OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Note: KMP has been removed from the portfolio. Please view page 18 for details. The Dividend Growth portfolio is on page 5.

Annualized Return	Annualized Goal	Outperformance
16.7%	Mid-High Single Digits	9.2pts

*Please see note below regarding performance measurement.

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***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 August 1, 2014, the portfolio is significantly exceeding this goal.

The Dividend Dilemma

By Brian Nelson, CFA

Brian Nelson, CFA
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Best Dividend Growth Ideas: MO, AAPL, CVX, EMR, ETP, GE, HAS, INTC, JNJ, MDT, MSFT, PG, PPL, PSX, O

Note: KMP has been removed (see page 18 for details).

One of the core tenets of the Valuentum process not only rests in the all-important price vs. value consideration (see my talk about that at the following link)…

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

…but also in "letting winners run." At first read, these two items appear to be at odds with each other. For example, we preach about getting stocks at a bargain, but yet, we don't sell holdings when they start to move beyond our estimate of their fair value. What gives?

At the Valuentum core, we prefer an entry point that corresponds to the time when shares have substantial valuation and pricing support (i.e. they have high Valuentum Buying Index ratings), and we prefer an exit point when shares have little valuation and pricing support (i.e. they have low Valuentum Buying Index ratings). This is why we add firms to the portfolios when they register a high rating on the index (we consider a high rating a 9 or 10, equivalent to a "we'd consider buying" rating) and remove them when they register a low rating on the index (we consider a low rating a 1 or 2, equivalent to a "we'd consider selling" rating).

The Valuentum process--in scooping up equities at a steep discount to intrinsic value and removing them *only* when *both* a) they become overpriced and b) start to "roll over" (come under selling pressure)--is a strategy that, by definition, creates the largest potential profit for any given idea. The Valuentum strategy doesn't truncate gains as in the case of a pure value strategy, where holdings are sold at fair value or once they become overpriced, and the Valuentum strategy doesn't expose investors to outsize losses when "mo-mo" (momentum) favorites start to roll over as traders and speculators head for the exit in a hurry.

Someone once told me that if you can't explain a concept very simply and in a few words, the concept is probably not worth the time. The Valuentum strategy is very simple: we try to find under**valu**ed stocks with strong mom**entum** characteristics. Said even more simply, we try to find underpriced stocks that are going up. We call these stocks **Valu-entum** stocks. We think the Valuentum strategy meets the 'simple' test.

The concept of "letting winners run" (removing firms only when both criteria a and b are met) has worked extremely well in times of irrational exuberance, or

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Price Is Almost Always Different Than Value

The previous article on page 1 continues on page 19.

By Brian Nelson, CFA

It was January 10, 2000. America Online had just announced that it would acquire Time Warner to create the largest media company. The purchase price amounted to more than $160 billion, and the combined entity was estimated to have a market capitalization of ~$350 billion. The deal was the biggest corporate merger to that date and was expected to launch the next Internet revolution, according to then-CEO of AOL Steve Case. The transaction valued Time Warner at about $108 per share, a huge premium over its price of $64.75 per share the trading session before. AOL's shares closed at $72 the day of the announcement.

Just a couple years later, things were quite different. When it reported full-year 2002 results, AOL posted a $98.7 billion net loss as a result of two massive goodwill write-downs. The yearly loss was made up of a $45.5 billion goodwill charge during the fourth quarter of 2002, which came on top of a $54 billion goodwill charge in the first quarter of the same year. The charges were related to—you guessed it—the merger (primarily tied to the America Online division). Synergies simply never materialized. The net loss was the biggest annual corporate loss in history, and on the day of the yearly earnings release, AOL's shares fell below $13 per share in after-hours trading—a far cry from their bubble peak.

Goodwill is almost never a good thing in accounting. Accounting goodwill is *only* created during the merger and acquisition process (specifically through purchase accounting) when the fair value of the target's assets does not equal the purchase price of the target's assets. The difference between the purchase price and the fair value of the target's assets is added as an intangible asset to the acquirer's balance sheet as goodwill (once the transaction is completed). In the case of the AOL-Time Warner deal, there was a mountain of goodwill added to the combined entity's balance sheet.

Goodwill used to be amortized, but ever since 2001, goodwill is now tested for impairment under US GAAP. If the fair value of a company's asset (as measured by its future cash flows) is less than carrying value of the asset on the balance sheet (i.e. the asset is impaired), the goodwill value on the balance sheet is adjusted lower so the fair value is equal to the carrying value. The impairment loss/charge is reported as a loss on the income statement, and the reduced value of goodwill is updated on the balance sheet.

Generally speaking, when companies take huge charges (write-downs) on assets that they've recently acquired, it is almost always the case that management overpaid for those assets. In the case of AOL-Time Warner, management significantly overpaid. Many still call this transaction the "biggest mistake in corporate history." This example, though extreme, really hits home the price versus value dynamic we hope to instill within readers: price is what you pay for an asset, but value is what you get.

Management teams—just like investors—can overpay for assets, and sometimes badly. This is why our fair value estimates are anchored to projections of free cash flows—not based on speculative merger-and-acquisition euphoria and/or irrational buyout multiple analyses. Each fair value estimate on our website is backed by extensive free cash flow analysis, not 'castles in the air' (1) justifying the next takeover price.

That said, synergies can justify a premium above a company's standalone value, but in many cases, the acquirer has to pay so much for the target that most of the value of the transaction accrues to the target's shareholders—not to the acquiring shareholders. Sometimes, as in the case of AOL-Time Warner, synergies don't come to fruition.

More recently, we've been starting to see management teams get a little too comfortable with wheeling and dealing. In one particular example, we simply couldn't believe the price Pfizer (PFE) was willing to pay for AstraZeneca (AZN).

Please see *Price Different Than Value...*on next page

*Price Different Than Value...*from previous page

Pfizer's willingness to put to use non-US-domiciled cash and re-incorporate in Britain, where it could pay lower taxes, pushed its offer price to nosebleed (and irrational) levels. It seems, however, that there may be no price high enough to please AstraZeneca's board (Pfizer's shareholders were relieved).

The recent surge in the number of tax-inversion deals is certainly starting to turn heads, and we believe management teams are looking. Such a trend could potentially put a premium on the assets of non-US based companies, especially if the political tensions that caused Walgreen's (WAG) to scrap its plans to re-incorporate in Switzerland ease.

AbbVie (ABBV) and Shire, Medtronic (MDT) and Covidien (COV), and Burger King (BKW) and Tim Hortons (THI), are three of the biggest tax-inversion deals that we've seen. Warren Buffett (BRK.A, BRK.B) is reported to be helping finance the Burger King-Tim Hortons transaction, perhaps adding more controversy to the political fire as Washington seeks to close loopholes in the tax code. If the Burger King-Tim Hortons transaction goes through, we would expect more tax-inversion deals to come to light. Many are probably being discussed right this minute in boardrooms across the US.

Absent the Pfizer-AstraZeneca deal that didn't happen, bids have been relatively reasonable thus far, though we contend that most are at the high end of what we would consider a 'reasonable' range. Still, that doesn't mean management teams can't overpay, and the stark reminder of the AOL-Time Warner blunder is worth keeping top of mind as market valuations are bid ever higher. The S&P 500 (SPY) surpassed 2,000 during the trading session Monday, and by default, premiums paid to close deals should be lower, not higher. Today's take-out prices almost speak to the type of premium paid by AOL to close its deal on Time Warner during the dot-com bubble peak.

Unless otherwise stated in a company's 16-page report, the fair value estimates of firms in our coverage universe represent the respective firm's standalone intrinsic value. The high end of the fair value range is a good estimate of what a strategic buyer may be willing to pay for that particular company (factoring in synergies), but in almost all cases, a price above the fair value range is simply difficult to justify. Management teams can certainly pay far above intrinsic value (and the value of synergies) to consummate a deal, but these cases almost always end badly, and we have AOL-Time Warner to remind us of this.

Just remember: price doesn't always equal value, and management teams can overpay (badly) for assets. Picking which assets management will (badly) overpay for is not a game that we think is worth playing, especially near market highs (peaks). We're happy when an underpriced gem in the Best Ideas portfolio or Dividend Growth portfolio is scooped up by an acquisitive management team at a premium, but we wouldn't go rushing to add companies to the portfolio on a small probability they might get taken out at an irrational price. That's a game for greater fools (2) and a sure way to get whipsawed in today's market. We continue to prefer ideas in the Best Ideas portfolio and Dividend Growth portfolio.

(1) Castles in the air: "The theory postulates that the investors try to build a sort of castles in the air and think of the probable price rise in the future than estimating the intrinsic values of stocks. Once the investor has estimated this, he/she tries to beat the crowd by building positions in the preferred stocks before the crowds (read other investors) start buying those stocks and the price surges ahead." – Finance Wikia

(2) Greater fool theory: "A theory that states it is possible to make money by buying securities, whether overvalued or not, and later selling them at a profit because there will always be someone (a bigger or greater fool) who is willing to pay the higher price. When acting in accordance with the greater fool theory, an investor buys questionable securities without any regard to their quality, but with the hope of quickly selling them off to another investor (the greater fool), who might also be hoping to flip them quickly. Unfortunately, speculative bubbles always burst eventually, leading to a rapid depreciation in share price due to the selloff." – Investopedia

Energy Transfer Partners' Solid Distribution Coverage Ratio

By Brian Nelson, CFA

We understand that to many dividend growth investors the dividend/distribution isn't everything—it is the *only* thing. That's why we spend a considerable amount of time assessing the health and growth potential of dividends/distributions. To us, a master limited partnership's (MLP) distribution is inherently risky. One of my former colleagues at Morningstar, Jason Stevens, emphasized in an April 2013 research piece on the group what Valuentum has been telling investors for a while:

> Another implication of MLP distribution policies that is important to understand is the impact of high distribution payouts on MLPs' capital spending. Unlike corporations, which can use retained earnings and excess cash for growth purposes, MLPs retain very little of the cash generated each quarter, *requiring MLPs to go hat in hand to the capital markets in order to raise cash for new investment.* This forces a measure of capital discipline on management teams, as the market is unlikely to subscribe to debt and equity offerings for MLPs that fail to create value. *It also means that MLPs virtually require capital market access to grow.*

At the core, for an MLP's distribution to be sustained and to grow, the market must continually fund the firm with new capital (equity or debt). This is why in every one of the 16-page reports of an MLP on our website, you'll see us highlighting that an MLP is inherently dependent on the capital markets.

In the event of a credit crunch or in a situation where new capital is not available—think Boardwalk Pipeline (BWP)—2.0% annual yield—an MLP's distribution will face pressure (if not taken off the table altogether). Our job at Valuentum is *not* to frighten you about your investments; it is to make sure that you are aware of not only the opportunities—but also the risks behind them. An informed investor is simply a better investor.

As it relates to Energy Transfer Partners (ETP) —6.7% annual yield, a holding in the Dividend Growth portfolio, we spend a lot of our time looking at the MLP's distribution coverage ratio (at the bottom of the table below). The distribution coverage ratio is a lot like Valuentum's Dividend Cushion ratio in that it looks at cash flow coverage of a firm's distribution. The Dividend Cushion ratio, however, expands the analysis to consider a firm's net debt/cash position and, for MLPs in particular, future equity issuance (which is a core component of an MLP's business model) —as access to the capital markets is critical.

In Energy Transfer Partners' case, the distribution coverage ratio expanded to 1.10x in the second quarter from 1.03x in the same period a year ago. Similar to how one might interpret the Dividend Cushion ratio, the higher the ratio above 1, the better.

Distributable Cash Flow (consolidated)	730	634	1,567	1,241
Distributable Cash Flow attributable to Sunoco Logistics Partners L.P. ("Sunoco Logistics") (100%)	(223)	(184)	(381)	(379)
Distributions from Sunoco Logistics to ETP	68	49	130	94
Distributions to ETE in respect of ETP Holdco Corporation ("Holdco")	—	—	—	(50)
Distributions to Regency Energy Partners LP ("Regency") in respect of Lone Star (b)	(37)	(16)	(70)	(39)
Distributable Cash Flow attributable to the partners of ETP	$ 538	$ 483	$1,246	$ 867
Distributions to the partners of ETP:				
Limited Partners:				
Common Units held by public	$ 282	$ 246	$ 550	$ 487
Common Units held by ETE	29	89	58	178
Class H Units held by ETE Common Holdings, LLC ("ETE Holdings") (c)	53	—	103	—
General Partner interests held by ETE	5	5	10	10
Incentive Distribution Rights ("IDRs") held by ETE	178	183	346	363
IDR relinquishment related to previous transactions	(58)	(55)	(115)	(86)
Total distributions to be paid to the partners of ETP	$ 489	$ 468	$ 952	$ 952
Distributions credited to Holdco transactions (d)	—	—	—	(68)
Net distributions to the partners of ETP	$ 489	$ 468	$ 952	$ 884
Distribution coverage ratio (e)	1.10x	1.03x	1.31x	0.98x

Image Source: Energy Transfer Partners

Please see *Energy Transfer Partners...*on page 6

The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
16.7%	Mid-High Single Digits	9.2pts

DIVIDEND GROWTH PORTFOLIO -- as of September 2, 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	43.19	8,724.38	5.8%	387.84
Apple (AAPL)	7/24/2013	63.17	77	4,870.76	103.30	7,954.10	5.3%	144.76
Chevron (CVX)	12/30/2011	106.40	56	5,965.40	127.54	7,142.24	4.7%	239.68
Emerson Electric (EMR)	12/30/2011	46.59	97	4,526.23	64.31	6,238.07	4.1%	166.84
Energy Transfer (ETP)	12/30/2011	45.85	142	6,517.70	57.05	8,101.10	5.4%	542.44
General Electric (GE)	10/21/2013	26.18	240	6,290.20	25.85	6,204.00	4.1%	211.20
Hasbro (HAS)	12/30/2011	31.89	220	7,022.80	52.67	11,587.40	7.7%	378.40
Intel (INTC)	12/30/2011	24.25	289	7,015.25	34.57	9,990.73	6.6%	260.10
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	103.36	11,059.52	7.3%	299.60
Medtronic (MDT)	12/30/2011	38.25	157	6,012.25	63.91	10,033.87	6.6%	191.54
Microsoft (MSFT)	12/30/2011	25.96	308	8,002.68	45.09	13,887.72	9.2%	344.96
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	82.98	8,712.90	5.8%	269.85
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	34.27	8,156.26	5.4%	354.62
Phillips 66 (PSX)	5/1/2012	Spin Off	44	Spin Off	86.95	3,825.80	2.5%	88.00
Realty Income (O)	7/24/2013	44.35	60	2,668.00	44.63	2,677.80	1.8%	131.40

Note: KMP was removed from the portfolio: 65 shares at $95.62 (Friday's close).

Cash	2,363.42	26,794.80	17.7%	4,011.23
Dividend Growth Portfolio	100,000.00	**151,090.69**	100.0%	**TBD**

DG Portfolio Annualized Return (from inception through current date)	**16.7%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)	7.5%
DG Portfolio Annualized Return Outperformance	**9.2%**

UR = Under Review

** Upper bound of fair value range noted.

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

This portfolio is not a real money portfolio. Data as of September 2, 2014. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of September 2, 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	4.45%	mid-Sep 2014	mid Oct 2014 (quart)	1.1	GOOD	GOOD	$41.00	6	1.05
Apple (AAPL)	1.88	1.82%	early-Nov 2014	Nov 2014 (quart)	4.1	EXCELLENT	EXCELLENT	$103.00	6	1.00
Chevron (CVX)	4.28	3.36%	mid-Nov 2014	early Dec 2014 (quart)	1.4	GOOD	EXCELLENT	$118.00	7	1.08
Emerson Electric (EMR)	1.72	2.67%	mid Nov 2014	early Dec 2014 (quart)	2.7	GOOD	EXCELLENT	$70.00	6	0.92
Energy Transfer (ETP)	3.82	6.70%	late Oct 2014	Nov 2014 (quart)	2.4	GOOD	GOOD	$67.00	7	0.85
General Electric (GE)	0.88	3.40%	early Sep 2014	Sep 2014 (quart)	2.3	GOOD	GOOD	$32.00	9	0.81
Hasbro (HAS)	1.72	3.27%	late Oct 2014	mid Nov 2014 (quart)	1.9	GOOD	EXCELLENT	$63.00	7	0.84
Intel (INTC)	0.90	2.60%	early Nov 2014	early Dec 2014 (quart)	1.8	GOOD	GOOD	$30.00	6	1.15
Johnson & Johnson (JNJ)	2.80	2.71%	late Nov 2014	early Dec 2014 (quart)	2.3	GOOD	EXCELLENT	$107.00	6	0.97
Medtronic (MDT)	1.22	1.91%	early Oct 2014	Oct 2014 (quart)	3.7	EXCELLENT	EXCELLENT	$64.00	6	1.00
Microsoft (MSFT)	1.12	2.48%	mid Nov 2014	mid Dec 2014 (quart)	3.4	EXCELLENT	EXCELLENT	$48.00	6	0.94
Proctor & Gamble (PG)	2.57	3.10%	mid Oct 2014	early Nov 2014 (quart)	1.4	GOOD	EXCELLENT	$77.00	6	1.08
PP&L (PPL)	1.49	4.35%	early Sep 2014	early Oct 2014 (quart)	Held for diversification reasons.			$33.00	3	1.04
Phillips 66 (PSX)	2.00	2.30%	early Nov 2014	late Nov 2014 (quart)	2.4	GOOD	EXCELLENT	$88.00	6	0.99
Realty Income (O)	2.19	4.91%	monthly	monthly	1.8	GOOD	EXCELLENT	$60.00	9	0.74

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.

*Energy Transfer Partners…*from page 4

Valuentum's Take

We think that for investors to take on the risk of MLPs, a good mix of corporates should also be included in the portfolio. The systematic credit risk of a portfolio of *only* high-yielding MLPs and REITs—both structures inextricably tied to the health of the capital markets—is very high and borderline imprudent.

In the event where capital markets face challenges, we would expect the price of MLPs and REITs to face considerable pressure as higher discount rates are applied to their respective future free cash flow streams. Such an assessment excludes the perhaps more ominous concept of interest-rate risk. As the nominal interest rate of fixed-income investments approaches the distribution yield of many MLPs and REITs, we would expect shares of MLPs and REITs to sell off to more appropriately price such risks of their operations (and the option of pursuing alternative equally-yielding or even higher-yielding investment vehicles).

All things considered, we're not expecting a scenario that would systematically challenge the business structures of MLPs and REITs anytime soon. However, the very real scenario of Boardwalk Pipeline should highlight that the risks of MLPs are not to be taken lightly. For us, we're comfortable holding Energy Transfer Partners in a diversified Dividend Growth portfolio of high-yielding corporates. The MLP's distributable coverage ratio of 1.10x is solid.

Appendix: Understanding Various Measures of Cash Flow

Free cash flow to the firm (FCFF) or enterprise cash flow: the estimated cash flows that accrue to all stakeholders (equity + debt + preferred). The measure equals earnings before interest (EBI) less net new investment NNI). Total debt and total preferred is subtracted from the present value of future enterprise cash flows (FCFF) to arrive at total equity value. Free cash flow to the firm is a measure calculated for equity valuation purposes. Free cash flow to the firm includes cash generated organically for future investment purposes, cash generated that is stored on the balance sheet, cash paid for interest and on preferred dividends, and cash returned to shareholders in the form of dividends and share buybacks.

Cash flow from operations (CFO, OCF): This is an accounting item found on the cash flow statement. It is typically calculated by adding depreciation and amortization to net income and accounting for changes in working capital. Cash flow from operations is the source of cash earnings of the company. Total capital expenditures (maintenance + growth), found in the cash from investing section on the cash flow statement, are subtracted from cash flow from operations to arrive at traditional free cash flow (FCF).

Free cash flow (FCF): Cash flow from operations less total capital expenditures (maintenance + growth). This is a non-GAAP measure that is followed by most analysts and presented by most management teams within press releases and corporate presentations. This is a great short-hand measure to assess free cash flow conversion, earnings quality, free cash flow yield, and a variety of other analytical considerations. For general corporates, dividends are paid with free cash flow (or from cash held on the balance sheet in periods where free-cash-flow shortfalls occur).

Please see *Energy Transfer Partners…*on next page

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Distributable Cash Flow (DCF): This is found in MLP structures and is typically calculated as cash flow from operations less *maintenance* (sustaining) capital expenditures. MLPs typically use distributable cash flow in the numerator of the distribution coverage ratios they publish. Distributable cash flow is subject to a variety of estimates regarding sustaining capital expenditures and is *not* a complete measure of free cash flow as it does not consider the growth capital expenditures that are used to drive future expansion in cash flow from operations.

Discounted Cash Flows (DCF): Though sharing the same abbreviations as distributable cash flow (immediately above), the measures are completely different. Discounted cash flows represent the present value (discounted) enterprise free cash flows (FCFF) of an entity and are summed up to derive, in part, the total value of the equity of a firm. Discounted cash flows are not found anywhere else, except within the valuation context of a firm.

Note: *For master limited partnerships—which generate 90% or more of their income from activities related to the production, processing and transportation of oil, natural gas and coal—investors should be cognizant that they have different tax consequences for different investors, so please be sure that you are aware of such items.*

Tiffany Dazzles in Second Quarter; Coach Now Yielding ~4%

By Brian Nelson, CFA

Luxury jewelry maker Tiffany (TIF)—1.6% annual dividend yield—reported fantastic second-quarter results August 27 and raised its bottom-line guidance for the second time this year and in as many quarters.

Tiffany has been benefiting from a modernization of its classical jewelry line-up thanks to the ongoing success of its newest ATLAS collection and TIFFANY T jewelry collection. The ATLAS collection is named for the mythic Greek god and showcases Roman numerals in designs symbolic of strength and freedom on pieces ranging from pendants and earrings to bangles and rings. The TIFFANY T collection is the first from new Design Director Francesca Amfitheatrof, who joined the company September 2013. Francesca Amfitheatrof currently oversees the design of all Tiffany product categories, and she has reimagined the letter T in cuffs and other lines of jewelry in this particular line.

A new design director is not the only change at Tiffany. Long-time Tiffany CEO Michael Kowalski announced his plans in July to retire in 2015. Frederic Cumenal, currently the company's president, has been named his successor, and we expect him to keep the business momentum going. We also have no qualms with the firm's decision to bring on board Cigna (CI) veteran Ralph Nicoletti to take over the reigns as CFO, replacing Jim Fernandez who also announced his retirement earlier this year. Patrick Dorsey, Tiffany's general counsel, also retired this year. Ongoing changes should further reignite the brand, and we think a fresh focus will continue to breathe new life into the company.

The new TIFFANY T collection's debut appears to be resonating well with consumers, and comparable store sales in the Americas expanded an impressive 8% during both the second quarter and for the first-half of the year on a constant-currency basis. Sales in the Americas account for ~50% of worldwide sales at Tiffany, while sales in the US account for ~90% of net sales in the Americas. We were very pleased with the strength in this area. Tiffany's comparable store sales in the Asia-Pacific region also performed well, advancing 7% during the quarter and 9% during the first half of the year on a constant-currency basis. Management noted strong growth in China and Australia. Sales in Asia-Pacific represent ~25% of worldwide net sales, while sales in China account for more than half of Asia-Pacific's net sales.

Please see *Tiffany Dazzles...*on next page

*Tiffany Dazzles…*from previous page

Europe and Japan were two areas that weighed on performance, however. The firm's same-store sales in Europe dropped 8% during the second quarter and 5% during the first half of the year on a constant currency basis. Weak performance in the UK and most of continental Europe was to blame. Though same-store sales growth for the first half of the year in Japan came in at a solid 9% on a constant-currency basis, same-store sales fell 13% during the second quarter as consumers pulled forward purchases to avoid the long-anticipated increased consumption tax, implemented April 1 in Japan. According to management, the monthly rates of sales declines in Japan have been slowing following the second quarter, however. Sales in Japan and Europe collectively account for ~25% of sales.

Overall, net sales increased 7% and same-store sales increased 3% in the quarter. Net earnings advanced 16% thanks in part to a higher gross margin driven by pricing increases. We like that price increases across all product categories and regions are sticking—a move that signals continued strength of the Tiffany brand, its core competitive advantage. The strength of the Tiffany brand goes beyond trademark rights but rests in the consumer perception of the brand: high-quality gemstone jewelry (particular diamond jewelry), strong customer service, elegant store environment, and distinctive packaging (the Tiffany blue box). Though Tiffany's strategy in some ways allows it to accept a reduced gross margin to maintain its position at the high-end of the market, the company's margins continue to expand.

Looking ahead, Tiffany raised its bottom-line outlook for the second time in as many quarters. The company had initiated 2014 earnings-per-share guidance in the range of $4.05-$4.15 per diluted share, raised it during the first quarter earnings release to the range of $4.15-$4.25, and increased it yet again August 27, to the range of $4.20-$4.30 per share. Free cash flow for the full-year is expected to be greater than $400 million, in-line with our updated forecasts. Tiffany will look to open 10 company-owned stores and close 3 existing stores during 2014 (it has already opened 5). At the end of July 2014, the company operated 293 stores. Regional store growth through the end of 2013 is shown below:

	Americas						
Year:	U.S.	Canada & Latin America	Asia-Pacific	Japan	Europe	Emerging Markets	Total
2003	51	7	22	50	11	—	141
2004	55	7	24	53	12	—	151
2005	59	7	25	50	13	—	154
2006	64	9	28	52	14	—	167
2007	70	10	34	53	17	—	184
2008	76	10	39	57	24	—	206
2009	79	12	45	57	27	—	220
2010	84	12	52	56	29	—	233
2011	87	15	58	55	32	—	247
2012	91	24	66	55	34	5	275
2013	94	27	72	54	37	5	289

Image Source: Tiffany

Please see *Tiffany Dazzles…*on next page

Tiffany Dazzles ...from previous page

Valuentum's Take

Tiffany continues to buy back stock and recently increased its dividend 12%, to $0.38 per share on a quarterly basis (shares yield 1.6% at the time of this writing). At over $100 per share, the company's price, however, is not a bargain. Though we think the high-end consumer is more resilient during tough economic times (giving Tiffany more predictable performance), we don't think this added safety-net justifies a multiple of 23+ times on 2014 earnings, as is currently the multiple at which Tiffany's shares are trading hands.

Our fair value estimate of Tiffany is in the mid-$80s, and while we think the firm is executing fantastically as of late, we're not rushing to add the company to the Best Ideas portfolio. Our fair value estimate is based on a forecast of the firm's free cash flows, unlike that of a price target, which attempts to predict the price at which the company may trade at in the future. In any case, we'll be paying close attention to how Tiffany performs during the all-important holiday fourth quarter, which accounts for about one third of annual net sales and a higher percentage of its annual net earnings. There will be a better price at which to initiate a position in Tiffany than today's prices, in our view.

Firms at the ultra-high end of luxury such as Richemont (CFRUY) and Louis Vuitton (LVMUY) continue to show sales gains, and we'd describe the outlook for the ultra-luxury and luxury markets as healthy, a segment in which we'd also include Tiffany. High-end consumers seem to be unfazed by pricing increases, as witnessed most recently in Tiffany's second-quarter results, and we think this bodes well for continued resiliency in the space. New highs in the stock market are also fueling strength in this segment thanks to what we'd describe to be as a wealth effect.

Though we don't have an ultra-luxury or luxury firm in either the Best Ideas portfolio or the Dividend Growth portfolio, aspirational brand and premium handbag maker Coach (COH) —3.9% annual dividend yield—is one worth keeping an eye on. The firm is trading at about 10 times adjusted trailing earnings (excluding transformation items), and shares have fallen ~30% year-to-date. If Coach can reinvigorate the brand with respect to its North American women's bag and accessory business and continue to grow its men's business, shares could become one of the better performers in coming years. As evidenced by aspirational brand Micheal Kors' (KORS) recently-reported calendar second-quarter results, which showed same-store sales gains of 24%+, the aspirational brand segment is very healthy.

Coach has a war chest of cash to the tune of $850+ million to right the ship and has no long-term debt (it has short-term debt of ~$140 million). The firm has a transformation plan in place and has recently hired an Executive Creative Director to improve the creative direction of the brand. Free cash flow remains significantly positive, and *the firm yields nearly 4%.* Our fair value of Coach is ~$50 per share (implying more than 30% upside from today's levels). Consistent with methodology requirements, however, we'd wait for a better Valuentum Buying Index rating before scooping up the company. In any case, Coach remains one of the top ideas on our watch list.

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

By Valuentum Analysts

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

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

Name	Symbol	Industry	Est. Div Yield	VBI	Div Growth	Div Cushion
EV Energy	EVEP	Oil & Gas Pipelines	8.7%	7	GOOD	2.0
Atlas Pipeline	APL	Oil & Gas Pipelines	7.6%	6	EXCELLENT	2.2
NuStar	NS	Oil & Gas Pipelines	7.5%	6	GOOD	1.4
Kinder Morgan Partners	KMP	Oil & Gas Pipelines	7.3%	6	EXCELLENT	1.9
Energy Transfer Partners	ETP	Oil & Gas Pipelines	6.7%	7	GOOD	2.4
Teekay	TGP	Shipping	6.5%	6	GOOD	1.6
Corrections Corp	CXW	Management Services	6.1%	6	EXCELLENT	1.3
Omega Healthcare	OHI	REIT - Healthcare	6.1%	6	EXCELLENT	2.0
Holly Energy	HEP	Oil & Gas Pipelines	5.8%	6	EXCELLENT	1.8
HCP	HCP	REIT - Healthcare	5.8%	7	EXCELLENT	1.9
Universal Health Realty	UHT	REIT - Healthcare	5.7%	6	GOOD	2.6
Buckeye Partners	BPL	Oil & Gas Pipelines	5.6%	6	GOOD	2.1
Health Care REIT	HCN	REIT - Healthcare	5.5%	6	EXCELLENT	1.5
Alliance Resource Partners	ARLP	Industrial Minerals	5.3%	6	EXCELLENT	1.3
Realty Income Corp	O	REIT - Retail	5.3%	9	EXCELLENT	1.8
Altria Group	MO	Tobacco	4.9%	6	GOOD	1.1
Ventas	VTR	REIT - Healthcare	4.8%	6	EXCELLENT	2.2
Brookfield Infrastructure	BIP	Utilities	4.6%	6	GOOD	1.1
PetroChina	PTR	Major Oil & Gas	4.5%	7	GOOD	1.3
Plains All American	PAA	Oil & Gas Pipelines	4.5%	6	EXCELLENT	3.5
Philip Morris	PM	Tobacco	4.5%	6	GOOD	1.0
Verizon	VZ	Telecom Services	4.3%	6	GOOD	2.0
Entergy	ETR	Utilities - Large	4.3%	6	GOOD	1.5
Retail Properties of America	RPAI	REIT - Retail	4.2%	6	EXCELLENT	3.0
Spectra Energy Partners	SEP	Oil & Gas Pipelines	4.2%	6	EXCELLENT	1.8
Ameren	AEE	Utilities	4.0%	6	GOOD	1.5
Lorillard	LO	Tobacco	4.0%	6	EXCELLENT	1.1
Rio Tinto	RIO	Mining - diversified	3.9%	7	EXCELLENT	1.7
Enterprise Product Partners	EPD	Oil & Gas Pipelines	3.8%	6	EXCELLENT	3.2
Coach	COH	Luxury Goods	3.7%	6	EXCELLENT	1.9
Williams Co	WMB	Oil & Gas Pipelines	3.6%	6	EXCELLENT	1.9
Intel	INTC	Broad Line Semiconductors	3.5%	6	GOOD	1.8
Superior	SUP	Auto Parts Suppliers	3.5%	6	GOOD	2.5
Chevron	CVX	Major Oil & Gas	3.5%	7	EXCELLENT	1.4
Unilever PLC	UL	Food Products - Large	3.5%	6	EXCELLENT	1.3

The Dividend Growth Watch List

By Valuentum Analysts

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

DIVIDEND GROWTH WATCH LIST - as of September 2, 2014

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	2.37%	1.9	GOOD	EXCELLENT	$113.00	4	1.28	144.22
Abbott (ABT)	0.88	2.08%	3.5	EXCELLENT	GOOD	$41.00	5	1.03	42.23
AbbVie (ABBV)	1.68	3.05%	1.9	GOOD	EXCELLENT	$58.00	6	0.95	55.07
ADP (ADP)	1.92	2.29%	5.9	EXCELLENT	EXCELLENT	$101.00	7	0.83	83.69
Analog Devices (ADI)	1.48	2.92%	2.7	GOOD	EXCELLENT	$52.00	3	0.97	50.62
Becton, Dickinson (BDX)	2.18	1.87%	2.4	GOOD	EXCELLENT	$99.00	7	1.18	116.85
Bob Evans (BOBE)	1.24	2.90%	2.0	GOOD	EXCELLENT	$49.00	6	0.87	42.70
Boeing (BA)	2.92	2.33%	2.9	EXCELLENT	EXCELLENT	$128.00	3	0.98	125.48
Chicago Rivet (CVR)	0.72	2.15%	2.6	GOOD	GOOD	$37.00	6	0.91	33.56
Coca-Cola (KO)	1.22	2.93%	1.7	GOOD	EXCELLENT	$35.00	6	1.19	41.64
Colgate-Palmolive (CL)	1.44	2.24%	1.9	GOOD	EXCELLENT	$57.00	6	1.13	64.42
Cracker Barrel (CBRL)	4.00	3.98%	1.5	GOOD	EXCELLENT	$110.00	4	0.91	100.55
Deere (DE)	2.40	2.86%	1.6	GOOD	EXCELLENT	$89.00	6	0.94	83.77
Dover (DOV)	1.50	1.70%	2.5	GOOD	EXCELLENT	$86.00	4	1.02	88.12
DuPont (DD)	1.80	2.73%	2.1	GOOD	GOOD	$69.00	4	0.95	65.83
Eli Lilly (LLY)	1.96	3.08%	2.0	GOOD	GOOD	$57.00	6	1.12	63.68
Exxon Mobil (XOM)	2.76	2.80%	1.9	GOOD	EXCELLENT	$90.00	6	1.09	98.49
General Dynamics (GD)	2.48	2.02%	3.0	EXCELLENT	EXCELLENT	$98.00	3	1.25	122.66
Genuine Parts (GPC)	2.30	2.61%	1.7	GOOD	EXCELLENT	$77.00	3	1.14	87.99
H&R Block (HRB)	0.80	2.38%	3.2	EXCELLENT	EXCELLENT	$29.00	3	1.16	33.60
Harris (HRS)	1.68	2.37%	1.8	GOOD	EXCELLENT	$70.00	6	1.01	71.00
HCP (HCP)	2.18	5.06%	1.9	GOOD	EXCELLENT	$46.00	7	0.94	43.09
Honeywell (HON)	1.80	1.88%	3.1	EXCELLENT	EXCELLENT	$89.00	7	1.07	95.50
Hormel Foods (HRL)	0.80	1.57%	3.0	EXCELLENT	EXCELLENT	$39.00	4	1.31	50.92
IBM (IBM)	4.40	2.30%	3.0	EXCELLENT	EXCELLENT	$182.00	7	1.05	191.56
Illinois Tool Works (ITW)	1.68	1.90%	3.0	EXCELLENT	EXCELLENT	$85.00	4	1.04	88.37
Kimberly-Clark (KMB)	3.36	3.11%	1.3	GOOD	EXCELLENT	$100.00	7	1.08	108.00
Lockheed Martin (LMT)	5.32	3.06%	1.8	GOOD	EXCELLENT	$142.00	4	1.22	173.80
Mattel (MAT)	1.52	4.40%	1.5	GOOD	EXCELLENT	$40.00	4	0.86	34.58
Merck (MRK)	1.76	2.94%	2.3	GOOD	GOOD	$54.00	7	1.11	59.79
Northrop Grumman (NOC)	2.80	2.18%	3.3	EXCELLENT	EXCELLENT	$121.00	4	1.06	128.57
Occidental Petrol (OXY)	2.88	2.81%	1.6	GOOD	EXCELLENT	$90.00	6	1.14	102.36
Owens & Minor (OMI)	1.00	2.92%	1.9	GOOD	EXCELLENT	$33.00	3	1.04	34.25
Paychex (PAYX)	1.52	3.63%	2.9	EXCELLENT	GOOD	$39.00	3	1.07	41.90
Phillip Morris (PM)	3.76	4.40%	1.0	GOOD	GOOD	$78.00	6	1.10	85.49
Raytheon (RTN)	2.42	2.51%	2.8	EXCELLENT	EXCELLENT	$91.00	7	1.06	96.48
St. Jude (STJ)	1.08	1.65%	2.6	GOOD	EXCELLENT	$68.00	4	0.96	65.58
Texas Instr (TXN)	1.20	2.51%	1.8	GOOD	EXCELLENT	$40.00	3	1.20	47.90
United Technologies (UTX)	2.36	2.16%	1.8	GOOD	EXCELLENT	$113.00	7	0.96	109.04
UPS (UPS)	2.68	2.74%	2.0	GOOD	EXCELLENT	$97.00	6	1.01	97.95
VF Corp (VFC)	1.05	1.63%	2.3	GOOD	EXCELLENT	$54.00	7	1.20	64.61
Verizon (VZ)	2.12	4.26%	2.0	GOOD	GOOD	$56.00	6	0.89	49.77
Walgreen (WAG)	1.26	2.10%	2.1	GOOD	EXCELLENT	$63.00	6	0.95	60.01
Wal-Mart (WMT)	1.92	2.53%	1.5	GOOD	EXCELLENT	$76.00	6	1.00	75.75

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	Est. Div Yield	Div Safety	Div Cushion
CONSOL Energy	CNX	Industrial Minerals	0.6%	VERY POOR	-9.9
Ryder System	R	Rental and Leasing	1.7%	VERY POOR	-9.9
Range Resources	RRC	Independent Oil & Gas	0.2%	VERY POOR	-8.5
Cablevision	CVC	Media - CATV	3.2%	VERY POOR	-8.3
Barrick Gold	ABX	Metals & Mining - gold	1.1%	VERY POOR	-7.2
Chesapeake	CHK	Independent Oil & Gas	1.3%	VERY POOR	-5.0
Peabody Energy	BTU	Industrial Minerals	1.8%	VERY POOR	-4.9
Tidewater	TDW	Energy Equipment	2.0%	VERY POOR	-4.6
Roundy's Inc	RNDY	Food Retailers	7.2%	VERY POOR	-4.2
Cliffs Natural Resources	CLF	Mining - diversified	3.1%	VERY POOR	-3.7
TAL Intl	TAL	Rental and Leasing	6.5%	VERY POOR	-3.1
Textainer	TGH	Rental and Leasing	4.9%	VERY POOR	-2.9
Service Corp Intl	SCI	Personal Services	1.6%	VERY POOR	-2.8
MDC	MDC	Homebuilders	3.5%	VERY POOR	-2.5
DineEquity	DIN	Restaurants	3.8%	VERY POOR	-2.3
Quad/Graphics Inc	QUAD	Book Publishing	5.5%	VERY POOR	-2.3
Hess	HES	Refiners	1.1%	VERY POOR	-2.1
Frontier Comm	FTR	Telecom Services	7.0%	VERY POOR	-1.8
Windstream	WIN	Telecom Services	10.1%	VERY POOR	-1.7
Alcoa	AA	Aluminum	0.9%	VERY POOR	-1.6
Murphy Oil	MUR	Refiners	2.1%	VERY POOR	-1.6
Centurylink	CTL	Telecom Services	6.0%	VERY POOR	-1.5
American Tower	AMT	Wireless Telecom Services	1.6%	VERY POOR	-1.5
Yamana Gold	AUY	Metals & Mining - gold	1.7%	VERY POOR	-1.5
Time Warner Cable	TWC	Media - CATV	2.0%	VERY POOR	-1.5
NiSource	NI	Utilities	2.6%	VERY POOR	-1.3
ConAgra Foods	CAG	Food Products - Large	3.3%	VERY POOR	-1.2
SeaDrill	SDRL	Energy Svcs - Offshore Drilling	10.8%	VERY POOR	-1.2
Sealed Air	SEE	Containers & Packaging	1.6%	VERY POOR	-1.1
First Energy	FE	Utilities - Large	4.4%	VERY POOR	-1.1
Royal Caribbean	RCL	Leisure	1.9%	VERY POOR	-1.0
Apache	APA	Independent Oil & Gas	1.2%	VERY POOR	-1.0

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

Coca-Cola Expanding Its Dominance; SodaStream in Play

By Brian Nelson, CFA

Coca-Cola (KO) —3.1% annual dividend yield—has recently become a savvy asset manager, and we think recent moves speak volumes about the company's strategy to retain dominance in the non-alcoholic beverage space *for decades to come*.

Coca-Cola's management is capitalizing on what we'd describe to be the 'Hidden Advantage'—something more commonly witnessed in activist dealings in which small initial stakes turn into large gains once news is made public. In February, for example, Coca-Cola scooped up 10% of Green Mountain at $74.98 per share (it subsequently increased its stake to 16%). With shares of Green Mountain (GMCR) —0.8% annual dividend yield—now trading at ~$115 each, the deal for just a small portion of Green Mountain looks incredibly savvy—especially in the event Coca-Cola ends up buying Green Mountain outright. Much like an activist investor, Coca-Cola is sitting on a large profit in shares of Green Mountain thanks in part to optimism about a deal that it promulgated itself.

The Coca-Cola/Green Mountain transaction led us to ponder at the time whether all M&A should proceed this way (i.e. the suitor scoop up a portion of the target's shares on the cheap before disclosing that merger talks have begun—much like an activist investor may establish a position in a company before disclosing a stake). We received our answer, at least as it relates to Coca-Cola's views on the topic. On August 14, the non-alcoholic beverage giant struck again, purchasing a ~17% equity stake in Monster Beverage (MNST), giving it a meaningful influence on two of the fastest-growing and most innovative segments in the non-alcoholic beverage market: coffee brewing technology and differentiated energy drinks. Though Monster Beverage has given back some of its gains, shares of the company surged ~30% on the announcement.

We give high marks to Coca-Cola's management in consummating both of these transactions, ensuring the company's dominance in the non-alcoholic beverage space for *decades to come* (if not generations). Scooping up these valuable strategic assets also makes it increasingly more likely that rivals Dr. Pepper Snapple (DPS)—2.8% annual dividend yield—or Pepsi (PEP)—2.9% annual dividend yield—will be more proactive in identifying innovative assets, perhaps even taking a stab at home-soda maker SodaStream (SODA). Coffee giant Starbucks (SBUX) —1.3% annual dividend yield—could even consider entering such a market. SodaStream will not remain independent for much longer, in our view, and with its shares trading at the low end of our estimate of their fair value range, a suitor is likely paying very close attention. Bloomberg, for example, recently reported that SodaStream is in talks with an unnamed investment firm to go private at $40 per share (shares are trading at ~$32 each). A take-out could be months away or even sooner.

Valuentum's Take

Coca-Cola is doing a fantastic job securing its dominance in the non-alcoholic beverage market, and we applaud management's moves. Shares of the firm aren't cheap, however, and we think there will be a better entry point for new money.

It's also hard not to like Pepsi's fundamentals, particularly with the firm's scale in North America and the company's valuable snacks business. The firm has nearly twenty $1 billion global brands sold in the US. Shares of Pepsi aren't cheap either, however, and we prefer Coca-Cola over Pepsi as a dividend growth idea on the basis of the latter's debt-heavy balance sheet (which limits financial flexibility, as we're currently witnessing given the deals Coca-Cola has been able to land).

Starbucks' shares have also had quite a run, and we don't think they make much sense for the bargain hunter at present levels. Even Dr. Pepper is trading above our estimate of its intrinsic value.

Please see *Coca-Cola*...on next page

*Coca-Cola…*from previous page

One of the rare bargains in the non-alcoholic beverage space rests in SodaStream. However, if the firm is not bought out by a larger suitor, the company will inevitably face significantly greater competition from a Coca-Cola/Green Mountain combination. In what is traditionally inherent to any risk-reward scenario, SodaStream's shares hold the most risk and the most reward.

KO-MNST deal notes: Pursuant to the terms of the transaction agreements, at the closing, The Coca-Cola Company will make a net cash payment of $2.15 billion and transfer its worldwide energy business to Monster. In exchange, Monster will issue to The Coca-Cola Company the shares of Monster common stock, transfer its non-energy business to The Coca-Cola Company, and enter into expanded distribution arrangements. The transaction, which is expected to close late in 2014 or early in 2015, is subject to customary closing conditions, including receipt of regulatory approvals.

Peltz's Reasons for Breaking Up Pepsi Do Not Hold Water

By Brian Nelson, CFA

Our team took a read of a recent Barron's cover story on Pepsi (PEP) —2.9% annual dividend yield—that goes into activist investor Nelson Peltz's thesis for breaking up the firm into two pieces: a soda group and a snacks group. Nelson Peltz's Trian Partners holds ~$1.2 billion of Pepsi's shares, so he has a relatively large voice on the future direction of the company.

Barron's seemed to take the opinion that a break-up makes sense, but after reading the article, we were left with little economic reason to believe that a split should be pursued. For background, the thesis on breaking up Pepsi goes something like this:

> "a split would allow both beverages and snacks to operate more entrepreneurially. 'The goal is to keep corporate overhead down and enable the businesses to live up to their potential, by empowering operating management and eliminating corporate bureaucracy…' Trian thinks Frito-Lay can shine brighter by putting more advertising and marketing dollars behind the brand…Peltz's firm asserts that Pepsi has been siphoning off advertising dollars to bolster the beverage business…Pepsi currently trades for 18 times 2015 estimated earnings of $4.96 a share. Trian's model envisions that a stand-alone snacks business would achieve a 23 ratio, while beverages would fetch 18.5. That gets the shares to $105. To achieve the $144 that Trian has estimated in a spinoff, it models a 3.75% dividend yield—the stock yields 2.9%—as well as accelerated cuts in corporate overhead and increased investment in the brands. Trian would reduce costs, in part, by consolidating Pepsi's four headquarters—two in New York and one each in Chicago and Plano, Texas—into two…Bernstein agrees that there are $2 billion to $3 billion more of costs that can be cut beyond the $5 billion that have been mandated…Pepsi maintains that synergies as a single company save it $800 million to $1 billion a year. Trian counters that the opportunities to cut corporate costs greatly exceed synergies…Trian (says) it sees 'great potential to expand margins in a stand-alone beverage business.' Trian would buy more shares in the beverage company and be willing to join its board. A slimmed-down beverage business that doesn't have to support corporate overhead could be far more formidable competitor to Coke." Source: Barron's

Please see *Peltz's Reasons…*on next page

*Peltz's Reasons…*from previous page

There are a few basic items that advocates of Pepsi's split are missing:

Cost cuts (to any degree) can still be pursued within the combined organization. Assuming that all high-return projects are being pursued by the combined entity, as they should be, breaking apart Pepsi will not create incremental economic value as *cost cuts (to any degree) can still be pursued within the combined organization*. Typically, companies combine operations to reduce costs; companies are not separated to cut costs. Comparing cost cuts to synergies to justify a split is illogical and confusing to investors. A split is not required to cut costs, and certainly a split does not result in more costs to cut. Corporate overhead is unavoidable.

The combined entity would lose synergistic benefits. Synergies associated with the combination not only include back-office corporate overhead and distribution efficiencies, but also consumer association between drinks and snacks, which drives a strong working relationship with Pepsi's business customers (e.g. 7-Eleven). Under a split, *the combined entity would lose synergistic benefits*. At the very least, separating the companies would add more costs: two separate entities would need two distribution chains and two back-office corporate overhead teams.

The assignation of arbitrary multiples to the businesses doesn't make sense. Businesses are valued (and multiples are assigned) on the basis of future free cash flow. In our view, the market is *already* giving Pepsi credit for additional cost cuts, and a break-up may add *more* expenses and complexity to operations.

In Trian's logic, both of the separated entities would receive higher multiples than the combined firm, an outcome that makes little sense under the view that the combination (not two standalone companies) has the best opportunity to cut the most costs. We also find little support for the connection between a 3.75% dividend yield and a $144 target price. Please read about how dividends impact valuation here: http://www.valuentum.com/articles/20140114_1.

Businesses are priced on the cash flows they generate, not the cash flows they pay to investors. Trian's analysis is fundamentally flawed, which is why we believe management hasn't acted on it (but instead has only politely acknowledged it).

Long-term benefits with respect to the snacks business would be hindered. The soda business offers the company's snacks business an avenue into developing parts of the world. Without a combination, the snacks business may lose out on its ability to reach the customer in more developing markets. A break up could set the snacks business back years.

We don't think this is factored into Trian's financial analysis. A lower long-term growth rate of the snacks business should be assumed under a split, and such a revision may cause the firm's entire thesis to collapse upon itself.

Wrapping Things Up

We think Pepsi's shares are worth $79 on a combined basis, and we think they'd be worth *less* on a separated basis. The market is already recognizing the future free cash flow streams of both the soda and snacks business (and then some). Shares are trading above $90 each at the time of this writing.

This view runs counter to situations where the market is not recognizing the fair value of the entity, as in the case of eBay (EBAY) and PayPal. eBay, for example, continues to trade at a large discount to its intrinsic value, and a split may unlock value as the market re-prices the entities separately. Splitting apart companies only makes sense when the market is applying a punitive 'conglomerate' discount or not accurately reflecting the combined entity's true intrinsic value, which is not the case with Pepsi.

Please see *Peltz's Reasons…*on next page

***Peltz's Reasons…*from previous page**

Another important takeaway is that synergies are augmented when companies are merged together, not when they are broken apart. Trian's analysis also rests on the assumption that the market will price the firm on the basis of its dividend yield and not on its future free cash flow stream and the risks related to it. This is a risky bet for management to take.

An analysis of Pepsi's more leveraged position relative to Coca-Cola (KO) —3.1% annual dividend yield—cannot be ignored, nor should the heightened competitive environment—as Coca-Cola picks up equity stakes in Green Mountain (GMCR) —0.8% annual dividend yield—and Monster Beverage (MNST)—be ignored. Splitting Pepsi would weaken the firm's ability to wage economic war against Coca-Cola, which is spreading its dominance by scooping up shares of companies leading the most innovative verticals.

Breaking Pepsi apart is a bad idea, and Pepsi's management knows it. That said, could the market bid up shares all the same, and management be forced into a bad decision? Certainly. But Nelson Peltz still has this one wrong.

Home Depot's and Lowe's Performances Diverge

By Brian Nelson, CFA

Home Depot (HD) —2.3% annual dividend yield—and Lowe's (LOW) —1.9% annual dividend yield—reported calendar second-quarter results recently. Home Depot continues to execute better than its peer, with Home Depot witnessing strong performance in its spring seasonal business and across all geographies during the second quarter. Home Depot's comparable sales growth of 6.4% in the US was also *a full two percentage points* better than Lowe's second-quarter performance. Home Depot also upped its outlook for the remainder of the year, showcasing fantastic double-digit bottom-line expansion:

> Based on its second quarter performance and its outlook for the year, the company raised its fiscal 2014 diluted earnings-per-share guidance and now expects diluted earnings per share to be *up approximately 20.2 percent* to $4.52 for the year. This earnings-per-share guidance includes the benefit of the company's year-to-date share repurchases of $3.5 billion and the company's intent to repurchase an additional $3.5 billion of shares over the remainder of the year.

As with Home Depot, Lowe's benefited from an improvement in outdoor product sales, which were pushed back as a result of unfavorable weather conditions in the first quarter. But while Lowe's noted improving job and income growth to drive home-improvement related sales, the company modestly reduced its sales outlook for the year. Comparable sales growth at Lowe's for the year is now expected to be 3.5%, a level below prior guidance.

Though Lowe's bottom-line target remained unchanged for 2014, we believe the company is not yet able to generate share gains against its larger rival. Still, total expected sales growth of 4.5% in 2014 is only a few basis points lower than that expected (4.8%) by Home Depot for its own full-year performance. So while performance has diverged a bit, both continue to benefit from strengthening industry trends.

Valuentum's Take

We're huge fans of both Home Depot's and Lowe's focus on return on invested capital (ROIC), which is a superior measure than either return on equity (ROE), which can be impacted by financial leverage (debt), or return on assets (ROA), which can be impacted by non-operating cash on the balance sheet. Home Depot is targeting return on invested capital of ~27% by 2015, while Lowe's targeted measure for the same year is a full 10 percentage points lower (see Appendix). Home Depot is simply a better business on a fundamental level.

Please see *Home Depot…*on next page

***Home Depot…*from previous page**

Both Home Depot and Lowe's have strong brand names, and both are focused on satisfying customers' needs via a service focus. The $640 billion home-improvement is large enough for both to shine, but we think Home Depot continues to execute better on a number of fronts (from comparable store sales growth to ROIC).

At the time of this writing, Home Depot yields 2.3%, while Lowe's yields 2%. We continue to prefer ideas in the Best Ideas portfolio and Dividend Growth portfolio, though we note that the dividend growth prospects of both Home Depot and Lowe's are excellent as well.

Appendix: ROIC

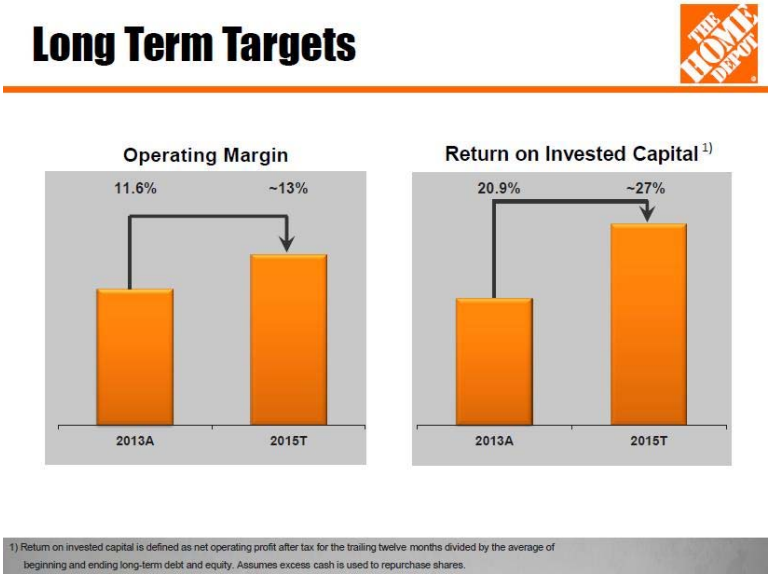


Image Source: Home Depot

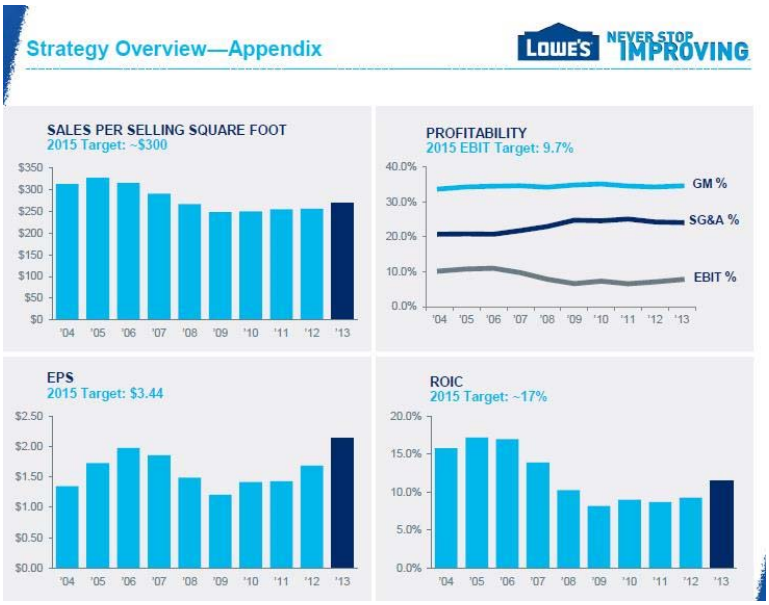


Image Source: Lowe's

Kinder Morgan Grows Leery of MLP Structure; Consolidates Holdings

By Brian Nelson, CFA

The convoluted structure of the Kinder Morgan umbrella will now change, as KMI—4.7% annual yield—announced August 10 it will purchase all of its subsidiaries KMP—6.8% annual yield, KMR—7.2% annual yield, and EPB—7.6% annual yield. The combined entity is expected to receive investment-grade marks from the credit agencies, and to please the dividend growth crowd, the "new" KMI expects 10% annual growth in the dividend from 2015-2020. The deal amounts to ~$70 billion in total transaction value and is expected to close by year end. We think the transaction is a smart one and speaks loudly about the limitations and risks of the MLP structure.

At the time of this writing, units of KMP, KMR, and EPB are up ~18.5%, ~26%, and ~23%, respectively. KMI is advancing ~11% on the news. KMP is a holding in the Dividend Growth portfolio, and the news puts this position well into the black. However, as a result of the lost income stream associated with the buyout, KMP has been removed from the income-oriented Dividend Growth portfolio (KMP, KMR and EPB will cease trading once the deal closes before year-end).

The stated reason for the deal is that it will open up the firm to more growth related to the US shale drilling boom and offer it a lower cost of capital for M&A. To us, however, the reason is not as sanguine. The Kinder Morgan empire and other MLPs have recently been under analytical attack due to their business structures, which rely heavily on management estimates of maintenance capital spending in deriving distribution coverage and the healthy functioning of the capital markets for new debt and equity capital. By rolling up the umbrella, Kinder Morgan has essentially reduced the conglomerate's capital market dependence (at least in its subsidiaries structured as MLPs) and can now build retained earnings and a greater cash buffer on the balance sheet for new deals—or to strengthen the safety of the payout to investors. MLPs are structured to pay out a significant portion of operating cash flow to unitholders, and therefore are less able to handle adverse shocks—as in the case of Boardwalk Pipeline (BWP) —2.0% annual yield.

To some, the deal could be considered a surprise as the trend in recent years has been toward energy firms spinning off their pipelines and oil terminals into MLPs, not re-consolidating them. Moreover, Kinder Morgan has long been the poster child of the MLP structure, and we think the news could start a trend toward the reconsolidation of MLPs (to the general partner), given the market's very positive reaction to the transaction. The deal could also mark the beginning of change with respect to the perception of the very real risks related to the MLP structure, which exists more to feed investors' appetite for lofty cash distribution payouts than for creating economic value (a large ROIC-less-WACC spread). In any case, we'll be monitoring industry developments closely, as we raise a very important red flag: if investors applaud *both* the spin-offs and re-consolidation of MLPs, what will they shun? Is this more evidence of a bubble?

Valuentum's Take

Even though we applaud KMI's toll-road-like (fee-based) assets that are core to North American energy infrastructure (and we like Rich Kinder), we do not intend to use the proceeds of the KMP removal to add KMI (the suitor) to the Dividend Growth portfolio at this time. Our list of dividend growth ideas is long, and while our team will take a diligent look at where we expect to redeploy capital in coming weeks, we'll likely choose the energy space in order to replace the diversification lost from the KMP removal. Our best dividend growth ideas are always included in the Dividend Growth portfolio (see page 5).

Deal notes: *Upon closing, KMP unitholders will receive 2.1931 KMI shares and $10.77 in cash for each KMP unit, KMR shareholders will receive 2.4849 KMI shares for each share of KMR, EPB unitholders will receive .9451 KMI shares and $4.65 in cash for each EPB unit.*

*The Dividend Dilemma…*continued from page 1

in times like today. This "sell discipline" embedded in the Valuentum process is why you haven't seen us remove strong-performing, yet somewhat more expensive, positions from the portfolios, despite them running ever-higher than fair value in some cases.

The markets today continue to push winners higher, and investors have come up with a whole host of reasons why the stock market may continue to add to gains. First, consumer confidence hit a seven-year high the other day, and many are counting on higher stock prices to fuel a wealth effect that will drive continued earnings growth across many index constituents—and even higher stock prices. You heard that right: the higher stock prices will cause higher stock prices. Circular thinking? Self-perpetuating? Yes…and a very dangerous line of thinking. According to Bloomberg, "the S&P 500 index…has closed at a new high 30 times this year. By this time last year, it had done so 25 times." It has been an amazingly consistent run higher, and this has us worried.

At this point, you can probably see the wisdom in our reiterating the view that members should keep a cautious eye on the markets, even as we let the portfolios capture the momentum aspect of the Valuentum process by "letting winners run." Without a doubt, many "pure" value investors have already moved to the sidelines--and we think it's prudent for investors to be prepared for some type of pullback—sustained or otherwise is yet to be determined.

In the context of the recent stock-market euphoria, we'd think nothing of a pullback of 20% or more. Now is as good a time as any for investors to work with their advisor to decide whether taking on such risk with respect to a dividend holding is worth doing solely for income purposes over a particular time frame. We call this the dividend dilemma. The answer will be different for everybody, as everybody has different risk-tolerances and investing goals. Preparing during good times is much better than scrambling when the market is in freefall.

If you read my interview from a few months ago, we fully acknowledged the possibility of the S&P 500 to reach 2,000, as it has done recently, but our fair value of S&P 500 constituents continues to be far lower than that. The momentum aspect of the Valuentum process enabled the portfolios to participate in such large gains. However, as we reiterated in the price vs. value piece at the following link (which touches on the worst blunder in corporate history), prices can get far removed from fundamentals:

http://www.valuentum.com/articles/20140826

We're less than 6 years from the March 2009 panic-bottom, and we've practically gone straight up since then, nearly tripling from those lows. Caution not only is the 'word on the Street' (thanks to my baby boy for this Sesame Street reference), but it certainly should be.

Though a concentrated portfolio--such as the Best Ideas portfolio or Dividend Growth portfolio, which houses 15-25 firms--really only needs 2 or 3 stellar outperformers to drive away from the pack, bargains continue to be few and far between. The latest tally from Factset 'Earnings Insight' puts the forward price-to-earnings multiple for S&P 500 companies at 15.6, above both the 5-year average (13.5) and 10-year average (14.1). The measure is forward earnings, not trailing earnings, which typically is what is referenced for the omnipresent 15 times number, commonly believed to be a proxy for "fair value." The market is getting frothy.

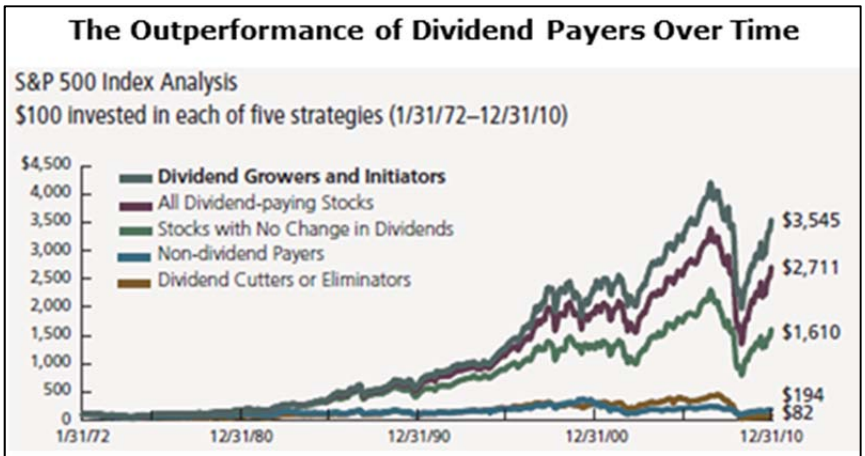
In any case, you should be very proud of the annualized outperformance of the Dividend Growth portfolio, but please be sure to take steps with your advisor to preserve gains—there's nothing worse than seeing large paper gains erode. Trust me.

Someone once told me that it's easy to sell newsletters if you keep pumping out new ideas regardless of the market environment or with little regard to one's clientele. But I'm interested in something else: your investing success. I'm willing to accept some member turnover to make sure that you get the very best service out there. Our best dividend growth ideas continue to be in the Dividend Growth portfolio (see page 5).

About the Valuentum Dividend Cushion™

By Valuentum Analysts

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



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

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

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

The Importance of Forward-Looking Dividend Analysis

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

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

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

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

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

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

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

The Valuentum Dividend Cushion Caught These Dividend Cuts in Advance

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

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

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

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

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

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

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

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

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

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

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

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

Understanding Dividend Growth

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

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

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

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

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

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

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 28-Aug-2014 | Data as of 22-Aug-2014

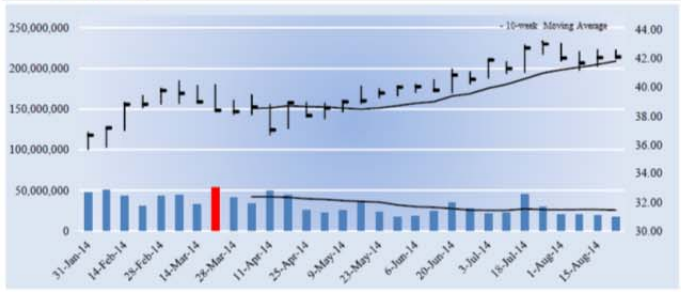
Abbott ABT FAIRLY VALUED

Buying Index™ 5 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$33.00 - $49.00	HEALTHY	EXCELLENT / 3.5	GOOD	2.09%

We don't have any concerns with the new Abbott's dividend.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	2.09%
Annual Dividends per Share	$0.88
Initial Annual Div's Paid, $10k Investment	$208.98
Dividend Track Record	HEALTHY
Dividend Safety	EXCELLENT
Valuentum Dividend Cushion™	3.5
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).

Company Vitals

Market Cap (USD)	$66,281
Avg Weekly Vol (30 wks)	32,094
30-week Range (USD)	35.65 - 43.27
Valuentum Sector	Health Care
Last Fiscal Year Revenue	21,848
Last Fiscal Year EPS	1.51
Last Fiscal Year EBITDA	4,348
Forward Revenue Growth (5-yr)	3.9%
Forward EPS Growth (5-yr)	15.4%

Dividend Vitals

Current Annual Dividend Yield %	2.1%
Annual Dividends Per Share	0.88
Forward Dividend Payout Ratio	39.1%
3-yr Historical Dividend CAGR	-22.4%
15-yr Historical Dividend CAGR	1.9%
3-yr Hist Median Div Payout Ratio	53.6%
15-yr Hist Median Div Payout Ratio	51.7%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,052.75	22.00
50	2,105.50	44.00
100	4,211.00	88.00
200	8,422.00	176.00
300	12,633.00	264.00
400	16,844.00	352.00
500	21,055.00	440.00
1,000	42,110.00	880.00
2,000	84,220.00	1,760.00
5,000	210,550.00	4,400.00
10,000	421,100.00	8,800.00
50,000	2,105,500.00	44,000.00
100,000	4,211,000.00	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 — EXCELLENT / 3.5

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. Abbott scores a 3.5 on our Dividend Cushion™, which is EXCELLENT.

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. Abbott registers an GOOD rating on our scale, and we think the firm's annual dividend will be $1.29 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. Abbott registers a score of MEDIUM on our scale.

Dividend Strength

Dividend Safety \ Dividend Growth	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-99	0.66	0.0	1.57	42.0%
Dec-00	0.74	12.1	1.78	41.6%
Dec-01	0.82	10.8	0.99	82.8%
Dec-02	0.92	12.2	1.78	51.7%
Dec-03	0.97	5.4	1.75	55.4%
Dec-04	1.03	6.2	2.02	51.0%
Dec-05	1.09	5.8	2.16	50.5%
Dec-06	1.16	6.4	1.12	103.6%
Dec-07	1.27	9.5	2.31	55.0%
Dec-08	1.41	11.0	3.03	46.5%
Dec-09	1.56	10.6	3.69	42.3%
Dec-10	1.72	10.3	2.96	58.1%
Dec-11	1.88	9.3	3.02	62.3%
Dec-12	2.01	6.9	3.75	53.6%
Dec-13	0.56	-72.1	1.50	37.3%
Dec-14	***0.88***	***57.1***	***2.25***	***39.1%***
Dec-15	*0.99*	*12.0*	*2.49*	*39.5%*
Dec-16	*1.08*	*10.0*	*2.70*	*40.1%*
Dec-17	*1.19*	*10.0*	*2.91*	*41.0%*
Dec-18	*1.29*	*8.0*	*3.10*	*41.5%*

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 Abbott, please visit our website at www.valuentum.com

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Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 20-Jul-2014 | Data as of 25-Apr-2014

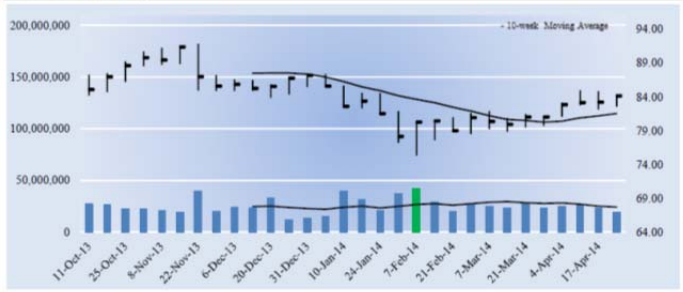
Philip Morris PM FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$84.11	$62.00 - $94.00	HEALTHY	GOOD / 1	GOOD	4.47%

Philip Morris' dividend is poised for dividend growth, but its dividend metrics could be healthier.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	4.47%
Annual Dividends per Share	$3.76
Initial Annual Div's Paid, $10k Investment	$447.03
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	1.0
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.

Company Vitals

Market Cap (USD)	$136,426
Avg Weekly Vol (30 wks)	25,318
30-week Range (USD)	75.28 - 91.81
Valuentum Sector	Consumer Staples
Last Fiscal Year Revenue	80,029
Last Fiscal Year EPS	5.29
Last Fiscal Year EBITDA	14,706
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	9.3%

Dividend Vitals

Current Annual Dividend Yield %	4.5%
Annual Dividends Per Share	3.76
Forward Dividend Payout Ratio	71.9%
3-yr Historical Dividend CAGR	10.1%
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	62.3%
15-yr Hist Median Div Payout Ratio	0.0%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	2,102.75	94.00
50	4,205.50	188.00
100	8,411.00	376.00
200	16,822.00	752.00
300	25,233.00	1,128.00
400	33,644.00	1,504.00
500	42,055.00	1,880.00
1,000	84,110.00	3,760.00
2,000	168,220.00	7,520.00
5,000	420,550.00	18,800.00
10,000	841,100.00	37,600.00
50,000	4,205,500.00	188,000.00
100,000	8,411,000.00	376,000.00

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

Dividend Safety / Cushion — GOOD / 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. Philip Morris scores a 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. Philip Morris registers an GOOD rating on our scale, and we think the firm's annual dividend will be $4.36 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. Philip Morris registers a score of MEDIUM on our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	0.00	0.0%
NA	0.00	0.0	40.97	0.0%
NA	0.00	0.0	40.17	0.0%
NA	1.00	0.0	3.32	0.0%
NA	2.24	124.0	0.00	0.0%
NA	2.44	8.9	0.00	0.0%
Dec-11	2.82	15.6	5.04	56.0%
Dec-12	3.24	14.9	5.20	62.3%
Dec-13	3.58	10.5	5.29	67.7%
Dec-14	*3.76*	*5.0*	*5.23*	*71.9%*
Dec-15	*3.95*	*5.0*	*5.70*	*69.3%*
Dec-16	*4.11*	*4.0*	*6.50*	*63.2%*
Dec-17	*4.23*	*3.0*	*7.34*	*57.6%*
Dec-18	*4.36*	*3.0*	*8.23*	*52.9%*

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 Philip Morris, please visit our website at www.valuentum.com

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Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 12-Aug-2014 | Data as of 8-Aug-2014

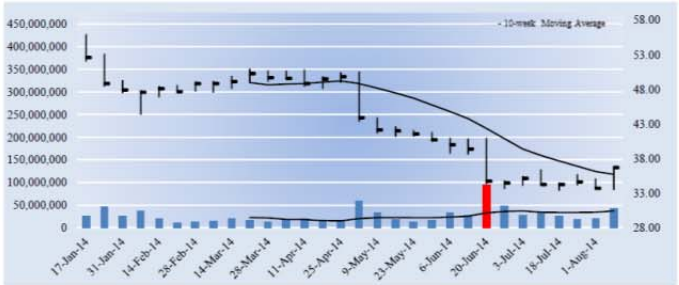
Coach COH UNDERVALUED 6.2%

Buying Index™ 6 Value Rating ✓

Last Close	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
$36.71	$39.00 - $59.00	HEALTHY	GOOD / 1.9	EXCELLENT	3.68%

Coach's dividend looks solid.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	3.68%
Annual Dividends per Share	$1.35
Initial Annual Div's Paid, $10k Investment	$367.75
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	1.9
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 Safety \ Dividend Growth	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)	$10,293
Avg Weekly Vol (30 wks)	27,376
30-week Range (USD)	33.38 - 55.98
Valuentum Sector	Consumer Discretionary
Last Fiscal Year Revenue	4,806
Last Fiscal Year EPS	2.79
Last Fiscal Year EBITDA	1,283
Forward Revenue Growth (5-yr)	2.9%
Forward EPS Growth (5-yr)	7.0%

Dividend Vitals

Current Annual Dividend Yield %	3.7%
Annual Dividends Per Share	1.35
Forward Dividend Payout Ratio	70.3%
3-yr Historical Dividend CAGR	11.3%
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	34.3%
15-yr Hist Median Div Payout Ratio	0.0%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	917.75	33.75
50	1,835.50	67.50
100	3,671.00	135.00
200	7,342.00	270.00
300	11,013.00	405.00
400	14,684.00	540.00
500	18,355.00	675.00
1,000	36,710.00	1,350.00
2,000	73,420.00	2,700.00
5,000	183,550.00	6,750.00
10,000	367,100.00	13,500.00
50,000	1,835,500.00	67,500.00
100,000	3,671,000.00	135,000.00

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

Dividend Safety / Cushion — GOOD / 1.9

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. Coach scores a 1.9 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. Coach registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $2.14 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. Coach registers a score of LOW on our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
NA	0.00	0.0	0.11	0.0%
NA	0.00	0.0	0.19	0.0%
NA	0.00	0.0	0.24	0.0%
Jun-03	0.00	0.0	0.40	0.0%
Jun-04	0.00	0.0	0.68	0.0%
Jun-05	0.00	0.0	1.00	0.0%
Jun-06	0.00	0.0	1.27	0.0%
Jun-07	0.00	0.0	1.69	0.0%
Jun-08	0.00	0.0	2.17	0.0%
Jun-09	0.08	0.0	1.91	4.2%
Jun-10	0.38	375.0	2.33	16.3%
Jun-11	0.68	78.9	2.92	23.3%
Jun-12	0.98	44.1	3.53	27.8%
Jun-13	1.24	26.5	3.61	34.3%
Jun-14	1.35	8.9	2.79	48.4%
Jun-15	***1.35***	***0.0***	***1.92***	***70.3%***
Jun-16	*1.55*	*15.0*	*2.11*	*73.5%*
Jun-17	*1.74*	*12.0*	*2.63*	*66.1%*
Jun-18	*1.95*	*12.0*	*3.23*	*60.3%*
Jun-19	*2.14*	*10.0*	*3.91*	*54.7%*

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 Coach, please visit our website at www.valuentum.com

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Valuentum Dividend Growth Newsletter: Volume 3, Issue 9

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

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

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

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

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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).

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