margin calls are also possible).**
>
> Our research indicates that the highest-yielding firms in the group have a tendency of having the greatest amount of leverage (as measured by total assets divided by total shareholders' equity), the most aggressive business models, and offer the greatest level of risk to investors. Generally speaking, we're uncomfortable with 'asset/equity' leverage levels above 6 for any constituent in the group, given the long-term threats of a rising interest rate environment, which could significantly impair operations should income be exceeded by the expense incurred to finance investments. All things considered, **the large distribution yields presented by some constituents in the group may not compensate investors for the tremendous risks inherent to their respective business models.**

It was a wild ride since we initiated on the group September 2012, but the decline of the constituents didn't really accelerate until our May 2013 note titled 'The Mortgage REIT Business Doesn't Work…,' where we warned that:

Please see *Valuentum Members…*on page 8

*Valuentum Members…*from previous page

> The book value of some mortgage REITs will be punished regardless of what happens to interest rates…a rising interest rate environment can be devastating by causing other comprehensive losses (unrealized losses on investments marked to market) that will completely wipe out period spread income, causing rapid and uncomfortable declines in book value. **Dividend payments may not be sustainable under these conditions.**

It wasn't too long after we published the May 2013 piece that firms in the mortgage REIT industry such as Annaly Capital (NLY)—11.9% annual dividend yield—and American Capital (AGNC)—13.1% annual dividend yield—started slashing dividends. We highlighted the large number of research houses that were wrong and/or late in their analysis on the mortgage REIT group in this July 17 piece, and while Goldman Sachs wasn't included, its 'Sell' ratings on Annaly Capital and American Capital can probably be considered in the late camp. The news has reminded Valuentum members that there is tremendous value in a service that not only helps uncover investment gems but also helps steer members away from bad ideas in a timely fashion.

Here's what Goldman had to say about Annaly Capital:

> We are Sell rated on NLY, as we expect book value to fall as rates rise and MBS spreads widen post Fed tapering. As NLY continues to take actions to protect book value by taking down leverage, rotating into shorter-duration assets and increasing its hedge ratio, we estimate earnings headwinds and dividend cuts of ~40%. We expect total returns of 2% over the next 12 months, which is relative underperformance compared to 10% average upside for the sector. This assumes book value declines 14% from 3Q13 levels to 4Q14 and that the stock to trades at 0.87x this level to $9.50 for 5% price downside (vs. current P/B of 0.79x). We also assume dividends of $0.80, implying a dividend yield of 8.0% off current price levels.

Here's what Goldman had to say about American Capital:

> We are Sell rated on AGNC, as we expect book value to fall as rates rise and spreads widen post Fed tapering. As AGNC continues to take actions to protect book value by taking down leverage, rotating into shorter-duration assets, and increasing its hedge ratio, we estimate continued earnings headwinds and an increased risk to dividends. We expect book value to fall 15% from $25.27 in 3Q13 to $21.39 by 4Q14, and that the stock trades to 0.86x this level (vs. current levels of 0.78x) for our $18.50 price target for 6% price downside. We expect 2014 dividends of $2.00, implying a dividend yield of 10% on current price levels, bringing the total return for 2014 of 4%, which is relative underperformance vs. the 10% average total return for our Neutral-rated coverage universe.

Valuentum's Take

Goldman's initiation on the mREITs has been an important reminder to Valuentum members of the advantage of having an investment research firm that can not only highlight winners for your portfolio, but also steer your portfolio away from losers in a timely fashion. We don't plan to be active in any mREIT anytime soon.

Cisco's Investor Update Reveals Challenges

By Brian Nelson, CFA

Switching and routing giant Cisco (CSCO)—3.2% annual dividend yield—hosted its 2013 Financial Analyst Conference, and management's commentary during the meeting wasn't encouraging. The firm's fiscal first quarter 2014 results, released mid-November, had showcased significant order weakness and commentary on the company's fiscal first-quarter conference call indicated that the firm did not anticipate material improvement in its order growth during the second quarter, but CEO John Chambers' reiteration of his view that emerging markets remain "extremely challenged," particularly in Brazil and Russia, has sent shockwaves across much of the networking industry. It appears the market had been building in expectations that some order stabilization would occur at this point during the quarter, and Chambers comments may have mitigated this enthusiasm. Though it may take some time to right the course, management thinks emerging countries will grow at a nice 6%-10% annual clip.

Emerging Countries

What / Why Q3/Q4 → Q1

- Economic
- Currency
- Always 2 – 3 Unique
- Areas Improve

Top 5… 13% → -21%
Total = 13%→ -12%

Vision / Strategy

- Outcomes / Results
- Architectures → Phase Implementation
- Focus Entire Company
- CSR
- Digitize Country

Long-Term Growth 6-10%

Image Source: Cisco

Adding fuel to the fire was a slide from CFO Frank Calderoni's presentation that showed future revenue growth at Cisco is now expected to be in the range of 3%-6% during the next 3-5 years. This is down from 5%-7% annual growth expectations it set during its conference in 2011 on headwinds ranging from macroeconomic uncertainty to conservative customer budgets. Though a percentage point or two of growth may not seem like a lot, it can have significant implications on smaller players within the networking space and speaks to a growth trajectory that is moving in the wrong direction. Services revenue expansion is expected to grow at a 7%-10% pace during the next 3-5 years, down from 9%-11% previously. Services gross margins are a few percentage points better than product gross margins and were 66.6% on a non-GAAP basis in the fiscal first-quarter. Lost revenue in this area will have a greater impact on profits than weakened growth in product sales.

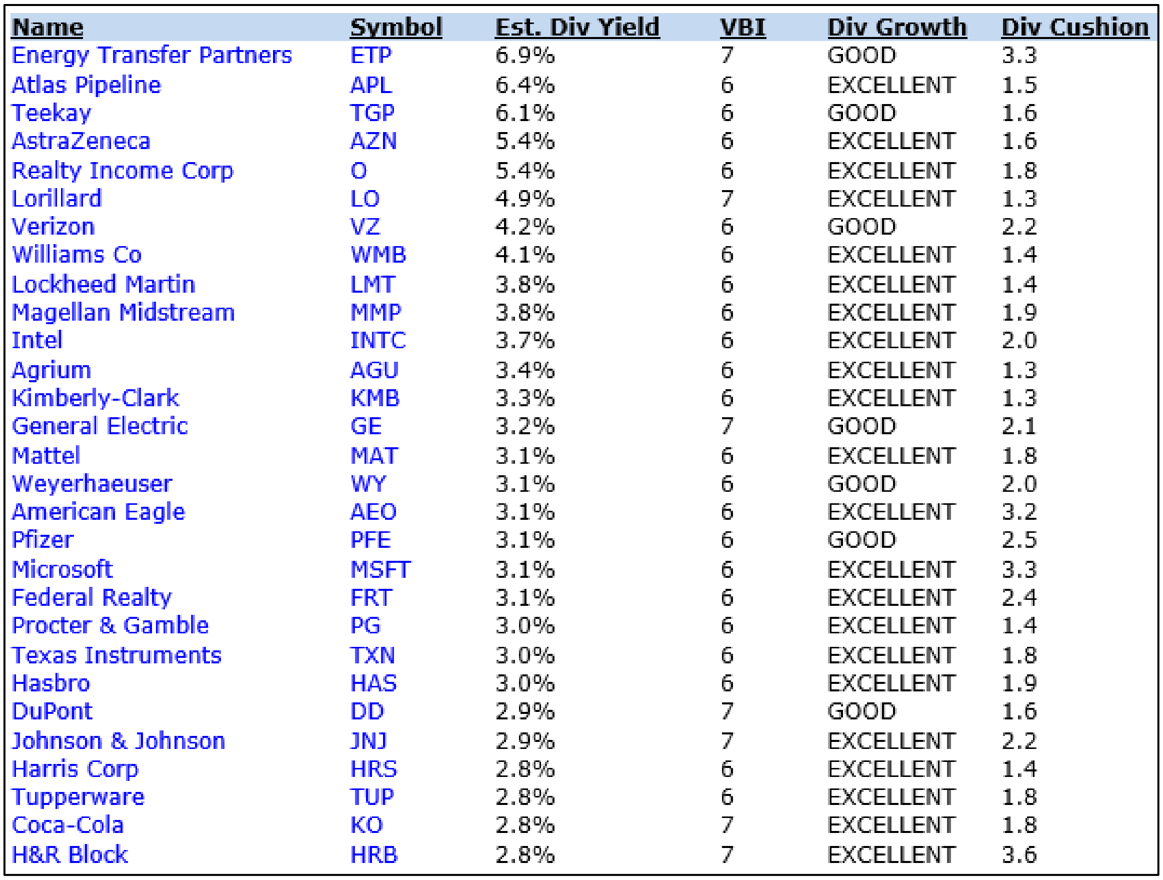
Please see *Cisco's Investor Update…*on page 13

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 investment opportunities 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.



Name	Symbol	Est. Div Yield	VBI	Div Growth	Div Cushion
Energy Transfer Partners	ETP	6.9%	7	GOOD	3.3
Atlas Pipeline	APL	6.4%	6	EXCELLENT	1.5
Teekay	TGP	6.1%	6	GOOD	1.6
AstraZeneca	AZN	5.4%	6	EXCELLENT	1.6
Realty Income Corp	O	5.4%	6	EXCELLENT	1.8
Lorillard	LO	4.9%	7	EXCELLENT	1.3
Verizon	VZ	4.2%	6	GOOD	2.2
Williams Co	WMB	4.1%	6	EXCELLENT	1.4
Lockheed Martin	LMT	3.8%	6	EXCELLENT	1.4
Magellan Midstream	MMP	3.8%	6	EXCELLENT	1.9
Intel	INTC	3.7%	6	EXCELLENT	2.0
Agrium	AGU	3.4%	6	EXCELLENT	1.3
Kimberly-Clark	KMB	3.3%	6	EXCELLENT	1.3
General Electric	GE	3.2%	7	GOOD	2.1
Mattel	MAT	3.1%	6	EXCELLENT	1.8
Weyerhaeuser	WY	3.1%	6	GOOD	2.0
American Eagle	AEO	3.1%	6	EXCELLENT	3.2
Pfizer	PFE	3.1%	6	GOOD	2.5
Microsoft	MSFT	3.1%	6	EXCELLENT	3.3
Federal Realty	FRT	3.1%	6	EXCELLENT	2.4
Procter & Gamble	PG	3.0%	6	EXCELLENT	1.4
Texas Instruments	TXN	3.0%	6	EXCELLENT	1.8
Hasbro	HAS	3.0%	6	EXCELLENT	1.9
DuPont	DD	2.9%	7	GOOD	1.6
Johnson & Johnson	JNJ	2.9%	7	EXCELLENT	2.2
Harris Corp	HRS	2.8%	6	EXCELLENT	1.4
Tupperware	TUP	2.8%	6	EXCELLENT	1.8
Coca-Cola	KO	2.8%	7	EXCELLENT	1.8
H&R Block	HRB	2.8%	7	EXCELLENT	3.6

Our Dividend Growth Watch List

By Valuentum Analysts

Our dividend-growth watch list continues to be filled with potential ideas for your portfolio. We may replace firms held in our portfolio 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 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 January 1, 2013

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)	3.42	2.44%	1.8	GOOD	EXCELLENT	$ 104.00	4	1.35	140.25
ADP (ADP)	1.92	2.38%	2.3	GOOD	EXCELLENT	$ 60.00	3	1.35	80.80
Analog Devices (ADI)	1.36	2.67%	2.7	GOOD	EXCELLENT	$ 45.00	3	1.13	50.93
Becton, Dickinson (BDX)	2.18	1.97%	2.3	GOOD	EXCELLENT	$ 90.00	6	1.23	110.49
Boeing (BA)	2.92	2.14%	2.7	GOOD	EXCELLENT	$ 121.00	5	1.13	136.49
Chicago Rivet (CVR)	0.72	2.17%	4.2	EXCELLENT	GOOD	$ 36.00	2	0.92	33.15
Coca-Cola (KO)	1.12	2.71%	1.8	GOOD	EXCELLENT	$ 36.00	7	1.15	41.31
Colgate-Palmolive (CL)	1.36	2.09%	1.7	GOOD	EXCELLENT	$ 52.00	6	1.25	65.21
Deere (DE)	2.04	2.23%	1.7	GOOD	EXCELLENT	$ 82.00	3	1.11	91.33
Dover (DOV)	1.50	1.55%	2.5	GOOD	EXCELLENT	$ 80.00	7	1.21	96.54
DuPont (DD)	1.80	2.77%	1.6	GOOD	GOOD	$ 65.00	7	1.00	64.97
Eli Lilly (LLY)	1.96	3.84%	1.8	GOOD	GOOD	$ 51.00	3	1.00	51.00
Exxon Mobil (XOM)	2.52	2.49%	1.9	GOOD	EXCELLENT	$ 94.00	3	1.08	101.20
General Dynamics (GD)	2.24	2.34%	2.7	GOOD	EXCELLENT	$ 85.00	6	1.12	95.55
Genuine Parts (GPC)	2.15	2.58%	1.6	GOOD	EXCELLENT	$ 70.00	7	1.19	83.19
H&R Block (HRB)	0.80	2.75%	3.6	EXCELLENT	EXCELLENT	$ 30.00	7	0.97	29.04
Harris (HRS)	1.68	2.41%	1.4	GOOD	EXCELLENT	$ 56.00	6	1.25	69.81
HCP (HCP)	2.10	5.78%	2.0	GOOD	GOOD	$ 49.00	4	0.74	36.32
Honeywell (HON)	1.80	1.97%	2.6	GOOD	EXCELLENT	$ 77.00	7	1.19	91.37
Hormel Foods (HRL)	0.80	1.77%	3.2	EXCELLENT	EXCELLENT	$ 33.00	4	1.37	45.17
IBM (IBM)	3.80	2.03%	3.3	EXCELLENT	EXCELLENT	$ 185.00	3	1.01	187.57
Illinois Tool Works (ITW)	1.68	2.00%	2.0	GOOD	EXCELLENT	$ 62.00	4	1.36	84.08
Kimberly-Clark (KMB)	3.24	3.10%	1.3	GOOD	EXCELLENT	$ 88.00	6	1.19	104.46
Lockheed Martin (LMT)	5.32	3.58%	1.4	GOOD	EXCELLENT	$ 114.00	6	1.30	148.66
Mattel (MAT)	1.44	3.03%	1.8	GOOD	EXCELLENT	$ 42.00	6	1.13	47.58
Merck (MRK)	1.76	3.52%	2.0	GOOD	GOOD	$ 45.00	4	1.11	50.05
Northrop Grumman (NOC)	2.44	2.13%	3.0	EXCELLENT	EXCELLENT	$ 98.00	6	1.17	114.61
Owens & Minor (OMI)	0.96	2.63%	1.9	GOOD	EXCELLENT	$ 36.00	7	1.02	36.56
Paychex (PAYX)	1.40	3.07%	2.9	EXCELLENT	GOOD	$ 36.00	3	1.26	45.53
Phillip Morris (PM)	3.76	4.32%	1.3	GOOD	EXCELLENT	$ 77.00	3	1.13	87.13
Raytheon (RTN)	2.20	2.43%	2.3	GOOD	EXCELLENT	$ 73.00	6	1.24	90.70
St. Jude (STJ)	1.00	1.61%	2.8	EXCELLENT	EXCELLENT	$ 55.00	5	1.13	61.95
Texas Instr (TXN)	1.20	2.73%	1.8	GOOD	EXCELLENT	$ 37.00	6	1.19	43.91
United Technologies (UTX)	2.36	2.07%	1.7	GOOD	EXCELLENT	$ 102.00	7	1.12	113.80
UPS (UPS)	2.48	2.36%	2.1	GOOD	EXCELLENT	$ 92.00	6	1.14	105.08
VF Corp (VFC)	1.05	1.68%	2.2	GOOD	EXCELLENT	$ 54.00	7	1.15	62.34
Verizon (VZ)	2.12	4.31%	2.2	GOOD	GOOD	$ 57.00	6	0.86	49.14
Walgreen (WAG)	1.26	2.19%	1.6	GOOD	EXCELLENT	$ 48.00	6	1.20	57.44
Wal-Mart (WMT)	1.88	2.39%	1.5	GOOD	EXCELLENT	$ 77.00	6	1.02	78.69

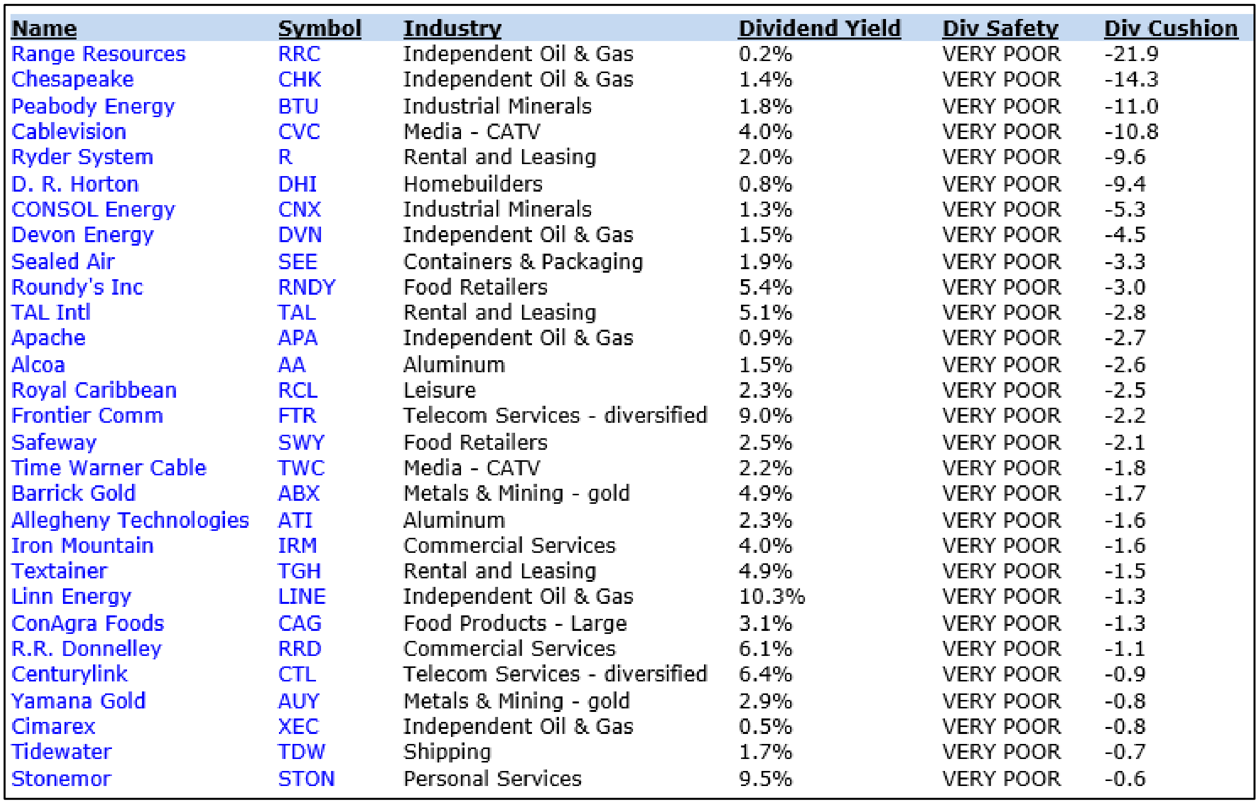
UR = Under Review

Yields to Avoid

By Valuentum Analysts

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 (read multiple analysis) 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	Dividend Yield	Div Safety	Div Cushion
Range Resources	RRC	Independent Oil & Gas	0.2%	VERY POOR	-21.9
Chesapeake	CHK	Independent Oil & Gas	1.4%	VERY POOR	-14.3
Peabody Energy	BTU	Industrial Minerals	1.8%	VERY POOR	-11.0
Cablevision	CVC	Media - CATV	4.0%	VERY POOR	-10.8
Ryder System	R	Rental and Leasing	2.0%	VERY POOR	-9.6
D. R. Horton	DHI	Homebuilders	0.8%	VERY POOR	-9.4
CONSOL Energy	CNX	Industrial Minerals	1.3%	VERY POOR	-5.3
Devon Energy	DVN	Independent Oil & Gas	1.5%	VERY POOR	-4.5
Sealed Air	SEE	Containers & Packaging	1.9%	VERY POOR	-3.3
Roundy's Inc	RNDY	Food Retailers	5.4%	VERY POOR	-3.0
TAL Intl	TAL	Rental and Leasing	5.1%	VERY POOR	-2.8
Apache	APA	Independent Oil & Gas	0.9%	VERY POOR	-2.7
Alcoa	AA	Aluminum	1.5%	VERY POOR	-2.6
Royal Caribbean	RCL	Leisure	2.3%	VERY POOR	-2.5
Frontier Comm	FTR	Telecom Services - diversified	9.0%	VERY POOR	-2.2
Safeway	SWY	Food Retailers	2.5%	VERY POOR	-2.1
Time Warner Cable	TWC	Media - CATV	2.2%	VERY POOR	-1.8
Barrick Gold	ABX	Metals & Mining - gold	4.9%	VERY POOR	-1.7
Allegheny Technologies	ATI	Aluminum	2.3%	VERY POOR	-1.6
Iron Mountain	IRM	Commercial Services	4.0%	VERY POOR	-1.6
Textainer	TGH	Rental and Leasing	4.9%	VERY POOR	-1.5
Linn Energy	LINE	Independent Oil & Gas	10.3%	VERY POOR	-1.3
ConAgra Foods	CAG	Food Products - Large	3.1%	VERY POOR	-1.3
R.R. Donnelley	RRD	Commercial Services	6.1%	VERY POOR	-1.1
Centurylink	CTL	Telecom Services - diversified	6.4%	VERY POOR	-0.9
Yamana Gold	AUY	Metals & Mining - gold	2.9%	VERY POOR	-0.8
Cimarex	XEC	Independent Oil & Gas	0.5%	VERY POOR	-0.8
Tidewater	TDW	Shipping	1.7%	VERY POOR	-0.7
Stonemor	STON	Personal Services	9.5%	VERY POOR	-0.6

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

*Cisco's Investor Update…*from page 9

Future Revenue Growth

- Network at the Center of Market Transitions
- Capture Cloud Growth Opportunities
- Expand Software Portfolio for Growth in Annuity Revenue
- Driving Value through Solutions and Services

Growth over 3-5 Years

GROWTH DRIVERS	
Data Center	20% – 25%
Mobility & Wireless	9% – 13%
Security	10% – 15%
Services	7% – 10%
Core	0% – 1%
Total	3-6% CAGR

Image Source: Cisco

Valuentum's Take

Cisco's revenue growth trajectory continues to shift lower, and it appears business has not turned upward thus far through the current quarter at the networking behemoth. Still, the company's free cash flow generation is astounding, and its dividend remains solid. We fully expect the company to use its newly authorized share buyback program to aid in earnings-per-share expansion in coming periods. If the firm misses bottom-line numbers, we'd grow more and more concerned about a loss of focus at the executive suite of the networking behemoth. Shares are cheap at current levels, but consistent with our stock-selection methodology, we're waiting for an improvement in the firm's technical/momentum indicators before considering opening a position in either of our actively-managed portfolios. The opportunity may come sooner rather than later; we're keeping a close eye on shares.

Industrial Conglomerates Dominate News

By Brian Nelson, CFA

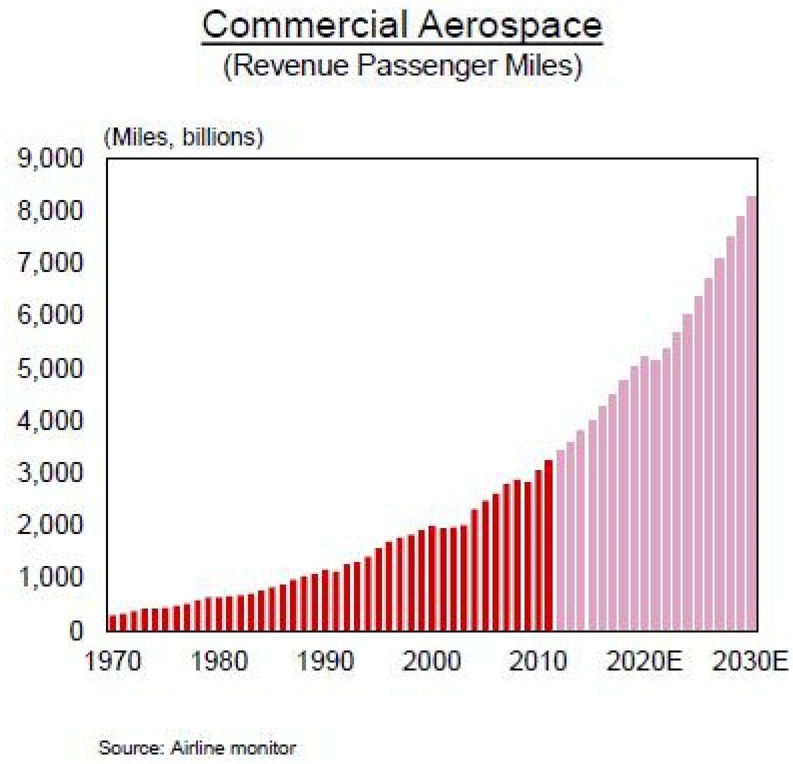
Recently there has been a plethora of news from the 'Industrial Conglomerates' industry. General Electric (GE)—3.2% annual dividend yield—announced a 16% increase to its quarterly dividend to $0.22 per share. The industrial behemoth was just added to the portfolio of our Dividend Growth Newsletter October 21 on account of its fantastic Dividend Cushion score and solid third-quarter performance. General Electric's dividend report will be updated with the new information shortly.

Honeywell (HON)—2.0% annual dividend yield—approved an authorization to repurchase up to $5 billion of its common stock, now that the firm's previous $3 billion share repurchase program approved in 2011 is substantially complete. We encourage Honeywell management to be a bit cautious buying back shares at current levels on the basis of our estimate of the firm's intrinsic value and the undeniable cyclicality of its operations. We'd prefer management to hang on to cash and buy shares back aggressively during the next economic downturn, which will inevitably come.

Please see *Industrial Conglomerates…*on next page

*Industrial Conglomerates…*from previous page

United Technologies (UTX)—2.1% annual dividend yield—provided an investor update. The company noted that it continues to face some pressure in the European commercial and military aerospace end markets, but that commercial aerospace aftermarket demand remains strong. Restructuring expenses at the firm will be a bit higher than previously estimated, but the company is positioned extremely well over the long haul. By doubling down on aerospace with its Goodrich acquisition, the company has gained even greater exposure to the burgeoning trend of increased air travel. Revenue passenger miles, an airline industry-specific measure of passenger demand, are expected to increase exponentially in coming years as the emerging middle-classes in Brazil, Russia, India, and China (BRIC) start to experience air travel for both work and leisure.



Commercial Aerospace

(Revenue Passenger Miles)

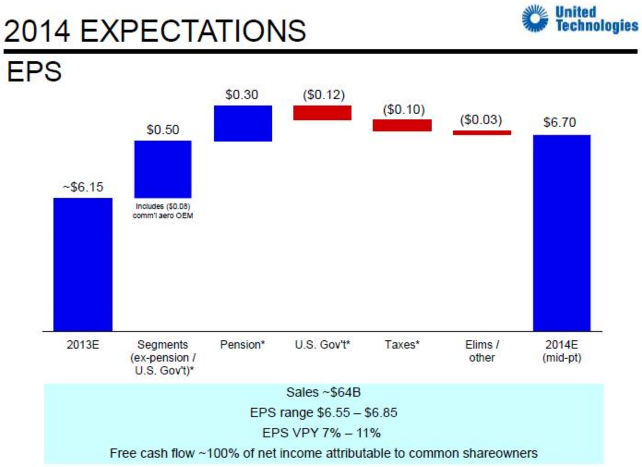
Source: Airline monitor

Image Source: United Technologies

United Technologies' outlook for 2014 was encouraging, with top-line expansion expected in all major end markets, with the exception of the US government, the latter largely expected due to competing budget priorities. On an organic basis, sales are expected to expand 4%-5% in 2014, excluding the impact of declining military revenues, or 3%-4% all-in. Earnings per share are expected to be in the range of $6.55-$6.85, though our estimates indicate there may be some upside to this number. Free cash flow will remain strong as well, estimated to be 100% of net income.

Please see *Industrial Conglomerates…*on next page

*Industrial Conglomerates…*from previous page



Sales ~$64B
EPS range $6.55 – $6.85
EPS VPY 7% – 11%
Free cash flow ~100% of net income attributable to common shareowners

Image Source: United Technologies

Valuentum's Take

General Electric's dividend increase may have been a surprise to some, but its recent fundamental performance has been the best in years, and we certainly wanted to gain exposure before dividend growth starts to accelerate. Though United Technologies' outlook for 2014 is slightly lower than our expectations, we are enthused at the potential for upside and think the company's decision to double-down on commercial aerospace exposure will prove to be the right move over the long haul. Honeywell's buyback program is great news in that it showcases the firm's strong cash-flow potential, but we encourage management to be selective in picking its points to be actively buying its company stock. There will be a better time. All-in, our favorite idea in the 'Industrial Conglomerates' industry is General Electric, which is a holding in both of our actively-managed portfolios.

Oracle Steals the Headlines

By Valuentum Analysts

December was a busy month for Oracle (ORCL)—1.3% annual dividend yield. On December 18, the tech giant reported fiscal second-quarter results that showed non-GAAP revenue advance 2% (up 3%, excluding the impact from the strengthening US dollar). Non-GAAP new software licenses and cloud software subscription revenues fell modestly (though it annualized a high-teens growth rate in the year-ago period), while non-GAAP new software license updates and product support revenues jumped 6%. Hardware Systems revenues, including hardware systems products and hardware systems support, were essentially unchanged.

Non-GAAP operating income fell modestly on a still-very-healthy non-GAAP operating margin of 46%. Non-GAAP net income nudged 1% higher, but share buybacks bolstered non-GAAP earnings per share expansion to 9%, excluding the impact from a strengthening US dollar. **The company generated GAAP operating cash flow of $15.2 billion on a trailing twelve-month basis - the first time Oracle has ever reached the $15+ billion mark.** At the end of the quarter, Oracle held $37 billion in cash and marketable securities compared to roughly $24.2 billion in short and long-term debt. Looking ahead, the firm issued an in-line outlook for the fiscal third quarter:

Please see *Oracle Steals the Headlines…*on next page

*Oracle Steals the Headlines…*from previous page

> New software license and cloud subscription revenue is expected to range from 2% to 12% in constant currency and 1% to 11% in reported dollars. Hardware product revenue growth is expected to range from a negative 1% to a positive 9% in constant dollars and negative 2% to a positive 8% in reported dollars. As a result, total revenue growth on GAAP and non-GAAP basis is expected to range from 3% to 7% in constant dollars and 2% to 6% in U.S. dollars. Non-GAAP EPS is expected to be somewhere between $0.68 and $0.72 in constant and reported dollars. GAAP EPS is expected to be somewhere between $0.54 to $0.58 in constant dollars and in reported dollars. Now, this guidance assumes a GAAP tax rate of 23% and a non-GAAP tax rate of 24%, and of course that may end up being different.

Though Oracle's outlook was certainly welcome, the biggest news came with the announcement that it had entered into an agreement to acquire Responsys (MKTG), a leading provider of enterprise-scale cloud-based B2C marketing software for $27 per share in cash or approximately $1.5 billion. Responsys is used by B2C firms to manage marketing interactions across email, mobile, social, display and the web. It remains to be seen whether SAP (SAP) —0.9% annual dividend yield—will make a counter offer, but if the entity eventually ends up in the Oracle umbrella, it will significantly bolster the firm's Customer Experience Cloud offering. Both Salesforce.com (CRM) and Adobe (ADBE) recently reinforced their positions in the cloud, picking up ExactTarget and Neolane, respectively.

Valuentum's Take

Oracle put up its best trailing twelve-month operating cash flow measure in history when it posted fiscal second-quarter results December 18. The company's outlook was welcome news, and the bolstering of its Customer Experience Cloud offering via its acquisition of Responsys has improved its competitive position and growth prospects. We think shares of Oracle are worth more than $40 each, representing modest upside to its current market price of $36 at the time of this writing. Though its dividend yield isn't as high as a few of its tech giant peers, the prospect of substantial dividend growth at Oracle is strong.

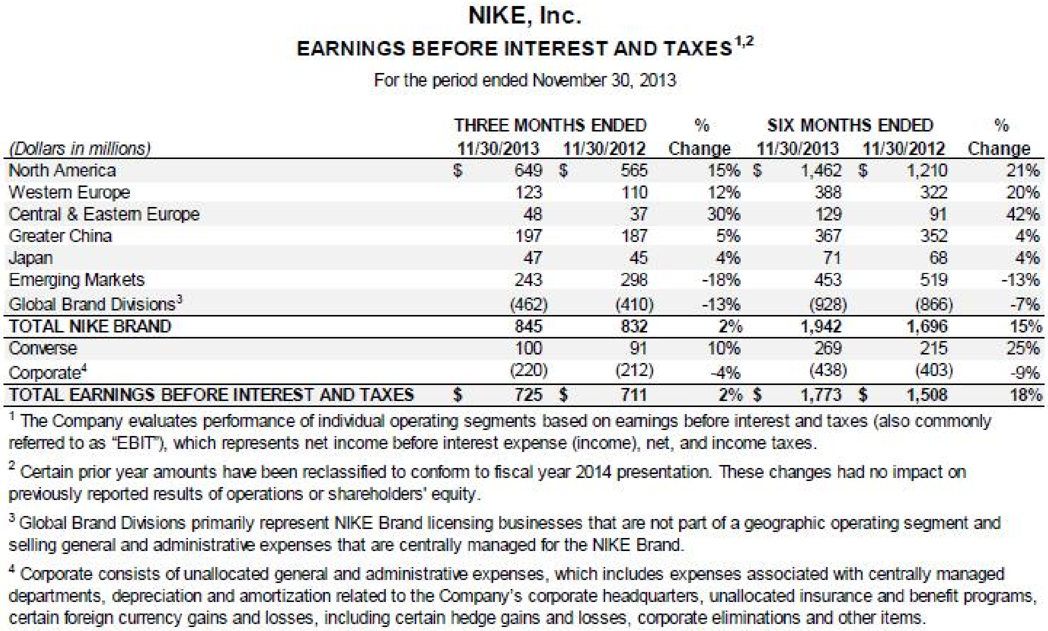
Nike's Earnings Expansion Will Continue to Be Challenged

By Brian Nelson, CFA

Nike (NKE)—1.2% annual dividend yield—reported strong fiscal second-quarter results. Revenue expanded 8% during the period (9% on a currency neutral basis), while diluted earnings per share from continuing operations nudged 4% higher, to $0.59 per share. Sales at its Nike brand expanded in every product type, geography and key category. Sales in its Converse brand advanced 11% on a currency-neutral basis thanks to strong performance in its largest owned markets. Though we liked that gross margins advanced 140 basis points in the period thanks to a mix of higher-margin products, higher prices, and lower input costs, selling and administrative expenses leapt 14%, exceeding the pace of revenue growth. Earnings before interest and taxes for the three months ended November 30, 2013, advanced just 2% (shown on next page), which wasn't much to write home about. Demand creation expense and operating overhead expense growth continue to be key earnings headwinds, and emerging markets performance could have been better during the period.

Please see *Nike's Earnings Expansion…*on next page

*Nike's Earnings Expansion…*from previous page



NIKE, Inc.

EARNINGS BEFORE INTEREST AND TAXES[1,2]

For the period ended November 30, 2013

	THREE MONTHS ENDED		%	SIX MONTHS ENDED		%
(Dollars in millions)	11/30/2013	11/30/2012	Change	11/30/2013	11/30/2012	Change
North America	$ 649	$ 565	15%	$ 1,462	$ 1,210	21%
Western Europe	123	110	12%	388	322	20%
Central & Eastern Europe	48	37	30%	129	91	42%
Greater China	197	187	5%	367	352	4%
Japan	47	45	4%	71	68	4%
Emerging Markets	243	298	-18%	453	519	-13%
Global Brand Divisions[3]	(462)	(410)	-13%	(928)	(866)	-7%
TOTAL NIKE BRAND	**845**	**832**	**2%**	**1,942**	**1,696**	**15%**
Converse	100	91	10%	269	215	25%
Corporate[4]	(220)	(212)	-4%	(438)	(403)	-9%
TOTAL EARNINGS BEFORE INTEREST AND TAXES	**$ 725**	**$ 711**	**2%**	**$ 1,773**	**$ 1,508**	**18%**

[1] The Company evaluates performance of individual operating segments based on earnings before interest and taxes (also commonly referred to as "EBIT"), which represents net income before interest expense (income), net, and income taxes.

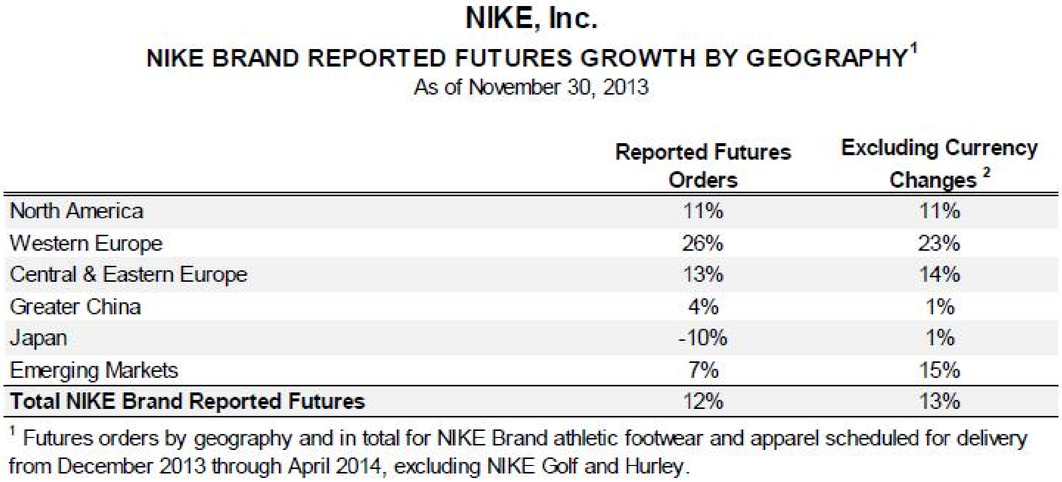
[2] Certain prior year amounts have been reclassified to conform to fiscal year 2014 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

[3] Global Brand Divisions primarily represent NIKE Brand licensing businesses that are not part of a geographic operating segment and selling general and administrative expenses that are centrally managed for the NIKE Brand.

[4] Corporate consists of unallocated general and administrative expenses, which includes expenses associated with centrally managed departments, depreciation and amortization related to the Company's corporate headquarters, unallocated insurance and benefit programs, certain foreign currency gains and losses, including certain hedge gains and losses, corporate eliminations and other items.

Image Source: Nike

Nike's worldwide futures orders jumped 12%, a pace faster than revenue growth. Though Nike discloses that the reported futures and advance orders growth is not necessarily indicative of its expectation of revenue due to potential cancelations, the number bodes well for future top-line expansion, in our view. Nike brand wholesale unit inventories advanced 7% to meet the expected increase in demand, while total inventories swelled 11% from the level at the end of the year-ago period. Futures growth, excluding currency changes, was strong in Western Europe (up 23%), Central & Eastern Europe (up 14%) and North America (up 11%), as shown below, but the performance was meager in China and Japan, which registered just 1% total expansion.



NIKE, Inc.

NIKE BRAND REPORTED FUTURES GROWTH BY GEOGRAPHY[1]

As of November 30, 2013

	Reported Futures Orders	Excluding Currency Changes[2]
North America	11%	11%
Western Europe	26%	23%
Central & Eastern Europe	13%	14%
Greater China	4%	1%
Japan	-10%	1%
Emerging Markets	7%	15%
Total NIKE Brand Reported Futures	12%	13%

[1] Futures orders by geography and in total for NIKE Brand athletic footwear and apparel scheduled for delivery from December 2013 through April 2014, excluding NIKE Golf and Hurley.

Image Source: Nike

Please see *Nike's Earnings Expansion…*on next page

*Nike's Earnings Expansion…*from previous page

Looking ahead, Nike's revenue outlook matched the strength revealed by its futures orders expansion, but the firm continued to warn about cost pressures, almost across the board.

> …we expect revenue for Q3 to grow at a high-single digit to low-double digit rate and Q4 to grow at a low double-digit rate, reflecting the weighting of futures orders to the back half of the futures window. For the full year, we expect revenue to grow at a high-single to low-double digit rate. Gross margin for the first half of the fiscal year exceeded our expectations as we saw a mix shift to higher margin products, higher average selling prices and continued strength in our DTC business.
>
> While we expect these factors will continue to drive margin expansion in the second half of the fiscal year, **we will be facing new pressures as raw material costs shift from tailwinds to headwinds and we increase discounts to clear pockets of excess inventory. We also expect to face continued pressure from labor costs and foreign exchange.** As a result, we expect gross margin to expand by about 25 basis points in each of Q3 and Q4. For full year FY'14, we now expect gross margin expansion of approximately 75 basis points.

Valuentum's Take

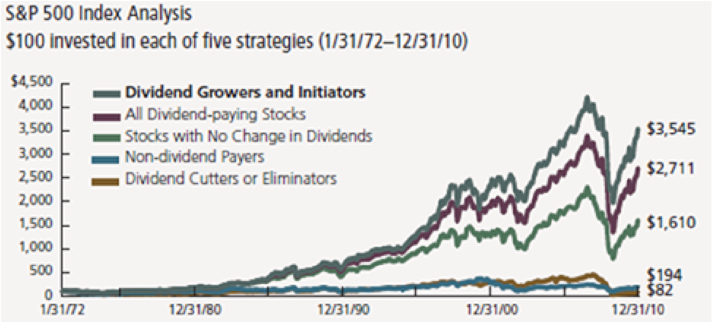
We don't think product extension or performance innovation is the challenge for Nike. The company's revenue outlook speaks to a very robust demand profile, but cost pressures appear to be mounting, and both fiscal second-quarter results and the company's outlook suggest the earnings environment remains challenged. We like Nike and point to the company as one of the most powerful brands in our coverage, but shares aren't cheap at current levels.

About Our 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.

The Outperformance of Dividend Payers Over Time



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.

In fact, one only has to look over the past few years to see the removal of such big names from the Dividend Aristocrat List like General Electric (GE) and Pfizer (PFE) 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. We want to find the 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.

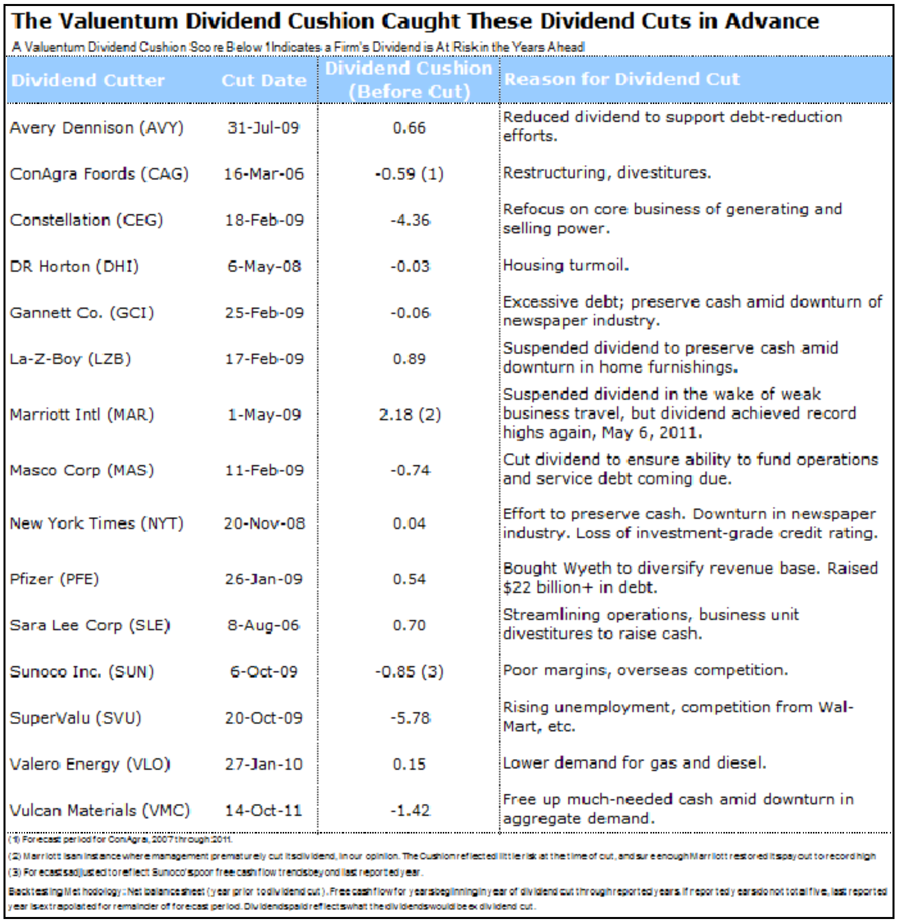
Please see *About Our Valuentum Dividend Cushion…*on next page

*About Our Valuentum Dividend Cushion…*from previous page

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 and adds that to its forecasted future free cash flows 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 fact, the Valuentum Dividend Cushion™ would have caught every dividend cut made by a non-financial, operating firm that we have in our database, except for one (Marriott). But interestingly, our 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 our 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 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) Forecasts 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. Plus, we not only provide the actual Valuentum Dividend Cushion™ number for our subscribers in our dividend reports and newsletter, but we also scale the safety of a firm's dividend 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

But What about the Growth of a Firm's Dividend?

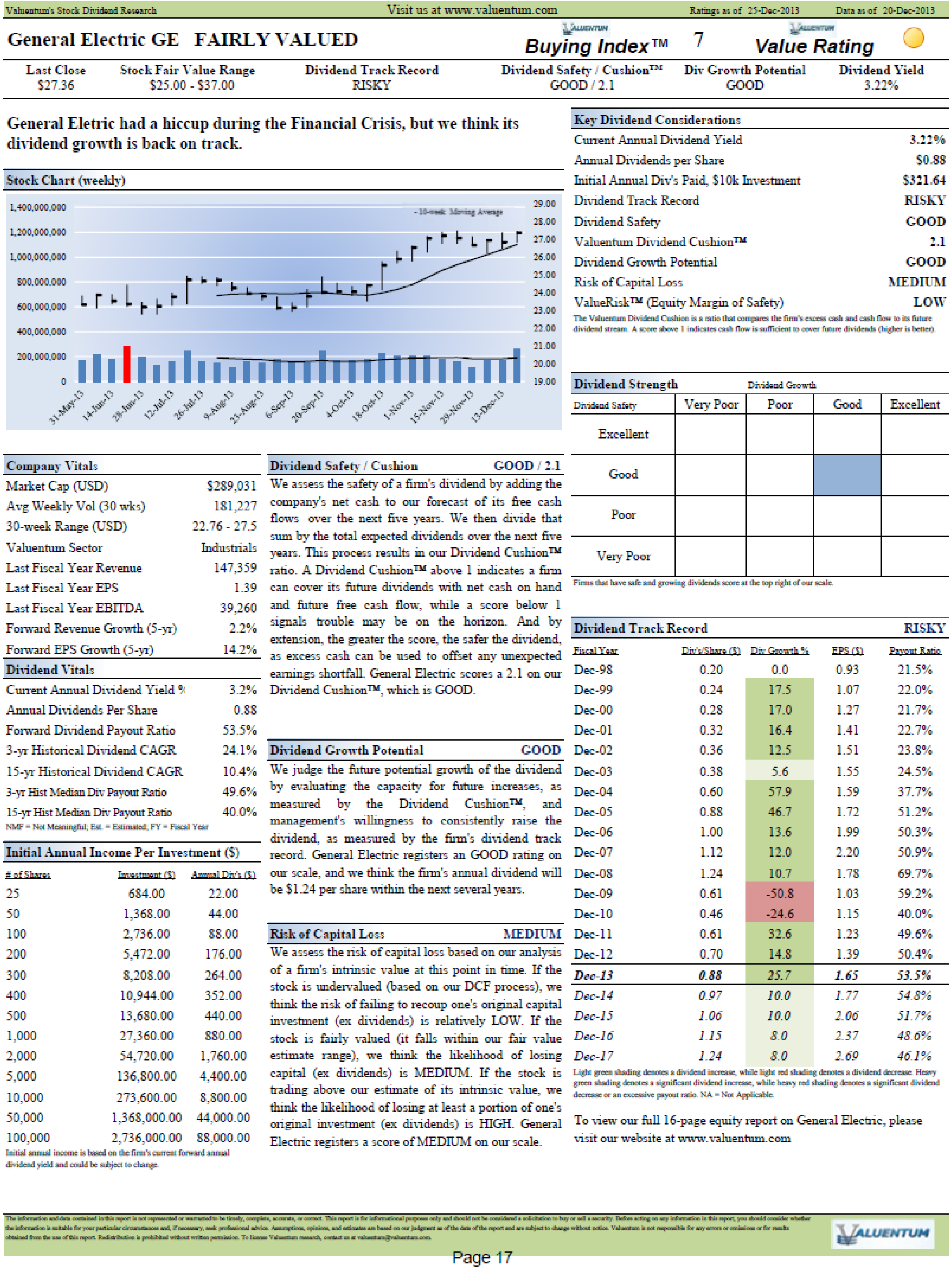
It takes time to accumulate wealth through dividends, so dividend growth investing requires a long-term perspective. As a result, we assess the long-term future growth potential of a firm's dividend. And we don't just take management's word for what they will do with their dividend. Instead, we dive into the financial statements and make our own forecasts of the future to see if what they're saying is actually achievable. We use our 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.

Plus, we don't use fancy language for what we think of its future growth. We scale our 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.



Valuentum's Stock Dividend Research Visit us at www.valuentum.com Ratings as of 25-Dec-2013 Data as of 20-Dec-2013

General Electric GE FAIRLY VALUED

Buying Index™ 7 **Value Rating** ●

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$27.36	$25.00 - $37.00	RISKY	GOOD / 2.1	GOOD	3.22%

General Eletric had a hiccup during the Financial Crisis, but we think its dividend growth is back on track.

Stock Chart (weekly)

Company Vitals	
Market Cap (USD)	$289,031
Avg Weekly Vol (30 wks)	181,227
30-week Range (USD)	22.76 - 27.5
Valuentum Sector	Industrials
Last Fiscal Year Revenue	147,359
Last Fiscal Year EPS	1.39
Last Fiscal Year EBITDA	39,260
Forward Revenue Growth (5-yr)	2.2%
Forward EPS Growth (5-yr)	14.2%

Dividend Vitals	
Current Annual Dividend Yield %	3.2%
Annual Dividends Per Share	0.88
Forward Dividend Payout Ratio	53.5%
3-yr Historical Dividend CAGR	24.1%
15-yr Historical Dividend CAGR	10.4%
3-yr Hist Median Div Payout Ratio	49.6%
15-yr Hist Median Div Payout Ratio	40.0%

NMF = Not Meaningful, Est. = Estimated, FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	684.00	22.00
50	1,368.00	44.00
100	2,736.00	88.00
200	5,472.00	176.00
300	8,208.00	264.00
400	10,944.00	352.00
500	13,680.00	440.00
1,000	27,360.00	880.00
2,000	54,720.00	1,760.00
5,000	136,800.00	4,400.00
10,000	273,600.00	8,800.00
50,000	1,368,000.00	44,000.00
100,000	2,736,000.00	88,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion GOOD / 2.1

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. General Electric scores a 2.1 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential GOOD

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. General Electric registers an GOOD rating on our scale, and we think the firm's annual dividend will be $1.24 per share within the next several years.

Risk of Capital Loss MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. General Electric registers a score of MEDIUM on our scale.

Key Dividend Considerations	
Current Annual Dividend Yield	3.22%
Annual Dividends per Share	$0.88
Initial Annual Div's Paid, $10k Investment	$321.64
Dividend Track Record	RISKY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.1
Dividend Growth Potential	GOOD
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	LOW

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength

	Dividend Growth			
Dividend Safety	Very Poor	Poor	Good	Excellent
Excellent				
Good			▨	
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record RISKY

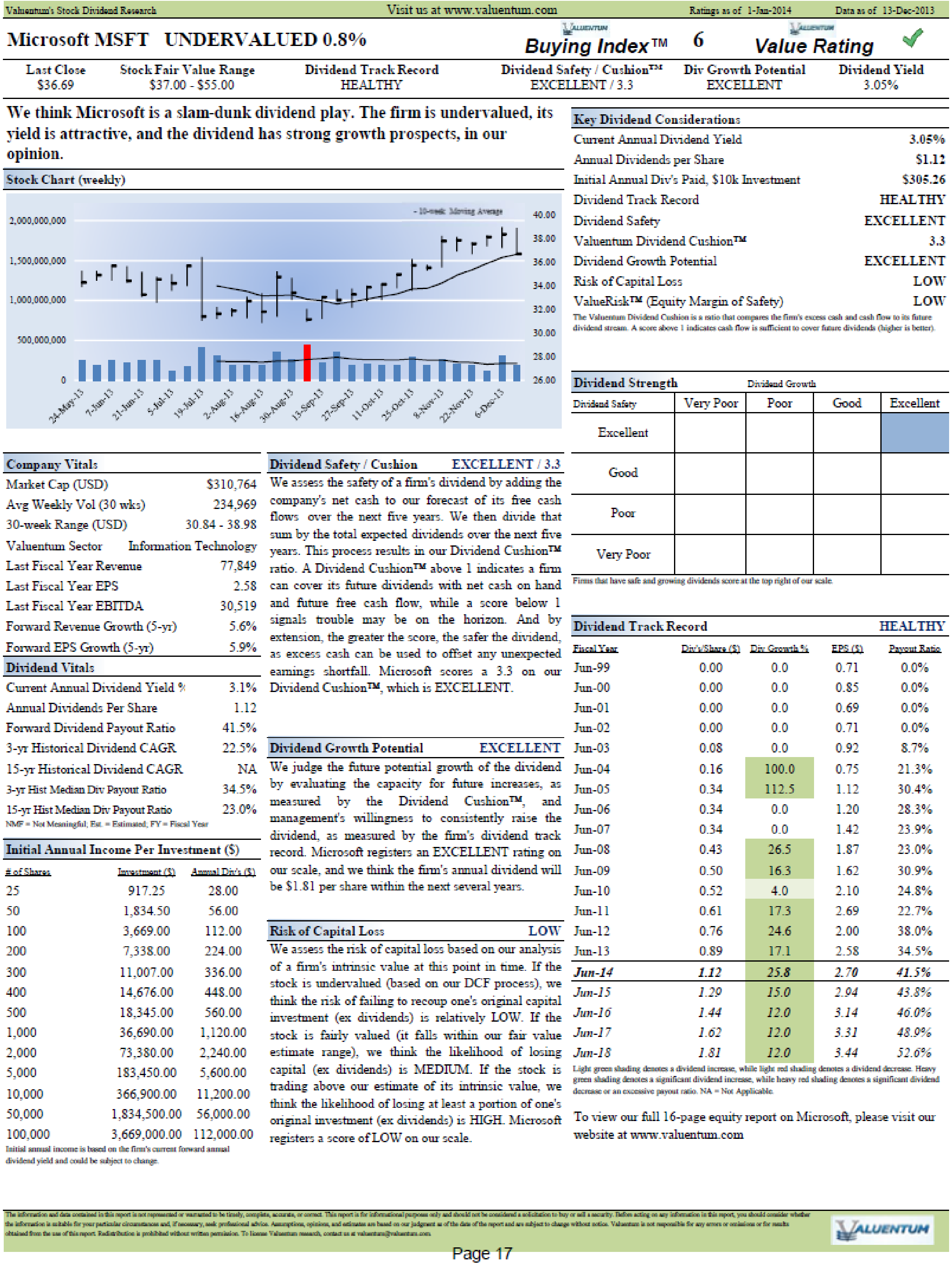
Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-98	0.20	0.0	0.93	21.5%
Dec-99	0.24	17.5	1.07	22.0%
Dec-00	0.28	17.0	1.27	21.7%
Dec-01	0.32	16.4	1.41	22.7%
Dec-02	0.36	12.5	1.51	23.8%
Dec-03	0.38	5.6	1.55	24.5%
Dec-04	0.60	57.9	1.59	37.7%
Dec-05	0.88	46.7	1.72	51.2%
Dec-06	1.00	13.6	1.99	50.3%
Dec-07	1.12	12.0	2.20	50.9%
Dec-08	1.24	10.7	1.78	69.7%
Dec-09	0.61	-50.8	1.03	59.2%
Dec-10	0.46	-24.6	1.15	40.0%
Dec-11	0.61	32.6	1.23	49.6%
Dec-12	0.70	14.8	1.39	50.4%
Dec-13	***0.88***	***25.7***	***1.65***	***53.5%***
Dec-14	*0.97*	*10.0*	*1.77*	*54.8%*
Dec-15	*1.06*	*10.0*	*2.06*	*51.7%*
Dec-16	*1.15*	*8.0*	*2.37*	*48.6%*
Dec-17	*1.24*	*8.0*	*2.69*	*46.1%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on General Electric, please visit our website at www.valuentum.com

Please select the following link to view the full 16-page report:

http://www.valuentum.com/categories/20110609



Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 1-Jan-2014 | Data as of 13-Dec-2013

Microsoft MSFT UNDERVALUED 0.8%

Buying Index™ 6 **Value Rating** ✓

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$36.69	$37.00 - $55.00	HEALTHY	EXCELLENT / 3.3	EXCELLENT	3.05%

We think Microsoft is a slam-dunk dividend play. The firm is undervalued, its yield is attractive, and the dividend has strong growth prospects, in our opinion.

Stock Chart (weekly)

Key Dividend Considerations

Current Annual Dividend Yield	3.05%
Annual Dividends per Share	$1.12
Initial Annual Div's Paid, $10k Investment	$305.26
Dividend Track Record	HEALTHY
Dividend Safety	EXCELLENT
Valuentum Dividend Cushion™	3.3
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	LOW
ValueRisk™ (Equity Margin of Safety)	LOW

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength

Dividend Growth

Dividend Safety	Very Poor	Poor	Good	Excellent
Excellent				▨
Good				
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Company Vitals

Market Cap (USD)	$310,764
Avg Weekly Vol (30 wks)	234,969
30-week Range (USD)	30.84 - 38.98
Valuentum Sector	Information Technology
Last Fiscal Year Revenue	77,849
Last Fiscal Year EPS	2.58
Last Fiscal Year EBITDA	30,519
Forward Revenue Growth (5-yr)	5.6%
Forward EPS Growth (5-yr)	5.9%

Dividend Vitals

Current Annual Dividend Yield %	3.1%
Annual Dividends Per Share	1.12
Forward Dividend Payout Ratio	41.5%
3-yr Historical Dividend CAGR	22.5%
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	34.5%
15-yr Hist Median Div Payout Ratio	23.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	917.25	28.00
50	1,834.50	56.00
100	3,669.00	112.00
200	7,338.00	224.00
300	11,007.00	336.00
400	14,676.00	448.00
500	18,345.00	560.00
1,000	36,690.00	1,120.00
2,000	73,380.00	2,240.00
5,000	183,450.00	5,600.00
10,000	366,900.00	11,200.00
50,000	1,834,500.00	56,000.00
100,000	3,669,000.00	112,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion EXCELLENT / 3.3

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Microsoft scores a 3.3 on our Dividend Cushion™, which is EXCELLENT.

Dividend Growth Potential EXCELLENT

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Microsoft registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $1.81 per share within the next several years.

Risk of Capital Loss LOW

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Microsoft registers a score of LOW on our scale.

Dividend Track Record HEALTHY

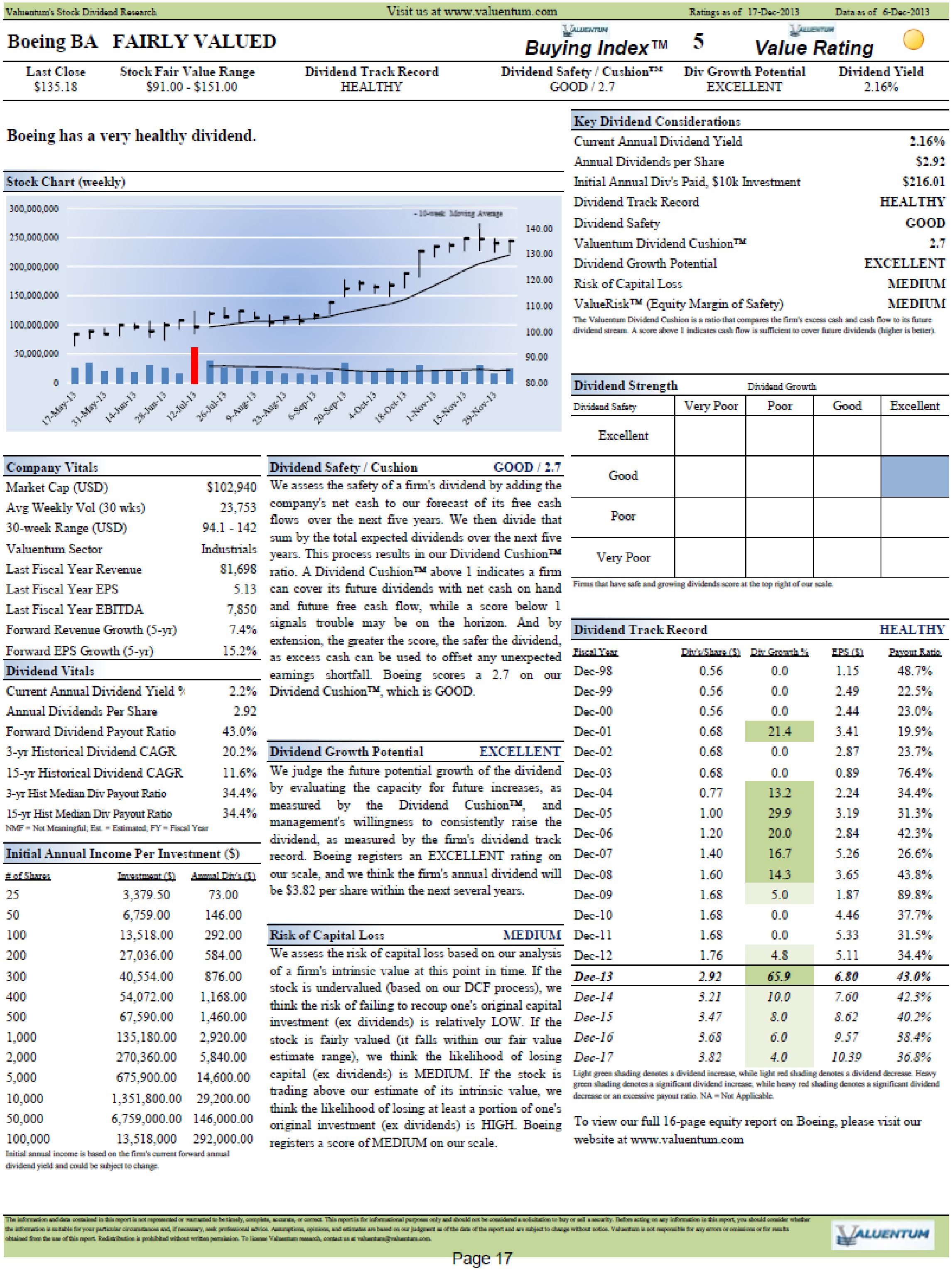
Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Jun-99	0.00	0.0	0.71	0.0%
Jun-00	0.00	0.0	0.85	0.0%
Jun-01	0.00	0.0	0.69	0.0%
Jun-02	0.00	0.0	0.71	0.0%
Jun-03	0.08	0.0	0.92	8.7%
Jun-04	0.16	100.0	0.75	21.3%
Jun-05	0.34	112.5	1.12	30.4%
Jun-06	0.34	0.0	1.20	28.3%
Jun-07	0.34	0.0	1.42	23.9%
Jun-08	0.43	26.5	1.87	23.0%
Jun-09	0.50	16.3	1.62	30.9%
Jun-10	0.52	4.0	2.10	24.8%
Jun-11	0.61	17.3	2.69	22.7%
Jun-12	0.76	24.6	2.00	38.0%
Jun-13	0.89	17.1	2.58	34.5%
Jun-14	*1.12*	*25.8*	*2.70*	*41.5%*
Jun-15	*1.29*	*15.0*	*2.94*	*43.8%*
Jun-16	*1.44*	*12.0*	*3.14*	*46.0%*
Jun-17	*1.62*	*12.0*	*3.31*	*48.9%*
Jun-18	*1.81*	*12.0*	*3.44*	*52.6%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Microsoft, please visit our website at www.valuentum.com

Please select the following link to view the full 16-page report:

http://www.valuentum.com/categories/20110609



Boeing BA FAIRLY VALUED

Buying Index™ 5 **Value Rating** ●

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$135.18	$91.00 - $151.00	HEALTHY	GOOD / 2.7	EXCELLENT	2.16%

Boeing has a very healthy dividend.

Stock Chart (weekly)

Company Vitals	
Market Cap (USD)	$102,940
Avg Weekly Vol (30 wks)	23,753
30-week Range (USD)	94.1 - 142
Valuentum Sector	Industrials
Last Fiscal Year Revenue	81,698
Last Fiscal Year EPS	5.13
Last Fiscal Year EBITDA	7,850
Forward Revenue Growth (5-yr)	7.4%
Forward EPS Growth (5-yr)	15.2%
Dividend Vitals	
Current Annual Dividend Yield %	2.2%
Annual Dividends Per Share	2.92
Forward Dividend Payout Ratio	43.0%
3-yr Historical Dividend CAGR	20.2%
15-yr Historical Dividend CAGR	11.6%
3-yr Hist Median Div Payout Ratio	34.4%
15-yr Hist Median Div Payout Ratio	34.4%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	3,379.50	73.00
50	6,759.00	146.00
100	13,518.00	292.00
200	27,036.00	584.00
300	40,554.00	876.00
400	54,072.00	1,168.00
500	67,590.00	1,460.00
1,000	135,180.00	2,920.00
2,000	270,360.00	5,840.00
5,000	675,900.00	14,600.00
10,000	1,351,800.00	29,200.00
50,000	6,759,000.00	146,000.00
100,000	13,518,000	292,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion **GOOD / 2.7**

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Boeing scores a 2.7 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential **EXCELLENT**

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Boeing registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $3.82 per share within the next several years.

Risk of Capital Loss **MEDIUM**

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Boeing registers a score of MEDIUM on our scale.

Key Dividend Considerations	
Current Annual Dividend Yield	2.16%
Annual Dividends per Share	$2.92
Initial Annual Div's Paid, $10k Investment	$216.01
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.7
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	MEDIUM

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength

	Dividend Growth			
Dividend Safety	Very Poor	Poor	Good	Excellent
Excellent				
Good				■
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record **HEALTHY**

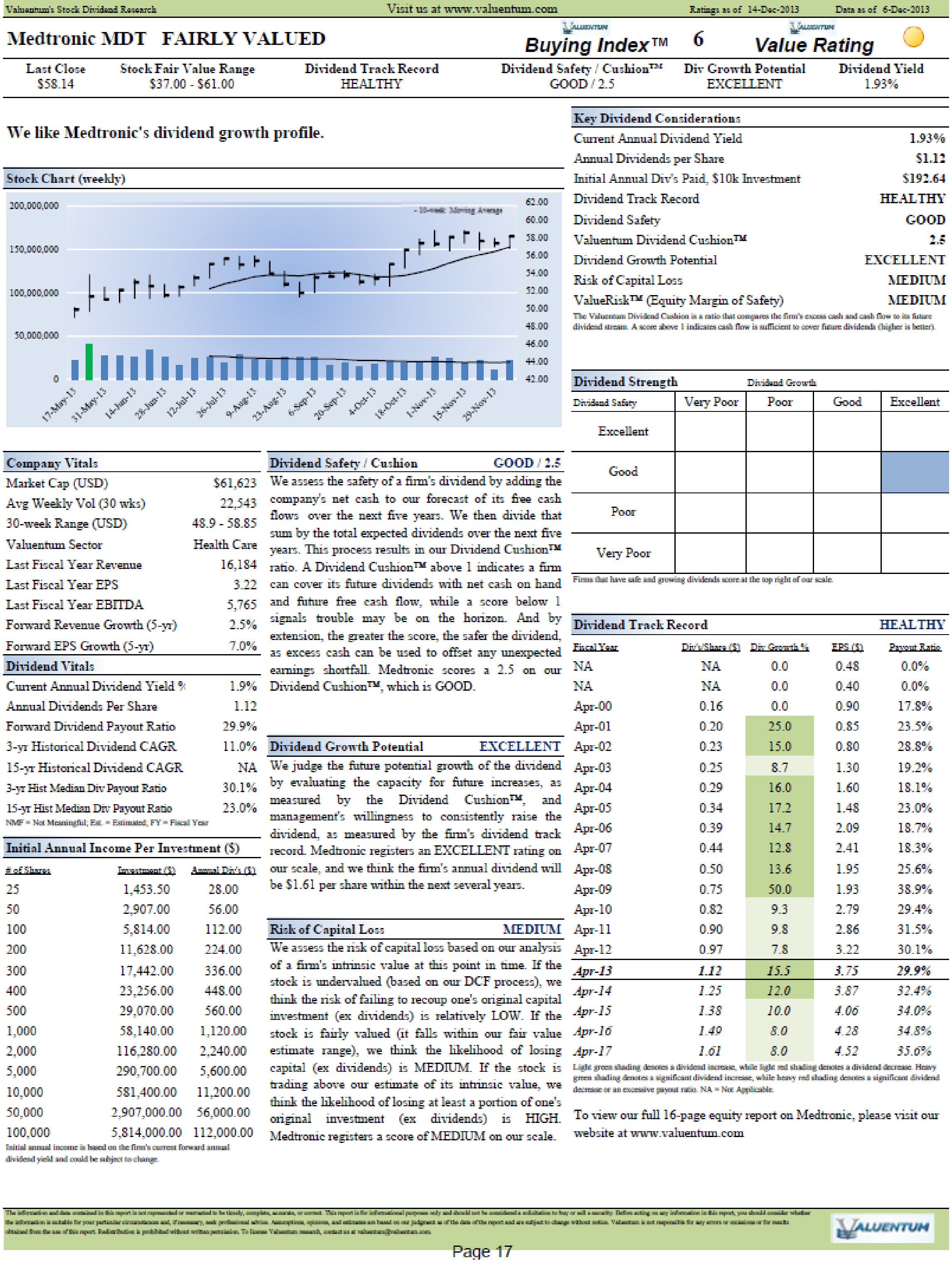
Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-98	0.56	0.0	1.15	48.7%
Dec-99	0.56	0.0	2.49	22.5%
Dec-00	0.56	0.0	2.44	23.0%
Dec-01	0.68	21.4	3.41	19.9%
Dec-02	0.68	0.0	2.87	23.7%
Dec-03	0.68	0.0	0.89	76.4%
Dec-04	0.77	13.2	2.24	34.4%
Dec-05	1.00	29.9	3.19	31.3%
Dec-06	1.20	20.0	2.84	42.3%
Dec-07	1.40	16.7	5.26	26.6%
Dec-08	1.60	14.3	3.65	43.8%
Dec-09	1.68	5.0	1.87	89.8%
Dec-10	1.68	0.0	4.46	37.7%
Dec-11	1.68	0.0	5.33	31.5%
Dec-12	1.76	4.8	5.11	34.4%
Dec-13	***2.92***	***65.9***	***6.80***	***43.0%***
Dec-14	*3.21*	*10.0*	*7.60*	*42.3%*
Dec-15	*3.47*	*8.0*	*8.62*	*40.2%*
Dec-16	*3.68*	*6.0*	*9.57*	*38.4%*
Dec-17	*3.82*	*4.0*	*10.39*	*36.8%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Boeing, please visit our website at www.valuentum.com

Please select the following link to view the full 16-page report:

http://www.valuentum.com/categories/20110609



Valuentum's Stock Dividend Research Visit us at www.valuentum.com Ratings as of 14-Dec-2013 Data as of 6-Dec-2013

Medtronic MDT FAIRLY VALUED

Buying Index™ 6 Value Rating ●

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$58.14	$37.00 - $61.00	HEALTHY	GOOD / 2.5	EXCELLENT	1.93%

We like Medtronic's dividend growth profile.

Stock Chart (weekly)

Company Vitals	
Market Cap (USD)	$61,623
Avg Weekly Vol (30 wks)	22,543
30-week Range (USD)	48.9 - 58.85
Valuentum Sector	Health Care
Last Fiscal Year Revenue	16,184
Last Fiscal Year EPS	3.22
Last Fiscal Year EBITDA	5,765
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	7.0%

Dividend Vitals	
Current Annual Dividend Yield %	1.9%
Annual Dividends Per Share	1.12
Forward Dividend Payout Ratio	29.9%
3-yr Historical Dividend CAGR	11.0%
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	30.1%
15-yr Hist Median Div Payout Ratio	23.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,453.50	28.00
50	2,907.00	56.00
100	5,814.00	112.00
200	11,628.00	224.00
300	17,442.00	336.00
400	23,256.00	448.00
500	29,070.00	560.00
1,000	58,140.00	1,120.00
2,000	116,280.00	2,240.00
5,000	290,700.00	5,600.00
10,000	581,400.00	11,200.00
50,000	2,907,000.00	56,000.00
100,000	5,814,000.00	112,000.00

Initial annual income is based on the firm's current forward annual dividend yield and could be subject to change.

Dividend Safety / Cushion GOOD / 2.5

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Medtronic scores a 2.5 on our Dividend Cushion™, which is GOOD.

Dividend Growth Potential EXCELLENT

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Medtronic registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $1.61 per share within the next several years.

Risk of Capital Loss MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Medtronic registers a score of MEDIUM on our scale.

Key Dividend Considerations	
Current Annual Dividend Yield	1.93%
Annual Dividends per Share	$1.12
Initial Annual Div's Paid, $10k Investment	$192.64
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	2.5
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	MEDIUM

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength Dividend Growth

Dividend Safety	Very Poor	Poor	Good	Excellent
Excellent				
Good				▨
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
NA	NA	0.0	0.48	0.0%
NA	NA	0.0	0.40	0.0%
Apr-00	0.16	0.0	0.90	17.8%
Apr-01	0.20	25.0	0.85	23.5%
Apr-02	0.23	15.0	0.80	28.8%
Apr-03	0.25	8.7	1.30	19.2%
Apr-04	0.29	16.0	1.60	18.1%
Apr-05	0.34	17.2	1.48	23.0%
Apr-06	0.39	14.7	2.09	18.7%
Apr-07	0.44	12.8	2.41	18.3%
Apr-08	0.50	13.6	1.95	25.6%
Apr-09	0.75	50.0	1.93	38.9%
Apr-10	0.82	9.3	2.79	29.4%
Apr-11	0.90	9.8	2.86	31.5%
Apr-12	0.97	7.8	3.22	30.1%
Apr-13	*1.12*	*15.5*	*3.75*	*29.9%*
Apr-14	*1.25*	*12.0*	*3.87*	*32.4%*
Apr-15	*1.38*	*10.0*	*4.06*	*34.0%*
Apr-16	*1.49*	*8.0*	*4.28*	*34.8%*
Apr-17	*1.61*	*8.0*	*4.52*	*35.6%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Medtronic, please visit our website at www.valuentum.com

Please select the following link to view the full 16-page report:

http://www.valuentum.com/categories/20110609

Our Methodology – The Valuentum Buying Index

By Valuentum Analysts

But how, you will ask, does one decide what [stocks are] "attractive"? Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth,"...We view that as fuzzy thinking...Growth is always a component of value [and] the very term "value investing" is redundant.

-- Warren Buffett, Berkshire Hathaway annual report, 1993

At Valuentum, we take Buffett's thoughts one step further. We think the best opportunities arise from a complete understanding of all investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value through momentum investing. We think companies that are attractive from a number of investment perspectives--whether it be growth, value, income, momentum, etc.--have the greatest probability of capital appreciation and relative outperformance. The more deep-pocketed institutional investors that are interested in the stock for reasons based on their respective investment mandates, the more likely it will be bought and the more likely the price will move higher to reflect its true intrinsic value (buying a stock pushes its price higher). On the other hand, we think the worst stocks will be shunned by most investment disciplines and display expensive valuations, poor technicals and deteriorating momentum indicators.

As such, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a score between 1 and 10 for each company (10=best). The VBI places considerable emphasis on a firm's DCF valuation, its relative valuation versus peers (both forward PE and PEG ratios), as well as its technicals in order to help investors pick the best entry and exit points on the most interesting stocks. We believe our methodology helps identify the most attractive stocks at the best time to buy, helping to avoid value traps and lagging performance due to the opportunity cost of holding a stock with great potential but at an inopportune time.

A Rigorous, Discounted Cash Flow Valuation Assessment

Our methodology starts with in-depth financial statement analysis, where we derive our ValueCreation, ValueRisk, and ValueTrend ratings, which together provide a quantitative assessment of the strength of a firm's competitive advantages. After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation drivers) and a cost of debt (considering the firm's capital structure and synthetic credit spread over the risk-free rate), culminating in our estimate of a company's weighted average cost of capital (WACC). We don't use a market price-derived beta, as we embrace market volatility, which provides investors with opportunities to buy attractive stocks at bargain-basement levels.

We assess each company within our complete three-stage free cash flow to the firm (enterprise cash flow) valuation model, which generates an estimate of a company's equity value per share based on its discounted future free cash flows and the company's net balance sheet impact, including other adjustments to equity value (namely pension and OPEB adjustments). Our ValueRisk rating, which considers the underlying uncertainty of the capacity of the firm to continue to generate value for shareholders, sets the margin of safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

Our Methodology – The Valuentum Buying Index **continued on next page**

Our Methodology – The Valuentum Buying Index (cont.)

A Forward-Looking Relative Value Assessment

Our discounted cash-flow process allows us to arrive at an absolute view of the firm's intrinsic value. However, we also understand the critical importance of assessing firms on a relative value basis, versus both their industry and peers. Many institutional money-managers--those that drive stock prices—pay attention to a company's price-to-earnings (PE) ratio and price-earning-to-growth (PEG) ratio in making buy/sell decisions. With this in mind, we have included a forward-looking relative value assessment in our process to further augment our rigorous discounted cash-flow process. If a company is undervalued on both a price-to-earnings ratio and a price-earnings-to-growth (PEG) ratio versus industry peers, we would consider the firm to be attractive from a relative value standpoint.

Avoiding Value Traps and Opportunity Cost

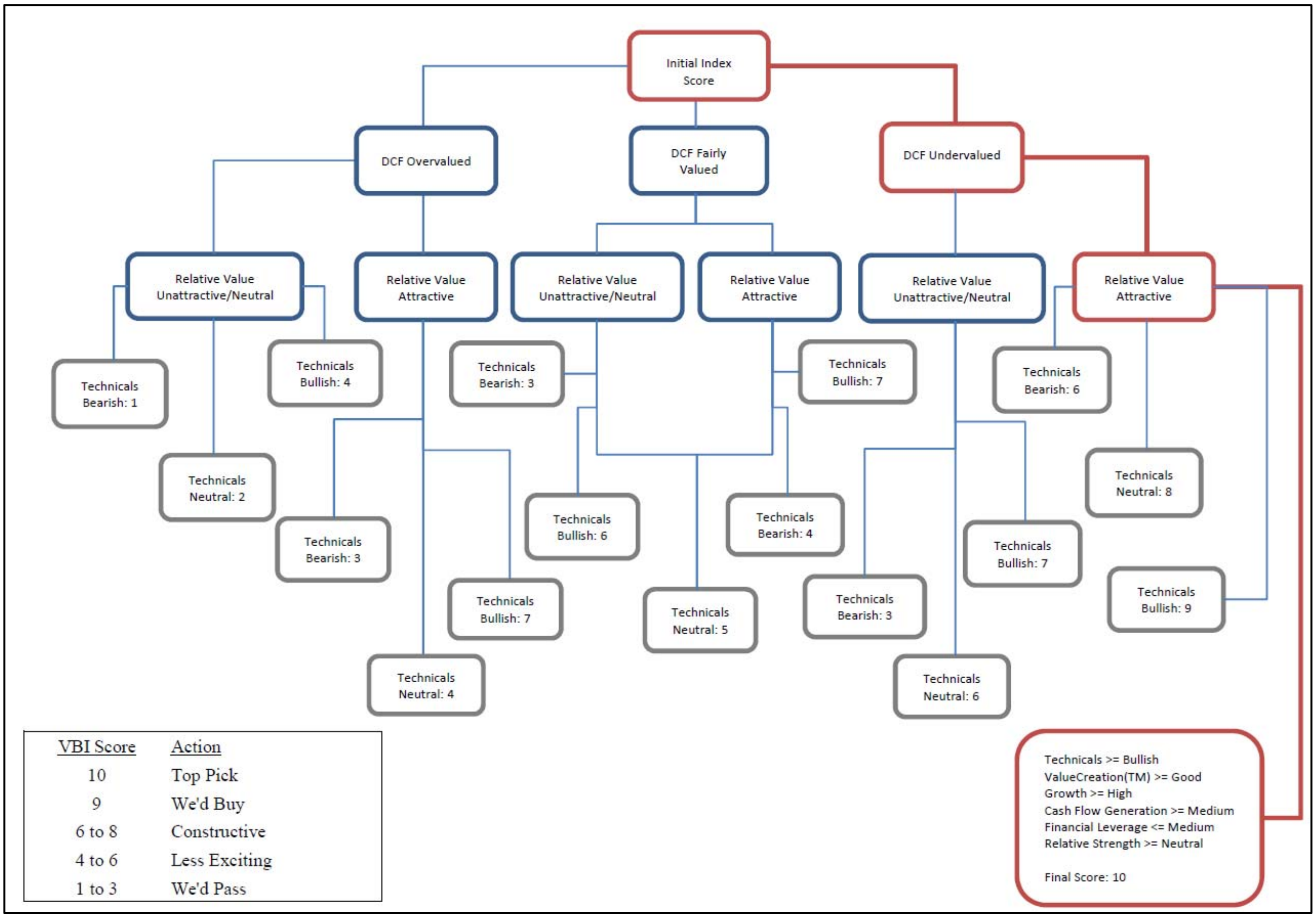
Once we have estimated a firm's intrinsic value on the basis of our discounted cash-flow process, determined if it is undervalued according to its firm-specific margin of safety bands, and assessed whether it has relative value versus industry peers, we then evaluate the company's technical and momentum indicators to pin-point the best entry and exit points on the stock (but only after it meets our stringent valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to our technical and momentum assessment of a company's stock. We embrace the idea that the future is inherently unpredictable and that not all fundamental factors can be included in a valuation model. By extension, we use technical and momentum analysis to help safeguard us against value traps, falling knives, and the opportunity cost of holding an undervalued equity for years before it converges to fair value. Other research firms do not consider opportunity cost as a legitimate expense for investors.

Putting It All Together - the Valuentum Buying Index

Let's follow the red line on the flow chart on the next page to see how a firm can score a 10, the best mark on our index (a "Top Pick"). First, the company would need to be 'UNDERVALUED' on a DCF basis and 'ATTRACTIVE' on a relative value basis. The stock would also have to be exhibiting 'BULLISH' technicals. The firm would need a ValueCreation rating of 'GOOD' or 'EXCELLENT', exhibit 'HIGH' or 'AGGRESSIVE' growth prospects, and generate at least a 'MEDIUM' or 'NEUTRAL' assessment for cash flow generation, financial leverage, and relative price strength.

This is a tall order for any company, but we're looking to deliver the very best of ideas to our clients and subscribers. Firms that don't make the cut for a 10 are ranked accordingly, with the least attractive stocks garnering a score of 1 ("We'd sell"). Most of our coverage universe falls between 3 and 7, but at any given time there could be large number of companies garnering either high or low scores, especially at market lows or tops, respectively.

Our Methodology – The Valuentum Buying Index (cont.)



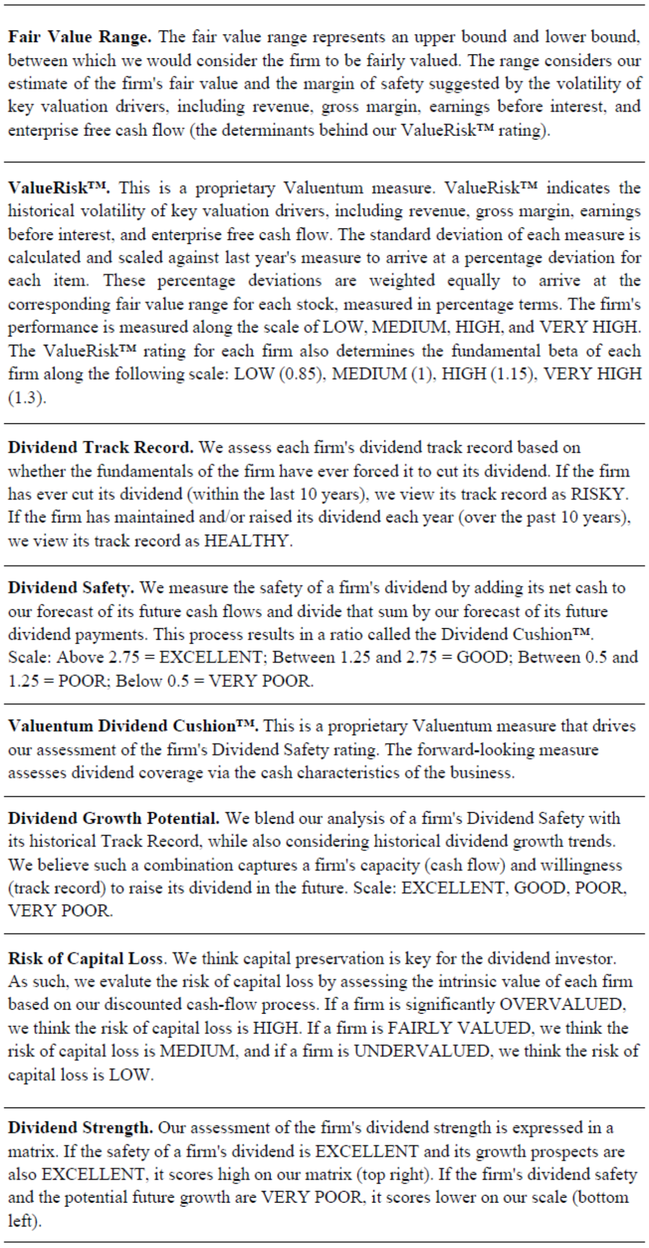
VBI Score	Action
10	Top Pick
9	We'd Buy
6 to 8	Constructive
4 to 6	Less Exciting
1 to 3	We'd Pass

Technicals >= Bullish
ValueCreation(TM) >= Good
Growth >= High
Cash Flow Generation >= Medium
Financial Leverage <= Medium
Relative Strength >= Neutral

Final Score: 10

Valuentum Dividend Growth Newsletter: Volume 3, Issue 1

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).

© 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.