OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Most recent trades: We added CVS Health (CVS), Boeing (BA), Hanesbrands (HBI), and the Alerian MLP ETF (AMLP). See portfolio on page 5.

Annualized Return	Annualized Goal	Outperformance
12.6%	Mid-High Single Digits	5.1pts

*Please see note below regarding performance measurement.

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"Say it ain't so, Mr. Buffett. Have you, too, now thrown prudence and caution out the window?"
– Brian Nelson, CFA

Dow 21,000+; Forward P/E on S&P 500 ~18!!!

By Brian Nelson, CFA

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

***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, 2017, the portfolio is significantly exceeding this goal.

To say that the broader equity market is "extended" is an understatement.

After testing the 20,000 mark on the Dow Jones Industrial Average (DIA), stocks have now plowed through 21,000 in such a fashion that can only be compared to the euphoric trading activity of 1999 when the index surged to 11,000 from 10,000 over roughly the same time frame. Who remembers the days of the dot-com bubble? The market is clearly off its rocker, but the market isn't always on its rocker. Stock prices under and overshoot intrinsic value all of the time. It's a part of the markets, as much as oxygen is necessary for human life. The markets overshot to the downside during the March 2009 panic bottom, which sent stock prices to generational lows, and some 8 years later, we're now on the other side of the trade. The fear of the Financial Crisis has now been replaced by the greed of the "Trump trade." Does anybody even remember the Financial Crisis anymore?

Understanding the markets and how stocks don't track intrinsic value precisely is why the momentum aspect of the Valuentum methodology is so valuable. That's why we don't always remove stocks when they reach our DCF-derived fair value estimate, and even sometimes, we may let stocks "run" into the high end of their fair value range. Sure – our methodology may seem obvious with the average S&P 500 stock trading at ~18 times expected earnings, but we've been preaching this approach for years. It has kept us reaping the rewards of this market. Fair or not, logical or not, we accept that a frothy market can always get frothier, and while we haven't been fully invested at all times during this bull run, we've participated

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*Dow 21,000+...*from previous page

in a large way. Traditional value investors may have sold their holdings a few years ago, peculiarly bringing me to perhaps the most famed value investor of all time, *who is not selling*.

Don't get me wrong -- I love Warren Buffett. His teachings are fantastic, wonderful – and I will never forget his October 2008 Op-Ed in the New York Times (NYT), "Buy American. I Am." He is a brilliant man, and whether he is brilliant because his actions are self-fulfilling as a result of large follower base that duplicate his actions without question, it really doesn't matter. His accomplishments are many, and he is to be applauded--and he is and he is often. I remember when he poo-pooed the dot-com bubble and he was right, but did he do so because he didn't own any technology stocks? It's always up for debate. Today, as he has many a time before, he's essentially telling investors to go all-in…again:

> "American business – and consequently a basket of stocks – is virtually certain to be worth far more in the years ahead…Ever-present naysayers may prosper by marketing their gloomy forecasts. But heaven help them if they act on the nonsense they peddle…Investors who avoid high and unnecessary costs and simply sit for an extended period with a collection of large, conservatively-financed American businesses will almost certainly do well (Source: Berkshire Hathaway Letter to Shareholders, 2017)."

I don't think there's anything wrong with what the Oracle of Omaha says in the above block quote, but he is stretching a bit. Much like his words about the dot-com bubble where he cared little of a crash in those stocks, Berkshire Hathaway (BRK.A, BRK.B), with its hands in just about every American business (now even airlines!), stands to benefit greatly if investors take Mr. Buffett's advice. Of course he is talking his book, and playing on the "feel-good" nature of nationalism – need we remind you of the campaign slogan of the sitting President of the United States, Make American Great Again? Appealing to nationalism simply works. It always has, and it always will, particularly when it comes to dynamics that are impacted by behavior, especially those like the stock market--which is driven by the buying and selling behavior of investors. What is it that I'm trying to say?

Well, first, I think Mr. Buffett is right--that America is great, and that over the long haul, investors "will almost certainly do well." When you really think about it though, Uncle Warren isn't saying much. Are his words just campaign rhetoric, but the stock-market equivalent? Essentially, yes. In my opinion, his optimism is just that—optimism; nothing more, nothing less. But if appealing to "near-certainties" and nationalism inspires young and old investors alike to throw their money into the stock market across a "collection of large, conservatively-financed businesses" at any price, well then Mr. Buffett's words will serve to continue to drive the stock market higher, benefiting himself and many others. Can you imagine if he didn't say stocks were good? What does one expect from one of the most influential investors of our day? Mr. Buffett is definitely talking his book – and yes, that's okay. You simply won't find many CEOs that aren't optimistic about the future of their companies, and for Mr. Buffett, the stock market is his "company."

Yet, you don't have to get much further into Berkshire Hathaway's 2017 Letter to Shareholders to get to the nugget of wisdom he may truly be trying to convey: "What is smart at one price is stupid at another (page 7)" – and that's where we are today. As Americans, we love America. We love the American story. Many of us have lived, breathed, and studied history. But now it's time to talk about the stock market – and price matters. The forward 12-month P/E for the S&P 500 (SPY) is 17.9, nearly 18 times, according to FactSet, based on a forward 12-month EPS estimate of $133.73. This is nosebleed levels. Mr. Buffett – this is the average S&P company; this isn't a grouping of the most overvalued, but the average. Consumer staples entities are trading at 20.5 times, consumer discretionary 19.3 times, industrials 18.5 times, and this is the forward earnings multiple, not the trailing one (and in the midst of contractionary monetary policy and rising rates!). Say it ain't so, Mr. Buffett. Have you, too, now thrown prudence and caution out the window?

Please see *Intro...*on next page

***Intro...*from previous page**

What do I think? First, and maybe this is the Oracle of Omaha's true intentions of his writings: do not panic. Nothing ever good comes from panicking. Trump's economic stimuli and tax breaks may help bolster earnings in step-change fashion next year or the year after, but the magnitude of such impacts is far from guaranteed. It seems that the crux of our predictions for 2017 is essentially coming to fruition, "5 Shocking Stock Market Predictions for 2017 (December 2016)," emphasis on #1 – The Stock Market Bubble (Will) Continue(s) to Inflate. The markets are quite bubbly, but the Dividend Growth Newsletter portfolio is in great shape, and we continue to exceed the annualized goals that we've set forth in this publication. Of course I would like Warren Buffett to talk more sense into the market, but as I've said time and time again, 2017 may very well be the "Year of Evangeline Adams."* It certainly looks that way. Don't fall for the campaign rhetoric though!

**"(Just like astrologist) Evangeline Adams said in 1929, 2017 may be the year that 'stocks climb to heaven.'"*

Nelson's Shocking Predictions for 2017:

https://www.valuentum.com/articles/5_Shocking_Stock_Market_Predictions_for_2017

Warren Buffett's New York Times Op-Ed:

http://www.nytimes.com/2008/10/17/opinion/17buffett.html

Buffett's 2017 Letter to Berkshire Hathaway Shareholders:

http://www.berkshirehathaway.com/letters/2016ltr.pdf

Johnson & Johnson's Oncology Division A Force to Be Reckoned With

By Alexander J. Poulos and Kris Rosemann

Consistency of returns is one of the hardest goals to achieve in the investment world. Often, one of the key components when selecting equities to build a long-term portfolio is their respective durability through the ups and downs of the economic cycle (in portfolio theory their collective performance would matter). A company that is able to generate resilient returns under various conditions often has a business model with defensive characteristics and an attractive Economic Castle.

Johnson & Johnson (JNJ), the consumer healthcare behemoth and newsletter portfolio holding, fits the above definition closely. J&J's business model is diversified throughout all aspects of healthcare ranging from well-trusted consumer products such as baby powder to medical devices and cutting-edge research culminating in branded medications. The company dates its founding to 1886 when "President Grover Cleveland dedicated the Statue of Liberty" and "Coca-Cola was invented by a pharmacist in Atlanta." Its first annual meeting of stockholders in 1888 had only three shareholders. Let's dig in to the most innovative area of J&J's businesses, the 'Pharmaceutical' segment.

Remicade

J&J's pharmaceutical business competes in a broad range of therapeutic classes, highlighting the breadth and depth of its research efforts. The company's best-selling pharmaceutical product remains Remicade, a tumor necrosis (TNF) blocker predominantly used in Crohn's Disease along with a host of other inflammatory diseases. J&J originally acquired the rights to Remicade through the acquisition of Centocor for roughly $5 billion in stock in 1999, which has proved to be a masterstroke as Remicade has been established as the gold standard for the treatment of Crohn's Disease. Remicade posted total sales of nearly $7 billion in 2016 alone.

Though Remicade remains J&J's top selling product, Pfizer (PFE) launched a competing treatment dubbed Inflectra in November 2016. The launch was done "at risk" as Pfizer remains confident it will invalidate the rest of the intellectual property (IP) estate that protects Remicade. We view the aggressive move by Pfizer, a well-respected and deep-pocketed pharma giant, as the ushering in of the age of the biosimilar, and we expect the rise of the biosimilars will follow the same method witnessed via the loss of patent protection on small molecule products.

Many believe the complexity of the biological drug class will shield the patented product from intense pricing competition, a belief we generally view as false, and J&J believes that it will be able to maintain market share in a market that it claims is already competitive on price in other geographic segments. Time will tell. Fortunately, being the well-diversified pharma player it is, J&J is working hard to mitigate any loss from Pfizer's entrance in this area, but we suspect the impact of Inflectra will be felt throughout 2017.

Oncology

J&J continues to pivot into the field of oncology as reimbursement levels remain robust. The company owns a 50% stake in Imbruvica, the pace setter for the treatment of Leukemia, and sales of Imbruvica continue to ramp higher as partner AbbVie (ABBV) pushes for a more rigorous label. The expansion of Imbruvica's treatment label is crucial for the product to reach its lofty peak annual sales estimates of $6 billion, and J&J's portion of Imbruvica sales came in north of $1.2 billion in 2016, a significant jump over 2015's tally. We remain excited about Imbruvica's potential and view the product as an attractive cornerstone of J&J's oncology division.

Still, new compounds are necessary to expand J&J's reach in the field, and the recently approved Darzalex for the treatment of multiple myeloma may help to fill this role. The product achieved

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The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
12.6%	Mid-High Single Digits	5.1pts

The Dividend Growth Newsletter portfolio has advanced 84.3% since inception, January 2012.

DIVIDEND GROWTH PORTFOLIO -- as of March 1, 2017 — 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	75.60	7,635.60	4.1%	246.44
Apple (AAPL)	7/24/2013	63.17	51	3,228.45	139.79	7,129.29	3.9%	116.28
Alerian MLP ETF (AMLP)	1/26/2017	13.19	398	5,256.62	12.97	5,162.06	2.8%	382.08
Boeing (BA)	1/26/2017	168.44	31	5,228.64	183.91	5,701.21	3.1%	176.08
Cisco (CSCO)	11/14/2014	26.31	199	5,242.53	34.44	6,853.56	3.7%	206.96
Coach (COH)	9/19/2014	37.55	80	3,011.00	38.39	3,071.20	1.7%	108.00
Cracker Barrel (CBRL)	2/1/2016	133.50	18	2,410.00	163.03	2,934.54	1.6%	82.80
CVS Health (CVS)	1/6/2017	81.84	107	8,763.88	80.70	8,634.90	4.7%	214.00
Energy Sector SPDR (XLE)	4/1/2015	72.63	121	8,795.76	72.81	8,810.01	4.8%	234.35
General Electric (GE)	10/21/2013	26.18	240	6,290.20	30.19	7,245.60	3.9%	230.40
General Motors (GM)	12/1/2016	36.43	119	4,342.17	37.43	4,454.17	2.4%	180.88
Hasbro (HAS)	12/30/2011	31.89	110	3,514.90	97.93	10,772.30	5.8%	224.40
Hanesbrands (HBI)	1/26/2017	23.77	221	5,260.17	20.10	4,442.10	2.4%	132.60
Intel (INTC)	12/30/2011	24.25	289	7,015.25	35.91	10,377.99	5.6%	300.56
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	123.86	13,253.02	7.2%	342.40
Medtronic (MDT)	12/30/2011	38.25	78	2,990.50	82.07	6,401.46	3.5%	134.16
Microsoft (MSFT)	12/30/2011	25.96	77	2,005.92	64.94	5,000.38	2.7%	120.12
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	91.66	9,624.30	5.2%	281.40
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	36.73	8,741.74	4.7%	361.76
Realty Income (O)	7/24/2013	44.35	60	2,668.00	60.60	3,636.00	2.0%	151.80
S&P Dividend ETF SPDR (SDY)	4/20/2016	81.33	105	8,546.65	89.74	9,422.70	5.1%	234.63
Vanguard REIT ETF (VNQ)	2/1/2016	77.07	32	2,473.24	85.00	2,720.00	1.5%	99.01
Latest Changes: Added CVS (1/6/2017); Added BA (1/26/2017); Added HBI (1/26/2017); Added AMLP (1/26/2017).								
Cash -- changes in cash balance reflects dividends received and trading gains/losses, where applicable						32,281.24	17.5%	4,561.10
Dividend Growth Portfolio				100,000.00		**184,305.37**	100.0%	**TBD**
DG Portfolio Annualized Return (from inception through current date)								**12.6%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)								7.5%
DG Portfolio Annualized Return Outperformance								**5.1%**

UR = Under Review

This portfolio is not a real money portfolio. Data as of March 1, 2017. Cost basis includes commissions. Results include divdends, but no interest received on cash balance.

DIVIDEND GROWTH PORTFOLIO -- as of March 1, 2017 — Fundamental data as of March 1, 2017

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)	2.44	3.23%	mid Mar 2017	mid Mar 2017 (quart)	1.1	GOOD	GOOD	$58.00	6	1.30
Apple (AAPL)	2.28	1.63%	late Apr 2017	May 2017 (quart)	5.0	EXCELLENT	EXCELLENT	$159.00	7	0.88
Alerian MLP ETF (AMLP)	0.96	7.40%	mid May 2017	late May 2017 (quart)	-	-	-	-	UR	-
Boeing (BA)	5.68	3.09%	early May 2017	early June 2017 (quart)	2.0	GOOD	EXCELLENT	$167.00	5	1.10
Cisco (CSCO)	1.04	3.02%	early Apr 2017	Apr 2017 (quart)	3.0	EXCELLENT	EXCELLENT	$42.00	3	0.82
Coach (COH)	1.35	3.52%	early Mar 2017	early Mar 2017 (quart)	1.9	GOOD	GOOD	$41.00	6	0.94
Cracker Barrel (CBRL)	4.60	2.82%	mid Apr 2017	May 2017 (quart)	1.7	GOOD	GOOD	$171.00	6	0.95
CVS Health (CVS)	2.00	2.48%	mid Apr 2017	Apr 2017 (quart)	1.0	GOOD	GOOD	$103.00	9	0.78
Energy Sector SPDR (XLE)	1.94	2.66%	late Mar 2017	early Mar 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-
General Electric (GE)	0.96	3.18%	mid May 2017	May 2017 (quart)	3.1	EXCELLENT	GOOD	$36.00	6	0.84
General Motors (GM)	1.52	4.06%	early Mar 2017	Mar 2017 (quart)	1.8	GOOD	POOR	$43.00	6	0.87
Hasbro (HAS)	2.04	2.08%	late Apr 2017	May 2017 (quart)	1.8	GOOD	EXCELLENT	$76.00	6	1.29
Hanesbrands (HBI)	0.60	2.99%	late Apr 2017	mid May 2017 (quart)	1.4	GOOD	EXCELLENT	$27.00	6	0.74
Intel (INTC)	1.04	2.90%	late Apr 2017	May 2017 (quart)	2.7	GOOD	GOOD	$42.00	7	0.86
Johnson & Johnson (JNJ)	3.20	2.58%	mid May 2017	May 2017 (quart)	2.7	GOOD	EXCELLENT	$121.00	7	1.02
Medtronic (MDT)	1.72	2.10%	late Mar 2017	Mar 2017 (quart)	1.6	GOOD	EXCELLENT	$76.00	4	1.08
Microsoft (MSFT)	1.56	2.40%	mid May 2017	May 2017 (quart)	2.5	GOOD	EXCELLENT	$56.00	7	1.16
Proctor & Gamble (PG)	2.68	2.92%	mid Apr 2017	early May 2017 (quart)	1.5	GOOD	EXCELLENT	$70.00	3	1.31
PP&L (PPL)	1.52	4.14%	late Mar 2017	late Mar 2017 (quart)	Held for diversification reasons.			$32.00	6	1.15
Realty Income (O)	2.53	4.17%	monthly	monthly	2.0	GOOD	GOOD	$59.00	3	1.03
S&P Dividend ETF SPDR (SDY)	2.23	2.49%	mid Mar 2017	late Mar 2017 (quart)	-	-	-	-	UR	-
Vanguard REIT ETF (VNQ)	3.09	3.64%	late Mar 2017	Mar 2017 (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.

*Johnson & Johnson's…*from page 4

approval as fourth line monotherapy, but its true potential remains in combination with the established treatments in the field. For example, J&J is looking to pair Darzalex with Velcade in addition to dexamethasone in an effort to set up a new standard of care for the treatment of multiple myeloma, which remains an area of intense competition with multiple recent entrants into the field.

We are impressed with Darzalex thus far and feel J&J has a winning compound that should help offset potential sales erosion from the loss of patent exclusivity for Remicade. With Imbruvica and Darzalex in the fold, J&J's 'Oncology' division is a force to be reckoned with.

Cardiovascular

The most prevalent name in J&J's 'Cardiovascular' division is Xarelto, a factor Xa inhibitor indicated for a broad range of clotting disease states. Xarelto's key advantage remains its once-daily dosing, which distinguishes it from its primary rival Eliquis, but Eliquis recently surpassed Xarelto in terms of market share thanks to it capturing a larger proportion of new scripts written per IMS data, a disturbing trend. J&J may have lost focus a bit, but the company has returned to focusing on positioning Xarelto as the preferred product on many formularies of late.

We expect the field to remain very competitive, and the market opportunity is enormous as the generic alternative and clear market leader Warfarin has a litany of drug-drug and drug-food interactions along with the need for more frequent lab tests. Once a reversal agent enters the market, the market share for Warfarin will shrink rapidly with Xarelto and Eliquis being the ultimate beneficiaries. Xarelto continues to power the 'Cardiovascular' group's results higher with 2016 sales of nearly $2.3 billion, solidifying the product's blockbuster status. Xarelto sales jumped over 22% in the year on a year-over-year basis, and the treatment has more growing to do before it hits peak sales, in our view.

Invokana is the second-most valuable asset in the 'Cardiovascular' division with 2016 sales north of $1.4 billion dollars. Invokana belongs to the subtype 2 sodium-glucose transport (SGLT-2) inhibitor used for the treatment of diabetes, a class that remains competitive with three primary players battling it out for market share. Invokana is currently the clear leader based on script data, but recent results from archrival Jardiance suggest this may change as 2017 progresses. The key for the battle in formulary position remains clinical outcomes, a notable change from previous years. Eli Lilly (LLY), the manufacturer of Jardiance, conducted a study that proved the product reduced cardiac death in patients, offering a key point of differentiation, a fact we fully expect Eli Lilly to exploit in marketing the product.

We view the recent developments in the cardiovascular division as troubling and no longer feel the unit will deliver meaningful growth over the near term. Such a trend may have already begun as J&J's 'Cardiovascular' sales on an operational basis in 2016 advanced by less than 1% from 2015 levels--reported results dropped slightly due to currency headwinds--compared to more than 15% year-over-year reported sales growth in 2015. Though the decline in revenue may be gradual, we view the 'Oncology' division as the primary growth engine for J&J pharma moving forward.

Inflammatory Disease

Outside of Remicade, J&J owns two additional products to treat inflammatory diseases. The next most valuable franchise is Stelara, a human interleukin-12 and 23 antagonists for the treatment of a host of inflammatory conditions. The label for Stelara is progressing in a similar manner as Remicade, but Stelara's primary area of use remains Psoriatic Arthritis even though it was recently approved for Crohn's Disease. The product continues to ramp sales progressively higher with a sales jump of over 30% to $3.2 billion in 2016 from 2015. At first glance, the sales growth trend seems impressive, but we'll be watching Rx trends closely.

Please see *Johnson & Johnson's…*on next page

***Johnson & Johnson's…*from previous page**

For one, Novartis' (NVS) Cosentyx continues to take market share for the indication of Psoriatic Arthritis. The growth of Cosentyx coupled with the recent approval of Eli Lilly's Taltz may draw script volume away from Stelara in the coming periods. Also, the specialty inflammatory disease category remains a primary target for PBM's looking to reign in the cost of prescription drugs while numerous products jockey for favorable formulary positioning. As a result, we expect pricing gains to be harder to come by, making volume increases a requirement for revenue growth, something we do not expect Stelara to achieve as new entrants continue eating up market share.

The final product in the division is Simponi, which belongs to the TNF class. Simponi is used to treat a bevy of inflammatory diseases such as Psoriatic Arthritis, Rheumatoid Arthritis and most notably Ulcerative Colitis. The treatment generated sales of more than $1.7 billion in 2016, a 31% gain over 2015 sales, but we expect sales of the entire TNF class to come under pressure as Inflectra, the biosimilar for Remicade, makes its presence felt.

Looking at the entire 'Inflammatory Disease' division as a whole, the group has its share of challenges. Remicade sales may face headwinds as Inflectra steals share, and we have a hard time envisioning either Simponi or Stelara ramping sales volume meaningfully, a necessity for growth given anticipated pricing pressures. The competitive pressures felt in the 'Inflammatory Disease' and 'Cardiovascular' divisions likely motivated management to strike a deal to utilize offshore cash to acquire additional treatments and drive growth inorganically via the acquisition of Actelion. Let's have a look.

Actelion

J&J has shored up its 'Cardiovascular' division through the acquisition of Actelion, a move we view as a good strategic fit as Actelion's product lineup revolves around treatment for Pulmonary Arterial Hypertension (PAH). However, the price tag could be considered a bit steep, though J&J plans to spin off some of Actelion's R&D into a new company. Returns similar to those generated form the Centocor deal in the late 90's are highly unlikely, but we wouldn't expect every acquisition to work out as swimmingly as it did.

We view the deal more as a defensive move, a way to utilize cash trapped overseas while likely generating a positive return via a stable of approved products. The deal will inevitably impact the company's balance sheet health, but we expect Johnson & Johnson's robust free cash flow generation to handle any increase in debt or depletion of its cash coffers relatively easily.

Valuentum's Position

J&J's diversified business model produces an abundance of free cash flow far beyond the operational needs of the business. The company has a long and enviable track record of returning cash to shareholders via a robust dividend, and it remains near the top of our list of favorite dividend payers as it registers an impressive Dividend Cushion ratio--driven by its free cash flow coverage of cash dividend obligations and current balance sheet health—as it boasts a solid yield. We see no reason to consider reducing our exposure to Johnson & Johnson at this time, but we will continue closely monitoring developments within its innovative 'Pharmaceutical' segment as it continues to propel the consolidated business to new heights. It's really hard not to like J&J.

Average Check Increases Driving Results for Cracker Barrel

By Kris Rosemann

Cracker Barrel Old Country Store (CBRL) reported its eleventh consecutive quarter of positive comparable restaurant sales growth in the second quarter of its fiscal 2017 on February 21. We continue to be fans of its dividend growth profile--its Dividend Cushion ratio is a healthy 1.7--and shares are trading in the lower bound of our fair value range. The company's unique concept is working wonders on its ability to raise prices and offset industry-wide traffic woes that have weighed on the majority of the US restaurant space.

During the quarter, Cracker Barrel's comparable store restaurant sales advanced 0.6% as average check increases of 2.7%--average menu price growth in the quarter came in at 2.1%--were more than enough to offset traffic declines of 2.1% from the year-ago period. Meanwhile, comparable store retail sales fell 2.2% on a year-over-year basis. Nevertheless, the menu price and average check growth are helping drive material bottom-line expansion, along with food commodity cost deflation. The company's operating income margin, for example, leapt 1.5 percentage points in the fiscal second quarter, to 10.7%, and earnings per diluted share jumped to $2.19 from $2.01 in the second quarter of fiscal 2016. Its free cash flow nearly doubled through the first six months of fiscal 2017 compared to last year's period, to nearly $97 million.

Cracker Barrel reiterated its guidance for the full fiscal year 2017 following the quarter, indicating that it expects total revenue to be roughly $2.95 billion and earnings per diluted share to be in a range of $8.10-$8.25. Comparable store restaurant sales growth is projected to be between 0.5% and 1%, while comparable store retail sales are anticipated to decline 2% in the fiscal year. Management has set its operating income margin target at 10%-10.5%, below its reported result through the first half of the year of 10.7%, suggesting upside potential may be in store should the firm be able to maintain recent pricing activity.

All things considered, we would have liked to see better top-line results from Cracker Barrel, but after considering the widespread traffic woes being felt by US restaurant and retail chains, its fiscal second quarter was solid. The company's bottom-line and free cash flow performance (as well as its nice dividend and valuation opportunity) are enough to keep shares in the Dividend Growth Newsletter portfolio, and we're hoping for another dividend increase before fiscal 2017 is over. We like Cracker Barrel quite a bit.

Cisco Accelerating Recurring Revenue Base, Raises Dividend Double Digits

By Kris Rosemann

Networking giant and newsletter portfolio holding Cisco (CSCO) reported positive momentum in its business transformation in its fiscal second-quarter report February 15. The company continues to throw off gobs of free cash flow, and its board of directors approved a 12% increase in the quarterly payout to $0.29, good for a ~3.4% annualized yield as of this writing. We love shares for their dividend growth potential--Cisco's Dividend Cushion ratio currently sits at 3--and we continue to see value in shares based on our fair value estimate of $42.

Cisco's transition has not been without its share of skeptics, one potential reason why we think shares continue to trade near the lower bound of our fair value range, and management is expecting the transition efforts to continue negatively impacting its top line growth by 1%-2% moving forward (but this is down from 2% previously). Revenue in the most recently-ended quarter fell 2% from the year-ago period due to weakness in 'NGN Routing,' 'Switching' and 'Data Center' product revenues

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*Cisco Accelerating…*from previous page

more than offsetting strength in 'Security,' 'Collaboration' and 'Wireless' product revenues and service revenue. Non-GAAP earnings per share in the quarter came in flat compared to the second quarter of fiscal 2016, thanks to share repurchases offsetting a 2% year-over-year decline in non-GAAP net income.

Despite weakness in reported top-line results, deferred revenue continues to grow as total deferred revenue advanced 13% from the year-ago period; product deferred revenue related to recurring software and subscription businesses jumped an impressive 51% in the quarter, and recurring revenue now accounts for 31% of total revenue. This measure has accelerated nicely since CEO Chuck Robbins implemented his transition strategy, and the company has high hopes for the long-term potential of its recent acquisition agreement with application intelligence software company AppDynamics for $3.7 billion due to both strategic opportunities and 75% of its revenue being of the recurring variety. From the fiscal second quarter conference call:

> *One, if you look six quarters ago when I came into the job, our overall revenue, our recurring revenue was 26% in the first four quarters. We spent time taking our teams and helping our teams understand the transition that we were going to make. So in the first four quarters, we gained 2 points. We took it up to 28%, and in the last two quarters we've added 3% so we've accelerated it. So it's going to 31 in the last two quarters. And on the product side, that went from 6% to 7% in the first year and then in the last two quarters, it's gone from 7% to 10%.*

Cisco's executive team appears confident it is on the right track in its business transition, with the minor exception of slight concerns over the pace of the transformation in its 'Data Center' business, which accounts for ~7% of total revenue, as the shift from "blade to rack" continues to weigh on performance. Looking ahead to the fiscal third quarter, Cisco is anticipating reported revenue to be flat to down 2% and non-GAAP earnings per share to be in a range of $0.57-$0.59 compared to $0.57 in the comparable period of fiscal 2016. However, the third quarter of fiscal 2016 contained an extra week, resulting in an extra $265 million in revenue being recognized in the period. After adjusting for the extra week, management's guidance indicates that it is expecting to return to top-line growth in the period, albeit modestly.

All things considered, we're pleased with Cisco's performance of late. Though it dropped 2% in the first half of fiscal 2017 on a year-over-year basis, free cash flow generation remains robust at ~$6 billion through the first six months of the fiscal year, more than enough to cover its cash dividend obligations in the period two times over, and its balance sheet strength is nothing short of impressive. As of the end of its fiscal second quarter, the firm's net cash balance was $36.9 billion, a balance we expect to continue being put to use in expanding unique capabilities as well as providing a cushion for the cash returned to shareholders.

We're going to continue holding shares in both newsletter portfolios as we feel they continue to offer meaningful and reliable income generation as well as a material opportunity for capital appreciation.

PBMs: Express Scripts and CVS' Looming Victory?

By Alexander J. Poulos

With the recent addition of CVS Health (CVS) to the newsletter portfolios, we believe the selloff in the Pharmaceutical Benefit Managers (PBM) industry is overdone. We are intrigued by the free cash flow generated from a highly-predictable business model, and that the PBM's negotiate contracts in advance, locking in a customer for an extended period, only adds to the attractiveness of their operations. Another PBM, but a pure play, is Express Scripts (ESRX). Let's discuss the unique characteristics of Express Scripts along with notable risks, which prevented us from adding the name to the newsletter portfolios. Though we like CVS instead, Express Scripts is certainly a company to keep an eye on.

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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
AbbVie	ABBV	Health Care	4.2%	7	GOOD	1.1
Digital Realty Trust	DLR	Financials	3.7%	7	GOOD	1.7
Darden Restaurants	DRI	Consumer Discretionary	3.6%	7	GOOD	1.3
Unilever N.V.	UN	Consumer Staples	3.4%	7	GOOD	1.5
Unilever PLC	UL	Consumer Staples	3.4%	7	GOOD	1.5
IBM	IBM	Information Technology	3.3%	7	EXCELLENT	1.4
Eaton	ETN	Industrials	3.2%	7	GOOD	0.8
ABB	ABB	Industrials	3.1%	7	GOOD	1.8
Intel	INTC	Information Technology	2.9%	7	GOOD	2.7
Williams-Sonoma	WSM	Consumer Discretionary	2.7%	7	EXCELLENT	2.6
Johnson & Johnson	JNJ	Consumer Staples	2.7%	7	EXCELLENT	2.7
Polaris Indust	PII	Industrials	2.6%	7	EXCELLENT	1.3
Microsoft	MSFT	Information Technology	2.5%	7	EXCELLENT	2.5
United Technologies	UTX	Industrials	2.4%	7	EXCELLENT	1.4
Whirlpool	WHR	Consumer Discretionary	2.3%	7	EXCELLENT	2.3
CVS Caremark	CVS	Consumer Staples	2.1%	9	GOOD	1.0
DuPont	DD	Materials	2.0%	7	GOOD	2.3
Apple	AAPL	Information Technology	1.9%	7	EXCELLENT	5.0
Manpower	MAN	Information Technology	1.9%	7	EXCELLENT	3.4
Ralph Lauren	RL	Consumer Discretionary	1.8%	7	EXCELLENT	3.5
General Dynamics	GD	Industrials	1.7%	7	EXCELLENT	3.1
Deluxe	DLX	Information Technology	1.6%	7	GOOD	4.6
Canadian National	CNI	Industrials	1.6%	7	EXCELLENT	1.7
Fluor	FLR	Industrials	1.5%	7	EXCELLENT	5.4
Oracle	ORCL	Information Technology	1.5%	7	EXCELLENT	4.8
Jabil Circuit	JBL	Information Technology	1.5%	9	GOOD	3.3
Applied Materials	AMAT	Information Technology	1.1%	7	GOOD	6.5
FedEx	FDX	Industrials	0.8%	7	GOOD	1.1
Visa	V	Information Technology	0.7%	7	GOOD	5.6
Ametek	AME	Industrials	0.7%	7	EXCELLENT	4.1

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

The Financially-Healthiest Dividend Payers Yielding Over 2%

By Valuentum Analysts

There are a number of ways to evaluate the health of a company's dividend. We think a minimum threshold for a company's yield is par for the course in any income-oriented screen, and we peg the dividend yield hurdle rate for this screen at 2%. For firms that make this cut, we want to find those that generate free cash flow at a pace that is far larger than the cash paid out as dividends and have a strong balance sheet to boot, or companies that have high Dividend Cushion ratios.

Enter stocks that have the highest multiplicative combination of their dividend yield and Dividend Cushion ratio. We exclude the business models of master limited partnerships and real estate investment trusts in this screen and focus exclusively on corporates. Income investors have a lot to choose from, and this screen is one of our favorites -- it focuses on identifying the financially-healthiest dividend-payers with yields over 2%. We've overlayed the screen with an Economic Castle assessment to consider business-model risk, too!

Company Name	Symbol	Est. Div Yield	Div Cushion	Economic Castle	Multiplier
Automatic Data Processing	ADP	2.2%	7.5	Very Attractive	16.65
GameStop	GME	5.7%	2.4	Very Attractive	13.85
Cooper Tire & Rubber	CTB	1.1%	11.7	Neutral	12.59
Guess	GES	7.2%	1.7	Attractive	12.11
Abercrombie & Fitch	ANF	6.7%	1.8	Unattractive	12.02
Graham Holdings Co	GHC	0.9%	11.4	Attractive	11.10
AVX Corp	AVX	3.0%	3.6	Attractive	10.86
Cisco	CSCO	3.5%	3.0	Very Attractive	10.35
QUALCOMM	QCOM	3.9%	2.6	Highest Rated	10.22
Resources Connection	RECN	3.1%	3.3	Very Attractive	10.08
American Eagle	AEO	3.3%	2.9	Attractive	9.74
Apple	AAPL	1.9%	5.0	Highest Rated	9.55
General Electric	GE	3.1%	3.1	Attractive	9.44
CA Tech	CA	3.2%	2.9	Highest Rated	9.29
Finish Line	FINL	2.1%	4.1	Attractive	8.78
Hewlett-Packard	HPQ	3.6%	2.4	Unattractive	8.78
Meridian	VIVO	3.9%	2.2	Attractive	8.39
Best Buy	BBY	2.4%	3.5	Attractive	8.37
Insperity	NSP	1.4%	5.9	Neutral	8.36
Chico's FAS	CHS	2.3%	3.6	Attractive	8.23
Fluor	FLR	1.5%	5.4	Attractive	8.15
Gap	GPS	3.8%	2.1	Attractive	7.98
CTS Corp	CTS	0.9%	9.1	Attractive	7.93
Garmin	GRMN	4.3%	1.8	Attractive	7.91
Intel	INTC	2.9%	2.7	Attractive	7.80
NTT Docomo	DCM	3.0%	2.5	Attractive	7.74
Paychex	PAYX	3.0%	2.6	Very Attractive	7.65
Pfizer	PFE	3.5%	2.2	Attractive	7.63
Scholastic Corp	SCHL	1.3%	5.9	Attractive	7.59
Deluxe	DLX	1.6%	4.6	Very Attractive	7.59
CoreCivic	CXW	7.1%	1.1	Attractive	7.53
Taiwan Semiconductor	TSM	3.2%	2.3	Attractive	7.53
Helmerich & Payne	HP	3.9%	1.9	Neutral	7.46
General Motors	GM	4.1%	1.8	Attractive	7.45
Intersil	ISIL	2.2%	3.4	Highest Rated	7.33
Applied Materials	AMAT	1.1%	6.5	Very Attractive	7.32
Superior	SUP	2.6%	2.8	Attractive	7.25
Johnson & Johnson	JNJ	2.7%	2.7	Attractive	7.22
World Wrestling	WWE	2.6%	2.7	Very Attractive	7.22
Williams-Sonoma	WSM	2.7%	2.6	Attractive	7.16
Archer-Daniels-Midland	ADM	2.9%	2.4	Attractive	7.15
Cypress Semi	CY	4.0%	1.8	Attractive	7.15
Cardinal Health	CAH	2.4%	2.9	Very Attractive	7.12
Foot Locker	FL	1.6%	4.6	Attractive	7.12
Oracle	ORCL	1.5%	4.8	Very Attractive	7.07
Xilinx	XLNX	2.4%	3.0	Very Attractive	7.06
McKesson	MCK	0.9%	8.2	Attractive	7.01
Capella Education	CPLA	1.9%	3.6	Highest Rated	7.01
Boeing	BA	3.5%	2.0	Attractive	6.98
Sun Hydraulics	SNHY	1.2%	5.7	Attractive	6.98

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
Textainer	TGH	Rental and Leasing	1.2%	VERY POOR	-80.8
CONSOL Energy	CNX	Industrial Minerals	0.2%	VERY POOR	-65.1
KB Home	KBH	Homebuilders	0.6%	VERY POOR	-41.2
Windstream	WIN	Telecom Services - diversified	8.5%	VERY POOR	-36.3
Alcoa	AA	Aluminum	0.4%	VERY POOR	-33.6
Devon Energy	DVN	Independent Oil & Gas	0.5%	VERY POOR	-18.5
Lennar	LEN	Homebuilders	0.3%	VERY POOR	-15.4
Anadarko	APC	Independent Oil & Gas	0.3%	VERY POOR	-13.5
Ryder System	R	Rental and Leasing	2.3%	VERY POOR	-8.0
Tailored Brands	TLRD	Retail - Men's, Women's, Kids' Apparel	3.2%	VERY POOR	-6.7
Allegheny Technologies	ATI	Aluminum	1.8%	VERY POOR	-5.4
Barrick Gold	ABX	Metals & Mining - gold	0.5%	VERY POOR	-4.8
Koppers	KOP	Building Materials	3.1%	VERY POOR	-4.5
Yamana Gold	AUY	Metals & Mining - gold	0.7%	VERY POOR	-4.3
Rent-A-Center	RCII	Rental and Leasing	2.7%	VERY POOR	-3.4
MDC	MDC	Homebuilders	3.7%	VERY POOR	-3.1
Ball Corp	BLL	Containers & Packaging	0.7%	VERY POOR	-3.1
Hill-Rom	HRC	Medical Instruments	1.1%	VERY POOR	-2.8
Olin Corp	OLN	Chemicals - mid/small	3.9%	VERY POOR	-2.7
Huntsman	HUN	Chemicals - broad	2.4%	VERY POOR	-2.7
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	2.2%	VERY POOR	-2.4
Deltic Timber	DEL	Building Materials	0.6%	VERY POOR	-2.3
Murphy Oil	MUR	Refiners	3.2%	VERY POOR	-2.2
Noble Energy	NBL	Independent Oil & Gas	1.0%	VERY POOR	-2.2
Quad/Graphics Inc	QUAD	Book Publishing	4.8%	VERY POOR	-2.0
Centurylink	CTL	Telecom Services - diversified	8.9%	VERY POOR	-1.9
Service Corp Intl	SCI	Personal Services	2.0%	VERY POOR	-1.9
Apache	APA	Independent Oil & Gas	1.5%	VERY POOR	-1.7
Hess	HES	Refiners	1.6%	VERY POOR	-1.7
Frontier Comm	FTR	Telecom Services - diversified	12.8%	VERY POOR	-1.6
Viacom	VIA	Media - CATV	1.7%	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

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Overview

Express Scripts is a pure play PBM providing contracted pharmaceutical benefits to a diverse roster of clients. Express Scripts operates a network that is utilized by pharmacies to process and receive payment for prescription drugs. Express Scripts is the largest PBM in the US, scale of which it uses to drive down the cost of medications via a restricted formulary. A formulary is a list of medications that are covered by Express Scripts; non-covered meds will often require the patient to shoulder the entire burden of the cost of the medication.

The formulary is one of the principal methods that Express Scripts employs to drive down the cost of medications, a key point used to validate Express Scripts' services. Express Scripts will often limit formulary coverage of expensive medications, which directly leads to the pharmaceutical manufacturers to negotiate on price. The restrictive formulary combined with the extensive pharmacy network is the secret sauce that culminates in Express Scripts' very attractive Economic Castle. We believe that Express Scripts will play an integral role in the new health care regime that is expected to be rolled out at some point during the Trump administration.

As with its primary rival CVS, Express Scripts runs an extensive network of mail order pharmacies that processes claims for the lives it covers in its network. The main point of differentiation is the vast network of retail and long-term care pharmacies that is under CVS control, unlike Express Scripts which does not have a retail store presence. In essence, CVS runs a hybrid model, versus a pure play operation that is Express Scripts. Express Scripts and CVS Health both share an essential characteristic that we highly prize at Valuentum, the ability to generate a copious amount of free cash flow. Similar to CVS, Express Scripts is now trading at a free cash flow yield of over 10%, an outstanding "value" in light of the lofty valuation the market currently trades at.

But not everything is moonlight and roses.

Challenges

The PBM's have engendered significant controversy over the past few months. The initial furor began with the CEO of Mylan (MYL) trying to pass off the reason for the enormous price hikes on its key product, the epinephrine autoinjector Epipen, in part as a result of the markups the middlemen of the drug distribution extract. We do not share this view as evidenced by the net margins the drug distributors and the PBM's operate at. We view the statement as a clever "ruse" designed to take the heat off what could be considered price gouging. The initial furor did not die down as a famed short seller took aim once again at the industry and Express Scripts in particular over the payment of Direct or Indirect Remuneration (DIR) fees.

The DIR fees are initially established by the US Government via the Centers for Medicare and Medicaid Services (CMS). The purpose the DIR is to track the rebates offered by the drug manufacturers as an enticement to utilize a particular product over competitors. Also, volume discounts are often generated which falls in the DIR fee category. In essence, with the US government, the largest single payer for healthcare services has a keen interest in capturing the bulk of these rebates, hence the creation of the DIR fee.

The PBM is contractually obligated to return a portion of the fees generated back to the payer. The amount of the DIR fee returned varies per contract; the short seller mentioned Express Scripts retains a larger portion of the DIR fees than the next closest competitor CVS Health. We do not have a problem with this structure as the full purview of the contract is confidential. We are comforted by the fact that the Tricare contract which tends to the healthcare needs of the military remains under Express Scripts' control.

We suspect if Express Scripts was engaging in deceptive practices via the retention of DIR fees, a competitor would have exploited this during the competitive bidding process to gain control of the

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contract. A loss of the Tricare contract would be an enormous blow to Express Scripts as the contract covers over 10 million lives. Express Scripts was awarded a seven-year contract in 2014 which we view as a positive sign. Express Scripts has controlled the Tricare contract for over 12 years now; we feel the company has performed well for one of its largest clients.

Anthem Litigation

Express Scripts faces significant overhang from a lawsuit brought by Anthem (ANTM), one of its most important clients. To demonstrate the importance of Tricare and Anthem, the two contracts accounted for roughly 29% of Express Scripts revenue in 2016. Express Scripts acquired the Anthem business when it purchased Anthem's PBM business in December 2009. As part of the deal, Anthem signed a ten-year contract with Express Scripts. Anthem alleges in its suit against Express Scripts that the PBM has charged above competitive pricing for pharmaceuticals which directly led to Anthem charging an inflated price. Anthem is seeking over $13 billion in damages, a number Express Scripts contends is highly inflated and plans on vigorously defending itself against.

From where we stand, Express Scripts has already lost the "battle," and we fully expect another PBM to step in to fill the void when Anthem's contract expires in 2019. We think the most likely PBM to gain the contract is CVS, as the third largest PBM is Optum Healthcare which is a division of United Healthcare (UNH), a rival of Anthem. CVS does not compete directly with Anthem in the healthcare insurance market, making them an ideal candidate to replace Express Scripts. We view the litigation with Anthem as the main overhang affecting Express Scripts' equity performance.

Express Scripts: A Possible Value Trap?

Express Scripts' financial metrics are very appealing. The equity is trading at ~10 times this year's earnings, but the looming litigation really puts a damper on our enthusiasm for shares. For one, even if Express Scripts can amicably resolve the dispute with Anthem, a renewed contract would be struck at far less favorable terms. The loss of the Anthem deal would be a significant blow; Express Scripts would be hard pressed to replace such a contract in the rapidly consolidating healthcare field.

Furthermore, Express Scripts, unlike its main rival CVS Health, does not pay a dividend. Instead, it rewards shareholders via an aggressive share repurchase plan, which while potentially value-creative in light of its share price, limits its consideration within the dividend growth context. It's hard for us to get excited about this particularly dynamic, making CVS the better idea between the two, in our view.

Conclusion

We highly prize companies that can generate an abundance of free cash flow well above the needs of the underlying business. We like the industry dynamics of the PBM's, and we do not see a reasonable scenario where the PBM business will erode under the current administration. We view the PBM model as part of the solution to the excessive cost of pharmaceuticals, pushing down the cost of specialty meds, by far the main culprit of the rising trend in pharmaceutical products.

The coming wave of biosimilars is the single-greatest opportunity of the PBM industry, in our view. By rapidly mandating the switch to biosimilar equivalents at the expense of branded products, the PBM's can bend the cost curve downward to the delight of its clients. We do expect the aggressive formulary tactics pioneered by Express Scripts to become the norm, a potential headwind for the pharmaceutical industry. This will place an additional burden on the industry to justify its pricing scheme; the single best method is through the head-to-head outcome studies, pitting a competing product against a new product.

For the newsletter portfolios, the choice was clear from the beginning. We felt the hybrid model employed by CVS offered the most compelling risk-reward relationship. CVS topped out at a

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Valuentum Buying Index of 9, one of the highest in our coverage universe. CVS does have its share of unique challenges in 2017, notably reducing costs after losing out on a few contracts, but the primary difference between the two PBM's is that we think any losses can quickly be absorbed by CVS as its customer base is far more diverse.

CVS was caught a bit flat-footed by Walgreens Boots Alliance (WBA) aggressive contract ploys, a mistake we feel will be rectified during this year's contract negotiations with employers and insurance providers.

Alexander J. Poulos is long CVS Health and Gilead Sciences.

Alpha-Creating Hasbro-Hanesbrands?

By Brian Nelson, CFA

Every reader is different with a different perspective, time horizon, and goals, and I try to provide as much context and background as possible in my writings for those reasons and more. We won't always get everything right every time (nobody does), but I think your knowing how and why we do things (and being the judge) is par for the course with any membership. Gaining your trust is very important to me, and our team works hard each and every day to do so.

Shortly before the release of the Dividend Growth Newsletter, we added a 3% position in Hanesbrands (HBI) in light of many things, but we also did so in the context of the construction of the newsletter portfolio, and our wishes to allocate more cash to a market that we think will continue to "inflate" in 2017. The challenge is that some readers and some investors may view our ideas in isolation, rather than a portfolio targeted to achieve the respective newsletter goals. The Nelson Exclusive is where we provide three new ideas each month (considerations for income, capital appreciation, and a short idea) on a standalone basis outside the Dividend Growth Newsletter portfolio and Best Ideas Newsletter portfolio context.

I often worry if readers sometimes view each incremental newsletter portfolio idea by itself and over a short period of time, instead of on a collective, portfolio basis over a multi-year period. If you recall, I added Step 10 in the "13 Most Important Steps to Understand the Stock Market," for this very reason, to help explain the trade-offs in stock selection, that there will be winners and losers. (If you haven't read those 13 steps, it's an absolute must.) The past week or so provided a good example on how "alpha" and/or a positive return in the Dividend Growth Newsletter portfolio can be attained, despite what we believe to be a temporary setback with respect to newly-added Hanesbrands' equity. It helps shed some light on how we continue to put up strong performance in the newsletter portfolios, despite when sometimes every new idea that is added doesn't work out immediately.

As you know, Hanesbrands had just been added to the Dividend Growth Newsletter portfolio at $23.77 per share, and now is trading just under $20, a bit of poor timing on our part right before the quarterly release, to say the least, but we're being patient on the position (and its shares look mighty cheap, even cheaper). But here's why portfolio context is so important: **One of the largest weightings** in the Dividend Growth Newsletter portfolio, toy and licensing giant Hasbro (HAS), a position that was weighted at 5% (nearly 67% more than Hanesbrands' weighting) put up a quarterly report February 6 that has sent its shares surging from $82 to ~$95, a roughly offsetting percentage move, but one that was on a higher-weighted stock in the Dividend Growth Newsletter portfolio. The higher the weighting, the more impactful its moves on portfolio returns.

Hasbro's average cost is ~$32 in the Dividend Growth Newsletter portfolio, and the stock has been a big winner for those that follow our best ideas (housed in the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio). In fact, my colleague Kris Rosemann pounded the table on Hasbro in our October 25, 2016, podcast, "EVERYTHING DIVIDENDS + 3 TOP IDEAS," explaining how we're letting this winner "run" in the spirit of the Valuentum methodology, despite a rather "frothy" valuation.

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Importantly, our ideas in the newsletter portfolios are our best ideas at any given time, and while some readers may like our incremental ideas that we add, they should be considered our next best ideas, of course. Said differently, with each passing day, we make a conscious decision to continue to hold the ideas in the newsletter portfolios, and if we had to reestablish the newsletter portfolios each day, we would be sending out email alerts on these stocks. Because they are already in the newsletter portfolios, however, there's no need for us to send out alerts.

While in some cases, the newsletter portfolio add/remove decisions are made in the context of existing newsletter constituents and how they fit together within the portfolio construct to achieve portfolio goals, in other cases, new ideas are considered with respect to the conditions of the broader market environment. Today, the broader market, for example, continues to be "overpriced" relative to historical valuations, so some of the best companies' valuations are getting stretched (some of them are very stretched). At last check, for example, the S&P 500 (SPY) is trading at 17+ times forward earnings. While methodological, our process in the newsletter portfolios also has to be flexible to achieve goals in this overheated environment, which we expect to get even frothier. These are trying times for stock pickers, but we are still working to achieve targeted newsletter goals.

This is why it may seem somewhat counter-intuitive why we may continue to hold Hasbro, despite its valuation, or why we added Boeing (BA) more recently, given that their respective valuations aren't considerably attractive, or why we may place a trade on the Alerian MLP (AMLP), despite us being very cautious on the business models of MLPs. In Boeing's case, shares aren't considerably cheap, but the company was not added to the Best Ideas Newsletter portfolio, but the Dividend Growth Newsletter portfolio, which emphasizes dividend growth potential. In some cases in the Dividend Growth Newsletter portfolio and particularly in this market environment, we relax some non-dividend related criteria to identify dividend growth ideas that fit the bill to achieve newsletter goals. Boeing was not added to the Best Ideas Newsletter portfolio, which emphasizes valuation and the Valuentum Buying Index more so than capital allocation policies set by the board.

If you may recall, late last year, we decided to increase our allocation to equities in the Dividend Growth Newsletter portfolio given our views on the market for 2017, "5 Shocking…," and in light of the under-weighting of equities in the Dividend Growth Newsletter portfolio at the time (and our overweighting of cash). Given frothy conditions and overpriced equities in general, we have been looking to bolster the Dividend Growth Newsletter portfolio with fundamentally strong ideas that have solid income growth potential, and we've had to be a little more flexible with valuation considerations. Though there are always risks, Boeing made the cut when it came to the dividend, even though shares are trading at the high end of our fair value estimate range.

As it relates to the newsletters, we strive every day to achieve newsletter portfolio goals, and that may mean that we seek certain exposures to certain sectors or industries, too. In the Dividend Growth Newsletter portfolio, we had been lacking exposure to the aerospace industry, one of our very favorites, "Boeing's Lift Off, Lockheed's Caution, and United Tech's Outlook," so Boeing fit very well as an idea in this regard, too. We very much like the visibility that the aerospace industry provides as it relates to the airframe makers' backlogs. Oftentimes, achieving sector allocations in newsletter portfolios means that we have to relax certain firm-specific criteria, too.

All of this said, ideally, of course, we would prefer to add undervalued, strong dividend growth companies, but those are becoming scarcer in today's frothy market--**and importantly**, many undervalued, strong dividend growth companies are already included in the Dividend Growth Newsletter portfolio. I hope this helps further explain our rationale for some of the more recent moves in the Dividend Growth Newsletter portfolio. Please let us know if you have any questions. Don't forget to watch the podcast on Hasbro!

Is Clean Energy Just Burning Cash?

By Kris Rosemann

Image Source: Chuck Coker

Clean or renewable energy sources will undoubtedly be a part of how we generate power in the future, but how investible is the space? The answer is largely dependent on your risk tolerance.

Key Takeaways:

- The success of the solar industry at this point in time is dependent on public policy, specifically investment tax credits, which allow participants to compete with traditional energy sources.
- The wind power industry is more developed than the solar industry, though many of the largest players in the industry are large utility holding companies.
- There are a wide range of ideas ancillary to the renewable energy movement in the areas of emissions reduction, power storage, and energy efficiency.

"The dependence of the solar industry on tax credits to be competitive keeps us on the sidelines for the foreseeable future, and we suspect it may be several years before the industry can be considered stable." -- Kris Rosemann

Demand for clean energy does not exist in a bubble. Clearly there are certain factors that make it irreplaceable to some and unusable for others, but at this point in time renewable energy demand falls under the umbrella of energy demand, which continues to be dominated by traditional fossil fuel energy generation. The recent rout in energy resource pricing impacted demand for substitutes such as solar or wind power, showcasing their interrelatedness, but both solar and wind continue to grow as a percentage of energy generating capacity in the US.

The solar industry in particular has felt the pressure of a supply glut in the energy markets, as the aforementioned commodity price pressures has somewhat coincided with a run-up in production

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capacity. Recent restructuring initiatives within the space, such as the workforce and capital spending reduction plan at SunPower (SPWR), indicate that industry participants may be battening down the hatches for an extended period of time. Despite the strong growth in solar photovoltaic (PV) production capacity in recent years--solar made up nearly 30% of all additions to electrical generating capacity in the US from 2013-2015--it only makes up ~2% of total capacity in the country, indicating a long potential runway for growth.

However, the deployment of solar PV systems has been and continues to be dependent on the support of public policy. Even the least expensive systems today, which include utility-scale systems in areas of high insolation, require federal tax incentives to compete economically with traditional energy sources. On a positive note, the Energy Policy Act of 2005 created a 30% investment tax credit (ITC) for residential purchasers of PV systems and raised the same credit for businesses to 30% from 20%, and the ITC was recently extended through 2023, though gradual annual reductions are planned for 2020-2022 and thereafter. It is worth noting that Congress and the President could reduce or eliminate the ITC before that time, which may not be out of the realm of possibility given some of the commitments the Trump administration has made to traditional energy generation across the US.

We continue to be wary of any business that is overly dependent on regulatory or other outside forces to compete effectively, even if recent reports suggest Trump will leave the renewable energy tax incentive plans untouched. Whether it is the federal-grant funded for-profit education or the heavily regulated utilities sector, we think it makes sense to seek out businesses that are able to generate economic profits *without government incentives*, particularly in a time of such uncertainty surrounding a wide variety of policies in the US. There will likely be a time in the perhaps not-so-distant future where this is the case for the solar industry, but until the technology of the space is at a point that it is able to be a "true" economic (standalone) substitute for other forms of non-renewable power, we see it as a speculative market that could easily eat up overzealous investor capital.

Tax incentives for wind power are lower than that of the solar industry, and the phase-out of said incentives is scheduled to occur sooner. The final year of a 30% production tax credit (PTC) for large wind was 2016, with the PTC decreasing to 24%, 18%, and 12% in 2017, 2018, and 2019, respectively. The benefit for small wind turbines ceased at the end of 2016. Wind energy appears much closer to being economically competitive with traditional power sources across much of the US, and it accounted for nearly 5% of total US electricity generated in 2015. Some market observers estimate wind power will account for 20% of US electricity by 2030.

However, one issue that arises within the investment thesis of wind power in the US is the ownership of wind farms across the country. Many of the largest owners of wind farms are large utility holding companies such as NextEra Energy (NEE), whose subsidiary Nextera Energy Resources is one of the world's largest generators of wind power and generates roughly 70% of its total capacity via wind. While large entities such as NextEra may be able to more rapidly facilitate the expansion of wind power via their access to large amounts of capital and relationships with regulators, the consolidation of new and old energy sources in this way caps the potential for alpha generation for investors. However, such a scenario does help mitigate risk associated with potential boom and bust cycles in an up and coming industry in which smaller players may be more likely to overextend themselves. 'Greener utilities' such as NextEra may be of interest to investors looking for exposure to wind power technology.

There are a wide range of companies participating in the clean energy movement in avenues other than the generation of renewable energy. Changing energy supply and demand dynamics are forcing innovation in a number of ways, from emissions reduction to power storage to energy efficiency. Those focused on emissions control include the likes of Ceco Environmental (CECE) and Corning (GLW), and many investors are likely to recognize Tesla Motors (TSLA) as a potential market leader in next-generation power storage. Rapidly advancing Internet of Things technology will undoubtedly play a role in the expansion of renewable energy generation capacity.

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We view the energy efficiency-focused space as one that may have the most potential in its current state. The upside potential may not be as great as that of a long-term winner in solar--something we warn against attempting to predict at this point in time--but evolving industrial companies such as Emerson Electric (EMR) or Eaton (ETN) offer solid income generation along with the potential for upside surprise as they are related to high-growth industries--neither offers an attractive value opportunity at current price levels, however. Emerson Electric's dividend track record is second to none at more than 60 consecutive years of annual dividend increases, and its Dividend Cushion ratio is solid, but it is important for investors to be cognizant of these firms' ties to the cyclicality of industrial- and energy-based end markets.

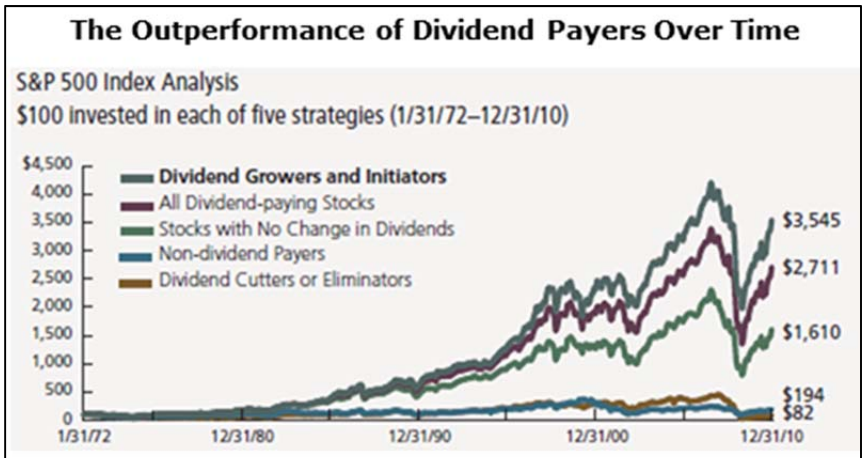
The future of clean energy certainly is bright, but whether it is worthy of investment dollars is another thing. The dependence of the solar industry on tax credits to be competitive keeps us on the sidelines for the foreseeable future, and we suspect it may be several years before the industry can be considered stable. Furthermore, we generally prefer to avoid the regulatory risk that comes with exposure to any one specific utility via including the Utilities Select Sector SPDR ETF (XLU), which happens to include a 9%+ stake (the largest in the ETF) in NextEra Energy. Ancillary ideas exist in established players within the areas of emissions control, power storage, and energy efficiency, among others, but a deeper dive in those areas goes beyond the scope of this article. Please check out our reports on industries such as Pollution Controls, Electrical Equipment, Industrial Electric Equipment, Electronic Component Suppliers, and Environmental Services for other potential ideas related to the clean energy movement.

There are also a number of clean or renewable energy ETFs available to investors that may be considering exposure to the space such as the PowerShares WilderHill Clean Energy Portfolio (PBW) or the iShares Global Clean Energy ETF (ICLN), or even a "pure-play" solar ETF, the Guggenheim Solar ETF (TAN), but these more speculative-idea filled ETFs often come with higher expense ratios than we are accustomed to. For example, the PBW's net expense ratio checks in at 0.7% compared to 0.14% for the XLU. For the time being, we are satisfied with our exposure to wind energy via the XLU, not to mention the exposure to the evolution of the broader energy arena via General Electric's (GE) expanding manufacturing capabilities and Internet of Things technology, in both newsletter portfolios. We'll let readers know if our thoughts change in the future.

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 strongest 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) during tightening credit markets.

The Importance of Forward-Looking Dividend Analysis

Informed 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 more.

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The Dividend Cushion Ratio Helps Income Investors

$$\frac{\sum_{t=1}^{5}[A(t) - B(t)] + C(0) - D(0)}{\sum_{t=1}^{5} E(t)}$$

A = cash flow from operations (from the operating section of the cash flow statement),
B = capital expenditures or additions to property plant and equipment (from the investing section of the cash flow statement),
C = cash and cash equivalents (from the balance sheet),
D = long-term debt (from the balance sheet), and
E = cash dividends paid (from the financing section of the cash flow statement).

"All else equal, a firm with billions of net cash on the balance sheet is better positioned to keep paying a dividend than a firm with billions of net debt on the balance sheet. More cash on the books relative to debt reveals significantly more financial flexibility. The dividend payout ratio ignores this important concept, while the Dividend Cushion ratio embraces it." – Valuentum's Brian Nelson, CFA

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.

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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).

See more at the following link: http://www.valuentum.com/articles/20130528

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™ ratio 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.

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Here's a glimpse of the Valuentum Dividend Cushion™ ratio (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 6, 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.

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

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

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

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

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

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

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

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

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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.