OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Annualized Return	Annualized Goal	Outperformance
13.1%	Mid-High Single Digits	5.6pts

*Please see note below regarding performance measurement.

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!

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"The production cut by OPEC is by no means a signal that the end of the pain is here, though it is a step in the right direction if it is adhered to."

– Kris Rosemann

*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, June 1, 2016, the portfolio is significantly exceeding this goal.

Is OPEC For Real This Time?

By Kris Rosemann

On September 28, the Organization of the Petroleum Exporting Countries (OPEC) reached an agreement to cut crude oil production levels for the first time since 2008. The cartel reportedly agreed to limit production of member nations to a range of 32.5-33 million barrels per day (bpd) while leaders met at the International Energy Forum in Algiers, Algeria.

As would be expected following such news, the price of crude oil has bounced, bringing market sentiment surrounding energy-related stocks higher along with it. The proposed production could be a reduction of up to 750,000 bpd from OPEC production levels in the month of August, but how the group of nations will reach such a production cut has yet to be determined. Country-specific production limits are expected to be set at the cartel's November meeting.

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

Please see *Is OPEC For Real...*on next page

*Is OPEC For Real...*from previous page

Whether the proposed production cut would make a meaningful difference in the global crude oil surplus is up for debate, though many agree that for substantive balance to return to the energy markets, a much larger production cut would be required as currently idle independent US producers ramping production will likely erase any positive impact on crude oil prices from OPEC's production cut. The issue of considerable crude oil inventories across the globe continues to be a factor in crude oil prices as well.

What is truly needed to restore balance to the energy markets is an agreement between OPEC and non-OPEC producers, specifically Russia. The nation has increased its crude production levels to roughly 11 million bpd, easily the highest in its post-Soviet history.

Adding to the questioning of the effectiveness of the proposed production cut is general lack of faith surrounding the true commitment of OPEC to the terms of the agreement. High levels of skepticism are common across many market observers. After all, OPEC has a poor track record when it comes to sticking to production quotas, and the most recent announcement of a production cut could be nothing more than the cartel playing market psychology games as it hopes to provide a degree of near-term relief to some of its members that continue to be hurt by the supply glut.

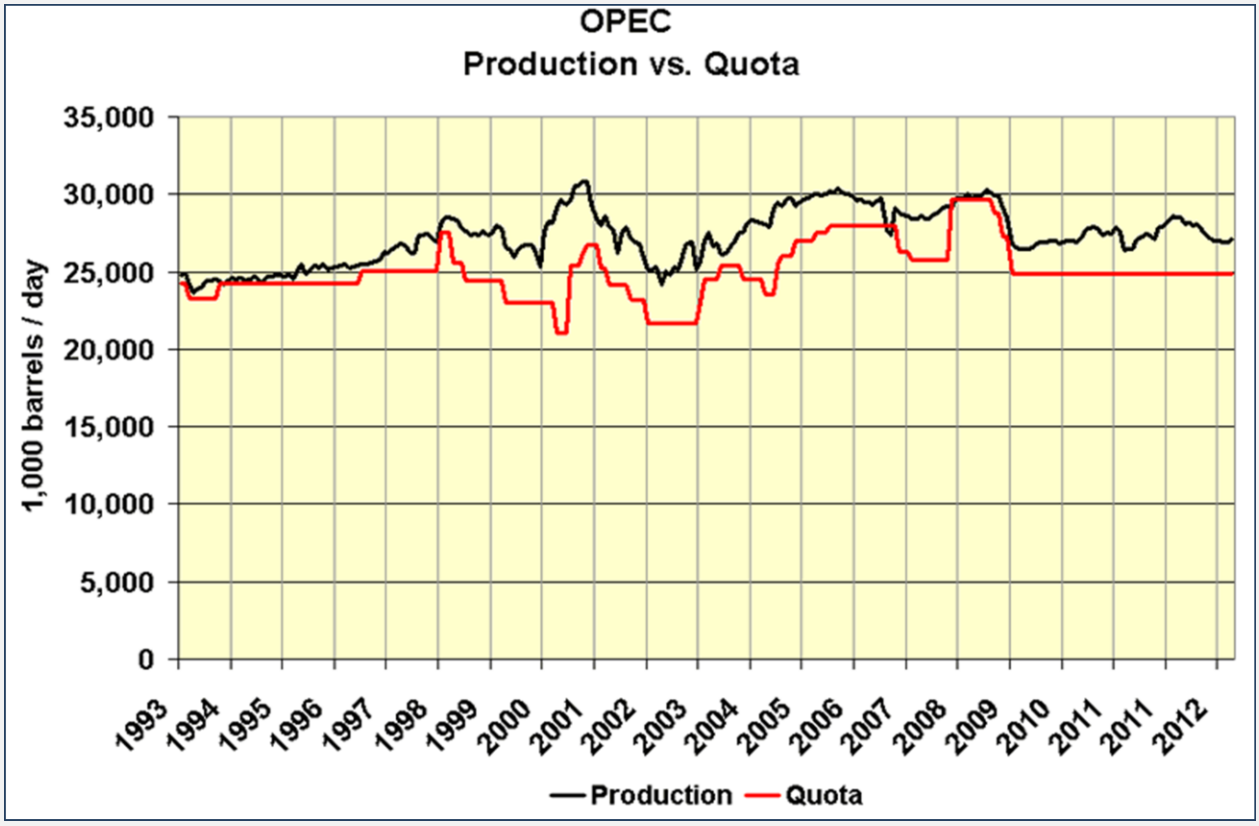

Image source: energyeconomist.com

So how are we playing the recent developments in the crude oil markets?

We continue to believe that the addition of the Energy Select Sector SPDR ETF (XLE) to both newsletter portfolios in October 2015 was a prudent move, and the addition of Kinder Morgan (KMI) to the Best Ideas Newsletter portfolio in February of this year gives us additional energy exposure should we see a sustained increase in energy resource pricing. We love the inherent diversification qualities of the XLE, as many energy companies are not out of the woods yet in terms of the current crude oil price environment. The production cut by OPEC is by no means a signal that the end of the pain is here, though it is a step in the right direction if it is adhered to.

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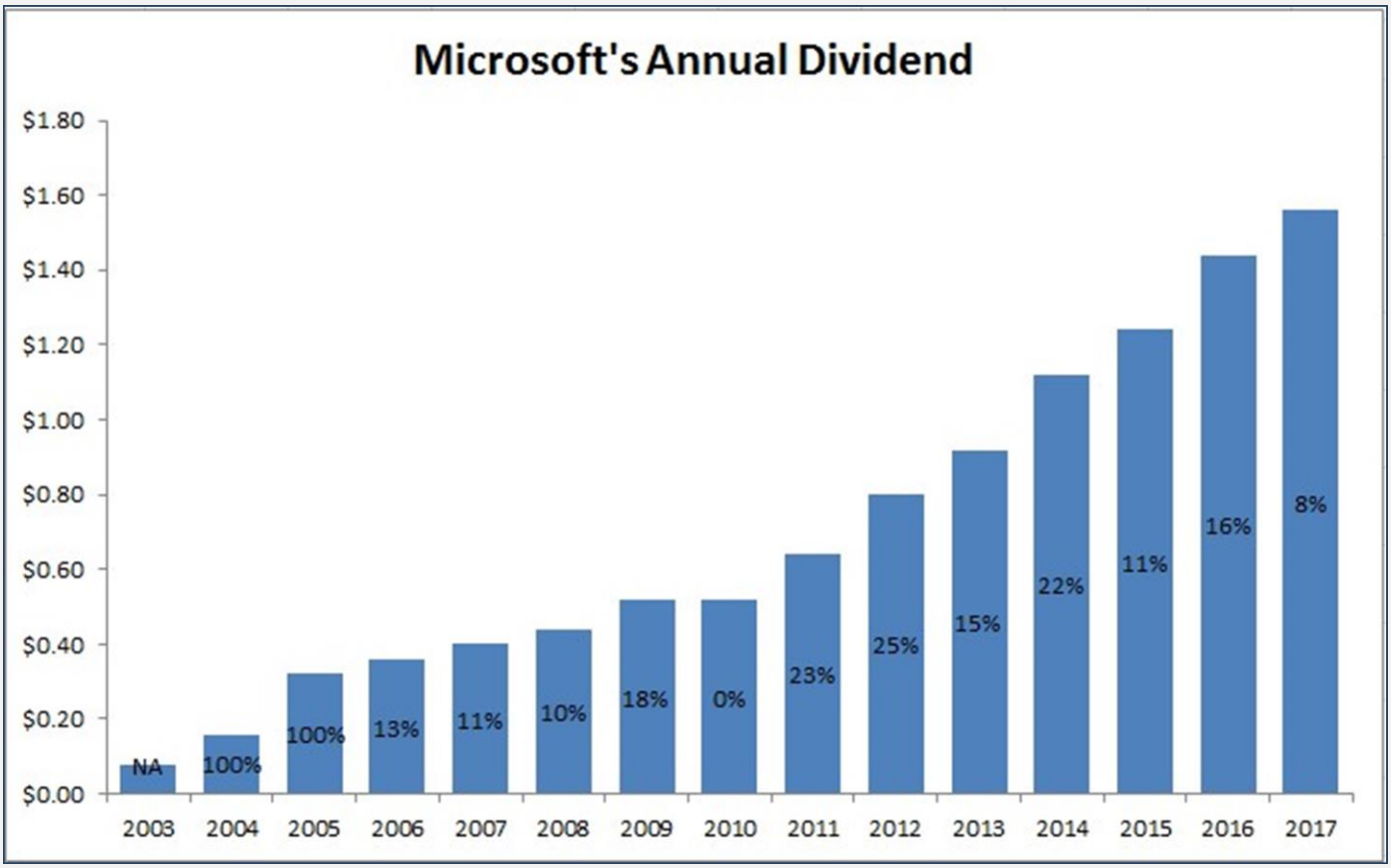
We do not see a need to make any moves in either portfolio as a result of the most recent news from OPEC. Similar reports have surfaced in the past surrounding production levels of OPEC member nations, only to never materialize. We're expecting more crude market manipulation from the cartel leading up to its meeting in November, so more crude oil price volatility is likely to be seen. Such a dynamic is precisely the reason why we are most comfortable sticking with the diversified XLE, which offers all of the benefits of owning an oil producer, including a ~2.8% dividend yield, without taking on material firm specific risk, not the least of which includes ballooning debt levels.

Microsoft Remains Committed to Returning Capital to Shareholders

By Kris Rosemann



The above chart shows Microsoft's annual dividend per share, excluding special dividends, from fiscal year 2003 through the current annualized dividend rate of fiscal 2017. Percentage increases for each fiscal year are on display as well. Dividends are classified in the fiscal year in which they were announced.

We have a few things to say about Microsoft (MSFT). Let's begin this recap of some recent news with an excerpt from our most recent piece on the company, "Microsoft With Its Head in the Clouds? (July 2016)":

> *We're doing well in both newsletter portfolios in part because we're not taking on foolish risks in an overheated market, and we continue to feel that a reduction to the weighting in Microsoft in the Dividend Growth Newsletter portfolio several weeks ago was a prudent move, especially given our opinion of the LinkedIn deal and Microsoft's full valuation (it's still fairly valued, in our view). You'll note that the beauty of the move is that we still retain exposure to Microsoft, which as*

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Microsoft Remains…**from previous page**

> *fiscal fourth-quarter results revealed, remains attractive and is showing positive momentum in terms of adoption rates of its cloud-based services. We continue to hold Microsoft as we watch its story unfold with high hopes for its redefined business model. And yes, we're still nervous about a meaningful impairment charge related to the LinkedIn acquisition down the road, but that may not mean much now. Most experienced investors are already writing it off…we are.*
>
> *Microsoft delivers again.*

Though Microsoft continues to deliver excellent quarterly performance, our expectations for superb long-term dividend growth remain tempered to a degree as a result of the $26+ billion purchase of LinkedIn (LNKD), a move we have been critical of from the beginning, "What?!?! Microsoft Acquires LinkedIn; NO! (June 2016)." The $26 billion Microsoft will pay for LinkedIn could have gone a long way in future dividend increases, and the professional networking website has nowhere near the free cash flow generating capacity as the remainder of Microsoft's business. From our June 2016 note:

> *Microsoft will finance the transaction primarily through the issuance of new debt as it seeks to complete its $40 billion buyback program by the end of 2016, but income investors have been left in the cold with this transaction; it raises a big question about the board's long-term commitment to the pace of dividend growth, even if future increases are assured. We want big increases to Microsoft's dividend, not marginal ones. The numbers are terrible: LinkedIn's near-$3 billion revenue stream in 2015 is but a fraction of Microsoft's $90+ billion mark, and the professional networking entity's negligible net income is sad: -$166.1 million (negative, 2015), -$15.3 million (negative, 2014), $26.8 million (2013), $21.6 million (2012), and $11.9 million (2011). By comparison, Microsoft generated, on average, $19 billion in net income during the past three years. Free cash flow at LinkedIn averaged ~$160 million during the past three years (2013-2015), while this mark has been nearly $25 billion on average at Microsoft during its past three fiscal years (2013-2015).*

On September 20, Microsoft announced an 8% increase in its quarterly dividend and authorized an additional $40 billion in share repurchases, the latter of which has no set time horizon to be completed and can be terminated at any time. The 8% increase is the firm's smallest step change in terms of a percentage increase in its dividend paying history, but the absolute magnitude of the increase is in-line with several prior dividend hikes. Since the addition of shares to the Dividend Growth Newsletter portfolio in late 2011, the company has increased its quarterly dividend each fall by 15% (calendar 2012), 22% (2013), 11% (2014), and 16% (2015). Not bad -- actually, it's quite good.

On the basis of the software giant's valuation, we're not particularly fond of Microsoft's decision to add $40 billion to its share repurchase program as it remains on track to complete its current $40 billion authorization by the end of 2016. Microsoft's shares are currently trading in the upper half of our fair value range, indicating that we feel buybacks are not adding economic value at this point in time. Though there could be a much better use of the $40 billion in cash, in our opinion (as in the form of a dividend hike), the flexibility embedded in the share repurchase program should keep management from destroying value if it opts to gobble up shares should or if they become undervalued again.

All things considered, nothing material has changed with respect to our opinion of Microsoft. The LinkedIn deal will inevitably impact Microsoft's balance sheet, but as of the end of fiscal 2016, the firm had a net cash position of just under $60 billion. Even after the addition of ~$26 billion in debt, its net cash position will be far greater than many of its dividend paying "peers." In this light, we continue to view Microsoft as one of the more attractive dividend payers on the market. Its dividend is fully funded by internal cash flow--unlike MLPs and REITs who are dependent on capital markets to maintain a competitive and growing dividend--and shares remain fairly valued unlike many high-PE consumer staples entities with similar payout yields and dividend growth histories.

Shares are up more than 120% since their addition in December 2011 as of the close September 21 and currently yield ~2.5%. Yes, we still like Microsoft.

The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
13.1%	Mid-High Single Digits	5.6pts

DIVIDEND GROWTH PORTFOLIO -- as of September 30, 2016 — Dividend Growth Portfolio Inception Date: January 1, 2012

Company Name	Yrly Div's Paid ($) / Shr	First Purchase	Avg Cost ($)	# of Shares	Total Cost ($)	Last	Current Value ($)	% of Portfolio	Exp. Yrly Div's ($)
Altria (MO)	2.26	12/30/2011	29.65	101	3,001.65	62.82	6,344.82	3.6%	228.26
Apple (AAPL)	2.28	7/24/2013	63.17	51	3,228.45	112.18	5,721.18	3.3%	116.28
Cisco (CSCO)	1.04	11/14/2014	26.31	199	5,242.53	31.39	6,246.61	3.5%	206.96
Coach (COH)	1.35	9/19/2014	37.55	80	3,011.00	36.21	2,896.80	1.6%	108.00
Cracker Barrel (CBRL)	4.60	2/1/2016	133.50	18	2,410.00	131.29	2,363.22	1.3%	82.80
Energy Sector SPDR (XLE)	2.17	4/1/2015	72.63	121	8,795.76	69.66	8,428.86	4.8%	262.33
General Electric (GE)	0.92	10/21/2013	26.18	240	6,290.20	29.53	7,087.20	4.0%	220.80
Hasbro (HAS)	2.04	12/30/2011	31.89	110	3,514.90	79.39	8,732.90	5.0%	224.40
Intel (INTC)	1.04	12/30/2011	24.25	289	7,015.25	37.32	10,785.48	6.1%	300.56
Johnson & Johnson (JNJ)	3.20	12/30/2011	65.58	107	7,024.06	117.27	12,547.89	7.1%	342.40
Medtronic (MDT)	1.72	12/30/2011	38.25	157	6,012.25	85.40	13,407.80	7.6%	270.04
Microsoft (MSFT)	1.44	12/30/2011	25.96	77	2,005.92	57.40	4,419.80	2.5%	110.88
Proctor & Gamble (PG)	2.68	12/30/2011	66.71	105	7,011.55	88.23	9,264.15	5.3%	281.40
PP&L (PPL)	1.52	12/30/2011	29.42	238	7,008.96	34.82	8,287.16	4.7%	361.76
Realty Income (O)	2.39	7/24/2013	44.35	60	2,668.00	67.60	4,056.00	2.3%	143.40
S&P Dividend ETF SPDR (SDY)	2.02	4/20/2016	81.33	105	8,546.65	83.81	8,800.05	5.0%	212.08
Vanguard REIT ETF (VNQ)	3.26	2/1/2016	77.07	32	2,473.24	87.34	2,794.88	1.6%	104.25
Cash -- changes in monthly cash balance reflects dividends received and trading gains/losses, where app					2,363.42		53,803.72	30.6%	3,576.60
Dividend Growth Portfolio					100,000.00		**175,988.52**	100.0%	**TBD**
DG Portfolio Annualized Return (from inception through current date)									**13.1%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)									7.5%
DG Portfolio Annualized Return Outperformance									**5.6%**

UR = Under Review

** Upper bound of fair value range noted.

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

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

DIVIDEND GROWTH PORTFOLIO -- as of September 30, 2016 — Fundamental data as of September 30, 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	3.60%	mid-Dec 2016	mid Dec 2016 (quart)	1.2	GOOD	GOOD	$58.00	6	1.08
Apple (AAPL)	2.28	2.03%	early Nov 2016	Nov 2016 (quart)	4.7	EXCELLENT	EXCELLENT	$148.00	7	0.76
Cisco (CSCO)	1.04	3.31%	early Oct 2016	early Oct 2016 (quart)	2.8	EXCELLENT	EXCELLENT	$39.00	7	0.80
Coach (COH)	1.35	3.73%	early Dec 2016	early Dec 2016 (quart)	1.9	GOOD	GOOD	$41.00	3	0.88
Cracker Barrel (CBRL)	4.60	3.50%	mid Oct 2016	late Oct 2016 (quart)	1.7	GOOD	GOOD	$171.00	7	0.77
Energy Sector SPDR (XLE)	2.17	3.11%	late Dec 2016	early Dec 2016 (quart)	-	GOOD	NEUTRAL	-	UR	-
General Electric (GE)	0.92	3.12%	mid Dec 2016	Dec 2016 (quart)	3.1	EXCELLENT	GOOD	$32.00	6	0.92
Hasbro (HAS)	2.04	2.57%	late Oct 2016	late Oct 2016 (quart)	1.7	GOOD	EXCELLENT	$73.00	3	1.09
Intel (INTC)	1.04	2.79%	early Nov 2016	early Dec 2016 (quart)	2.6	GOOD	GOOD	$42.00	6	0.89
Johnson & Johnson (JNJ)	3.20	2.73%	late Nov 2016	early Dec 2016 (quart)	2.7	GOOD	EXCELLENT	$121.00	7	0.97
Medtronic (MDT)	1.72	2.01%	late Dec 2016	Dec 2016 (quart)	1.4	GOOD	EXCELLENT	$76.00	6	1.12
Microsoft (MSFT)	1.44	2.51%	mid Nov 2016	mid Dec 2016 (quart)	2.7	GOOD	EXCELLENT	$52.00	3	1.10
Proctor & Gamble (PG)	2.68	3.04%	late Oct 2016	early Nov 2016 (quart)	1.5	GOOD	EXCELLENT	$70.00	6	1.26
PP&L (PPL)	1.52	4.37%	early Dec 2016	early Dec 2016 (quart)	Held for diversification reasons.			$33.00	3	1.06
Realty Income (O)	2.39	3.54%	monthly	monthly	2.1	GOOD	GOOD	$59.00	3	1.15
S&P Dividend ETF SPDR (SDY)	2.02	2.41%	mid Dec 2016	late Dec 2016	-	-	-	-	UR	-
Vanguard REIT ETF (VNQ)	3.26	3.73%	late Dec 2016	Dec 2016 (quart)	-	GOOD	NEUTRAL	-	UR	-

Standard Disclaimer: Our Dividend Growth portfolio is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of our Dividend Growth Newsletter and accepts no liability for how readers may choose to utilize the content.

Restaurant Traffic – What's Going On?

By Kris Rosemann

What's going on with restaurant stocks these days?

Sonic's (SONC) announcement of preliminary results for the fiscal fourth quarter of 2016, ended August 31, has been the latest catalyst to drag the restaurant sector (BITE) lower due to it reporting "lower-than-expected traffic, reflecting lower consumer spending in restaurants and continued aggressive competitive activity." Our newsletter portfolios have not been spared the pain as shares of Dividend Growth Newsletter portfolio holding Cracker Barrel (CBRL) have faced pressure since its fiscal fourth quarter report September 14, and Best Ideas Newsletter portfolio holding Buffalo Wild Wings (BWLD) has suffered as a result of the weak data as well.

Sonic's report was not the first we've been hearing of slowing consumer spending in restaurants in the US, and more specifically in the growth of same-store restaurant sales among restaurant chains. For example, same-store restaurant traffic fell 2.7% and 3.9% in the months of August and July, respectively, according to Black Box Intelligence. Average guest check increases have helped offset some of the traffic weakness, but a number of factors could mitigate progress in check increases. After all, how many menu price increases are consumers willing to take? Where is the tipping point where traffic *really* starts to fall off?

Retailers and restaurants continue to work to solve the spending habits of millenials, and neither industry has had a significant amount of success as of late. Millenials choosing independent eateries and new concepts (think Five Guys and the like) has been tabbed as one of the issues plaguing traffic among public constituents in the restaurant industry, a trend that fits closely with the perception of the generation. As a result, we don't expect such a trend to reverse itself in a meaningful way anytime soon. This could result in many restaurant chains scrambling to rebrand and reorganize to appeal to a segment of the population that will only become more important as time passes.

A more visible negative impact on average check increases is expected to come from increasingly competitive pressures across the industry. For one, restaurants are not sitting by idly as they watch traffic dwindle, and the discounting dynamic we have seen in retail in recent quarters is becoming more prominent. With promotional initiatives such as the McDonald's (MCD) McPick 2 menu, Wendy's (WEN) 4 for $4 deal, and Yum! Brands' (YUM) Taco Bell's comparatively lower prices across its menu becoming much more commonplace, operating profit margins at the restaurant level, particularly in the quick-service space, are likely to continue to feel the squeeze -- offset in part on a consolidated basis by refranchising efforts for those pursuing such initiatives.

The possibility for (or better stated, the probability of) a higher federal minimum wage is inching closer to reality and will inevitably heighten the pressure on margins on operators across the industry, in our view. If technology does not eventually replace higher cost labor, we would expect the trend toward refranchising among public players to continue to proliferate. By passing rising operating costs down to the franchisee, franchisors are able to avoid the threat of rising minimum wages on their respective bottom lines, as margins are augmented, capital costs are reduced, and free cash flow is enhanced. McDonald's recently-heightened refranchising efforts, in our view, are largely driven by this dynamic as the fast-food giant prepares for an ever-changing political landscape post 2016 election.

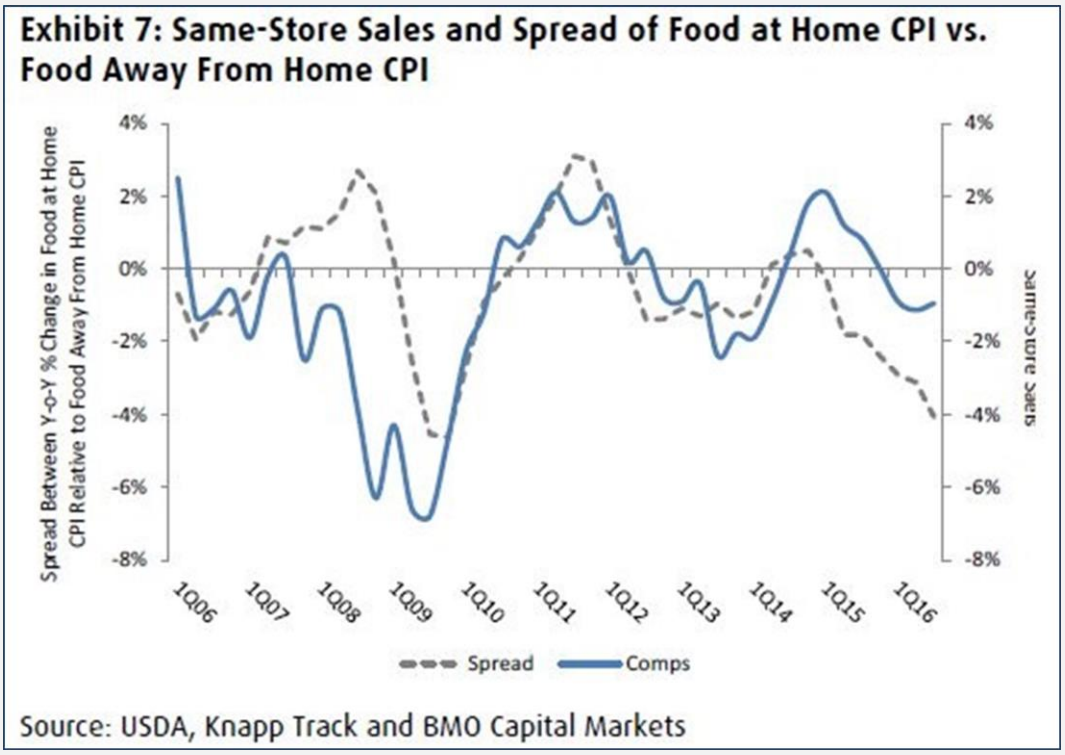
Somewhat nudged between the restaurant and retail industry is the grocery space, which is also feeling pressure as a result of food prices dropping precipitously. For example, the price of food has dropped in nine consecutive months, **the longest streak since 1960** excluding a stretch in 2009 during the midst of the Financial Crisis. Lower food costs in the grocery sector may be impacting restaurant traffic, in part. As consumers look to maximize the enjoyment levels of their personal income, materially lower prices for everyday groceries is impacting the allure of restaurants. Restaurant traffic trends are not shielded from this dynamic, as the convenience of eating out may not be a big enough pull for many consumers on the margin. Eateries must compete with all food sources, not just other restaurants.

Please see *Restaurant Traffic…*on next page

***Restaurant Traffic...*from previous page**

Some of the drop in food costs can be attributed to low oil and grain prices, but aggressive discounting, similar to what we're seeing in the restaurant space, has played a role. In addition to the typical pricing competition from the likes of Walmart (WMT) and Aldi, dollar stores and online retailers such as Amazon (AMZN) continue to pressure. Such a dynamic has forced the likes of Kroger (KR), for example, the largest grocery store chain in the US, to slash prices in search of growing sales and market share. Though Kroger has largely succeeded on those fronts, shares are down more than 25% year-to-date. From where we stand, rivalries probably have never been more intense across the retail and restaurant spectrums than as of late.

The image below, courtesy of Driehaus Capital, shows the correlation between same-store sales of restaurants and the relative value consumers see in eating at home compared to eating out. As consumers get more bang for their buck at grocery stores, same-store traffic at restaurants suffers. The impact of the weakness in grocery store prices in 2009, the last time we have seen a streak of price drops similar to what we are now, can be seen in the chart as well. We're paying very close attention.



Of course we are not expecting doom and gloom across the restaurant, grocery, or broader retail sectors, but we do feel the need to remind investors to keep a close eye on margins and free cash flow trends should recent traffic developments find material staying power. As we know, expectations of free cash flow are not only the basis of our estimates of intrinsic value of a given company, but are also drivers of our expectations of dividend strength. Pay very close attention to changes in Dividend Cushion ratios.

With all of that being said, we continue to like our top picks of the restaurant space. Cracker Barrel remains one of the top dividend plays in the space, in our opinion, and it maintains a healthy Dividend Cushion ratio of 1.7, while Buffalo Wild Wings recently registered a 9 on the Valuentum Buying Index. Cracker Barrel's unique concept and store experience and Buffalo Wild Wings' ongoing traction in the bar and grill space are hard not to like over the long haul. Importantly, the valuation of neither firm is full at current levels, and while it may take some time as broader macro trends sort out, we look forward to both holdings eating away at the discrepancy between price and fair value.

Cracker Barrel Rocks Back on Weak Guidance

By Kris Rosemann

Cracker Barrel's fiscal fourth quarter results, reported September 14, came in at reasonably solid levels, but as we know, what really matters in the market is what lies ahead.

The firm reported revenue growth of 3.7% from the year-ago period, thanks to comparable store restaurant sales increasing 3.2% and comparable store retail sales growth of 3.5%. Though traffic fell 1.2% on a year-over-year basis in the quarter, such weakness was more than offset by a 4.4% increase in average check as the average menu price rose 2.4%. The quarter marked Cracker Barrel's largest outperformance in sales and traffic of its casual dining peers in fiscal 2016 despite the drop in traffic, as restaurant chains in the US have felt more meaningful traffic pressures in recent months.

	May	June	July	Fourth Quarter
Comparable restaurant traffic	0.4%	-0.9%	-2.7%	-1.2%
Average check	4.6%	4.4%	4.3%	4.4%
Comparable restaurant sales	5.0%	3.5%	1.6%	3.2%
Comparable retail sales	3.7%	5.7%	1.7%	3.5%

Image source: Cracker Barrel fiscal fourth quarter report

Cracker Barrel's operating margin improved 30 basis points from the fourth quarter of fiscal 2015 thanks to cost management on the SG&A line and a reduction in cost of goods sold. Restaurant operating expenses continued to rise in the quarter, partially offsetting the aforementioned benefits, most of which was due to ongoing wage inflation. The firm's bottom line expanded nicely in the quarter, as earnings per diluted share jumped to $2.12 from $1.97 in the year-ago period.

Despite a more than 15% increase in net income in fiscal 2016 compared to the previous year, cash from operations fell nearly 19% as a decrease in accounts payable and net changes in other assets and liabilities weighed on results. Such softness coupled with an increase in capital expenditures led to material pressure on free cash flow in fiscal 2016. This raises questions surrounding management's decision to pay a special dividend of $3.25 per share in mid-July, which was part of a drain on the firm's cash balance in the quarter.

The headline-grabbing information in Cracker Barrel's fiscal fourth quarter report, however, was that of the forward-looking variety. The company expects fiscal 2017 comparable store restaurant sales and comparable store retail sales to slow materially from fiscal 2016 fourth quarter levels as guidance for the two metrics came in at 1%-2% for the full fiscal year. Management will decelerate menu price increases from the run-rate of the past two fiscal years and projects fiscal 2017 menu price hikes to be in the 1%-2% range. The lower guidance takes into account expectations for a continued challenging consumer environment, something that is beyond the firm's control.

Another factor largely out of Cracker Barrel's control is the wage inflation pressures it expects to persist in fiscal 2017; the company expects 2.5%-3.5% wage inflation in the fiscal year on a constant mix basis, which it hopes to offset with ongoing cost savings initiatives. As a result, the firm issued earnings per diluted share guidance of a range of $7.95-$8.10, compared to $7.86 in fiscal 2016.

We're not rushing to dump shares of Cracker Barrel at the moment. We see little reason for concern with the company from an operational standpoint, though we do recognize the headwinds within the broader restaurant industry. While we have a base of reduced expectations for restaurant traffic trends, we will continue to watch the industry for additional weakness as consumer spending remains fickle in a number of ways. In the meantime, we will collect dividend checks yielding ~3.3% at recent price levels!

Analyzing Procter & Gamble's Exchange Offer

By Kris Rosemann

In July 2015, Dividend Growth Newsletter portfolio holding Procter & Gamble (PG) announced it signed an agreement to merge 43 of its beauty brands with Coty (COTY) for an estimated $12.5 billion.

Procter & Gamble announced September 1 its plan to complete the separation of 41 of the agreed upon brands—two others will have already been divested—via a Reverse Morris Trust transaction. Procter & Gamble will transfer the assets of the brands to a newly created Galleria Co before merging the subsidiary with Coty. The deal will be tax-free for shareholders that choose to participate for US federal income tax purposes.

Procter & Gamble shareholders had the option to exchange their shares of the firm for shares of Galleria Co, which will then be exchanged for shares of Coty. No actual shares of Galleria will be delivered, nor will there ever be a market for such shares. The exchange offer was designed such that Procter & Gamble shareholders will receive a ~7% discount for shares of Galleria, or that $1 in shares of Procter & Gamble will equate to $1.075 in shares of Galleria Co. Shares of Galleria will convert to Coty shares on a 1-to-1 basis.

The exchange offer is limited on the upside to 3.9033 shares of Galleria Co for 1 share of Procter & Gamble, and the number of Procter & Gamble shares accepted in the offer will depend on the final exchange ratio and the number of shares tendered in the offer. The exchange offer is subject to pro rating if oversubscribed, and shares of Galleria will be distributed on a pro rata basis to all Procter & Gamble shareholders if undersubscribed. The prices of the exchange will be determined by the daily volume-weighted average prices of Procter & Gamble and Coty stock during the 3 consecutive days ending on and including the second clear trading day before the last day of the exchange offer. The offer expired at midnight Eastern Daylight Time on September 29.

Procter & Gamble expects to issue nearly 410 million shares of Galleria Co in accordance with the deal, which puts the equity value of the transaction at just over $9.7 billion based on Coty's closing price on September 22. The deal is also inclusive of $2.9 billion in debt, which is subject to a $1 billion adjustment within a collar based on the trading price of Coty stock prior to closing. Before the deal closes, JAB Cosmetics, the sole owner of Coty Class B shares, will exchange all of its Class B shares for Class A shares of Coty, resulting in Class A shares being the only class of stock of the firm. Following the close of the deal, Procter & Gamble shareholders are expected to own ~55% of the newly combined company.

All of these details sound enticing for Procter & Gamble shareholders, but let's dig a little deeper into the valuation side of things, as well as consider the recent trajectory of the brands being separated. The consumer staples giant's beauty brands have not been performing all that well as of late. Sales have declined steadily, materially pressuring net earnings and cash flows, as can be seen in the snapshot of page 61 of Procter & Gamble's fiscal 2016 annual report on page 13.

The brands included in the transaction are not Procter & Gamble's strongest and include: Wella Professionals (and its sub-brands), Sebastian Professional, Clairol Professional, Sassoon Professional, Nioxin, SP (System Professional), Koleston, Soft Color, Color Charm, Wellaton, Natural Instincts, Nice & Easy, VS Salonist, VS ProSeries Color, Londa/Kadus, Miss Clairol, L'image, Bellady, Blondor, Welloxon, Shockwaves, New Wave, Design, Silvikrin, Wellaflex, Forte, Wella Styling, Wella Trend, Balsam Color, Hugo Boss, Gucci, Lacoste, bruno banani, Escada, Gabriela Sabatini, James Bond 007, Mexx, Stella McCartney, Alexander McQueen, Max Factor and Covergirl.

In addition to the declining attractiveness of the brands to be included in the transaction, we're not particularly fond of Coty's recent performance. In its fiscal 2016, ended June 30, the firm reported a 1% decline in net revenue, a 36% drop in operating income as reported, and a 31% decrease in diluted EPS as reported. A large portion of the revenue growth in the year came from recently completed acquisitions, and the firm's like-for-like revenue fell 1% from the prior fiscal year. Cash provided by operating activities fell to $501 million in the fiscal year from over $526 million in the fiscal 2015. Shares of Coty currently yield ~1.15%.

Please see *Analyzing Procter & Gamble's…*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	Est Div Yield	VBI	Div Growth	Div Cushion
Omega Healthcare	OHI	Financials	6.8%	9	EXCELLENT	1.5
Western Gas	WES	Energy	6.3%	6	EXCELLENT	1.7
Brookfield Infrastructure	BIP	Energy	4.9%	6	EXCELLENT	1.2
General Motors	GM	Consumer Discretionary	4.7%	6	GOOD	2.0
Western Digital	WDC	Information Technology	4.3%	7	EXCELLENT	4.1
LyondellBasell	LYB	Materials	4.3%	6	EXCELLENT	1.6
Cypress Semi	CY	Information Technology	4.2%	6	GOOD	1.5
Entergy	ETR	Energy	4.2%	6	GOOD	1.4
Diebold	DBD	Industrials	4.1%	6	GOOD	1.3
Philip Morris	PM	Consumer Staples	4.1%	6	GOOD	0.6
QUALCOMM	QCOM	Information Technology	4.0%	7	EXCELLENT	3.0
Caterpillar	CAT	Industrials	3.9%	7	GOOD	0.6
Value Line	VALU	Financials	3.9%	6	EXCELLENT	1.4
Abercrombie & Fitch	ANF	Consumer Discretionary	3.9%	6	GOOD	2.7
Weyerhaeuser	WY	Materials	3.8%	6	GOOD	1.5
H&R Block	HRB	Consumer Discretionary	3.8%	6	GOOD	1.7
AbbVie	ABBV	Health Care	3.6%	7	EXCELLENT	1.3
Cummins	CMI	Industrials	3.6%	6	EXCELLENT	1.8
Gap	GPS	Consumer Discretionary	3.6%	7	EXCELLENT	2.1
IBM	IBM	Information Technology	3.5%	6	EXCELLENT	1.5
Taiwan Semiconductor	TSM	Information Technology	3.5%	6	EXCELLENT	2.3
Hewlett-Packard	HPQ	Information Technology	3.5%	6	GOOD	2.1
Altria Group	MO	Consumer Staples	3.5%	6	GOOD	1.2
ABB	ABB	Industrials	3.5%	6	GOOD	1.6
Nu Skin	NUS	Consumer Discretionary	3.4%	7	EXCELLENT	2.7
Cisco	CSCO	Information Technology	3.4%	7	EXCELLENT	2.8
Reynolds American	RAI	Consumer Staples	3.3%	7	GOOD	0.5
Thomson Reuters Corp	TRI	Financials	3.3%	7	GOOD	1.1
Merck	MRK	Health Care	3.3%	6	GOOD	1.9
Procter & Gamble	PG	Consumer Staples	3.2%	6	EXCELLENT	1.5
Western Union	WU	Information Technology	3.2%	6	EXCELLENT	2.4
Intel	INTC	Information Technology	3.1%	6	GOOD	2.6
NetApp	NTAP	Information Technology	3.1%	7	EXCELLENT	6.4
CA Tech	CA	Information Technology	3.1%	7	GOOD	3.0
AVX Corp	AVX	Information Technology	3.0%	6	EXCELLENT	3.6
Xerox	XRX	Industrials	3.0%	9	EXCELLENT	1.6

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 September 30, 2016 Fundamental data as of September 30, 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	2.53%	1.4	GOOD	EXCELLENT	$133.00	4	1.32	175.37
Abbott (ABT)	1.04	2.51%	2.5	GOOD	EXCELLENT	$43.00	3	0.96	41.44
AbbVie (ABBV)	2.28	3.63%	1.3	GOOD	EXCELLENT	$74.00	7	0.85	62.82
ADP (ADP)	2.12	2.43%	6.2	EXCELLENT	EXCELLENT	$98.00	6	0.89	87.21
Analog Devices (ADI)	1.68	2.64%	2.3	GOOD	EXCELLENT	$53.00	6	1.20	63.74
Becton, Dickinson (BDX)	2.64	1.50%	0.7	POOR	VERY POOR	$161.00	7	1.10	176.44
Boeing (BA)	4.36	3.33%	2.0	GOOD	EXCELLENT	$124.00	3	1.06	131.03
Coca-Cola (KO)	1.40	3.33%	1.4	GOOD	EXCELLENT	$39.00	4	1.08	42.03
Colgate-Palmolive (CL)	1.56	2.13%	1.7	GOOD	EXCELLENT	$60.00	6	1.22	73.29
Deere (DE)	2.40	2.86%	1.1	POOR	VERY POOR	$93.00	3	0.90	83.86
Dover (DOV)	1.76	2.45%	1.1	POOR	VERY POOR	$64.00	7	1.12	71.87
DuPont (DD)	1.52	2.29%	2.4	GOOD	GOOD	$62.00	6	1.07	66.37
Eli Lilly (LLY)	2.04	2.56%	2.0	GOOD	GOOD	$73.00	6	1.09	79.74
General Dynamics (GD)	3.04	1.95%	3.0	EXCELLENT	EXCELLENT	$129.00	6	1.21	155.61
Genuine Parts (GPC)	2.63	2.64%	1.9	GOOD	EXCELLENT	$88.00	6	1.13	99.58
H&R Block (HRB)	0.88	3.89%	1.7	GOOD	GOOD	$29.00	6	0.78	22.65
Honeywell (HON)	2.38	2.05%	2.9	EXCELLENT	EXCELLENT	$106.00	6	1.10	116.19
Hormel Foods (HRL)	0.58	1.53%	2.7	GOOD	EXCELLENT	$42.00	6	0.90	37.88
IBM (IBM)	5.60	3.54%	1.5	GOOD	EXCELLENT	$164.00	6	0.96	158.11
Illinois Tool Works (ITW)	2.60	2.18%	1.8	GOOD	EXCELLENT	$86.00	4	1.38	119.04
Kimberly-Clark (KMB)	3.68	2.94%	1.2	GOOD	GOOD	$112.00	7	1.12	125.22
Lockheed Martin (LMT)	6.60	2.72%	1.2	POOR	VERY POOR	$193.00	1	1.26	242.34
Merck (MRK)	1.84	2.97%	1.9	GOOD	GOOD	$55.00	6	1.13	61.91
Northrop Grumman (NOC)	3.60	1.69%	1.8	GOOD	EXCELLENT	$160.00	1	1.34	213.61
Paychex (PAYX)	1.84	3.22%	2.6	GOOD	EXCELLENT	$48.00	4	1.19	57.16
Phillip Morris (PM)	4.16	4.25%	0.6	GOOD	GOOD	$84.00	6	1.16	97.78
Raytheon (RTN)	2.93	2.15%	2.2	GOOD	EXCELLENT	$104.00	7	1.31	136.54
St. Jude (STJ)	1.24	1.57%	2.1	GOOD	EXCELLENT	$85.00	5	0.93	78.96
Texas Instr (TXN)	1.52	2.18%	2.1	GOOD	EXCELLENT	$54.00	6	1.29	69.84
United Technologies (UTX)	2.64	2.61%	1.4	GOOD	EXCELLENT	$107.00	7	0.94	101.06
UPS (UPS)	3.12	2.88%	1.7	GOOD	EXCELLENT	$100.00	6	1.08	108.21
VF Corp (VFC)	1.48	2.67%	2.0	GOOD	EXCELLENT	$57.00	4	0.97	55.39
Walgreens (WBA)	1.50	1.89%	2.3	GOOD	EXCELLENT	$75.00	6	1.06	79.21

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
CONSOL Energy	CNX	Industrial Minerals	0.3%	VERY POOR	-70.4
KB Home	KBH	Homebuilders	0.7%	VERY POOR	-38.9
Windstream	WIN	Telecom Services - diversified	6.7%	VERY POOR	-36.1
Lennar	LEN	Homebuilders	0.3%	VERY POOR	-25.6
Devon Energy	DVN	Independent Oil & Gas	0.6%	VERY POOR	-21.3
Anadarko	APC	Independent Oil & Gas	0.3%	VERY POOR	-12.7
Ryder System	R	Rental and Leasing	2.5%	VERY POOR	-8.5
Tailored Brands	TLRD	Retail - Men's, Women's, Kids' Apparel	5.0%	VERY POOR	-7.1
Yamana Gold	AUY	Metals & Mining - gold	0.4%	VERY POOR	-6.6
TAL Intl	TAL	Rental and Leasing	13.1%	VERY POOR	-5.5
Allegheny Technologies	ATI	Aluminum	2.6%	VERY POOR	-5.4
D. R. Horton	DHI	Homebuilders	1.0%	VERY POOR	-5.3
ConocoPhillips	COP	Major Oil & Gas	2.4%	VERY POOR	-4.9
MDC	MDC	Homebuilders	4.0%	VERY POOR	-4.4
Teekay	TGP	Shipping	4.9%	VERY POOR	-4.4
Barrick Gold	ABX	Metals & Mining - gold	0.4%	VERY POOR	-4.3
Hill-Rom	HRC	Medical Instruments	1.3%	VERY POOR	-4.2
Hess	HES	Refiners	1.8%	VERY POOR	-3.8
Murphy Oil	MUR	Refiners	4.4%	VERY POOR	-3.7
Ball Corp	BLL	Containers & Packaging	0.7%	VERY POOR	-3.7
Textainer	TGH	Rental and Leasing	8.7%	VERY POOR	-3.6
Olin Corp	OLN	Chemicals - mid/small	3.5%	VERY POOR	-2.7
Noble Energy	NBL	Independent Oil & Gas	1.2%	VERY POOR	-2.7
Apache	APA	Independent Oil & Gas	1.7%	VERY POOR	-2.5
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	2.4%	VERY POOR	-2.5
Natural Resource Partners	NRP	Industrial Minerals	11.4%	VERY POOR	-2.4
Rent-A-Center	RCII	Rental and Leasing	2.5%	VERY POOR	-2.2
Deltic Timber	DEL	Building Materials	0.6%	VERY POOR	-2.2
Quad/Graphics Inc	QUAD	Book Publishing	4.8%	VERY POOR	-2.1
CF Industries	CF	Chemicals - agriculture	4.7%	VERY POOR	-2.0
Huntsman	HUN	Chemicals - broad	2.8%	VERY POOR	-2.0
Service Corp Intl	SCI	Personal Services	2.0%	VERY POOR	-1.8
Centurylink	CTL	Telecom Services - diversified	7.8%	VERY POOR	-1.7
Alcoa	AA	Aluminum	1.3%	VERY POOR	-1.6

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

*Analyzing Procter & Gamble...*from page 9

Years ended June 30	Beauty Brands 2016	2015	2014
Net sales	$ 4,910	$ 5,530	$ 6,109
Cost of products sold	1,621	1,820	1,980
Selling, general and administrative expense	2,763	2,969	3,299
Intangible asset impairment charges	48	—	—
Interest expense	32	—	1
Interest income	2	2	2
Other non-operating income/(loss), net	9	91	(3)
Earnings from discontinued operations before income taxes	$ 457	$ 834	$ 828
Income taxes on discontinued operations	121	191	168
Net earnings/(loss) from discontinued operations	$ 336	$ 643	$ 660

Included in Net earnings/(loss) from discontinued operations is $112 of transition costs that were incurred for the fiscal year ended June 30, 2016.

The following is selected financial information included in cash flows from discontinued operations for the Beauty Brands:

Years ended June 30	Beauty Brands 2016	2015	2014
NON-CASH OPERATING ITEMS			
Depreciation and amortization	$ 106	$ 125	$ 127
Gain on sale of businesses	8	86	—
Goodwill and intangible asset impairment charges	48	—	—
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	$ 114	$ 106	$ 108

Image source: Procter & Gamble Annual Report

However, Coty is expecting material improvements across its business as a result of the transaction. The deal will double the revenues of the firm, and it expects to realize ~$550 million in total cost savings, consisting of $400 million in Procter & Gamble costs that will not transfer and $150 million in incremental cost synergies, the latter of which are expected to be recognized by the end of the third year following closing. Coty's net debt-to-EBITDA is expected to be 3.0x immediately following the closing of the deal.

When completing our valuation analysis of Procter & Gamble's departing brands, we include the $150 million in incremental synergies in our calculation of expected free cash flows (an addition of $50 million per year). Such an adjustment results in a projection for adjusted free cash flow in year 1 of just under $570 million--Procter & Gamble's fiscal 2016 adjusted free cash flow came in at $496 million. In order to get this free cash flow stream to reach the expected $9.7 billion equity value in the transaction, we are forced to assume a ~4.2% growth rate in perpetuity, assuming a 10% discount rate is in place.

This is where we believe the deal begins to fall apart in terms of the amount of sense it makes for Procter & Gamble shareholders. Given the recent trajectory of the beauty brands, we have a difficult time believing the free cash flow stream they produce will continue to grow at a 4%+ rate for the foreseeable future. Even though shares of Procter & Gamble have run past the upper bound of our fair value range, we prefer the higher-yielding shares of the consumer staples giant over Coty--PG shares currently yield ~3% compared to the ~1.2% yield of COTY shares--especially in the Dividend Growth Newsletter portfolio.

Now having said all of this, we continue to view shares of Procter & Gamble as a potential source of cash themselves in the future, perhaps sooner than later. Dividend-paying consumer staples entities are among the most expensive equities on the market today, but have shown little signs of slowing. We're going to continue riding the wave of the market, with a keen eye on the potential for the seemingly ever-inflating dividend growth bubble to pop. Stay tuned for developments. It's great to make money -- but we'd like to keep it, too!

General Mills a Reminder of the Dividend Growth Bubble

By Kris Rosemann

We have not been shy about our concerns with the current overheated state of the market, "A Kleenex? Consumer Staples Trading At Nosebleed Levels (August 2016)":

> *At arguably no time in the history of the stock market have investors been willing to pay so much for each unit of earnings to capture a dividend yield of just a few percentage points. Negative interest rates across much of the world have created this scenario. In many ways, the strongest business models have become some of the most risky stocks, to no fault of their own. What do the bulls say though -- as long as everybody keeps buying these steady-eddy companies to capture yield, share prices will continue to go up. Why not?*

General Mills (GIS) has been a beneficiary of the ongoing dividend growth bubble as its shares are now changing hands at more than 20 times fiscal 2017 earnings per share guidance, even after a material pullback following the release of its fiscal 2017 guidance in early September. Additional pressure has come since the company reported rather pedestrian fiscal first quarter results September 21, as top-line weakness persists in its 'Foundation' businesses.

Such performance was not necessarily unexpected, and management reminded investors that it is working to drive efficiency by reducing the number of SKUs it carries and optimizing spending, which will inevitably reduce volume. For fiscal 2017, the firm is expecting organic sales to be flat to down 2% from fiscal 2016, while operating profit and adjusted diluted earnings per share are expected to grow 6%-8% on a constant currency basis from the prior year.

Upon the recent updating of the food products (large/mid-cap) industry, General Mills registered a 1 on the Valuentum Buying Index, the lowest possible rating, as a result of the combination of it being overvalued on both a discounted cash flow basis and a relative valuation basis and its bearish technicals. Could this be the VBI foreshadowing an impending decline in our overheated market, likely to be led by the very stocks that did a large part of the bubble inflating?

Please see *General Mills a Reminder...*on next page

*General Mills a Reminder...*from previous page

Investment Considerations	
DCF Valuation	OVERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	DECLINING
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Resistance, 10-wk MA	71.00

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

We're not going to make such a claim, though it is certainly an interesting development. In fact, it will take some time for price-to-fair value convergence to take place in the stock, the catalyst for which may very well end up being the bursting of the dividend growth bubble. Speculation as to when this will happen could be an exercise in futility, though the Fed's decisions regarding interest rate increases will play a factor as its recent inactivity has only further fueled the overheated, yield-hungry market. Shares of General Mills currently yield ~3%.

It is important to note that General Mills registering a 1 on the VBI is not an indictment of its business, brands, or staying power, but is instead an assessment of a combination of factors that make it an unattractive investment consideration, in our opinion. It does not indicate that we are anticipating a catastrophic development to unfold in its operation. We are using this instance as a reminder that it is imperative to always keep valuation in mind when making an investment decision. As our loyal readers know, there is much more to consider in a stock than its dividend yield, which accounts for but a portion of shareholder return in a high quality investment consideration.

Intel A Source of Outperformance in 2016

By Valuentum Analysts

If you had been following Valuentum's work prior to 2016, you should have been well aware of our high expectations for Intel (INTC), a holding in both newsletter portfolios, in the year. What started with commentary as early as October 2015, "Intel May Have a Breakout Year in 2016," continued weeks after the new year holiday, "Lots to Like About Intel's 2016: 3D XPoint and Altera!" only to be reiterated in

Please see *Intel...*on next page

***Intel*...from previous page**

There are a number of reasons why we like Intel, so let's do a quick recap of some of our past work. We continue to be fans of the firm's decision to scoop up Altera, a position that predates our expectations for 2016 to be a banner year for Intel's stock. From the March 2015 note, "Why Intel Wants Altera":

> *By most estimates, the ASIC and ASSP replacement opportunity alone offers growth that's twice as fast as the overall semiconductor industry, something Intel wants, and Altera brings to the table a complete FPGA portfolio (Generation 10), from the Max 10 (refresh CPLD/low-end) to the Arria 10 (mid-range markets), and the Stratix 10 on the high end. Altera estimates that the PLD (FPGA) market was nearly $5 billion in 2014, but the combined portion of the ASIC and ASSP markets that was accessible for PLD displacement was over $50 billion, revealing the tremendous growth potential of PLDs (FPGAs). Altera's Stratix Series already cooperates with Intel 14nm Tri-Gate technology, offering customers double the performance gains in most cases. In a recent Intel presentation, the tech behemoth showcased the significant cost per transistor savings in its 14bnm TriGate technology. The new HyperFlex core fabric architecture results in a level of performance and power efficiency that is unmatched by any existing FPGA architecture, according to the firm.*
>
> *We like Altera's competitive position to win new business and its existing partnership with Intel, which should smooth deal integration. In fact, Altera's management will tell you that its partnership with Intel has given it an upper hand in addressing performance, power consumption, and cost at the same time, while rivals have struggled with each sequentially. From what we can tell, this has given Altera an early-mover advantage, even relative to its chief FPGA rival Xilinx (XLNX), and the growing "process technology gap" for new designs between PLDs (FPGAs) and the ASIC alternative is revealing. Even if Altera doesn't sustain such an advantage relative to technology-savvy peers, the benefits of FPGAs over ASICs should generate a market large enough for a number of players.*

However, the Altera deal was not the only factor that drove us to proclaim our love for Intel heading into 2016. From our October 2015 note:

> *Part of the reason why we like Intel is that many continue to dismiss the firm's entrance into the mobile market, an area traditionally dominated by Qualcomm (QCOM). It is widely-accepted that Intel's research and development prowess has nearly put AMD (AMD) out of business, and we're confident the chip giant's resources and innovation track record will open the door to the mobile market in a big way. In March, it was reported that Intel's technology will find its way into Apple's (AAPL) smartphones, and the runway with the iPhone giant is very long.*
>
> *Some estimates suggest that "Intel may capture half of all modem chips powering the upcoming iPhones, which could amount to as much as $1.25 billion in additional revenue." We're expecting 2016 to be a break-out year for Intel, as investors begin to factor in an even more promising 2017, in our view. The Microsoft (MSFT) Windows 10 PC upgrade may end up just being icing on the cake if Intel's work with Apple flourishes.*

Though shares of Intel had a slow start to the year, they have since come roaring back--its chart since the beginning of 2016 can be seen at the top of this article--and the note regarding its participation in the manufacturing of the iPhone 7 has been one of a few catalysts propelling the stock. We continue to have high expectations for the company, from our July 2016 note, following Intel's most recent earnings report:

> *Trading at less than 15 times current-year non-GAAP earnings estimates, Intel is a rare bargain in today's overheated equity market and has a nice ~3% dividend yield to boot. The company last upped its dividend payout 8%+ in January of this year, and we expect many more years of dividend increases to come. Free cash flow generation at Intel is tremendous, and management aims to please. We'll be keeping shares of Intel in both newsletter portfolios for the foreseeable future. We think convergence to intrinsic value may happen sooner than later at*

Please see *Intel*...on next page

***Intel…*from previous page**

> *the company, even if it has a few tough trading sessions following these second-quarter results. It could very well hit multi-year highs before the year is up.*

Intel continues to trade at less than 15 times current-year non-GAAP earnings estimates, a rarity for such a strong dividend payer. Its yield has fallen to ~2.8% due to the ongoing share price momentum, but we continue to expect many more increases in the quarterly payout in the future based on its impressive Dividend Cushion ratio. As a refresher on our opinion on Intel's dividend strength, let's take a glance at page 2 of its dividend report, which is accessible on the firm's landing page on our site along with all of our commentary.

Intel INTC FAIRLY VALUED — **Buying Index™ 6** — **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$34.00 - $50.00	HEALTHY	GOOD / 2.6	GOOD	3.06%

Assessment of Company Dividend Strategy

Key Strengths

We're huge fans of Intel's dividend growth prospects, and we include it in the Dividend Growth Newsletter portfolio. The firm recently completed its acquisition of Altera in a near-$17 billion deal, which enables it to compete in new classes of products in its high-growth Data Center and Internet of Things segments. These two segments will be areas of focus for the company moving forward, and it expects to continue to allocate additional resources to the divisions as it cuts spending in the areas of software, PC, and phones/tablets. We like the strategy and expect Intel to be able capture future customer needs with ongoing innovations. The firm's tremendous free cash flow generation will continue to be the basis of its dividend strength.

Potential Weaknesses

After considering the typical operational risks of a company in such a competitive and rapidly-evolving industry, perhaps the largest threat to material future dividend growth for Intel is its weakened balance sheet. As of the second quarter of 2016, the firm's total debt position stood at ~$25 billion, slightly higher than its total cash investments and marketable securities of ~$23 billion. Though we do not like the deterioration of its balance sheet strength, we continue to have faith in Intel's free cash flow generation, and the Altera acquisition is expected to be accretive to free cash flow immediately. All things considered, we like what the deal does for the company on a long-term basis, even if it may impact dividend health in the near term.

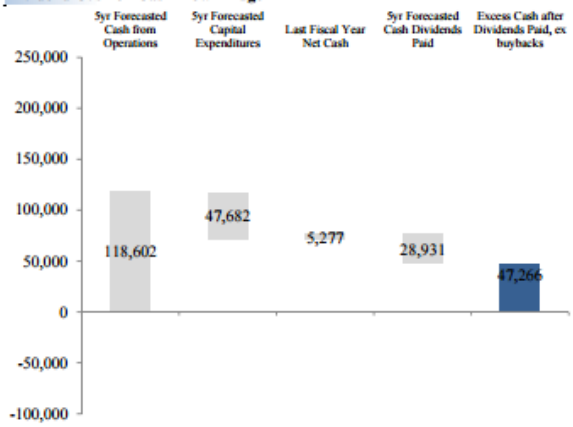
Graphical Relationship, Earnings and Dividends (per share)

The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Intel's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is greater than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

Dividend Cushion Cash Flow Bridge

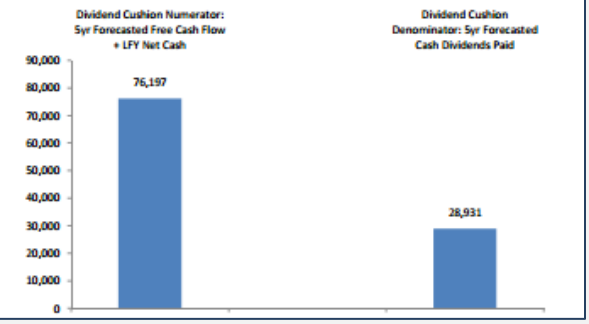


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, Intel's numerator is larger than its denominator suggesting strong dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

Dividend Cushion Ratio Deconstruction



Deutsche Bank Another Example of Necessary Confidence in Banking Sector

By Kris Rosemann

The Let's walk through the situation with Deutsche Bank (DB) from mid-November through today.

The "5 Cs of credit" — character, capacity, capital, collateral, and conditions — is a widely-followed framework and generally-accepted guideline for lending to consumers, but for corporate entities, we think another C is much more important: confidence. In almost every situation where a bank has encountered trouble, it has resulted from a loss of confidence in the sustainability of the entity as a going-concern. The loss of confidence could originate from counterparties, intermediaries, depositors or clients, or from any other core stakeholder. Lack of confidence typically spreads quickly.

Quite simply, if the market does not have confidence in a banking entity, that banking entity will cease to exist.

In mid-November, Deutsche Bank had been asked by the US Department of Justice to pay $14 billion related to investigations into Financial Crisis-era mortgage securities. Though the eventual payment is now reported to be lower than the aforementioned preliminary figure, such an elevated sum surprised the market in a meaningful way, sending shares in a tailspin the past many months. After all, as of the end of the second quarter of 2016, the bank only had ~$6.2 billion in litigation reserves. Perhaps not surprisingly, Deutsche Bank came out with a statement shortly after receiving the DOJ request that stated it "has no intent to settle these potential civil claims anywhere near the number cited." It seems as though it might be right.

That's little reprieve. Shares of the German bank have still faced material pressure since the situation began unfolding in part to concerns over its capital position; said differently, confidence in the banking entity was hurt as a result of the potential aftermath of the litigation. Even worse (and a reminder of what happened to Lehman Brothers during the Financial Crisis), the German government had initially insisted it would not come to the bank's rescue, even as later it was reported a rescue plan was available in the event the bank would be unable to raise adequate amounts of capital itself. The vague optimism, however, was still somewhat short-lived as confidence in the bank had been rocked again as news surfaced that hedge funds were cutting back their exposure to the bank. When intermediaries stop dealing, things really start heading south as we learned during the Financial Crisis. The system effectively seizes.

Now fast-forward to today: As quickly as the confidence was sucked out of Deutsche Bank, it returned the very day after hedge funds were reportedly reducing the extent of their relationships with the embattled German bank. A French news source reported Deutsche Bank has reached a settlement near $5.4 billion with the US Department of Justice, effectively restoring confidence in the bank for the time being and boosting shares during the September 30 trading period. Why are we telling this story?

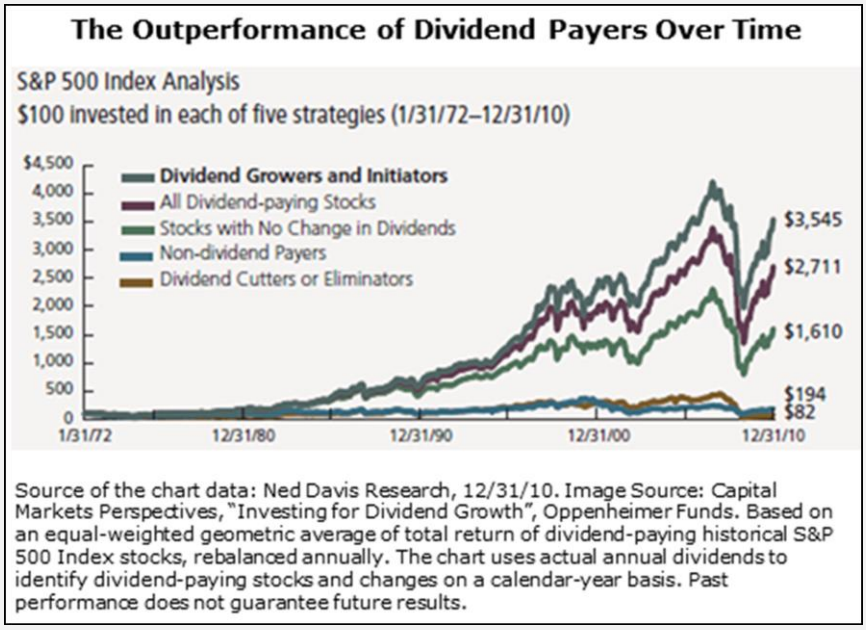
Well, we're using the news flow surrounding Deutsche Bank as a reminder to ourselves, and our members, of the reasons why we generally like to avoid individual exposure to constituents in the financial sector. Under adverse conditions (which almost seem like an eventuality for most banking entities these days), it is not the underlying fundamentals of a bank's operations (pre-tax pre-provision earnings) that have the most impact to its share price, but instead it is its ability to retain continued access to money and credit, which is inextricably linked to the amount of confidence the market and counterparties have in the bank. This is an "unmodelable" dynamic, and a risk that's difficult to mitigate even within a portfolio setting (e.g. Financial Crisis).

When it comes to exposure to the financial sector of the economy, we continue to prefer the protection the diversification of the Financial Select Sector SPDR ETF (XLF) offers. Shares of the Financial Select Sector SPDR ETF are included in the Best Ideas Newsletter portfolio and have contributed to the portfolio's outstanding outperformance over the past 5+ years. We won't be dabbling in Deutsche Bank's shares anytime soon. There's no need from where we stand.

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.



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 is 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 10

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).

Image links:

Page 1: http://www.energyeconomist.com/a6257783p/opec/quota.html

Page 7: https://twitter.com/DriehausCapital

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

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

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

-- The **Valu-entum** Team

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No warranty is made regarding the accuracy of any data or any opinions. The portfolio in the Valuentum Dividend Growth Newsletter is unfunded and does not represent real money. Performance assessment of the Valuentum Buying Index™ is currently ongoing, and we intend to update investors as soon as such results are available. Past performance is not a guarantee of future results.

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