OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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New: Removing Half of the Position in Hasbro (HAS)

Annualized Return	Annualized Goal	Outperformance
14.2%	Mid-High Single Digits	6.7pts

*Please see note below regarding performance measurement.

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"Sometimes the very best ideas for 'new' money are already included in your portfolio. Don't overlook them."
– Brian Nelson, CFA

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

Hasbro Position Now Halved

By Brian Nelson, CFA

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

Sometimes, great companies can become too pricey, and the right move in that case is to take some profits. That's what we're doing with Hasbro (HAS) today.

We're removing half of the company's weighting in the Dividend Growth Newsletter portfolio (see page 5) at $75.50 per share, *a cool 140% gain* since the portfolio's inception. We led the charge in helping investors understand that Hasbro is *not* just a physical toy company, but a licensing giant, but now, our thesis has largely played out. We're retaining half of the position in light of its still-attractive yield characteristics.

We continue to scour our dividend growth coverage universe for new ideas to allocate the freshly-raised capital, but at the moment, we're weighing the prospects of potential capital loss under difficult market conditions versus the incremental income associated with any new position. Sometimes the very best ideas for "new" money are already included in your portfolio. Don't overlook them.

Though we're not giving Greece much credit for the market's recent woes, we do think it has given investors an excuse to take some profits in what has become an overheated stock market. We continue to look for sources of cash, and we've been warning investors about extended valuations for some time. The most "over-extended" sectors remain the dividend-growth-heavy consumer staples and healthcare arenas. An aura of caution is in order.

In this edition, we wanted to apologetically recognize Dividend Aristocrat HCP's underperformance since we added it to the newsletter portfolio and further outline our valuation thoughts on Kinder Morgan (KMI), a position we recently removed. The newsletter portfolio now reflects PPL Corp's (PPL) spin-off of Talen Energy (TLN), which it inherited. We hope you enjoy this edition, and please don't forget to visit our website for all of our research and analysis.

Maintaining Our Small Position in HCP

By Kris Rosemann and Brian Nelson, CFA

Dividend Growth Newsletter portfolio holding HCP's (HCP) shares have been under pressure as of late, and we're not happy about it.

Part of the reason we were drawn to HCP, and we posit that many others were lured by the same attribute, was that it is the only REIT that is included in the coveted S&P 500 Dividend Aristocrats index. At the time it was added in 2012, there were only 50 companies in all that fit the bill of 1) a market capitalization in excess of $3 billion and 2) a track record of raising their dividends in each of the past 25 years. Though HCP's fundamental quality has deteriorated since we added it, some of the share price pressure has been driven by concerns regarding a tightening credit cycle and rising rates.

But not all of it.

There's no easy way of saying it, but HCP has been an underperformer, a black-eye on our otherwise near-pristine track record. In fact, since we added HCP to the Dividend Growth Newsletter portfolio in mid-September of last year, it has trailed the Vanguard REIT ETF (VNQ), which lists Simon Property Group (SPG), Public Storage (PSA), Equity Residential (EQR), Health Care REIT (HCN), and AvalonBay (AVB) as its top five holdings, by nearly 15%. The orange line is the Vanguard REIT ETF, while the stock chart is that of HCP.

It hasn't worked out that well thus far.

The reasons behind the underperformance are not all that surprising.

On March 30, HCP cut its outlook for the calendar year 2015 after amending its master lease with HCR ManorCare, whose properties include 333 post-acute, skilled nursing facilities and account for ~25% of HCP's proforma portfolio income. In April, HCP allowed for a net reduction of $68 million in annual rent from HCR, to $473 million before asset sales, and increasing 3% annually thereafter. Though the length of HCR's initial lease has been increased by 5 years to 16 years and HCP will receive fee ownership in nine new post-acute facilities valued at $275 million, the change in its outlook for adjusted funds from operations speaks loudly and clearly about the net adjustment of the transaction. The executive team even tried to sweeten the news by saying the amended terms

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"strengthen" lease coverage and that its portfolio will be optimized by selling 50 non-strategic assets by early 2016, but HCP lowered its 2015 adjusted funds from operations guidance to $3.06-$3.12 per share from $3.15-$3.21 per share previously.

Our ongoing concerns perhaps require more explanation.

In HCP's 2014 10-K, released February 10, the firm acknowledged the ongoing civil investigation of HCR ManorCare by the U.S. Department of Justice, the Department of Health and Human Services, Office of Inspector General, and certain state attorneys general offices. Since then, the proceedings have intensified. The government has intervened and filed a consolidated complaint against HCR ManorCare that includes three False Claims Act lawsuits. The lawsuits, released on April 20, contend that HCR provided rehabilitation therapy services to Medicare beneficiaries that were not medically reasonable or necessary. According to the accusations, the firm knowingly and routinely submitted false claims to Medicare and Tricare for the unnecessary services. ManorCare insists that it is in full compliance with billing guidelines, and that it will "vigorously defend (itself) in court." This will likely take a significant amount of time and costs.

Given the developments in the first half of 2015, our outlook on HCP has understandably become more cautious. Though we like the firm's fundamental strengths and its diverse portfolio--it has more than 1,100 properties--a large portion of its revenue, and ultimately cash flow, has become more unpredictable, making its dividend prospects more unstable. For those that know us well, this is certainly not a typical characteristic of a holding in our Dividend Growth Newsletter portfolio. We've given the company the benefit of the doubt up until now, but its equity performance is telling us a different story.

As we noted when we added shares to the Dividend Growth Newsletter portfolio, we were drawn by the REIT's historical consistency of dividend increases. But frankly, we know better than to put too much emphasis in past performance, which as they say, is history. At the moment, we're not rushing into action, but we wanted to let you know that the situation has our complete attention, and coupling such developments with the coming of rising interest rates, we're not as comfortable as we once were in holding HCP's shares.

At less than 2% of the Dividend Growth Newsletter portfolio, however, we're going to continue to wait out the storm, as we think management won't give up its dividend growth track record without a die-hard fight. Shares currently yield 6%, and while the following may seem somewhat counterintuitive, we may "consider selling" if shares reach the 6.5%-yield threshold. At that level, the market, from our perspective, would implicitly be factoring in a potential dividend cut by this Aristocrat, and we certainly don't want to stick around for that.

The takeaway from HCP is clear: we're never going to let an entity's historical dividend track record have such a high influence on our investment-making decisions anymore. We're going to remain laser-focused on future fundamentals, where we've given great weight in every other case.

Kinder Morgan's Fair Value: $29 Per Share

By Brian Nelson, CFA

- We are initiating institutional equity research coverage of Kinder Morgan (KMI) with a fair value estimate of $29 per share and a Very Poor dividend safety rating.
- Valuentum has received significant attention in recent weeks following President Brian Nelson's articles that collectively offered 10 reasons why we expect shares of Kinder Morgan to collapse.
- We believe prevailing conflicts of interests from brokerage research houses and credit rating organizations have created a debt-infused stock bubble propped up by a "circular flow of unsubstantiated support."
- In this article, we provide the backbone of our estimates in calculating Kinder Morgan's intrinsic worth to further the discussion for investors.

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We are initiating institutional equity research coverage of Kinder Morgan with a fair value estimate of $29 per share and a Very Poor dividend safety rating. There are two reasons why we are making our institutional work on Kinder Morgan publicly available, and we think both are consistent with our service to the investor. In our opinion:

1) the incidence of incorrectly-applied valuation methodologies that use debt-infused, financially-engineered dividends as the foundation for intrinsic worth estimation have artificially propped up Kinder Morgan's stock price. In instances where dividends are not organically-derived, we believe an enterprise free cash flow to the firm (FCFF) model is the most appropriate model to value entities.

Our view is that investors are being "misled" to believe that Kinder Morgan can cover its dividend with organically-derived free cash flow, as measured by the traditional and widely-accepted definition of free cash flow--cash flow from operations less all capital spending. By our estimates, Kinder Morgan cannot cover its dividend by this measure, and we encourage management to make clear non-GAAP disclosures to this effect.

In the case of a corporate, we believe the non-GAAP measure of free cash flow is more informative than the non-GAAP measure of distributable cash flow, which is primarily reserved for use within the master limited partnership--MLP--universe. Kinder Morgan is a corporation, not an MLP, and we believe that its "newly-consolidated" business structure has increased financial transparency where investors can now more appropriately apply traditionally-accepted valuation techniques to shares with confidence.

Investors should no longer be swayed from their very own common sense with the argument that somehow because Kinder Morgan is an energy pipeline owner/operator that long-held academic and professional valuation approaches do not apply to it. Kinder Morgan, as with any other company, is objectively a future free cash flow stream and a capital structure like any operating corporate, and it should be valued as such.

We maintain our view that all companies invest considerable growth capital into their business to grow cash flow from operations, and executive teams for most corporates in these cases still report non-GAAP free cash flow, not distributable cash flow, and determine dividend policy on a target of such non-GAAP free cash flow and/or earnings. Kinder Morgan's maintenance capital spending is on pace to surpass $600 million in 2015, up ~20%, while total capital spending is budgeted ~$4.2 billion for the year, and that excludes ~$3.1 billion related to the Hiland acquisition.

The breakdown of Kinder Morgan's maintenance capital, growth capital, and acquisition capital may be attractive by most measures, but its composition is not that different from other maintenance capital-light corporates, where distributable cash flow is not applied in the context of dividend policy. We acknowledge Kinder Morgan's attractively-low maintenance capital spending, but maintain our view that all capital outlays are vitally important to the valuation context. If we assume that all growth capital for every company will be value-creative, then analysis is not being performed. The time value of money in terms of growth capex outflows coupled with cash inflows matters.

From our experience across our 1,000+ equity coverage universe, corporates do not continuously borrow or issue equity to pay a growing dividend when their growth and acquisition plans significantly and consistently exceed operating cash flow generation year-after-year...after year. In these cases, corporates do not pay a dividend at all. We posit that, if all corporates were allowed this "luxury," there would be little need for the generation of free cash flow, or earnings, at all in paying out an outsize dividend to investors.

2) the rating methodologies that assign investment-grade marks to credits that have ~6 times reported Debt-to-EBITDA metrics, aggressive growth and acquisition capital plans, and are currently paying out more than 5 times annual traditional free cash flow, as measured by cash flow from operations less all capital spending, as dividends are not appropriately evaluating all credit risk in the context of the entity's total cash, debt-like obligations, in our view.

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The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
14.2%	Mid-High Single Digits	6.7pts

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

Company Name	First Purchase	Avg Cost ($)	# of Shares	Total Cost ($)	Interim	Current Value ($)	% of Portfolio	Exp. Yrly Div's ($)
Altria (MO)	12/30/2011	29.65	202	5,996.30	48.90	9,877.80	6.2%	420.16
Apple (AAPL)	7/24/2013	63.17	77	4,870.76	126.14	9,712.78	6.1%	160.16
Cisco (CSCO)	11/14/2014	26.15	100	2,622.00	27.25	2,725.00	1.7%	84.00
Coach (COH)	9/19/2014	37.55	80	3,011.00	35.10	2,808.00	1.8%	108.00
Energy Sector SPDR (XLE)	4/1/2015	77.86	62	4,827.50	74.00	4,588.00	2.9%	127.71
Energy Transfer (ETP)	12/30/2011	45.85	142	6,517.70	51.44	7,304.48	4.6%	576.52
General Electric (GE)	10/21/2013	26.18	240	6,290.20	26.51	6,362.40	4.0%	220.80
Hasbro (HAS)	12/30/2011	31.89	110	3,514.90	75.50	8,305.00	5.2%	202.40
HCP (HCP)	9/19/2014	40.11	75	3,015.25	36.77	2,757.75	1.7%	169.50
Intel (INTC)	12/30/2011	24.25	289	7,015.25	30.11	8,701.79	5.5%	277.44
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	98.25	10,512.75	6.6%	321.00
Medtronic (MDT)	12/30/2011	38.25	157	6,012.25	73.84	11,592.88	7.3%	191.54
Microsoft (MSFT)	12/30/2011	25.96	154	4,004.84	44.31	6,823.74	4.3%	190.96
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	79.54	8,351.70	5.2%	278.25
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	29.59	7,042.42	4.4%	354.62
Realty Income (O)	7/24/2013	44.35	60	2,668.00	44.93	2,695.80	1.7%	136.20
Talen Energy (TLN)	6/1/2015	Spin off	29	Spin off	17.27	500.83	0.3%	NA

Last Trades: KMI removed (6/11/2015). HAS position halved (today).

Cash				2,363.42		48,530.62	30.5%	3,819.26
Dividend Growth Portfolio				100,000.00		**159,193.74**	100.0%	**TBD**

DG Portfolio Annualized Return (from inception through current date)	**14.2%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)	7.5%
DG Portfolio Annualized Return Outperformance	**6.7%**

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 July 1, 2015. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

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

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

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We believe the need for independent corporate credit rating agencies, such as Valuentum or other providers, that are not directly paid by the issuer to rate the issuer's very own debt has never been more evident than in this instance. We believe the rating agencies are using adjusted EBITDA that has already been effectively "claimed" by management's aggressive and die-hard dividend growth plans. It's an "either-or" situation. Either the debt is investment-grade or the dividend can be sustained -- but not both, in our opinion.

We think there resides a clear disconnect between Kinder Morgan's credit rating and other credits with similar leverage and cash-flow profiles, and especially with ones that have such profiles and are paying out 5 times consistent annual, documented, and fully-consolidated free cash flow generation as dividends.

We believe Kinder Morgan's true implied financial leverage, including all cash, debt-like obligations is 19 times. Kinder Morgan has $10.5 billion in debt maturing during the next 5 years, with over $3 billion due in 2017 alone. If this implied leverage is investment grade, we encourage corporates with lower levels of implied leverage and less liquidity or refinancing needs to make a case that they be considered for investment-grade marks, too.

In our previous work, we have defined the intersection of dividend growth models that use financially-engineered dividends and credit ratings that effectively "ignore" the collective magnitude of all future cash claims on the business a "circular flow of unsubstantiated support," creating what we describe to be a debt-infused stock bubble in Kinder Morgan's shares.

This research piece covers only our independently-derived fair value estimate of Kinder Morgan's shares through the lens of an enterprise free cash flow model, which we believe is the appropriate framework to evaluate shares in full financial transparency.

An enterprise free cash flow model sums the present value of future free cash flows to the firm (FCFF) and deducts total debt, net of cash, to arrive at total equity value, which is then divided by weighted average diluted shares outstanding to arrive at the entity's equity value per share.

We encourage commenters to read President Brian Nelson's two previous pieces on Kinder Morgan, which collectively outline 10 major concerns we have with the financial health of the entity.

Kinder Morgan's Investment Highlights

• Kinder Morgan is the largest midstream energy company in North America, with ~80,000 miles of pipelines and 180 terminals. It recently re-consolidated its holdings in Kinder Morgan Energy Partners (formerly KMP), El Paso Pipeline Partners (formerly EPB and Kinder Morgan Management (formerly KMR). Kinder Morgan's operations are conducted through the following business segments: natural gas pipelines, CO2, products pipelines, terminals, and Kinder Morgan Canada.

• Kinder Morgan's business strategy is to 1) focus on stable, fee-based energy transportation/storage assets in expanding markets within North America, 2) increase utilization of its assets while controlling costs, 3) leverage scale from incremental acquisitions and expansions of assets that fit within its strategy, and 4) maximize the benefits of its financial structure. The company is doing a decent job executing upon its strategy, but its capital structure will work against its dividend growth plans, potentially creating a not-so virtuous cycle for stakeholders. The firm's reported and implied leverage are staggering (~6 and ~19 times, respectively).

• The convoluted structure of the Kinder Morgan umbrella has changed, as KMI purchased all of its subsidiaries KMP, KMR, and EPB. Surprisingly, the combined entity receives investment-grade marks from the credit-rating agencies, and to please the dividend growth crowd, the 'new' KMI expects 10% annual growth in the dividend from 2015-2020. In our view, however, KMI's debt is 'junk' status, and its equity and dividend are significantly vulnerable.

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Business Quality

Business Quality	ValueCreation™			
ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

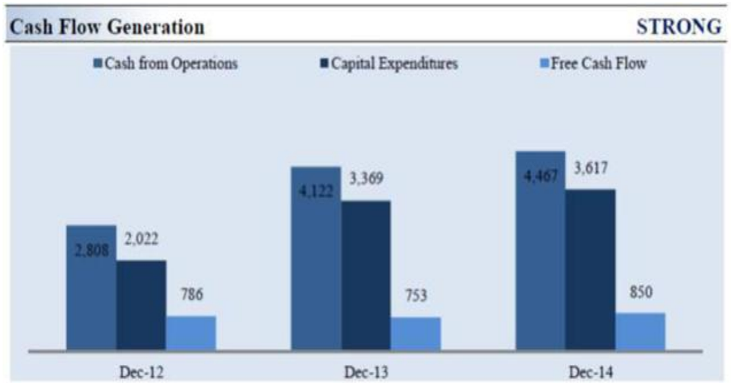
Relative Valuation	Forward P/E	PEG	Price / FV
Energy Transfer Partners	34.6	0.6	88.9%
NuStar	17.3	5.3	105.7%
Spectra Energy	27.2	2.2	98.9%
Williams Co	58.4	NMF	128.1%
Peer Median	30.9	2.2	102.3%
Kinder Morgan	**43.5**	**5.8**	**136.3%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	14,070	16,226	16,307
Revenue, YoY%	41.1%	15.3%	0.5%
Operating Income	3,891	4,723	4,747
Operating Margin %	27.7%	29.1%	29.1%
Net Income	1,197	1,026	1,946
Net Income Margin %	8.5%	6.3%	11.9%
Diluted EPS	1.16	0.90	0.91
Diluted EPS, YoY %	-3.9%	-21.9%	0.7%
Free Cash Flow (CFO-capex)	753	850	914
Free Cash Flow Margin %	5.4%	5.2%	5.6%

In Millions of USD (except for per share items)

Cash Flow Analysis



The bars above show the firms operating cash flow, capital expenditures, and free cash flow, respectively.

The free cash flow measure shown above is derived by taking cash flow from operations less all capital expenditures and differs from enterprise free cash flow (FCFF), which we use in deriving our fair value estimate for the company. At Kinder Morgan, on a fully-consolidated, restated, and audited basis, cash flow from operations increased about ~60% from levels registered two years ago, while capital expenditures expanded about ~80% over the same time period.

On the basis of our projections, we expect Kinder Morgan's free cash flow, as measured by cash flow from operations less all capital expenditures, to be consistent with performance during the past three years in 2015. Traditional free cash flow, as defined above excludes acquisition expenditures.

Valuation Analysis

What we want you to take away from our projections in our valuation model is how generous they are, but yet how we're still having trouble getting anywhere near Kinder Morgan's share price, which we posit is artificially propped up by a debt-infused dividend. We think Kinder Morgan's shares are worth $29 each, which represents a price-to-earnings (P/E) ratio of ~32 times last year's earnings and an implied EV/EBITDA multiple of ~14 times last year's EBITDA. We think these implied multiples are reasonable, if not extremely generous.

Kinder Morgan's fully-consolidated, audited reported EBITDA was $6.763 billion, $5.697 billion, and $4.006 billion in 2014, 2013, and 2012, respectively. The company's annualized pace for 2015, as of the first quarter, is $7.35 billion, but this measure includes an "add back of (its) share of certain equity investees' DD&A and is before certain items."

We encourage investors to calculate these numbers from the firm's fully-consolidated form 10-k and its most recent quarterly earnings report, respectively. We think management's segment "EBDA" measures are not as helpful to use in valuation; instead, we think they significantly overstate profitability.

Our model reflects a compound annual revenue growth rate of ~7% during the next five years and a 5-year projected average operating margin of ~29%, which is above Kinder Morgan's trailing 3-year average. Our average EBITDA margin is ~41.8% during the next five years (roughly in line with that of the past three years), resulting in an annual EBITDA CAGR of 8%+ over our 5-year discrete forecast period.

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These forecasts result in aggregate operating cash flow generation of ~$33.2 billion during the next five years. Our forecasts for total capital spending are ~$4.2 billion, ~$4.2 billion, ~$4.1 billion, ~$3.9 billion, and ~$3.6 billion in each of the next five years and do not include any acquisition spending, collectively ~$20 billion. Importantly, as in the case today, Kinder Morgan has a knack for spending growth capital, and we don't expect that to change.

By extension, we expect Kinder Morgan to generate ~$13.2 billion in free cash flow during the next five years, but we forecast its cash dividend obligations to shareholders over the same 5-year period to be $30+ billion, which reflects the compounding dynamics of aggressive share issuances and a 10% CAGR in the per-share dividend. This supports Kinder Morgan's Very Poor dividend safety rating. Currently, Kinder Morgan has ~2.14 billion weighted average shares outstanding.

We calculate Kinder Morgan will generate ~$28.2 billion in earnings before interest before taxes, in aggregate, during the next five years. Please note that we are assuming in our valuation model that Kinder Morgan will not pay any cash taxes at all over the next five years due to tax benefits from the re-consolidation. The traditional measure is earnings before interest, after taxes. We assume net new investment, or the net of total capital spending and depreciation, to be ~$7.5 billion during the next five years.

By extension, we assume that aggregate enterprise free cash flows over the next five years will be ~$20.7 billion. We then tax-effect earnings before interest in years 5-20 at a ~21% rate (its average effective tax rate during the past three years) and fade Kinder Morgan's free-cash-flow-to-the-firm growth rate from 7.5% to ~3% over the corresponding 15-year period (~5.3% average). In the event of using Kinder Morgan's internally-applied tax shield of ~36%, our fair value estimate would be lower. Free cash flow to the firm in Year 6 is $5.2 billion and in Year 20 is $10.5 billion. We use a standard perpetuity function for free cash flow to the firm at a 3% growth rate in Year 20.

One of the primary areas of concern that we have with the traditional discount methods applied to reaching Kinder Morgan's intrinsic worth, whether it be through a dividend discount model or other, is the potential application of a ~3.3% discount rate, as management outlined in its presentation slide deck in May (page 26). To put this bluntly, a rate this low is absurd. Valuations using a 3%-5% discount rate are not reasonable. The implications on intrinsic worth as the discount rate approaches zero are amplified, significantly reducing the integrity of any value estimate (especially if any growth, even modest, is assumed in the perp).

This is worth repeating. We think a ~3% discount rate makes little sense in terms of an investor hurdle rate, and we posit a high-single-digit discount rate is much more appropriate given both the corporate's existing leverage and non-existent cash cushion to pay out dividends organically. The discount rate should match the average expected rate over the duration of the cash flows of its assets, or into the perp, not that of today. Kinder Morgan may have unlevered project returns of 8%-12%, but that's very close to its cost of capital in our opinion. The company's ~3.3% 'Analyst Day Hurdle Rate' assumption is "fantasy" when it comes to long-term intrinsic value estimation.

We assign Kinder Morgan the lowest cost of equity measure in our coverage universe at ~8.9% and assume a 6.6% long-term after-tax cost of debt, which we think is reasonable in light of evaluating long-term intrinsic worth. We discount future enterprise free cash flows at ~8%, our estimate of the company's true cost of capital. We disclose the value breakdown, by phase, from our valuation model below.

Of note, we value over 1,000 equities, and Kinder Morgan is a significant anomaly in our valuation process, which is why we're issuing ongoing warnings to investors. We view this as a necessary duty. Please see the footnote for how we account for the firm's tax holiday.

Please see *Kinder Morgan…*on next page

*Kinder Morgan…*from previous page

Wrapping Things Up

We see little justification for Kinder Morgan's existing share price of ~$40 per share, let alone the price targets out there north of $50 per share! According to a recent tally, nearly 77% of 'tracked' analysts view shares as a 'Buy' and ~18% a hold.

All three of the major credit rating agencies rate this company investment-grade, with at least one "hiding" behind terminology such as a "weak" investment-grade. With Kinder Morgan expected to issue boatloads of equity and debt in coming years, we'd be surprised to see anything different. The conflicts of interests at work that are perpetuating this "circular flow of unsubstantiated support" couldn't be more evident, in our view. The company's Valuentum Buying Index rating is a 1, the worst on our scale.

We trust you find our independent opinion and valuation informative, if not surprising. Thank you for reading!

Interest Rates: REITs vs. Financials

By Kris Rosemann and Brian Nelson, CFA

Since the peak of the Financial Crisis, the yield on the 10-year Treasury, a proxy for the risk-free rate within the valuation context, has been in a steady decline (see image above), but a strong bounce in rates since February continues to have the market on edge. Often moving in relation to Treasury yields are REITs and financial firms, though in opposite directions. Generally speaking, as interest rates rise, REITs experience selling pressure as investors opt for higher-yielding risk-free assets, while the opportunity to generate higher spread income is augmented with higher rates, sparking potential buying across the banking universe.

The Fed continues to mull its options with how to build a "stimulus" cushion in advance of the next impending economic downturn, the timing of which is the only uncertainty, and such posturing has created an aura of uncertainty with the pricing performance of REITs and financial institutions. The Fed's most recent release suggests that there is a slight increase coming later this year, another in late 2016, and another in late 2017, but there are varying opinions on the proper timing of the increases. Our view is that we won't see a rate hike until about 6-9 months after the equity markets "roll over," and that hasn't happened. The S&P 500 still remains in a confirmed uptrend.

Please see *Interest Rates…*on page 13

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

By Valuentum Analysts

The table below showcases firms in our coverage universe that have high Valuentum Buying Index™ ratings and strong dividend growth prospects. The table represents a list of interesting dividend-paying stocks that are *among* the most timely 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.

Company Name	Symbol	Industry	Div Yield	VBI	Div Growth	Div Cushion
Meridian	VIVO	Diagnostic Substances	4.5%	7	GOOD	1.7
Realty Income Corp	O	REIT - Retail	4.4%	6	EXCELLENT	2.0
Healthcare Realty Trust	HR	REIT - Healthcare	4.2%	6	GOOD	2.1
Ventas	VTR	REIT - Healthcare	4.1%	6	EXCELLENT	1.6
Tupperware	TUP	Containers & Packaging	4.0%	6	EXCELLENT	1.3
Retail Properties of America	RPAI	REIT - Retail	3.8%	6	EXCELLENT	2.8
Reynolds American	RAI	Tobacco	3.8%	6	GOOD	1.2
Superior	SUP	Auto Parts Suppliers	3.7%	6	GOOD	2.2
General Electric	GE	Conglomerates	3.7%	7	GOOD	2.0
GameStop	GME	Specialty Retailers	3.6%	6	EXCELLENT	3.3
Ameren	AEE	Utilities	3.5%	6	GOOD	1.5
Unilever PLC	UL	Food Products - Large	3.4%	6	EXCELLENT	1.3
ABB	ABB	Electrical Equipment - industrial	3.4%	6	GOOD	1.5
Schweitzer-Mauduit	SWM	Paper Products	3.3%	6	EXCELLENT	1.8
Coach	COH	Luxury - Ultra & Aspirational	3.2%	6	EXCELLENT	2.1
Diebold	DBD	Commercial Services	3.2%	6	GOOD	2.1
Emerson Electric	EMR	Electrical Equipment	3.2%	7	EXCELLENT	2.3
Lexmark	LXK	Computer Hardware	3.2%	6	EXCELLENT	2.6
Olin Corp	OLN	Chemicals - mid/small	3.2%	7	GOOD	1.4
Caterpillar	CAT	Machinery - agriculture	3.2%	6	GOOD	0.9
Lockheed Martin	LMT	A&D Prime	3.1%	6	EXCELLENT	1.7
CA Tech	CA	Software	3.0%	6	EXCELLENT	2.9
Cracker Barrel	CBRL	Restaurants - Fast Cas & Full Svc	3.0%	6	GOOD	1.4
Hasbro	HAS	Leisure	3.0%	6	EXCELLENT	1.7

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

The Dividend Growth Watch List

By Valuentum Analysts

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

DIVIDEND GROWTH WATCH LIST - as of July 1, 2015

Company Name	Yrly Div's Paid ($)/Shr	Div Yield %	Div Cushion™	Div Safety	Div Growth	Fair Value	VBI Score	Price/Fair Value	Price ($)
3M (MMM)	4.10	2.65%	1.6	GOOD	EXCELLENT	$134.00	6	1.16	154.98
Abbott (ABT)	0.96	1.95%	2.8	EXCELLENT	EXCELLENT	$45.00	6	1.09	49.27
AbbVie (ABBV)	2.04	2.99%	2.3	GOOD	EXCELLENT	$72.00	7	0.95	68.14
ADP (ADP)	1.96	2.43%	5.9	EXCELLENT	EXCELLENT	$94.00	3	0.86	80.81
Analog Devices (ADI)	1.60	2.48%	2.3	GOOD	EXCELLENT	$53.00	6	1.22	64.55
Becton, Dickinson (BDX)	2.40	1.68%	2.7	GOOD	EXCELLENT	$169.00	6	0.84	142.47
Bob Evans (BOBE)	1.24	2.43%	1.7	GOOD	EXCELLENT	$46.00	4	1.11	50.93
Boeing (BA)	3.64	2.59%	2.5	GOOD	EXCELLENT	$141.00	6	1.00	140.53
Chicago Rivet (CVR)	0.72	2.57%	2.9	EXCELLENT	GOOD	$33.00	6	0.85	28.00
Coca-Cola (KO)	1.32	3.35%	1.9	GOOD	EXCELLENT	$43.00	4	0.92	39.40
Colgate-Palmolive (CL)	1.52	2.31%	1.8	GOOD	POOR	$58.00	3	1.14	65.88
Collectors Universe (CLCT)	1.40	6.98%	1.3	GOOD	GOOD	$21.00	6	0.95	20.05
Cracker Barrel (CBRL)	4.40	2.91%	1.4	GOOD	GOOD	$130.00	6	1.16	150.97
Deere (DE)	2.40	2.50%	1.3	GOOD	EXCELLENT	$99.00	6	0.97	95.92
Dover (DOV)	1.60	2.29%	2.1	GOOD	EXCELLENT	$77.00	4	0.91	69.99
DuPont (DD)	1.96	3.18%	1.9	GOOD	GOOD	$63.00	3	0.98	61.54
Eli Lilly (LLY)	2.00	2.36%	2.0	GOOD	GOOD	$70.00	2	1.21	84.58
Exxon Mobil (XOM)	2.92	3.55%	1.3	GOOD	EXCELLENT	$84.00	3	0.98	82.35
General Dynamics (GD)	2.76	1.94%	3.6	EXCELLENT	EXCELLENT	$122.00	3	1.17	142.56
Genuine Parts (GPC)	2.46	2.72%	1.8	GOOD	EXCELLENT	$84.00	6	1.08	90.38
H&R Block (HRB)	0.80	2.69%	4.2	EXCELLENT	GOOD	$34.00	6	0.88	29.77
Harris (HRS)	1.88	2.43%	1.8	GOOD	EXCELLENT	$77.00	3	1.00	77.37
Honeywell (HON)	2.07	2.02%	3.0	EXCELLENT	EXCELLENT	$99.00	7	1.04	102.62
Hormel Foods (HRL)	1.00	1.76%	2.6	GOOD	EXCELLENT	$49.00	3	1.16	56.72
IBM (IBM)	5.20	3.17%	2.4	GOOD	EXCELLENT	$170.00	6	0.97	164.11
Illinois Tool Works (ITW)	1.94	2.08%	2.6	GOOD	EXCELLENT	$82.00	6	1.14	93.16
Kimberly-Clark (KMB)	3.52	3.27%	1.1	GOOD	GOOD	$99.00	4	1.09	107.53
Lockheed Martin (LMT)	6.00	3.20%	1.7	GOOD	EXCELLENT	$169.00	6	1.11	187.50
Merck (MRK)	1.80	3.13%	2.0	GOOD	GOOD	$54.00	3	1.07	57.59
Northrop Grumman (NOC)	3.20	2.01%	2.8	EXCELLENT	EXCELLENT	$137.00	6	1.16	159.48
Occidental Petrol (OXY)	3.00	3.95%	1.3	GOOD	EXCELLENT	$78.00	3	0.97	75.89
Owens & Minor (OMI)	1.01	2.97%	1.7	GOOD	EXCELLENT	$33.00	4	1.03	34.00
Paychex (PAYX)	1.52	3.22%	2.9	EXCELLENT	EXCELLENT	$43.00	3	1.10	47.27
Phillip Morris (PM)	4.00	4.95%	0.5	GOOD	GOOD	$71.00	4	1.14	80.83
Raytheon (RTN)	2.68	2.79%	2.8	EXCELLENT	EXCELLENT	$92.00	6	1.05	96.20
St. Jude (STJ)	1.16	1.58%	3.3	EXCELLENT	EXCELLENT	$67.00	7	1.10	73.41
Texas Instr (TXN)	1.36	2.62%	1.9	GOOD	EXCELLENT	$53.00	6	0.98	51.88
United Technologies (UTX)	2.56	2.32%	1.9	GOOD	EXCELLENT	$119.00	7	0.93	110.40
UPS (UPS)	2.92	3.02%	1.8	GOOD	EXCELLENT	$99.00	6	0.98	96.64
VF Corp (VFC)	1.28	1.79%	2.3	GOOD	EXCELLENT	$63.00	7	1.13	71.36
Verizon (VZ)	2.20	4.68%	-0.3	VERY POOR	VERY POOR	$50.00	4	0.94	46.96
Walgreens (WBA)	1.35	1.58%	3.1	EXCELLENT	EXCELLENT	$74.00	3	1.16	85.48
Wal-Mart (WMT)	1.96	2.75%	1.5	GOOD	EXCELLENT	$79.00	3	0.90	71.26

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 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:

Company Name	Symbol	Industry	Est Div Yield	Div Safety	Div Cushion
Windstream	WIN	Telecom Services - diversified	5.7%	VERY POOR	-30.4
Lennar	LEN	Homebuilders	0.3%	VERY POOR	-28.4
Range Resources	RRC	Independent Oil & Gas	0.3%	VERY POOR	-16.1
Ryder System	R	Rental and Leasing	1.6%	VERY POOR	-14.1
D. R. Horton	DHI	Homebuilders	1.0%	VERY POOR	-12.5
CONSOL Energy	CNX	Industrial Minerals	0.8%	VERY POOR	-11.1
Yamana Gold	AUY	Metals & Mining - gold	1.5%	VERY POOR	-10.6
Chesapeake	CHK	Independent Oil & Gas	1.8%	VERY POOR	-8.0
Cablevision	CVC	Media - CATV	2.9%	VERY POOR	-7.7
Barrick Gold	ABX	Metals & Mining - gold	1.6%	VERY POOR	-7.3
Tidewater	TDW	Energy Equipment	4.3%	VERY POOR	-6.2
Pioneer Natural Resources	PXD	Independent Oil & Gas	0.1%	VERY POOR	-6.0
Newmont Mining	NEM	Metals & Mining - gold	0.4%	VERY POOR	-4.7
MDC	MDC	Homebuilders	3.6%	VERY POOR	-4.3
Hess	HES	Refiners	1.4%	VERY POOR	-4.2
Textainer	TGH	Rental and Leasing	5.6%	VERY POOR	-3.9
Apache	APA	Independent Oil & Gas	1.6%	VERY POOR	-3.4
TAL Intl	TAL	Rental and Leasing	7.0%	VERY POOR	-3.4
Men's Wearhouse	MW	Retail - Men's, Women's, Kids' Apparel	1.2%	VERY POOR	-2.9
Transocean	RIG	Energy Svcs - Offshore Drilling	3.1%	VERY POOR	-2.9
Frontier Comm	FTR	Telecom Services - diversified	8.3%	VERY POOR	-2.6
Murphy Oil	MUR	Refiners	3.1%	VERY POOR	-2.4
Noble Energy	NBL	Independent Oil & Gas	1.5%	VERY POOR	-1.9
Centurylink	CTL	Telecom Services - diversified	6.7%	VERY POOR	-1.8
Koppers	KOP	Building Materials	5.1%	VERY POOR	-1.8
Huntsman	HUN	Chemicals - broad	2.2%	VERY POOR	-1.6
DineEquity	DIN	Restaurants - Fast Cas & Full Svc	3.2%	VERY POOR	-1.5
Quad/Graphics Inc	QUAD	Book Publishing	5.4%	VERY POOR	-1.5
ConocoPhillips	COP	Major Oil & Gas	4.7%	VERY POOR	-1.5
Time Warner Cable	TWC	Media - CATV	1.6%	VERY POOR	-1.4
Service Corp Intl	SCI	Personal Services	1.6%	VERY POOR	-1.3
Cimarex	XEC	Independent Oil & Gas	0.6%	VERY POOR	-1.2
Allegheny Technologies	ATI	Aluminum	2.4%	VERY POOR	-1.1
Regal	RGC	Movie Production	3.9%	VERY POOR	-1.0
Tyson Foods	TSN	Food Products	1.0%	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

***Interest Rates…*from page 9**

Chair Janet Yellen remains adamant that the importance is not in the timing of the first increase but the overall trajectory of the policy. While she is speaking from a much more macroeconomic point of view than we like to take with respect to individual equity analysis, we expect the first increase to immediately impact REITs and the banking industry. A confirmation of an increase will likely set the stage for a prolonged period of contractionary monetary policy. Once the Fed hikes, there's no turning back. All have their reputation on the lines, and the market simply won't stand for fickle behavior. In fact, it punishes it.

It is a widely-held thesis that REIT equity performance is inversely correlated with interest rates, and by simple extension, the impending interest rate hike should spell trouble for REITs, in aggregate. There are a few reasons for this relationship. An investor's required return, or cap rate, will always be a spread above the cost of capital (which is in part influenced by the cost of borrowing and interest rates), therefore tying cap rates and interest rates together. In periods of rising interest rates, property values can be expected to fall to reflect the higher required rates of returns by investors, all else equal. The opposite is true under conditions of falling interest rates.

However, all REITs won't suffer from rising interest rates, as the conditions to warrant contractionary monetary policy often signal increased economic stability or strength and the potential for real rent increases, higher occupancy levels and robust net operating income expansion. These positive factors, in turn, may mitigate the negative impact that a higher discount rate may have on a REIT's intrinsic value altogether. Equity values of REITs can theoretically increase in a credit tightening cycle that is slow, steady and properly managed, as long as the pace of net operating income expansion exceeds the incrementally higher required returns demanded by investors.

On the contrary, financial institutions can move in tandem with Treasury yields, as long as spreads (net interest margins) widen along the way. Banking entities use money to make money, instead of using operating assets and raw materials to drive revenue and resulting free cash flow like that of operating entities. This means that, under conditions of rising interest rates, the likelihood for generating increased spread income could second as a source of upside relative to existing expectations. In the event of rising rates, banks can charge higher rates for loans faster than what they are forced to pay on deposits.

Though rising rates spell opportunity for banks, the major issue we have with the banking industry is the high level of systematic risk prevalent. A lot has changed since the Financial Crisis that saw some of the best-known banking entities fail, but perhaps more has stayed the same. We've seen that risk management and internal controls can still falter, as was made evident by the London Whale incident of 2012. Banks continue to operate on confidence, which can be shaken by opaque events that are beyond the control of executives at the helm. The best idea for investing in financials, in our view, continues to be through diversified exposure, thereby eliminating firm-specific risk.

On that very note, we hold modest positions of two financials ETFs in the Best Ideas Newsletter portfolio, the Financial Select Sector SPDR (XLF) and the SPDR S&P Bank ETF (KBE), primarily for diversification reasons. With these two holdings, accounting for less than 4% of the portfolio together, we're positioned to capture higher potential spread income across the entire banking universe under contractionary monetary conditions, without exposing the portfolio to unforeseen risks associated with concentrated exposure to any one entity.

A similar approach has been taken with REITs. Realty Income (O) and HCP (HCP) make up a combined 3.5% of the Dividend Growth Newsletter portfolio. Realty Income has terrific geographic and industry diversification. Its dividend track record may be second to none, and the firm's dividend prospects are also solid, as should be expected from any dividend growth idea we surface. HCP has some of the best fundamentals in its industry while boasting a tremendous dividend track record in its own right.

We're huge fans of these two REITs, but no matter how much we like them and others, the severe risks associated with heavy REIT exposure in any portfolio with looming interest rate hikes is too much risk to bear. We think a sub-5% weighting for both financials and REITs, individually, will put us ahead when the next shoe drops.

Oracle's Cloud Performance Leaves a Hazy Overall Outlook

By Kris Rosemann

After reporting fourth quarter and full year results for fiscal 2015 on June 17, Oracle (ORCL) shares took a significant hit. It is easy to see the effect foreign exchange rates had on the quarterly results, but there is more to the miss than meets the eye.

In the fourth quarter of fiscal 2015, Oracle reported revenue of ~$10.7 billion, a decrease of 5% as reported, or an increase of 3% on a constant currency basis. Driving the top line lower was a decrease in software and cloud revenue, more specifically new software licenses, where sales dropped 17%; new software licenses make up more than 20% of total revenue. Attempting to offset this significant drop was strong 29% growth in the firm's cloud services business, but this segment currently makes up a measly 3%-5% of total revenue. Though Oracle hit the low end of its revenue expectations for the quarter, Oracle's reported non-GAAP earnings per share was $0.78, compared to guidance in the range of $0.90-$0.96. The company's robust cloud services revenue growth is simply too insignificant to compensate for weak software license performance, and subpar earnings are sounding an alarm bell.

Management would have you believe differently, however. The vast majority of Oracle's quarterly conference call consisted of the C-suite talking about how well the company is positioned to capture the demand of the shift to cloud computing. Though this is true, they failed to sufficiently address, in our view, the near-term sales and earnings pressure from the company's remaining businesses. The light earnings guidance management provided for the current fiscal first quarter of 2016 isn't helping management's case either. The Street walked away concerned from the report for one obvious reason: management is saying one thing, but its financials and outlook reveal another.

Its efforts in the cloud are still notable though. Oracle's $426 million in cloud services new business bookings during its fiscal fourth quarter is the most for any cloud services company in any quarter ever. The company's cloud services revenue is even growing faster than that of its smaller, more-focused competitors, such as Salesforce.com (CRM) and Working Day (WDAY). Salesforce.com is projecting growth in the range of 21%-22% for its current fiscal year, currently in the second quarter, whereas Oracle is expecting growth of its cloud services revenue to push rates near 60% on a constant currency basis for its fiscal 2016. Using its competitors' methodology, Oracle claims its cloud services new business bookings are growing at ~70%, much faster than Salesforce.com and Working Day. The executive suite also indicated that its future revenue stream realized from cloud services bookings can potentially be several times higher than that of its software licensing over a similar ten year agreement period.

We are pleased with ongoing performance in its cloud initiatives, but we don't think the revenue stream should have captured as much attention as it did both in the press release and on the call, especially in light of reported performance. Oracle spent a large portion of its prepared remarks on the quarterly call talking about deferred revenue performance, perhaps in an effort to point investors away from weak overall revenue performance. But not only was deferred revenue roughly flat on a year-over-year basis at the end of fiscal 2015, but the new business bookings for its cloud services were clearly insufficient to offset the reduction in new software licenses revenue expected in the near term. Deferred revenue should have expanded significantly more than what was revealed on the books this past quarter, irrespective of how management tries to explain it away.

If most investors hadn't already written off the quarter as a disappointment, management's non-GAAP guidance for the first quarter of fiscal 2016 left much to be desired. Oracle continues to expect its cloud services business to grow at a terrific rate and for total revenue to grow at a 5%-8% annual pace on a constant currency basis in the current quarter, but foreign-exchange headwinds will surely make reported numbers significantly less impressive.

Please see *Oracle…*on next page

*Oracle…*from previous page

Not only did management say that non-GAAP earnings in the current period are expected in the range of $0.56-$0.59 per share, lower than the $0.60+ per share consensus numbers, but the company said it would discontinue providing GAAP guidance, a huge red flag in our opinion. Such a move suggests to us that management is doing the best it can to mask ongoing poor performance. Oracle's customers are certainly shifting to the cloud, offering fantastic opportunities, but the company's reported results aren't showing it, and weaker-than-expected earnings are increasing shareholder skepticism.

Though the near-term will be bumpy, Oracle is not going away anytime soon, and its balance sheet, flush with $54 billion in cash and marketable securities ($12.4 billion net cash), will help it through the cloud transition. The firm is undoubtedly a great company, but investors get to choose from all of technology for ideas. We continue to prefer other large cap tech ideas, namely Apple (AAPL), Microsoft (MSFT), and Cisco (CSCO), all three of which offer a higher dividend yield than Oracle at the moment.

Nike Is Just Too Pricey of a Stock

By Kris Rosemann

Image Source: Kevin Wu

Nike (NKE) experienced strong growth on its top and bottom lines during fiscal 2015, results released June 25. The branded shoe and apparel giant reported revenue growth of 10% to $30.6 billion, and diluted earnings per share of $3.70, a 25% increase. On a trailing price-to-earnings basis, that puts Nike's multiple at close to 30 times earnings. Even if we look out a couple years to fiscal 2017 (ends in May), Nike is still trading at ~24 times forward earnings on the basis of its current price. That's a pretty penny for a consumer discretionary entity that has ridden the wave of a strong economic environment for the past half-dozen years. Shares are trading at ~$110 at the time of this writing, and we think interested investors will almost certainly have a better entry point at another time.

Gross margin expansion, a lower tax rate, and a lower share count more than offset increased input and logistics costs and SG&A investments, helping to drive the significant pace of bottom-line expansion during the fiscal year. Nike's higher-margin Direct to Consumer (DTC) business, which continues to experience solid momentum, and higher average selling prices across its portfolio helped to drive the higher profit levels. DTC revenues for the year grew 29% to $6.6 billion, excluding the impact of changes in foreign currency. At the end of May, the company had 832 DTC stores, compared to 768 at the same time in 2014. Nike's connection to the consumer and ability to continue to deliver unprecedented

Please see *Nike…*on next page

*Nike…*from previous page

innovation has management excited about the firm's future--take a look at Nike's new releases page. The executive team is quick to point out that growth potential is at an all-time high at the firm.

Apparel and footwear, two product divisions most closely associated with Nike, had solid revenue growth during the fiscal year, highlighted by 13% growth in footwear sales. Though the firm faced revenue pressure in Japan and emerging markets, revenue from North American, Western Europe, Greater China, and its Converse division expanded 12%, 15%, 18%, and 18% respectively, during the fiscal year. Nike brand footwear and apparel worldwide futures orders--to be delivered in the next 6 months--totaled $13.5 billion at the end of May, up 2% from the same time in 2014. The pace of futures growth was 13%, excluding currency changes, however, and we think the market liked the news in this department.

In early fiscal 2016, Nike will stand to benefit from the highest NBA finals viewership since Michael Jordan's Chicago Bulls won their last title in 1998, as more than 75% of NBA players wear Nike or Jordan brand shoes. Nike is the likely choice to win the next NBA jersey contract, now that Adidas (ADDYY) is out of the picture. Nike controls over 90% of the US basketball shoe market, and rivals like Under Armour (UA) own a mere fraction and continue to struggle to make a "splash." Footwear made up ~60% of Nike's revenue in 2015, so the company's turf will be defended at all costs. The growing middle class in China coupled with the growing popularity of the NBA in country, where Nike has a solid foothold already, are other key growth drivers for the shoe giant.

Nike's fiscal 2015 results were great, but largely in-line with what we had been expecting for the year. The company's revenue and earnings per share growth in 2015 puts it ahead of the pace it set for itself to achieve its goal of $36 billion in revenue by 2017, and we'd expect a modest bump to our fair value estimate upon the next update. Nike is well-positioned for continued expansion, and its brand is one of the most recognizable in the world, giving it intangible competitive advantages that won't go away anytime soon. Nike may not have the explosive potential of Under Armor or Lululemon (LULU), but we reiterate our view that Nike has the best business model out of the three.

Williams' Rejection, Medtronic's Hike, eBay's Sale, and Hershey's Disappointment

By Kris Rosemann

Let's catch up on some important news.

Williams Companies Rejects Offer from Energy Transfer Equity

Natural gas pipeline company Williams Companies (WMB) has seen shares jump after Energy Transfer Equity (ETE) confirmed reports that it had made a bid to acquire the company. Despite the all-equity offer of $64 per share representing a 32% premium to Williams' June 19 closing price, the offer was rejected by the firm as significantly too low. ETE has made multiple attempts to talk with Williams' management about a possible merger in the past half year, and ETE has said its offer is contingent on the abortion of Williams' pending purchase of Williams Partners (WPZ). The initial offer came on May 19, six days after Williams Companies announced it would buy Williams Partners for $13.8 billion. The Board of Directors at Williams Companies has approved a process in which it will explore a range of strategic alternatives, including a potential merger, sale of the company, or continuing on the existing growth plan. We wouldn't be surprised if another offer is thrown Williams Companies' way, though we're not rushing to add exposure to the MLP universe at present.

Please see *Recent News…*on next page

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Medtronic Growing Dividend

Dividend Growth Newsletter portfolio holding Medtronic (MDT) declared a $0.38 per share quarterly dividend on June 19, up from its prior quarterly dividend of $0.305 per share, a ~25% increase. The announcement marks the 38th consecutive year of an increase in the company's dividend payment, and including the latest increase, Medtronic's per share dividend has more than tripled over the past 8 years. We have been high on Medtronic's dividend prospects, it has been in the Dividend Growth Portfolio since its inception (1/1/2012); in fact, its stock is the second-highest weighted holding in the portfolio. Medtronic's current dividend payout ratio is ~35% of fiscal year 2016 estimated adjusted diluted earnings per share, and it is targeting a ratio of 40% within the next few years. Along with increasing the dividend, the company's board of directors approved the repurchase of 80 million ordinary shares, or ~6% of total basic shares outstanding, and the firm remains committed to returning 50% of its free cash flow to shareholders. Medtronic's dividend report will be updated with the latest information shortly.

eBay Sells Craigslist Stake

Best Ideas Newsletter portfolio holding eBay (EBAY) sold its 28.4% stake in Craigslist back to the company last week. The position was obtained in 2004 for less than $34 million, and in the closing of the position, all litigation between the two companies will be dismissed. eBay is continuing to focus on its online marketplace, and it is scheduled to spin off its PayPal transactions business in the third quarter of this year. Both of these transactions are efforts by the company to jettison non-central businesses and focus on its core as the Internet space continues to be a rapid developing one. We continue to believe eBay represents one of the rare bargains on the market today.

Hershey's Shares Melting

Hershey (HSY) shares are near their 52-week low after management cut its guidance last week. The company now expects full year 2015 sales to increase 2.5%-3.5% and adjusted diluted earnings per share to be in the range of $4.10-$4.18. Both of these ranges are decreases from initial guidance of 4.5%-5.5% revenue growth and EPS of $4.17-$4.28. The firm's North American segment is on track to deliver on its 2015 financial and market share objectives, but its problems start overseas. The company's China confectionery growth is below expectations, largely due to the slowdown in the Chinese economy affecting the spending behaviors of many consumers. In 2013, Hershey acquired Shanghai Golden Monkey in an attempt to leverage the local brand with iconic Hershey products, but has yet to generate some of the synergies that were forecast. The slowing of growth in China's economy has only made matters worse as Hershey is forced to reassess the value of Shanghai Golden Monkey. Hershey's shares have now converged to intrinsic value.

Why Does Valuentum Only Respond to Member Questions?

By Valuentum Editorial Staff

The answer is obvious:

We always put our members first. "Our research and track record speak for itself. Random and inappropriate comments from anonymous people (robots?) on other websites should not influence your opinion of us…at all. If it has, then the 'haters' and 'Internet trolls' are winning."

Let's explain how we always put members first in a recent email exchange. The following has been edited for clarity and to remove names mentioned in the correspondence.

Valuentum:

FWIW, as a paid subscriber and big fan, your response on other websites on the KMI articles…

Please see *Questions…*on next page

*Questions…*from previous page

…1) frankly sucks, and 2) has shaken my opinion of Valuentum. For better or worse, your lack of author response to reasonable reader comments and alternative views on other websites makes you look less prepared to defend your ideas/conviction and drastically less professional.

I strongly urge you to engage in author discussions on other websites or at least read the comments and respond to the useful comments with follow-up articles. The kind of attention you're getting on other websites is the burning-at-the-stake feeling. Not positive attention without author engagement and defense.

It is odd but the lack of clarity and engagement on other websites has shaken my previously-strong belief in Valuentum. I urge you to see how others interact with their readers of free articles on other websites. It is that sense of community and honest debate that draws me to pay subscriptions and seek new ideas.

Just one guy's opinion who is self-managing a substantial portfolio. I'm not sure how many paid- or non-subscribers have the same or different view. I don't write this lightly; I've considered doing so several times but decided it was your gig.

Anonymous:

We only make ourselves available to members.

Our definition of reasonable does not include insults, belittling or abusive personal attacks, including from those that say our response to random comments on other websites that we do not follow "sucks." The comments on sites other than ours are often completely inappropriate. We've addressed a couple questions on other websites in the past and may not do so again.

Our research and track record speaks for itself. Random and inappropriate comments from anonymous people (robots?) on other websites should not influence your opinion of us…at all. If it has, then the "haters" and "Internet trolls" are winning. We continue to evaluate our relationship with all syndication providers and are under no obligation to continue providing our content through any channel.

We hope that you understand that our value rests in our individual conversation with you not in a conversation on a message board on another website. We think most informed members "get it." We're always available to those that would like to engage in a civil, informative conversation.

Valuentum:

To be clear: I did not say your article sucks. I said your response sucks. I stand by that opinion. Also to be clear, without your prior articles I would not have found your service nor subscribed.

Finally I thought your article was informative. My concern was lack of response and the valid points raised there. No trolls involved. Don't take it personally. Ideas win if well supported.

Please see *Questions…*on next page

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Anonymous:

We've been in this business a long time, and some points that appear valid to some actually make little reasonable sense, and we have no obligation to respond to such comments on other websites. We put our members first at all times, and for that, we would have hoped that you'd come to the opposite conclusion than you did.

Thanks again for reaching out. If you have any questions about our research, please don't hesitate to ask.

Valuentum:

It is indeed a skill to have experience in a given field and positively share that with others less experienced and wise all while not sounding pompous nor unappreciative of both freeloaders and those that pay subscriptions. If there is any question about my actual opinion, please don't hesitate to ask.

Anonymous:

Though opinions may differ, we think it is reasonable that since we rely on intellectual property to maintain our business that we don't distribute our one-on-one thoughts free of charge.

A request of this nature is equivalent to asking the painter to paint one's house for free, or the butcher to hand out prime steaks for no charge, or to fill up a tank of gas at the owner's expense.

But in this case, it is much more than that.

After the painter paints, the butcher provides, and the gas station accommodates, these institutions are then subject to myriad unpleasantries by the very people they have served and provided for.

Our business model is not easy to figure out, but we hope you can understand we're not what one might describe as Wall Street (in fact, we're far from it), and the token price that we charge for a membership and the personal responses we give means that we sincerely care.

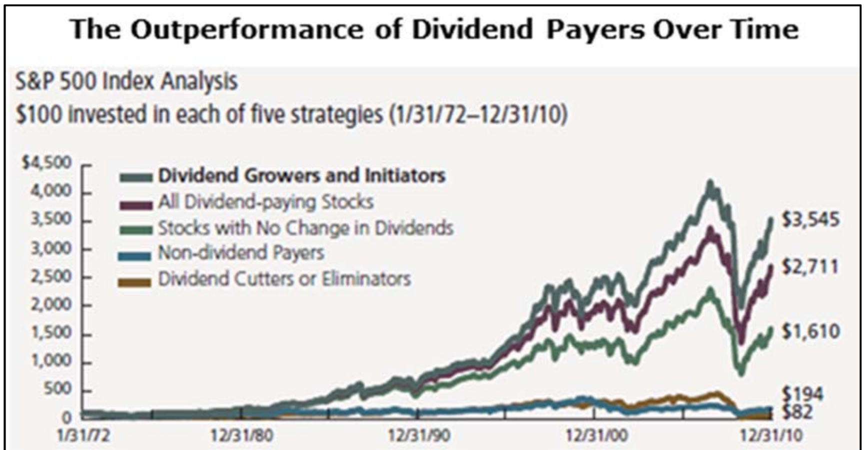
Our best wishes to you and your family,

The Valuentum Team
info@valuentum.com

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

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

(1) Forecast period for ConAgra, 2007 through 2011.
(2) Marriott is an instance where management prematurely cut its dividend, in our opinion. The Cushion reflected little risk at the time of cut, and sure enough Marriott restored its payout to record high
(3) Forecasts adjusted to reflect Sunoco's poor free cash flow trends beyond last reported year.
Backtesting Methodology: Net balance sheet (year prior to dividend cut). Free cash flow for years beginning in year of dividend cut through reported years. If reported years do not total five, last reported year is extrapolated for remainder of forecast period. Dividends paid reflects what the dividends would be ex dividend cut.

At the very least, using the Valuentum Dividend Cushion™ can help you avoid firms that are at risk of cutting their dividends in the future. And we are the only firm out there that does this type of in-depth analysis for you. 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

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

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

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

Understanding Dividend Growth

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

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

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

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

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

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

Valuentum Dividend Growth Newsletter: Volume 4, Issue 7

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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