OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

March 1, 2016
Volume 5 Issue 3

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

We'll be adding a new page 2 to the supplemental dividend reports that can be found on each stock's individual page on the website: www.valuentum.com. We'll be rolling them out with each new industry update!

Annualized Return	Annualized Goal	Outperformance
12.9%	Mid-High Single Digits	5.4pts

*Please see note below regarding performance measurement.

Inside This Issue

"…one thing is clear: the impact of the election of 2016 will be disruptive with wide-ranging implications on several key industries…"
– 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, March 1, 2016, the portfolio is significantly exceeding this goal.

Politics and the Markets

By Brian Nelson, CFA

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

Kris Rosemann
Associate Investment Analyst
kris@valuentum.com

Dividend Growth Ideas: MO, AAPL, CBRL COH, CSCO, XLE, GE, HAS, INTC, JNJ, MDT, MSFT, O, PG, PPL (TLN), VNQ

Latest Dividend Growth Portfolio Alerts

February 17: Added 99 shares of CSCO

February 9: Removed HCP

February 1: Added 18 shares of CBRL
Added 32 shares of VNQ

All email transaction alerts are emailed from the account info@valuentum.com.

Image source: DonkeyHotey

I personally cannot believe how long this election cycle has been.

Have we really had 10 Republican debates? It seems like the town halls are adding up, too? If it wasn't for Apple's (AAPL) run-in with the FBI, one might have not known that former producer of McAfee anti-virus software John McAfee may run as the Libertarian Party candidate, and what about Michael Bloomberg? Could the latter play spoiler to Donald Trump's hopes for the oval office if he divides the Republican vote? Or will traditional Republicans that prefer anyone else but "the Donald" donate to Hillary Clinton's candidacy in the general election, should she triumph over the first democratic socialist of the "millennial era," Bernie Sanders. Will we see Rand or Ron Paul run, too? The future of America hangs in the balance.

At the very least, these past many months have been entertaining, if not annoying and sometimes frustrating for the average, everyday voter. It seems given the popularity of Mr. Trump and Senator Sanders that America certainly wants change – but isn't that what the country was served up under President Barack Obama? The election coverage is enough to make the heads of both Republicans and Democratics spin! Is Mr. Trump really feuding with the pope? Did the real estate guru really tell Governor Chris Christy to "go home" right after his endorsement or was that the media taking things out of context? By the way, did you know the average

Please see *Politics and Markets*…on next page

***Politics and Markets*…from previous page**

contribution for the Bernie Sanders campaign is $27 – have we heard that a couple times? What about Jeb Bush suspending his candidacy, despite help from the respectful Bush dynasty, even the 41st President himself and his lovely wife -- and how did such a move end up only fueling greater gains for Trump in Nevada? Mr. Trump continues to "win," and why hasn't he and Megyn Kelly made up yet?

The mudslinging during this election cycle has been tremendous.

What's the latest on Hillary's emails, and why is it important that she release her previous speeches made to Wall Street? Why is former Republican nominee Mitt Romney now bashing another Republican candidate -- and does anybody truly want to see Trump's tax returns besides the IRS? What is there to gain from a Romney-Trump brawl? Even Marco Rubio is now going after Trump after falling behind in the polls in his home state of Florida. Watching him and Senator Cruz tag team Mr. Trump on the podium has been interesting. How can we forget all the bad news at the Cruz camp? Lost credibility in the Iowa caucus after some potentially shady activity, and recently he fired his chief campaign organizer on account of false statements about Senator Rubio. All three top Republican candidates are now calling each other liars, from what I can gather, and sadly Ben Carson, who continues to be very respectful to all, is getting lost in all of the back-and-forth, he-said- she-said rhetoric. Interesting that Mr. Carson appeared shocked to find how most Americans are treating each other during the political free-for-all that we call the election cycle. John Kasich continues to be a believer, and why not? He's not doing that poorly, all things considered.

We'll get a feel for how the delegates shake out on Super Tuesday, March 1, but one thing is clear: the impact of the election of 2016 will be disruptive with wide-ranging implications on several key industries: defense contractors via the trajectory of defense spending, fast-food restaurants and big box retailers via minimum-wage legislation and arguably immigration reform, biotech via wide-spread opposition to existing exorbitant drug prices, healthcare via the pledges of several candidates to repeal Obamacare, insurance given the call for increasing competition between states, and implications on consumer spending given each candidate's proposed tax plans – which nobody truly understands. I'm sure I'm leaving a few things out, but you get my point: The markets can't ignore the election cycle of 2016 – and we know many of you are already tired of it.

I hope you enjoy this edition of the Dividend Growth Newsletter! And please pay attention to the Dividend Cushion ratios of firms you own – it can save you a lot of heartache and your portfolio a lot of losses! If you're not using the Dividend Cushion ratio, you're not taking advantage of your membership at all.

StoneMor's Shares Are Gravely Overpriced

By The Valuentum Team

StoneMor's Investment Considerations

Investment Considerations	
DCF Valuation	OVERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	VERY POOR
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Resistance, 10-wk MA	27.00

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

Just remember, as an investor, the accounting matters little, GAAP, non-GAAP or whatever. What matters is cash flow, and free cash flow, as measured by cash flow from operations less all capital spending, more specifically. Management cannot fudge cash, and the pitfalls of accounting are thrown out the window with a pure "cash focus." StoneMor had just under $320 million in debt and a little over $15 million in cash at the end of 2015, and free cash flow was negative $11 million for the year. Performance of cash flow from operations has been even worse. Don't focus on accounting! Focus on cash - it tells the real story.

Investment Highlights

StoneMor is a full-service cemetery and funeral home operation. The firm is the second-largest owner and operator of cemeteries in the US. We're not enthused about owning its shares, given its heavy business mix toward riskier pre-need sales. Management continues to appease unitholders with an outsize dividend payout. The master limited partnership gets a lot of attention due to its ~10% yield.

As of December 2015, the firm has 307 cemeteries and 105 funeral homes in 27 different states and Puerto Rico. 80% of properties in the $22 billion industry are owned by independents with very few scale players present. StoneMor thinks it has plenty of room to grow.

StoneMor benefits from favorable industry trends in the deathcare business. The company generates 60% of its revenue from highly-predictable at-need services. However, the firm's 800+ person sales team actively sells pre-need services as well. Given the uncertainty of the magnitude and timing of costs related to pre-need services, this is much riskier.

StoneMor's average return on invested capital has trailed its cost of capital during the past few years, indicating weakness in business fundamentals and an inability to earn economic profits through the course of the economic cycle. The company is losing money.

Though the firm's distribution is sure to turn some heads, its net losses are hard to get comfortable with. On a per limited partner unit basis, losses were ($0.79), ($0.41), ($0.91), and ($0.15) in 2015, 2014, 2013, and 2012, respectively.

We're not fans of StoneMor's balance sheet, and its leverage is not exactly encouraging when considering its inflated distribution payments. Blindly accepting management's "cash flow" definition and quarterly distribution coverage might lead to investor confidence, but we believe this confidence is ill-founded.

StoneMor's Merchandise and Perpetual Fund trusts are often touted as balance sheet saviors, but we do not think these should be viewed in the same light as cash or short term investments. Some states have laws that either require replenishment of investment losses under certain circumstances or impose various restrictions on withdrawals of future earnings when trust fund values drop below certain prescribed amounts. These factors can lead to an adverse impact on balance cash and cash flow generation for the firm.

Please see *StoneMor's Shares are Gravely Overpriced* ...on next page

***StoneMor's Shares are Gravely Overpriced*...from previous page**

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
H&R Block	16.4	2.4	83.9%
Service Corp Intl	19.6	1.6	97.9%
Ulta Salon	34.9	2.2	117.6%
Weight Watchers	18.7	NMF	137.6%
Peer Median	19.1	2.2	107.7%
Stonemor	**-40.6**	**NMF**	**154.4%**

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

Financial Summary	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	247	288	309
Revenue, YoY%	1.7%	16.8%	7.2%
Operating Income	-40	-39	11
Operating Margin %	-16.0%	-13.6%	3.4%
Net Income	-19	-11	-17
Net Income Margin %	-7.7%	-3.7%	-5.6%
Diluted EPS	-0.91	-0.41	-0.65
Diluted EPS, YoY %	NMF	NMF	NMF
Free Cash Flow (CFO-capex)	22	5	-11
Free Cash Flow Margin %	9.1%	1.7%	-3.5%

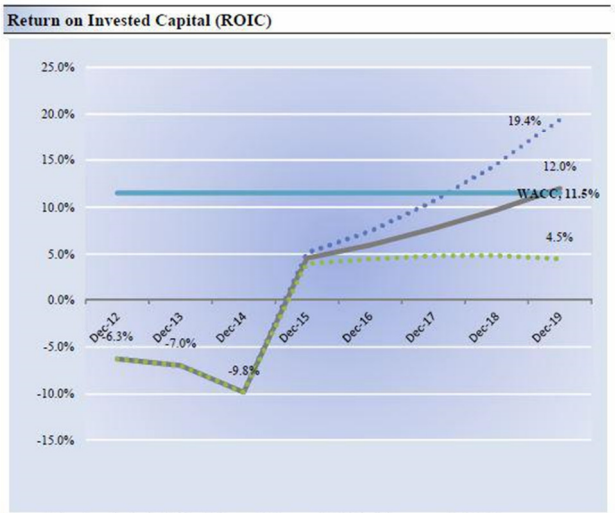
In Millions of USD (except for per share items)

Economic Profit Analysis

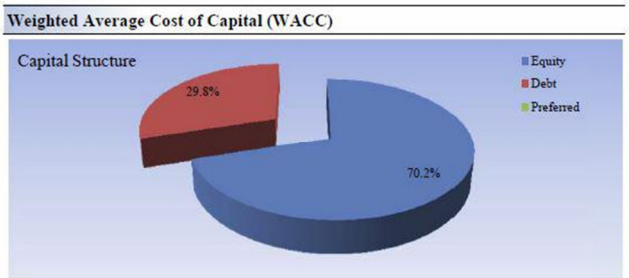
In our opinion, the best measure of a firm's ability to create value for shareholders is expressed by comparing its return on invested capital with its weighted average cost of capital.

The gap or difference between ROIC and WACC is called the firm's economic profit spread. StoneMor's 3-year historical return on invested capital (without goodwill) is -7.7%, which is below the estimate of its cost of capital of 11.5%. As such, we assign the firm a ValueCreation rating of VERY POOR.

In the chart below, we show the probable path of ROIC in the years ahead based on the estimated volatility of key drivers behind the measure. The solid grey line reflects the most likely outcome, in our opinion, and represents the scenario that results in our fair value estimate.



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



Cost of Equity	
Risk Free Rate Assumption	4.3%
Fundamental Beta (ERP multiplier)	1.0
Estimated Equity Risk Premium	6.5%
Cost of Equity Assumption	**10.8%**
After-tax Cost of Debt	
Risk Free Rate Assumption	4.3%
Synthetic Credit Spread	4.00%
Cost of Debt Assumption	8.3%
Cash Tax Rate Assumption	-57.0%
After-tax Cost of Debt Assumption	**13.1%**
Cost of Preferred Stock	
Preferred Dividends	0
Value of Preferred Stock	0
Cost of Preferred Assumption	NA
Weighted Average Cost of Capital (WACC)	**11.5%**

ERP = Equity Risk Premium

Please see *StoneMor's Shares are Gravely Overpriced* ...on page 6

The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
12.9%	Mid-High Single Digits	5.4pts

DIVIDEND GROWTH PORTFOLIO -- as of February 29, 2016 — Dividend Growth Portfolio Inception Date: January 1, 2012

Company Name	First Purchase	Avg Cost ($)	# of Shares	Total Cost ($)	Last	Current Value ($)	% of Portfolio	Exp. Yrly Div's ($)
Altria (MO)	12/30/2011	29.65	101	3,001.65	61.57	6,218.57	3.7%	228.26
Apple (AAPL)	7/24/2013	63.17	51	3,228.45	96.69	4,931.19	3.0%	106.08
Cisco (CSCO)	11/14/2014	26.31	199	5,242.53	26.18	5,209.82	3.1%	206.96
Coach (COH)	9/19/2014	37.55	80	3,011.00	38.94	3,115.20	1.9%	108.00
Cracker Barrel (CBRL)	2/1/2016	133.50	18	2,410.00	148.05	2,664.90	1.6%	79.20
Energy Sector SPDR (XLE)	4/1/2015	72.63	121	8,795.76	56.58	6,846.18	4.1%	262.33
General Electric (GE)	10/21/2013	26.18	240	6,290.20	29.14	6,993.60	4.2%	220.80
Hasbro (HAS)	12/30/2011	31.89	110	3,514.90	75.87	8,345.70	5.0%	224.40
Intel (INTC)	12/30/2011	24.25	289	7,015.25	29.59	8,551.51	5.2%	300.56
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	105.21	11,257.47	6.8%	321.00
Medtronic (MDT)	12/30/2011	38.25	157	6,012.25	77.39	12,150.23	7.3%	238.64
Microsoft (MSFT)	12/30/2011	25.96	154	4,004.84	50.88	7,835.52	4.7%	221.76
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	80.29	8,430.45	5.1%	278.25
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	34.99	8,327.62	5.0%	361.76
Realty Income (O)	7/24/2013	44.35	60	2,668.00	58.54	3,512.40	2.1%	142.80
Talen Energy (TLN)	6/1/2015	Spin off	29	Spin off	6.36	184.44	0.1%	NA
Vanguard REIT ETF (VNQ)	2/1/2016	77.07	32	2,473.24	76.71	2,454.72	1.5%	140.54
Latest changes: CSCO position increased Feb 17; HCP removed Feb 9; CBRL and Vanguard REIT ETF added February 1.								
Cash -- changes in monthly cash balance reflects dividends received and trading				2,363.42		58,838.95	35.5%	3,441.34
Dividend Growth Portfolio				100,000.00		**165,868.47**	100.0%	**TBD**

DG Portfolio Annualized Return (from inception through current date)	**12.9%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)	7.5%
DG Portfolio Annualized Return Outperformance	**5.4%**
SPDR S&P Dividend ETF (SDY)	**11.0%**

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.

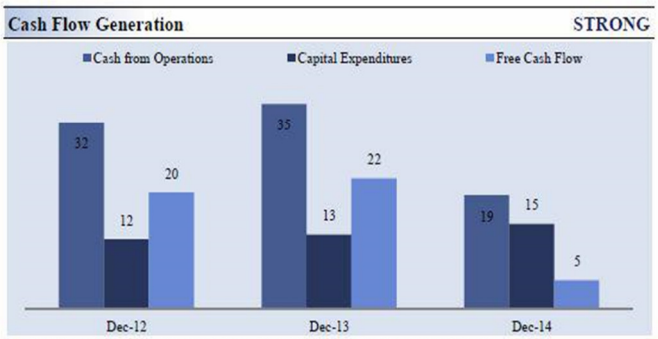
This portfolio is not a real money portfolio. Data as of March 1, 2016. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of February 29, 2016 — Fundamental data as of March 1, 2016

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)	2.26	3.67%	mid-Mar 2016	mid Mar 2016 (quart)	1.1	GOOD	GOOD	$55.00	6	1.12
Apple (AAPL)	2.08	2.15%	early May 2016	May 2016 (quart)	5.3	EXCELLENT	EXCELLENT	$142.00	3	0.68
Cisco (CSCO)	1.04	3.97%	early Apr 2016	early Apr 2016 (quart)	3.2	EXCELLENT	EXCELLENT	$37.00	9	0.71
Coach (COH)	1.35	3.47%	early Mar 2016	early Mar 2016 (quart)	2.0	GOOD	EXCELLENT	$38.00	6	1.02
Cracker Barrel (CBRL)	4.40	2.97%	mid Apr 2016	late Apr 2016 (quart)	1.3	GOOD	GOOD	$132.00	4	1.12
Energy Sector SPDR (XLE)	2.17	3.83%	late Mar 2016	early Mar 2016 (quart)	-	GOOD	NEUTRAL	-	UR	-
General Electric (GE)	0.92	3.16%	late May 2016	Jun 2016 (quart)	2.1	GOOD	GOOD	$31.00	6	0.94
Hasbro (HAS)	2.04	2.69%	late Apr 2016	mid May 2016 (quart)	1.6	GOOD	GOOD	$67.00	6	1.13
Intel (INTC)	1.04	3.51%	early May 2016	early Jun 2016 (quart)	2.3	GOOD	EXCELLENT	$38.00	3	0.78
Johnson & Johnson (JNJ)	3.00	2.85%	late May 2016	early Jun 2016 (quart)	2.4	GOOD	EXCELLENT	$111.00	6	0.95
Medtronic (MDT)	1.52	1.96%	late Mar 2016	Mar 2016 (quart)	1.5	GOOD	EXCELLENT	$67.00	7	1.16
Microsoft (MSFT)	1.44	2.83%	mid May 2016	mid Jun 2016 (quart)	2.6	GOOD	EXCELLENT	$55.00	3	0.93
Proctor & Gamble (PG)	2.65	3.30%	late Apr 2016	early May 2016 (quart)	1.5	GOOD	EXCELLENT	$67.00	7	1.20
PP&L (PPL)	1.52	4.34%	early Mar 2016	early Mar 2016 (quart)	Held for diversification reasons.			$28.00	6	1.25
Realty Income (O)	2.38	4.07%	monthly	monthly	1.5	GOOD	GOOD	$55.00	6	1.06
Talen Energy (TLN)	NA	NA	NA	NA	-	-	-	-	-	-
Vanguard REIT ETF (VNQ)	4.39	5.73%	late Mar 2016	early Apr 2016 (quart)	-	GOOD	NEUTRAL	-	UR	-

StoneMor's Shares are Gravely Overpriced...from page 4

Cash Flow Analysis



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

Firms that generate a free cash flow margin (free cash flow divided by total revenue) above 5% are usually considered cash cows. StoneMor's free cash flow margin has averaged about 6.3% during the past 3 years. As such, we think the firm's cash flow generation is relatively STRONG.

The free cash flow measure shown above is derived by taking cash flow from operations less capital expenditures and differs from enterprise free cash flow (FCFF), which we use in deriving our fair value estimate for the company. At StoneMor, cash flow from operations decreased about 39% from levels registered two years ago, while capital expenditures expanded about 22% over the same time period.

In its first nine months of fiscal 2015, StoneMor reported net cash provided by operating activities of ~$12 million and capital expenditures of ~$11 million, resulting in free cash flow of ~$1 million. Investors need to get real. StoneMor's market capitalization is over $850 million.

Quit trying to explain why. The company's shares are overpriced - unless of course you think receiving meager cash flow is a healthy proposition. There's a reason why StoneMor is distracting you with the dividend. Once the credit markets say "no more," things will get very ugly.

Valuation Analysis

This is the most important section of our analysis. Below we outline our valuation assumptions and derive our fair value estimate for shares. Our discounted cash flow model indicates that StoneMor's shares are worth between $13-$21 each. Shares are currently trading at ~$26, above the upper bound of our fair value range.

This indicates that we feel there is significantly more downside risk than upside potential associated with shares at this time. The margin of safety around our fair value estimate is derived from the historical volatility of key valuation drivers.

Our model reflects a compound annual revenue growth rate of 7.8% during the next five years, a pace that is lower than the firm's 3-year historical compound annual growth rate of 8%. Our model reflects a 5-year projected average operating margin of 6.1%, which is above StoneMor's trailing 3-year average.

Beyond year 5, we assume free cash flow will grow at an annual rate of 4.9% for the next 15 years and 3% in perpetuity. For StoneMor, we use 11.5% weighted average cost of capital to discount future free cash flows.

Valuation Assumptions		
In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	7.8%	
Avg. EBIT Margin %	6.1%	
Avg. Cash Tax Rate %	-57.0%	
Earnings Before Interest CAGR %	-206.6%	
Earnings Per Share CAGR %	-217.5%	
Free Cash Flow to the Firm CAGR %	-189.4%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	4.9% (II)	3% (III)
Cost of Equity %	10.8%	
After-tax Cost of Debt %	13.1%	
Discount Rate (WACC) %	11.5%	
Synthetic credit spread = 4%	Results	
Phase I Present Value	148	
Phase II Present Value	390	
Phase III Present Value	189	
Total Firm Value	727	
Net Balance Sheet Impact	-286	
Total Equity Value	441	
Diluted Shares Outstanding	26.6	
Fair Value per Share	$17.00	

Source: Company Filings, Valuentum Projections

Company Metrics versus Peer and Industry Medians

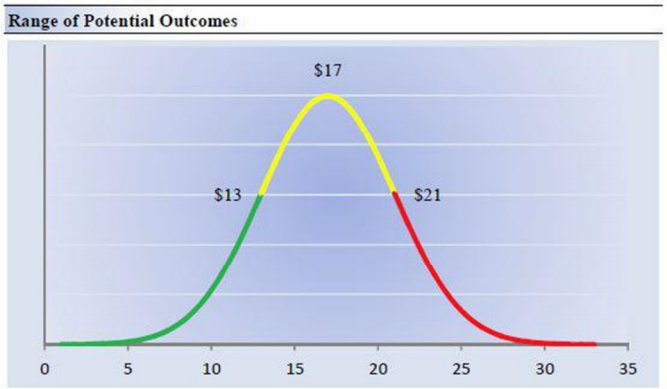
Company Name	Valuentum Buying Index™	Forward Price-to-Earnings	P/E on Est. Normal Diluted EPS	Price/Earnings-to-Growth (PEG), 5-year	Forward EV/EBITDA	EV/Est. Normal EBITDA	5-year Forward Earnings per Share CAGR	3-year Hist Avg ROIC, without goodwill	Dividend Yield %	Stock Price / Fair Value Estimate
Stonemor	**1**	**-40.6**	**368.9**	**NMF**	**38.4**	**24.3**	**-217.5%**	**-7.7%**	**10.1%**	**164.4%**
H&R Block	3	16.4	13.7	2.4	7.3	6.1	7.7%	120.2%	2.5%	83.9%
Service Corp Intl	3	19.6	13.6	1.6	9.2	8.1	18.6%	8.3%	2.0%	97.9%
Ulta Salon	3	34.9	23.9	2.2	15.6	10.7	19.6%	25.4%	0.0%	117.6%
Weight Watchers	3	18.7	16.8	NMF	12.1	11.7	-11.7%	42.9%	0.0%	137.6%
Peer Median	3.0	19.1	16.2	2.2	10.6	9.4	13.1%	34.1%	1.0%	107.7%
Industry Median	3.0	17.5	16.2	1.7	10.0	8.2	10.5%	32.5%	0.0%	98.5%

View back of report for a full list of industry constituents covered by Valuentum. VBI: Valuentum's ranking for the attractiveness of this investment at the date of the report.

Please see *StoneMor's Shares are Gravely Overpriced* ...on next page

StoneMor's Shares are Gravely Overpriced **...from previous page**

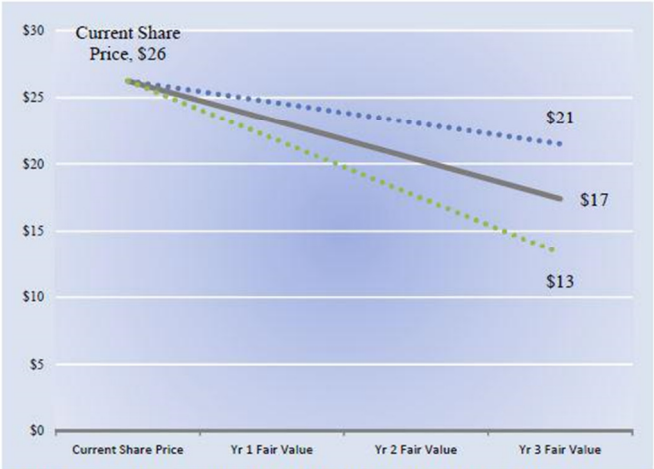
Margin of Safety Analysis



Our discounted cash flow process values each firm on the basis of the present value of all future free cash flows. Although we estimate the firm's fair value at about $17 per share, every company has a range of probable fair values that's created by the uncertainty of key valuation drivers (like future revenue or earnings, for example). After all, if the future was known with certainty, we wouldn't see much volatility in the markets as stocks would trade precisely at their known fair values.

In the graph above, we show this probable range of fair values for StoneMor. We think the firm is attractive below $13 per share (the green line), but quite expensive above $21 per share (the red line). The prices that fall along the yellow line, which includes our fair value estimate, represent a reasonable valuation for the firm, in our opinion.

Future Path of Fair Value



The graph above shows the expected future fair value of the firm's shares relative to its current stock price.

We estimate StoneMor's fair value at this point in time to be about $17 per share. As time passes, however, companies generate cash flow and pay out cash to shareholders in the form of dividends. The chart above compares the firm's current share price with the path of StoneMor's expected equity value per share over the next three years, assuming our long-term projections prove accurate.

The range between the resulting downside fair value and upside fair value in Year 3 represents our best estimate of the value of the firm's shares three years hence. This range of potential outcomes is also subject to change over time, should our views on the firm's future cash flow potential change.

The expected fair value of $17 per share in Year 3 represents our existing fair value per share of $17, increased at an annual rate of the firm's cost of equity less its dividend yield. The upside and downside ranges are derived in the same way, but from the upper and lower bounds of our fair value estimate range.

Wrapping Things Up

Though StoneMor's distribution is sure to turn some heads, its net losses make us quite uncomfortable; the firm hasn't turned a profit since 2008. StoneMor's average return on invested capital has trailed its cost of capital during the past few years, indicating weakness in business fundamentals and an inability to earn economic profits through the course of the economic cycle. StoneMor's dividend yield may look appealing, but the payout is far from safe, in our opinion. We continue to caution investors against firm- or industry-specific metrics that may make a payout appear "safer" than it actually is.

All things considered, we are not fond of StoneMor as an investment idea at this time. The firm's score of 1 on the Valuentum Buying Index, the worst possible score, is the last 'nail in the coffin' for us. Please, please be careful with shares!

ETE/ETP: You Are Smart Not to Focus on Distributable "Cash Flow"

By Valuentum Analysts

We're very proud of alerting our members far in advance of the vast declines in the share prices of Energy Transfer Equity (ETE) and Energy Transfer Partners (ETP). Members know that this wasn't easy, especially in taking such a controversial and contrarian view to help. We hope that you were one of the many that heeded our warning, and we trust that our systematic and repeatable process will continue to be of considerable value to you and your clients going forward.

There's nothing like taking a punch.

Jim Cramer wrote up a piece December 19, "Energy Transfer Partners: Why You Shouldn't Worry, (Real Money)" (1) calling into question our analyst team and independence. Valuentum is offering new perspectives in the industry, and the old guard may not like it that much. Not only has the ETE (ETE)/ETP (ETP) Group CFO stepped down since that article, shattering confidence, but units of both Energy Transfer Equity and Energy Transfer Partners have fared no better, still but a fraction of their former selves.

The headline numbers from the fourth-quarter report of Energy Transfer Equity and Energy Transfer Partners were horrible. Both entities missed consensus expectations, and investors have to get over the idea that earnings for these companies don't matter. In a world of sub-$30 per barrel crude oil and contracting credit, the gushers that have traditionally fed financially-engineered distributions and the artificial pricing paradigms on the basis of obsolete dividend growth models are no more.

Investors have wised up, but the industry is holding on.

At Energy Transfer Partners, the fourth-quarter's operating-income contribution for the year was negligible at less than $200 million, and the company recorded a $82 million loss in the period. Reported operating income plus depreciation, depletion and amortization in the period, or reported EBITDA, was $665 million in the fourth quarter and $4.19 billion for the year. Backing out impairment losses, these numbers are $1 billion and $4.53 billion. Our measure of Energy Transfer Partners' leverage based on currently-available information or long-term debt to reported EBITDA at the end of 2015 came in at 6.3x, but this excludes any short-term debt and is not netted for cash. Energy Transfer Equity ended the year with nearly $36.8 billion in long-term debt, up from $29.4 billion in 2014. With reported EBITDA of $4.82 billion for the year, after backing out impairment losses, Energy Transfer Equity ended 2015 roughly 7.6x leveraged (as measured by long-term debt to reported EBITDA).

Management provides so much segment detail in the press releases that it is obvious that the GAAP cash flow statement is one that it doesn't like to share. After all, the cash flow statement tells the real story. Valuentum does not recognize the industry's metric of "cash flow" as it excludes key expenses and cash outlays associated with growing net income, which itself is a component of the industry's definition of "cash flow." We're waiting for the release of ETE's and ETP's 10-K where we can gain greater insight into movements on the actual cash flow statement, particularly on how cash flow from operations performed and the extent of both entity's total free cash flow burn for the year. It is clear that investors are no longer "buying" into the industry's definition of "cash flow," which in many cases is so far away from reported earnings that it's hard to believe.

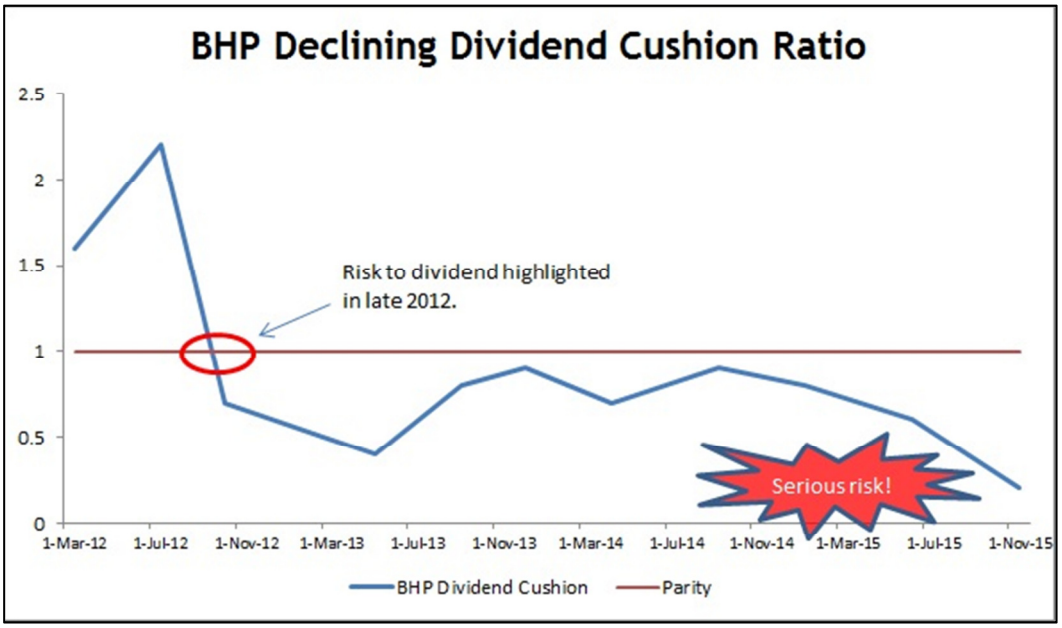
(1) http://realmoney.thestreet.com/articles/12/19/2015/energy-transfer-partners-why-you-shouldnt-worry

Recent Add Cracker Barrel Surges Ahead; BHP Cuts

By Kris Rosemann and Brian Nelson, CFA

The Dividend Cushion ratio did it again.

Global miner BHP (BHP) slashed its payout by 74% to $0.16 per share. We've been concerned about the health of the payout for some time, and the company's Dividend Cushion ratio of 0.2 outlined the risks in full sight, well in advance of the cut. The header of the company's dividend report, dated November 18: "We've grown very concerned about the health of BHP's dividend. A dividend cut has become likely, unfortunately." The news followed a cut by Rio Tinto (RIO), both disappointments supporting our thesis that commodity-linked equities are very difficult to hold for income purposes. Even the best of management teams have difficulty handling their boom and bust cycles. We'll have updated reports available shortly.



Quite the opposite of BHP's dividend strength is recent addition to the Dividend Growth Newsletter portfolio Cracker Barrel (CBRL). The "Old Country Store" grew total revenue just over 1% in its fiscal second quarter from the year-ago period. The slight revenue growth was driven by strong comparable retail sales growth of 2.6% and boosted by the firm's pricing initiatives in its restaurants as its average menu price grew nearly 3% from the comparable period. Comparable restaurant sales crept up 0.6% from the second quarter of fiscal 2015, as average check growth of 3.4% was able to more than offset a 2.8% decline in traffic.

Though traffic trends weren't great in the second quarter of fiscal 2016, lower gasoline prices may ultimately offer a nice tailwind for casual diners in this area, especially Cracker Barrel when considering such a high amount of its restaurants are conveniently located near interstate off-ramps (should lower prices at the pump stimulate "road trips"). The restaurant's operating margin fell to 9.2% in the quarter from 9.4% in the comparable quarter of fiscal 2015 as increases in other store operating expenses were only partially offset by a reduction in labor and related expenses. Cracker Barrel delivered earnings at the high end of its guidance range with $1.91 in adjusted earnings per diluted share for the period, though this was slightly down from $1.93 on a comparable basis in the year-ago quarter.

Please see *Recent Add Cracker Barrel*...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 may be fully-invested at times, 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	Sector	Div Yield	VBI	Div Growth	Div Cushion
Holly Energy	HEP	Energy	6.5%	6	EXCELLENT	1.7
Iron Mountain	IRM	Industrials	6.1%	6	GOOD	1.6
Quality Systems	QSII	Health Care	4.9%	7	GOOD	2.0
Realty Income Corp	O	Financials	4.8%	6	EXCELLENT	1.5
QUALCOMM	QCOM	Information Technology	4.4%	6	EXCELLENT	3.5
Hewlett-Packard	HPQ	Information Technology	4.3%	6	GOOD	2.7
Coach	COH	Consumer Discretionary	4.3%	6	EXCELLENT	2.0
Guess	GES	Consumer Discretionary	4.1%	6	EXCELLENT	2.4
ABB	ABB	Industrials	4.1%	6	GOOD	1.6
Cummins	CMI	Industrials	4.0%	6	EXCELLENT	2.0
Altria Group	MO	Consumer Staples	3.8%	6	GOOD	1.1
Abercrombie & Fitch	ANF	Consumer Discretionary	3.6%	6	GOOD	2.7
CA Tech	CA	Information Technology	3.5%	7	EXCELLENT	3.2
NTT Docomo	DCM	Telecom Services	3.5%	6	GOOD	1.9
Procter & Gamble	PG	Consumer Staples	3.4%	7	EXCELLENT	1.5
Paychex	PAYX	Information Technology	3.3%	6	EXCELLENT	2.6
Enbridge	ENB	Energy	3.3%	6	EXCELLENT	2.3
Western Union	WU	Information Technology	3.2%	7	EXCELLENT	2.8
Darden Restaurants	DRI	Consumer Discretionary	3.2%	6	GOOD	1.7
Unilever PLC	UL	Consumer Staples	3.1%	6	GOOD	1.5
Diebold	DBD	Industrials	3.1%	6	GOOD	1.9
General Electric	GE	Industrials	3.1%	6	GOOD	2.1
Unilever N.V.	UN	Consumer Staples	3.1%	6	GOOD	1.5
Coca-Cola	KO	Consumer Staples	3.1%	6	EXCELLENT	1.8
Reynolds American	RAI	Consumer Staples	3.0%	6	GOOD	1.3
Cisco	CSCO	Information Technology	3.0%	9	EXCELLENT	3.2
United Parcel Service	UPS	Industrials	3.0%	7	EXCELLENT	1.8
Johnson & Johnson	JNJ	Consumer Staples	2.9%	6	EXCELLENT	2.4
PepsiCo	PEP	Consumer Staples	2.9%	6	GOOD	1.2
Kimberly-Clark	KMB	Consumer Staples	2.8%	6	GOOD	1.2
Waste Management	WM	Industrials	2.8%	7	GOOD	1.6
Fastenal	FAST	Industrials	2.7%	6	GOOD	1.4
Scotts Miracle-Gro	SMG	Materials	2.7%	6	EXCELLENT	1.3
Leggett & Platt	LEG	Consumer Discretionary	2.7%	6	GOOD	1.5
United Technologies	UTX	Industrials	2.7%	7	EXCELLENT	1.4
Corning	GLW	Information Technology	2.6%	6	GOOD	3.0
Yum! Brands	YUM	Consumer Discretionary	2.5%	7	EXCELLENT	1.7
Hasbro	HAS	Consumer Discretionary	2.5%	6	GOOD	1.6
Xilinx	XLNX	Information Technology	2.5%	6	EXCELLENT	3.1

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

The Dividend Growth Watch List

By Valuentum Analysts

The dividend growth watch list, which is proprietary to the Dividend Growth Newsletter, showcases firms commonly held in many dividend growth portfolios.

As with the list on the previous page, we may replace firms held in the Dividend Growth portfolio (see page 5) with companies found in the table below should their dividend growth potential (and/or total return potential) become relatively more attractive than portfolio constituents'.

We find tremendous value in keeping track of dividend growth firms in order to better monitor ideal entry points. We continue to scour our coverage universe for firms to add to our dividend growth watch list, which we update in every edition of our Dividend Growth Newsletter.

DIVIDEND GROWTH WATCH LIST - as of February 29, 2016 Fundamental data as of February 29, 2016

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)	4.44	2.83%	1.5	GOOD	EXCELLENT	$122.00	4	1.29	156.87
Abbott (ABT)	1.04	2.68%	2.6	GOOD	EXCELLENT	$43.00	6	0.90	38.74
AbbVie (ABBV)	2.28	4.18%	2.0	GOOD	EXCELLENT	$69.00	4	0.79	54.61
ADP (ADP)	2.12	2.50%	5.9	EXCELLENT	EXCELLENT	$94.00	6	0.90	84.69
Analog Devices (ADI)	1.68	3.17%	2.2	GOOD	EXCELLENT	$51.00	3	1.04	52.99
Becton, Dickinson (BDX)	2.64	1.79%	2.7	GOOD	EXCELLENT	$168.00	3	0.88	147.45
Boeing (BA)	4.36	3.69%	2.0	GOOD	EXCELLENT	$119.00	4	0.99	118.18
Coca-Cola (KO)	1.40	3.25%	1.8	GOOD	EXCELLENT	$39.00	6	1.11	43.13
Colgate-Palmolive (CL)	1.52	2.32%	1.6	GOOD	EXCELLENT	$53.00	3	1.24	65.64
Cracker Barrel (CBRL)	4.40	2.97%	1.3	GOOD	GOOD	$132.00	4	1.12	148.05
Deere (DE)	2.40	2.99%	1.3	GOOD	EXCELLENT	$93.00	3	0.86	80.18
Dover (DOV)	1.68	2.76%	1.5	GOOD	EXCELLENT	$61.00	3	1.00	60.78
DuPont (DD)	1.52	2.50%	2.2	GOOD	GOOD	$64.00	5	0.95	60.87
Eli Lilly (LLY)	2.04	2.83%	2.0	GOOD	GOOD	$73.00	3	0.99	72.00
General Dynamics (GD)	2.76	2.03%	3.3	EXCELLENT	EXCELLENT	$127.00	7	1.07	136.27
Genuine Parts (GPC)	2.63	2.92%	1.8	GOOD	EXCELLENT	$83.00	4	1.09	90.15
H&R Block (HRB)	0.80	2.43%	4.4	EXCELLENT	GOOD	$38.00	3	0.87	32.88
Harris (HRS)	2.00	2.56%	1.9	GOOD	EXCELLENT	$90.00	3	0.87	78.02
Honeywell (HON)	2.38	2.35%	2.4	GOOD	EXCELLENT	$95.00	6	1.07	101.35
Hormel Foods (HRL)	0.58	1.36%	2.7	GOOD	EXCELLENT	$56.00	4	0.76	42.51
IBM (IBM)	5.20	3.97%	1.8	GOOD	EXCELLENT	$165.00	3	0.79	131.03
Illinois Tool Works (ITW)	2.20	2.33%	2.1	GOOD	EXCELLENT	$80.00	6	1.18	94.25
Kimberly-Clark (KMB)	3.68	2.82%	1.2	GOOD	GOOD	$106.00	6	1.23	130.30
Lockheed Martin (LMT)	6.60	3.06%	1.4	GOOD	EXCELLENT	$175.00	4	1.23	215.79
Merck (MRK)	1.84	3.66%	2.0	GOOD	GOOD	$55.00	3	0.91	50.21
Northrop Grumman (NOC)	3.20	1.66%	2.4	GOOD	EXCELLENT	$154.00	4	1.25	192.22
Paychex (PAYX)	1.68	3.27%	2.6	GOOD	EXCELLENT	$43.00	6	1.20	51.39
Phillip Morris (PM)	4.08	4.48%	0.5	GOOD	GOOD	$76.00	7	1.20	91.03
Raytheon (RTN)	2.68	2.16%	2.5	GOOD	EXCELLENT	$100.00	4	1.24	123.85
St. Jude (STJ)	1.24	2.31%	3.2	EXCELLENT	EXCELLENT	$65.00	4	0.83	53.69
Texas Instr (TXN)	1.52	2.87%	1.9	GOOD	EXCELLENT	$50.00	3	1.06	53.02
United Technologies (UTX)	2.56	2.65%	1.4	GOOD	EXCELLENT	$105.00	7	0.92	96.62
UPS (UPS)	3.12	3.23%	1.8	GOOD	EXCELLENT	$97.00	7	1.00	96.55
VF Corp (VFC)	1.48	2.27%	2.0	GOOD	EXCELLENT	$55.00	4	1.18	65.11
Walgreens (WBA)	1.44	1.82%	3.0	EXCELLENT	EXCELLENT	$75.00	3	1.05	78.94

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	9.5%	VERY POOR	-23.1
Range Resources	RRC	Independent Oil & Gas	0.7%	VERY POOR	-22.3
Pioneer Natural Resources	PXD	Independent Oil & Gas	0.1%	VERY POOR	-18.3
Barrick Gold	ABX	Metals & Mining - gold	0.9%	VERY POOR	-15.8
Apache	APA	Independent Oil & Gas	2.3%	VERY POOR	-13.8
D. R. Horton	DHI	Homebuilders	0.9%	VERY POOR	-11.4
Newmont Mining	NEM	Metals & Mining - gold	0.6%	VERY POOR	-11.2
Ryder System	R	Rental and Leasing	3.3%	VERY POOR	-9.4
Textainer	TGH	Rental and Leasing	9.7%	VERY POOR	-9.0
Allegheny Technologies	ATI	Aluminum	3.4%	VERY POOR	-7.8
Tidewater	TDW	Energy Equipment	11.2%	VERY POOR	-6.8
Yamana Gold	AUY	Metals & Mining - gold	4.0%	VERY POOR	-6.4
Devon Energy	DVN	Independent Oil & Gas	2.9%	VERY POOR	-6.3
Anadarko	APC	Independent Oil & Gas	2.2%	VERY POOR	-6.1
TAL Intl	TAL	Rental and Leasing	17.6%	VERY POOR	-5.8
Noble Energy	NBL	Independent Oil & Gas	2.2%	VERY POOR	-5.3
MDC	MDC	Homebuilders	3.9%	VERY POOR	-5.2
Cimarex	XEC	Independent Oil & Gas	0.6%	VERY POOR	-5.0
Alcoa	AA	Aluminum	1.6%	VERY POOR	-4.6
Hess	HES	Refiners	1.9%	VERY POOR	-4.4
Cablevision	CVC	Media - CATV	2.0%	VERY POOR	-4.4
Deltic Timber	DEL	Building Materials	0.7%	VERY POOR	-3.8
Murphy Oil	MUR	Refiners	4.4%	VERY POOR	-3.8
Men's Wearhouse	MW	Retail - Men's, Women's	1.7%	VERY POOR	-3.7
NiSource	NI	Utilities	3.0%	VERY POOR	-3.3
Canadian Natural	CNQ	Independent Oil & Gas	4.0%	VERY POOR	-3.0
Frontier Comm	FTR	Telecom Services - diversified	8.2%	VERY POOR	-3.0
EOG Resources	EOG	Independent Oil & Gas	0.9%	VERY POOR	-2.2
Huntsman	HUN	Chemicals - broad	4.5%	VERY POOR	-2.0
Time Warner Cable	TWC	Media - CATV	1.7%	VERY POOR	-2.0
PetroChina	PTR	Major Oil & Gas	2.8%	VERY POOR	-1.9
Centurylink	CTL	Telecom Services - diversified	8.1%	VERY POOR	-1.8
PG&E	PCG	Utilities - Large	3.4%	VERY POOR	-1.7
Royal Caribbean	RCL	Leisure	1.8%	VERY POOR	-1.7
Natural Resource Partners	NRP	Industrial Minerals	15.5%	VERY POOR	-1.7
Quad/Graphics Inc	QUAD	Book Publishing	8.7%	VERY POOR	-1.6
Silgan	SLGN	Containers & Packaging	1.2%	VERY POOR	-1.6
Tyson Foods	TSN	Food Products	0.9%	VERY POOR	-1.5

The Dividend Cushion Beats the Dividend Aristocrats:
http://www.valuentum.com/articles/20150506

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

Recent Add Cracker Barrel…**from page 9**

Cracker Barrel expects comparable store restaurant and comparable store retail sales growth of 1.5%-2.5% and total revenue between $2.9-$2.95 billion for the full fiscal year, representing top-line growth of ~2%-4% from fiscal 2015. The firm will also try its hand in the fast-casual market before the end of fiscal 2016, though the results from the new concept--to be named Holler & Dash--are not likely to impact results for the year.

However, the real star of the show for the run in Cracker Barrel's shares may be the nation's chicken flocks. As the avian flu outbreak concerns of 2015 have waned, expectations for egg prices--a major input cost for Cracker Barrel--have fallen. The company has reduced its expectation for food commodity inflation to 1% for fiscal 2016 from previous guidance of 2.5%-3%.

The expectation for lower input costs coupled with Cracker Barrel's geographic pricing initiative has led it to expect a full-year operating margin of 9.5%, an improvement from previous guidance of 9%-9.5%, and the company has also raised its annual earnings expectations to a range of $7.40-$7.50 in adjusted earnings per diluted share from original guidance of $7.15-$7.30. We think this guidance increase is nothing to balk at, and Mr. Market agrees. Cracker Barrel yields ~3%, and we continue to like shares.

Key Treatment Momentum Drives Big Pharma

By Brian Nelson CFA

The momentum of key drugs and treatments is often a solid indicator for the coming performance of a pharmaceutical firm. Growing competition and other market pressures out of a company's control can often cause material ebbs and flows in financial performance, making a strong and stable pipeline necessary to sustained success. As we walk through the results from some of the biggest names in the pharmaceuticals industry, let's get a feel for the trajectory of each firm's drug portfolio and pipeline moving into the rest of 2016.

AbbVie (ABBV)

AbbVie reported a quarter of strong growth January 29, as adjusted net revenues jumped more than 24% on an operational basis, and GAAP net revenue increase more than 17% from the year-ago period. The firm's revenue growth in the period was boosted by its leading drug Humira (arthritis, plaque psoriasis), whose global operational sales increased 16% on a year-over-year basis. New drugs Imbruvica (leukemia, lymphoma) and Viekira (hepatitis C) added nearly $2.4 billion in combined sales in the quarter, and US-based Creon (exocrine pancreatic insufficiency) sales jumped 22.8% from the fourth quarter of 2014. The company expanded its adjusted operating margin by more than 4 percentage points from the year-ago period, and adjusted diluted earnings per share leapt 27% as a result to $1.13, excluding intangible asset amortization expense and other specified items.

AbbVie believes its strong fourth-quarter performance is a sign of things to come. The momentum in sales growth, margin expansion, and earnings increases is expected to continue in 2016. The firm will be fighting an uphill battle with Viekira after the FDA warned of a relationship with the drug and an increased chance of liver damage; competition is expected to heat up in the hepatitis C market as well as additional competitors launch similar products. On February 17, for example, Regulus Therapeutics (RGLS) announced favorable phase 2 data of its own HCV candidate RG-101. The outlook for Gilead (GILD) continues to muddy toward the back half of this decade, "Your Hard-Earned Money," and we don't want investors to be blindsided. Nevertheless, the firm has high hopes for Imbruvica, for which it has submitted supplemental applications to its treatment of leukemia and lymphoma.

For 2016, AbbVie has guided adjusted earnings per diluted share to be in a range of $4.90-$5.10. We currently value shares of AbbVie at $69 each.

Please see *Key Treatment Momentum…*on next page

***Key Treatment Momentum*...from previous page**

AstraZeneca (AZN)

AstraZeneca reported mixed results in its fourth quarter of 2015 February 4; revenue advanced 2% from the year-ago period on a constant-currency basis but fell by 5% as reported in the quarter. The firm's 'Diabetes' segment provided significant revenue growth on a constant-currency basis, as sales increased 24% from the fourth quarter of 2014. As-reported declines in the company's highest-selling products Crestor (high cholesterol) and Symbicort (asthma) could not be offset by material growth in the smaller-revenue drugs Brilinta (blood thinner), Bydureon (diabetes), and Farxiga (diabetes). Thanks to core SG&A costs falling 11% in the fourth quarter, core operating profit leapt 31% and core earnings per share jumped 26% on a reported, year-over-year basis. Top-line and gross margin growth allowed for continued investment in R&D, which increased 15% in the quarter as reported.

Though AstraZeneca's financial performance in the fourth quarter of 2015 may not have been outstanding, the firm believes it is well-positioned to reap the benefits of strong R&D spending trends moving forward. It had six regulatory approvals in 2015, and anticipates the submitting six more for approval in 2016. The pipeline will become increasingly more important for the company as it faces the transitional period of patent expiry for Crestor in the US, which reported sales of over $1.2 billion in the fourth quarter of 2015 despite declining by 5% year-over-year.

Oncology has become an increasing portion of the firm's strategic focus, and drugs such as Tagrisso (lung cancer) and Lynparza (ovarian cancer) are expected to play a growing role in that strategy moving forward. On a constant-currency basis, AstraZeneca is expecting a decline in the low to mid-single digits for both total revenue and core earnings per share in 2016. We value shares at $32 each.

Merck (MRK)

On February 3, Merck reported its fourth quarter 2015 worldwide sales fell 3% from the year-ago period, including a 7% negative impact from currency headwinds, and a 3% favorable impact from acquisitions and divestitures, the latter being primarily attributable to the Cubist acquisition. Gardasil (human papillomavirus vaccine) was a key contributor of growth in the quarter, as its sales jumped an impressive 40% on a year-over year basis, but it could not offset declines in the company's core products Januvia (diabetes) and Zetia (high cholesterol), who together account for more than a quarter of its pharmaceutical sales. Non-GAAP earnings per share advanced 7% from the year-ago period in the fourth quarter.

In 2016, Merck will prioritize its resources on returning Januvia to positive growth, and has two key launches expected to drive growth in Keytruda (metastatic melanoma) and Zepatier (hepatitis C), both of which were recently approved by the FDA. Its hospital acute care and vaccines businesses will also be areas of emphasis in the year. The company expects full-year 2016 non-GAAP earnings per share to be in a range of $3.60-$3.75, while sales are expected to be between $38.7-$40.2 billion on the year, including a 3% negative impact from currency headwinds. The earnings guidance reflects growth in the low to mid-single digits, while revenue growth is expected to be roughly flat compared to 2015. We value shares at $55 each.

Pfizer (PFE)

Pfizer reported fourth quarter revenue advanced 7% as reported on a year-over-year basis February 2. The firm's Global Vaccines segment was a key growth driver in the quarter, as segment revenue jumped 45% from the year-ago period thanks to the strong uptake of Prevnar 13 (pneumococcal bacteria vaccine) among US adults. Increased demand during the flu season and favorable timing of government purchases also helped more than double the vaccine's sales compared to the fourth quarter of 2014. The company's Global Oncology segment also contributed to overall sales growth, as the segment's reported revenue leapt by more than 50% in the period. The February 2015 US launch of Ibrance (breast cancer) provided the majority of the favorable comparable sales numbers. Despite the solid sales growth, reported net income was halved, and reported diluted earnings per share were nearly halved in the quarter due in part to the inclusion of legacy Hospira operations.

Please see *Key Treatment Momentum*...on next page

***Key Treatment Momentum*...from previous page**

Looking ahead to 2016, Pfizer is expecting the integration of the Hospira acquisition and the pending combination with Allergan to strengthen its core business and better position it for sustainable growth. The firm expects continued strength in its Innovative Products segments, such as Global Vaccines and Global Oncology, and multiple late stage developments in late 2015, such as a successful phase 3 study of Eliquis (VTE) and a supplemental filing for Ibrance, give management confidence moving forward. In its 2016 financial guidance, excluding the impact of the Allergan merger, Pfizer is expecting mid to high single digit operational revenue growth on a constant currency basis and adjusted diluted earnings per share in a range of $2.20-$2.30. We value shares of Pfizer at $37 each.

Amgen (AMGN)

Amgen reported a solid finish to its 2015 on January 28, with 4% total revenue growth in the fourth quarter on a year-over-year basis, and 3% product sales growth thanks to strong growth in nearly all of its drugs, including 8% sales growth from its most-popular drug Enbrel, a prescription medicine used to treat five chronic diseases. Adjusted operating income increased 16%, and adjusted earnings per share leapt 21% from the year-ago period as operating expenses decreased 4% in the quarter thanks in part to favorable changes in foreign currency. R&D expenses dropped 10% from the fourth quarter of 2014 due to savings from transformation and process improvement efforts.

Amgen's operating leverage in the fourth quarter of 2015 certainly was impressive, and the firm is expecting top-line growth to remain solid into 2016. It has multiple drugs in its pipeline with phase 3 milestones expected in the year, and several key treatments are anticipated to continue their momentum from 2015. Sensipar (kidney disease) is expected to continue a similar trajectory to its 21% total growth in the fourth quarter, Prolia (osteoporosis, hypercalcemia) is anticipated to continue to sustain share gains that helped it to 21% growth in the period, and rapidly growing Kyprolis (multiple myeloma) is projected to maintain momentum in the year as well. However, increased competition for Enbrel could pose a major challenge, and the company's second-leading selling product Neulasta (neutropenia, non-Hodgkin's lymphoma) did not have a strong 2015.

Amgen recently increased its guidance for 2016 to total revenue in a range of $22-$22.5 billion and adjusted earnings per share to be between $10.60-$11.00, both of which represent growth in the low-to-mid-single digits. We value shares at $153 each.

Defense Dividends Remain Solid; Little Valuation Opportunity Present

By Kris Rosemann

The defense industry continues to face pressure in the face of weak funding and competing budget priorities, and malaise in the global economy could add pressure to those seeking growth from foreign sovereigns. Having an already strong backlog will certainly help to a degree, and ongoing cyber threats, and preparation for modern-day warfare and all its complexities will post both challenges and opportunities for many.

Defense contractors generally are strong free cash flow generators, and as a result often have reliable and competitive dividends, not to mention fantastic Dividend Cushion ratios. However, the valuations of many are getting stretched, which complicates the total potential return proposition for many investors. Let's take a look at the fourth-quarter 2015 results and the investment prospects of four of the biggest US-based defense contractors: Lockheed Martin (LMT), General Dynamics (GD), Northrop Grumman (NOC), and Raytheon (RTN).

Please see *Defense Dividends*...on next page

***Defense Dividends…*from previous page**

Company	Price[1]/FV	Dividend Payout	Dividend Yield	Dividend Cushion
Lockheed Martin (LMT)	124.8%	$6.60	3.02%	1.4
General Dynamics (GD)	108.5%	$2.76	2.00%	3.3
Northrop Grumman (NOC)	125.1%	$3.20	1.66%	2.4
Raytheon (RTN)	124.9%	$2.68	2.15%	2.5

1) Price as of intraday 2/26

Lockheed Martin Warns of Sikorsky Performance

January 26, Lockheed Martin reported solid revenue growth in its fourth quarter of 2015 of 3.2% on a year-over-year basis to $12.9 billion. The firm's international sales grew 6% in the full-year period and now represent 21% of total corporate sales, helping it lean less on US Government and the Department of Defense spending, which account for 78% and 58% of total sales, respectively. Earnings in the fourth quarter of 2015 also grew 3.2% for the company, but earnings-per-share growth was boosted to 6.7% as a result of 15.2 million shares being repurchased during 2015. Cash from operations growth was tremendous due to significant pension contributions in the comparable period.

Lockheed Martin expects its backlog to continue to drive solid growth moving forward, as its legacy operations backlog of $84 billion would have been the highest in the firm's history on its own, but when including the backlog of Sikorsky--the acquisition of which was closed in the fourth quarter--its total backlog grows to nearly $100 billion. The company is currently expecting 2016 sales to be between $49.5-$51 billion. Diluted earnings per share for the year are projected to be in a range of $11.45-$11.75, while cash from operations are anticipated to be at least $5.3 billion.

However, the firm has warned that the performance of the newly acquired Sikorsky helicopter business might not meet its expectations. Lockheed Martin has pointed to a complex integration process, the potential for unrealizable synergies, weakened demand for its products due to global economic conditions such as oil and gas trends, and changes in Department of Defense policy or perception of the increased size of the company having adverse impacts on its future contract pursuits.

Though Lockheed Martin's acquisition activity may threaten the pace of its dividend growth, at current levels, its payout appears to be on solid ground as it registers a 1.4 Dividend Cushion ratio. This is an impressive measure when considering the firm's current annualized dividend of $6.60 per share and enticing annual yield of ~3%. That said, shares appear to be overvalued, trading well above our fair value estimate of $175.

General Dynamics Expects Modest Near-Term Growth

January 27, General Dynamics reported fourth-quarter revenue falling 6.6% to $7.8 billion on a year-over-year basis. The firm's bottom line fared much better in the quarter; earnings from continuing operations increased 3.7% from the year ago period, but earnings per diluted share from continuing operations leapt 9.7% to $2.40 thanks in part to aggressive share repurchases. Free cash flow remained suppressed in the quarter due to an increase in working capital and the working off of large advanced payments received in 2014. Free cash flow conversion was ~65% of earnings from continuing operations for the full year 2015.

General Dynamics saw its backlog and estimated contract value fall to $90.6 billion at the end of 2015 from $99.1 billion at the same time in 2014, and this has caused the firm take a more conservative view for 2016. It is now expecting revenue to be in the range of $31.6-$31.8 billion, slightly above 2015 revenue of $31.5 billion. The firm's operating margin is anticipated to remain flat at 13.3%, and diluted earnings per share are expected to grow to ~$9.20 from $9.08 in 2015.

The modest growth across General Dynamics' business is expected to begin projecting higher in 2017 and beyond. In its Aerospace segment, the return to full production and delivery of its G500 model in 2018 and the G600 model in 2019 will be a key growth driver. The firm's Combat, Marine, and

Please see *Defense Dividends…*on next page

***Defense Dividends…*from previous page**

Information Systems and Technology segments are all anticipated to realize modest growth in 2016, with a significant ramp up in sales coming in 2017. Free cash flow generation is expected to return to its historical robustness in 2017 as well.

General Dynamics expects to return all of its free cash flow to shareholders in the form of dividends and share repurchases in 2016. We think the company's dividend has great potential to continue growing, and though the recent downturn in free cash flow generation may have an adverse effect on this, its Dividend Cushion ratio currently sits above 3. Shares currently yield ~2% and are trading above our fair value estimate of $127.

Northrop Grumman Feeling Bottom-line Pressure

January 28, Northrop Grumman reported fourth quarter revenue fell 6.6% to $5.7 billion, and earnings fell 9.3% on a year-over-year basis, as lower volumes and increased unallocated corporate expenses helped push results lower. However, earnings per diluted share remained relatively flat at $2.49, compared to $2.48 in the same period of 2014, thanks to weighted average shares outstanding being reduced by 20 million from the fourth quarter of 2014 to 184.2 million. Nevertheless, free cash flow generation was robust, growing 23% to $1.5 billion as a result of benefits in its cash taxes and moving parts in its working capital, as well as significantly reduced capital expenditures compared to the year-ago period. Fourth-quarter free cash flow accounted for nearly 90% of full-year 2015 free cash flow.

The company experienced a decline in its backlog at the end of 2015, which fell to $35.9 billion, compared to $38.2 billion at the same time in 2014. Northrop Grumman now expects full-year 2016 revenue to be in the range of $23.5-$24 billion, compared to $23.5 billion in 2015. Diluted earnings per share are anticipated to be in a range of $9.90-$10.20 for the year, a decrease from $10.39 in 2015. The firm's 2016 free cash flow guidance of $1.5-$1.6 billion represents the potential for a reasonable increase over 2015 levels despite expectations for capital expenditures to nearly double at the low end of its guidance range.

Management did not provide specific guidance for its use of cash generated in 2016. Historically, the firm has returned far more than 100% of its free cash flow to shareholders via dividends and share repurchases, and we expect the company to continue growing its dividend for the foreseeable future. Its Dividend Cushion ratio is a solid 2.4, though its yield is not as competitive as it could be at ~1.7%. An increased dividend would be a more prudent use of cash in our view, as shares continue to trade well above our fair value estimate of $154 per share.

Strong Bookings Position Raytheon for Growth

January 28, Raytheon reported fourth quarter revenue advanced 2% from the year-ago period to $6.3 billion. Income from continuing operations before taxes, however, fell more than 5% to $774 million, and earnings from continuing operations dropped to $1.85 per share from $1.86 in the comparable period of 2014, partially due to acquisition accounting adjustments related to Forcepoint--formerly known as Ratherion|Websense. Operating cash flow from continuing operations also fell slightly in the quarter, though strong generation in the previous three quarters were able to raise the company's full year operating cash flow from continuing operations above that of 2014.

The highlight of the quarter and year for Raytheon was its solid performance in bookings, which grew more than 11% from the year-ago period. The firm's book-to-bill ratio in the fourth quarter was a strong 1.24, helping drive its backlog to $34.7 billion as of the end of 2015, compared to $33.6 billion at the same time in 2014. Strong bookings and backlog numbers has led management to anticipate solid growth in 2016; revenue is expected to advance to a range of $24-$24.5 billion, compared to $23.2 billion in 2015, and earnings-per-share from continuing operations is projected to be in a range of $6.80-$7.00, compared to $6.25 in 2015. Operating cash flow from continuing operations is anticipated to be in the range of $2.7-$3 billion for 2016, outstanding growth from $2.3 billion in 2015. The growth strategy in bringing Raytheon's advanced cybersecurity capabilities to both government and commercial customers appears to be paying off.

Please see *Defense Dividends…*on next page

***Defense Dividends*...from previous page**

Shareholders should expect a reasonable increase in Raytheon's dividend as a result of the anticipated jump in cash flow, which will only strengthen its already solid Dividend Cushion ratio of 2.5. The firm's dividend yield currently sits at a respectable ~2.2%, and we generally would like to see the company allocate more cash to growing its dividend instead of increasing share repurchases; shares appear overvalued when compared to our fair value estimate of $100. We'll be monitoring developments closely.

Avoid Dividend Double Whammies By Using the Dividend Cushion!

By Brian Nelson, CFA

I think a lot of investors sell themselves short.

Of course you want a strong and growing dividend, but analysis shouldn't stop there. One of the most important things you could ever do is evaluate just how strong that dividend truly is via the Dividend Cushion ratio, a metric that measures a company's dividend coverage via future free cash flow generation with consideration of its balance sheet health. For example, how valuable would it have been to know that Kinder Morgan (KMI), ConocoPhillips (COP), and BHP Billiton (BHP) were going to cut their dividends…in advance of them doing so? Our membership knew these cuts were probable long before anyone else because they paid attention to each firm's Dividend Cushion ratio. The Dividend Cushion ratio provides this valuable information in a systematic, objective, and forward-looking fashion. We believe having access to this ratio is par for the course for any dividend growth or income-oriented strategy. It has to be – you're interested in dividend growth and safety, and that's exactly what the Dividend Cushion measures with the evaluation of the financials. Backward-looking data should be free – it's the forward-looking analysis that's worth paying for.

A dividend growth or equity income-oriented strategy may start with a fantastic payout, but it doesn't have to stop at the evaluation of the dividend. Certainly many dividend growth investors don't care much about the price of the equity, for better or worse, even as we continue to warn about the hazards in ignoring this very important information, but what happens when shares of a company keep falling, and then the company cuts its dividend? Dividend growth and equity income-oriented investors are left with but permanently-eroded capital and then a reduced income stream? It's a double-whammy. We saw this with all of the three high-profile situations mentioned above—Kinder Morgan, ConocoPhillips, BHP Billiton--and also with Teekay LNG Partners (TGP) as of late, where the latter's shares cratered before the company cut its dividend…and then after as well. All of these were avoidable. Please stay on top of each of your holdings' Dividend Cushion ratio; in the cases of Kinder Morgan, ConocoPhillips, BHP Billiton, and Teekay LNG Partners, among many others, it highlighted the significant risk of a dividend cut far in advance.

Who is teaching people to completely ignore valuation and market information and focus only on a dividend or distribution that may be financially-engineered, as in the case of most MLPs (AMLP)? Please – the market price holds very, very important information – all four of the examples above, shares were collapsing before they cut the dividend. Please – do not let anyone tell you that market information does not matter. Share price action will always offer some clues! Do you really think that the backward-looking GAAP financials tell the whole story about a company? Any time investors take their eye off of valuation or fundamentals, as in the dot-com bubble or other bubbles before it, they always get hurt. Please don't just stop at the dividend – keep doing your homework. Whether it is staying on top of the Dividend Cushion ratio or our extensive discounted cash flow processes, or more. Trust me -- it will help you over the long haul.

Kohl's Dividend Mostly a Distraction

By Brian Nelson, CFA

Kohl's (KSS) may be doing better than JC Penney (JCP) and Bon-Ton (BONT), the owner of Carson Pirie Scott, but the department store arena is flailing and has been for some time, even before the days of irrational exuberance when hedge fund giant Eddie Lampert merged Kmart and Sears (SHLD) in 2005. Things have only headed south since that time, and even the strongest in Macy's (M), which has experienced falling comparable store sales and a plummeting gross margin as of late, has been forced to pursue innovative ways to generate value for shareholders in the midst of "consumer abandonment," namely the consideration of an independently-traded real estate investment trust.

Fourth-quarter results at Kohl's, released February 26, may not have been as bad as we've witnessed at J.C. Penney's during the last few years as a result of the failed "Ron-Johnson experiment," or even Macy's more recently, but they weren't great either. But even if Kohl's is holding the line with total sales, reported profits are plummeting, dropping more than 20% in 2015 from last year's mark. Investors need to think long and hard about the punishing discounting that's going on in this industry. The consumer has been trained to wait for that "30% off" coupon in the mail, and it may get worse, as e-commerce continues to proliferate. The overhead at department stores has become too burdensome, and millennials do not care for the "big box" experience.

We think management's outlook for 2016 is far too optimistic in light of current business momentum. Kohl's is targeting total sales to be roughly flat for the year and earnings per diluted share to reach the range of $4.05-$4.25. The department store giant is piloting smaller format stores and plans to close 18 underperforming stores, but that may not be enough to stem the weakness. We think the recent dividend increase at Kohl's is nothing more than a distraction, as Kohl's cash-flow-from-operations generation and balance sheet are not as strong as they once were. Shares of Kohl's yield ~4.5% at the moment, but we're not biting.

Target's E-Commerce Growth the Real Story

By Brian Nelson, CFA

We have a difficult time dismissing Target's (TGT) short-sightedness in abandoning its efforts in Canada, as in time, its ability to continue to drive traffic and store count in the US higher will plateau. In no way will this occur anytime soon, or within the next few years or so, but it will, and Target will have wished it wouldn't have given up in Canada. But that's not the story today

Skeptics are looking wrong in a big way, as Target showcased a pace of e-commerce expansion better than that of Wal-Mart (WMT) and even Amazon (AMZN) and eBay (EBAY) in its most recently-reported fourth quarter. Digital sales at Target in the quarter advanced an impressive 34% (which laps 36% growth in the fourth quarter of last year), contributing 1.3 percentage points to the firm's 1.9% fourth-quarter comparable-sales increase during the period. Simple appears to have worked. Target offered 15% off everything on its website during the Black Friday and Cyber Monday weeks.

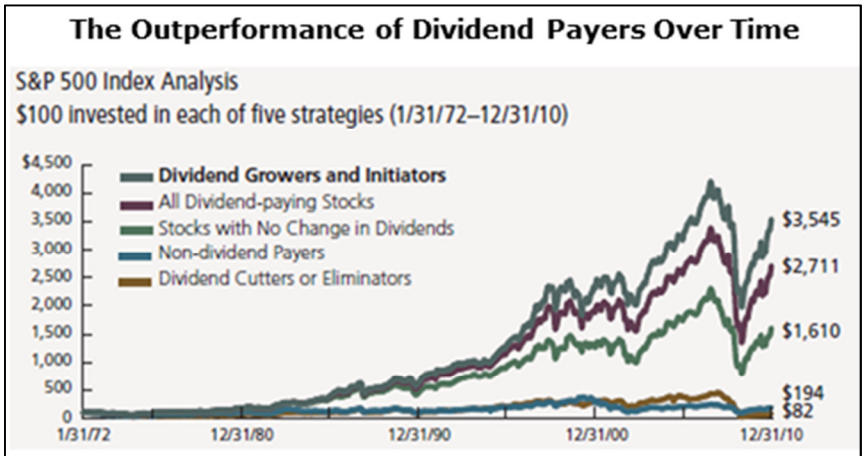
Traffic in its stores, however, wasn't that bad either, with its signature categories of Style, Baby, Kids, and Wellness propelling sales. We can't help but state the obvious, as many may be overlooking – lower gas prices must have helped, and we'll continue to monitor whether Target and others are simply experiencing a one-time step change in demand in light of greater consumer discretionary income stimulated by lower prices at the gas pump. We believe the market may be overestimating the sustainability of this boost.

For full-year 2016, Target expects GAAP earnings per share from continuing operations and adjusted earnings per share of $5.20-$5.40, better than the consensus mark and compares to GAAP earnings per share from continuing operations of $5.25 and adjusted earnings per share of $4.69 in 2015. Perhaps we're looking for something a little more "interesting" in wanting more from Target, but simple is working. Target yields just shy of 3% at the moment.

About the Valuentum Dividend Cushion™

By Valuentum Analysts

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



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

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

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

The Importance of Forward-Looking Dividend Analysis

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

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

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

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

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

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

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

The Valuentum Dividend Cushion Caught These Dividend Cuts in Advance

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

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

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

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

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

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

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

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

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

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

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

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

Understanding Dividend Growth

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

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

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

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

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

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

Valuentum Dividend Growth Newsletter: Volume 5, Issue 3

Valuentum's Dividend Growth Newsletter is published monthly. To receive this newsletter 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).

Source of Trump image:
https://www.flickr.com/photos/donkeyhotey/22868475614/in/photolist-AQNV5j-e41ELr-x2H5cp-9hKraP-tvKemh-xGNGeQ-rUZnCR-ycAF8w-9hNwso-9hLxAs-xkYbWW-9hNvKd-kdVGhh-9hNuLJ-vhUZvt-uxXLXp-nYn4pw-uAGFDv-AajkrB-xkYcrU-xFDEWm-rWJfw5-rWKnwC-rWHUgf-9hKpTt-9hLx6s-9hLwSC-xoam2v-zyKmmT-kNDchT-Ekj97E-rsbxBz-xVVDfh-e47kUu-8faaoq-C6u1As-xcB4KT-bp4QyM-bnfTem-CYBUZJ-ybd7WS-9hKrPH-9hNvfQ-9hLwdw-e47hxW-nYtFkv-wEsVwU-DiMVoD-mq7sUk-nFZdqA

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