OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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

The Dividend Growth Newsletter portfolio has advanced 85.7% since inception, January 2012.

Annualized Return	Annualized Goal	Outperformance
12.1%	Mid-High Single Digits	4.6pts

*Please see note below regarding performance measurement.

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"I think there's no problem believing the market could go higher on the basis of irrational expectations, but calling the market 'fairly valued' or 'cheap' really rubs me the wrong way." – Brian Nelson, CFA

I'm Worried

By Brian Nelson, CFA

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

Kris Rosemann
Associate Investment Analyst
kris@valuentum.com

Alexander J. Poulos
Healthcare & Biotech Contributor

Dividend Growth Ideas: MO, AAPL, AMLP, BA, CBRL, CSCO, CVS, XLE, GM, HAS, HBI, INTC, JNJ, 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, June 1, 2017, the portfolio is significantly exceeding this goal.

Answer: Apple (AAPL), Altria (MO), Microsoft (MSFT). What are a few of our top dividend growth ideas for the next decade, Alex (Trebek)? Yes.

Sometimes I talk so much about the tactical, the incremental, the 1%, that the layups, the fat pitches, the stocks we really like, don't get enough air time. That's why in this edition, up front, I'm listing three of our favorite dividend growth ideas, stalwarts of the Dividend Growth Newsletter portfolio, ones that you simply have to be aware of. For more information on them, please be sure to see page 16 of this edition: *"Reminding You of Some of Our Favorites,"* and access each one of their landing pages on our website.

That said, we've made some changes to the Dividend Growth Newsletter portfolio since the last edition, and just in case you ever miss any of the interim alerts, you can access the transaction ledger on the website at the following link at any time (https://www.valuentum.com/articles/20130729_1). As you know, we parted with General Electric (GE) May 15. The release of its first-quarter 10-Q (quarterly SEC filing) showed that capital discipline and cash flow from operations weren't where we'd like for a dividend growth idea. Expectations heading into the next few years will put industrial free cash flow too tight with cash dividends paid, and we don't like that GE will be leaning on its balance sheet for incremental dividend growth as a result. That's just not what makes a long-term dividend growth winner, in our view. That GE also doesn't have a meaningful dividend growth streak to fight to retain after slashing the payout in 2009 means cutting the payout again in future years won't do much but just put the company back in the penalty box. For more on the reasoning behind GE's removal from the newsletter portfolios, please see here, the email transaction alert: https://www.valuentum.com/articles/20170515

We also parted with Medtronic (MDT) May 25. We continue to like the med tech idea a lot, but we've learned our lesson with Teva Pharma (TEVA), a previous holding in the Best Ideas Newsletter portfolio, and we're no longer giving healthcare-tied companies the benefit of the doubt in this uncertain political environment when it comes to their taking on a tremendous amount of leverage due to an acquisition. Those that have been long-time subscribers to the Dividend Growth Newsletter know that Medtronic has been a huge winner, not only in terms of dividend growth but also with respect to capital appreciation. We're sad to see it go, but we think the timing is right. Please see more on page 17, "Alert - Spring Cleaning in the Dividend Growth Newsletter Portfolio."

Please see *I'm Worried...*on next page

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

We parted ways with Coach (COH) May 8. One could arguably say that perhaps Coach never belonged in the Dividend Growth Newsletter portfolio, but when it was added, it had so much dry powder on its balance sheet that it could have upped its then-4% dividend yield to please investors time and time again. Unfortunately, management took the company in a different direction and decided to go on a spending spree, picking up some good brands, but nonetheless weakening its balance sheet. In a time when consumer preferences are changing so rapidly as wearable technology replaces fashion, to some degree, we're just not taking any chances with this one over the long haul. The dividend would be just too tempting for management to cut if it needed to raise cash for more acquisitions. Coach was removed from the Dividend Growth Newsletter portfolio for a nice gain, and we're not looking back as the entire aspirational and luxury industry may be influx. Please see, "Changing Millennial Preferences and the Death of the Blue Box?" It's a good read into why we shed shares of Michael Kors (KORS) from the Best Ideas Newsletter portfolio before its disappointing forward guidance, released May 31.

I'm worried about the stock market, folks. Worried may not be the right word, per se, as nobody should be frightened and emotion is not supposed to be a part of investing, but there may be no other way of expressing how I feel right now. The Dividend Growth Newsletter portfolio continues to participate in the equity market advance, of course, but this bull market is getting a bit long in the tooth. There's no good reason why the stock market can't shoot up another 50%, as Nobel Prize-winning economist Robert Shiller may believe, pointing to what the cyclically-adjusted price-to-earnings ratio (CAPE) did during the dot-com bubble in 2000, but it's hard to bet on a bubble getting bigger. Forward measures of the P/E ratio on the S&P 500 continue to be meaningfully above 5 and 10-year averages, and future consensus numbers for 2018 may be at risk if corporate tax reform initiatives in the US don't come to fruition. Interestingly, the same CAPE ratio Shiller points to in order to justify the potential for the markets to advance another 50% is at 29, itself above the 17 historical average. In light of all the strange justifications for further price advances, I wonder if Irving Fisher were around today instead of during the Great Depression, he might be saying today, "Stock prices have reached what looks like a permanently high plateau." The month after Irving Fisher said those words was October 1929.

Nobody likes to read about the very real risks that entail stock market investing, but they are material. With the average consumer staples stock, for example, trading north of 20 times forward earnings on meager revenue growth (if any at all), it's very difficult to be a long-term investor as reversion-to-the-mean dynamics could end up becoming extremely painful to one's portfolio. A reversion to 15 times forward earnings on these stocks, for example, could wipe out 25% of investor capital and that's if (yes, I said if!) earnings forecasts hold true, which in the event of a stock market decline, it's more likely that consensus numbers are falling, not holding steady. That's the risk long-term investors are facing in today's market. How can I be a cheerleader in this market? When I hear all the bulls from Jeremy Siegel calling the market "very fairly valued," despite lofty market multiples and arguably artificially low interest rates, to Warren Buffett saying the market is not in a bubble, but still looks "cheap," it makes my stomach turn. I think there's no problem believing the market could go higher on the basis of irrational expectations, but calling the market 'fairly valued' or 'cheap' really rubs me the wrong way. I hope Shiller, Siegel and Buffett are right, *but I'm worried.* That's in part why we added some protection to the Dividend Growth Newsletter portfolio in the form of put options.

I've received a couple questions about the move to do so, and while the market has come roaring back and volatility has settled down some, I do think the market will experience some kind of shock in the next 12-18 months. The protection we added is an extremely small, tangential part of portfolio tactics in adding ("buying") put options, which means that if the price of the underlying falls below the strike price before expiration, the contract would be in the money. In other words, the value of a put option generally would move higher in the event of a price decline in the underlying, though volatility and time have an impact, too--the latter a considerable negative one. As I continue to emphasize, options are not for everyone (the premiums spent can be completely lost), and they are merely tactical to the newsletter portfolio. We'll keep an eye on market movements following Trump's decision to split from the Paris climate agreement and as the Fed gears up to get a handle on inflating asset (stock) prices. I hope you enjoy this edition of the Dividend Growth Newsletter portfolio!

Shoe Retailing Stocks Stumble

By Brian Nelson, CFA

Shoe stocks have been stinking up the market lately.

The writing may have been on the wall a couple months ago when Finish Line (FINL) released a weak fiscal fourth-quarter report for the period ending February 25 that showed consolidated sales falling 0.4% and (Finish Line) comparable sales dropping 4.5%. CEO of Finish Line Sam Sato said at the time that the company's fiscal fourth quarter had finished off a "challenging year financially" for the company, and we can't really disagree. It was tough fiscal year for the retailer. Here's more of what Finish Line said in late March, the most concerning about the market environment, which remains highly promotional:

> As elements of our footwear offering did not resonate with our customers as we expected and the overall retail environment in February became increasingly difficult, we made the decision to get *more aggressive on pricing* to be competitive and clear slow moving product. While this allowed us to end fiscal 2017 with clean inventory levels, it put significant pressure on fourth quarter product margins. We know we must improve the execution of our merchandise strategies to drive increased full price selling and fuel sustained comparable sales growth.

Shares of Finish Line have fallen from highs north of $30 in late 2015 to the low-teens at the time of this writing, as market participants continue to worry it is losing share in a variety of sales channels, even as it prices aggressively. The company's disappointment was followed by a weaker-than-expected outlook from Dick's Sporting Goods (DKS), which we highlighted in a recent write-up, and we're starting to believe that an industry--once believed to be resistant to the Amazon-effect (given the need to try on new shoes in a store, for example)--may finally be experiencing some pressure. Dick's adding resources from personalization to direct marketing in its e-commerce initiatives, but on its quarterly conference call, it also noted that it will be marketing more aggressively than in the past. Amazon (AMZN) will not let up with price, and gross margins across the group may continue to suffer.

Foot Locker's (FL) first-quarter report, released May 19, may have been the most concerning of all. During the quarter ending April 29, the company's gross margin fell 100 basis points, to 34%, on meager first-quarter comparable store sales growth of just 0.5% for the period (not quite what we'd describe as the guided low-single digit percentage rate), and despite decent performance in March and April, where comps improved noticeably. Management blamed the weak performance on a slow start in February "largely due to the delay in income tax refunds," but in light of the other data points we've witnessed from Finish Line and Dick's, we're not sure that Foot Locker's problems are entirely timing-related (mostly because March and April didn't make up for the shortfall in February, too). During the trading session May 19, Foot Locker's shares sold off nearly 17%. Its shares yield ~2% following a 12%+ dividend hike in April, but we're not biting in light of what looks to be a fast-deteriorating industry backdrop.

Dividend Growth Newsletter Portfolio Holding Cracker Barrel Hits the Trifecta!

By Brian Nelson, CFA

Dividend Growth Newsletter portfolio holding Cracker Barrel (CBRL) released fiscal third-quarter results May 23 that came in above the company's internal expectations, leading the unique restaurant concept to raise its full-year profit target. It now expects earnings per share for fiscal 2017 to be in the range of $8.25-$8.35, above its previous target of $8.10-$8.25 and ahead of consensus expectations. Of course we liked this news, and we continue to believe Cracker Barrel is one of the best dividend growth ideas in all of the restaurant space, from quick service to fast casual to full service dining and beyond. Cracker Barrel also announced it raised its quarterly dividend to $1.20 per share (was $1.15), a modest 4.3% increase, but it also declared a special dividend of $3.50 per share--payable on July 28 to shareholders of record July 14.

What are we doing with shares? Well, we're keeping them in the Dividend Growth Newsletter portfolio. Cracker Barrel's store-within-a-restaurant concept is one of the best revenue-generators per square foot around, and it is run by a management team that knows the importance of the dividend to income investors. We continue to believe it is a great fit for the Dividend Growth Newsletter portfolio and an often overlooked one in light of its preponderance of special dividends that often fly under the radar. The Cracker Barrel 'story' continues to be one of pricing expansion and margin strength, as the company's average check increased 1.7% in the fiscal third quarter, helping to drive its operating margin to 10.2% of revenue from 9.6% in the prior-year period. We can't wait to see the leverage inherent to Cracker Barrel's business model when total revenue trends turn upward.

Part of our thesis with Cracker Barrel had been a return to meaningful traffic expansion, but that hasn't happened as broader traffic pressures continue to impact the entire restaurant space as new concepts continue to pop up with seemingly every imaginable theme. Cracker Barrel has staying power, however, and its ability to achieve pricing growth to drive operating income expansion in the face of overall top-line pressure is admirable (food commodity deflation is also helping). Total revenue was flat in the fiscal third quarter, but operating income came in at $71.5 million, up from $67 million in the year-ago period. Weakness in overall comparable store sales is worth watching closely (they declined 4.7% during the fiscal third quarter), but all-in we couldn't help but like the news out of Cracker Barrel May 23. On a forward yield basis, annualizing the new quarterly dividend run-rate and including the pending $3.50 per share special dividend, shares are yielding north of 5%.

Many investors don't know this!

Walmart Comes Roaring Back; Target Is Still Suffering

By Brian Nelson, CFA

Shares of Walmart (WMT) are now approaching $80 per share following a combination of a strong market tailwind and first-quarter results, released May 18, that revealed that, while the discount retailer may have taken its share of blows from Amazon (AMZN) the past few years, it is not out of the fight by a long shot. Excluding currency fluctuations, total revenue during the first quarter of 2017 advanced 2.5% thanks in part to solid performance at Walmart US, where comparable store sales advanced 1.4% due entirely to higher traffic. E-commerce growth at Walmart US experienced impressive gross merchandise volume (GMV) growth of nearly 70%, with most of the expansion organic. In September 2016, Walmart completed its $3 billion acquisition of Jet.com, and we expect the company's e-commerce initiatives to continue to bear fruit. Operating cash flow generation was healthy at $5.4 billion during the quarter, and Walmart returned $3.7 billion to shareholders through dividends and share buybacks. Walmart US comparable store sales are expected to leap 1.5%-2.5% during the second quarter, and we think the target range is achievable. Free cash flow generation was a solid $3.4 billion during the first quarter, and its Dividend Cushion stands at parity (1). Walmart yields ~2.8% at present.

Please see *Walmart Comes...*on page 6

The Dividend Growth Portfolio

Annualized Return	Annualized Goal	Outperformance
12.1%	Mid-High Single Digits	4.6pts

The Dividend Growth Newsletter portfolio has advanced 85.7% since inception, January 2012.

DIVIDEND GROWTH PORTFOLIO -- as of June 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	75.40	7,615.40	4.1%	246.44
Apple (AAPL)	7/24/2013	63.17	51	3,228.45	153.18	7,812.18	4.2%	128.52
Alerian MLP ETF (AMLP)	1/26/2017	13.19	398	5,256.62	12.01	4,779.98	2.6%	366.16
Boeing (BA)	1/26/2017	168.44	31	5,228.64	187.32	5,806.92	3.1%	176.08
Cisco (CSCO)	11/14/2014	26.31	199	5,242.53	31.82	6,332.18	3.4%	230.84
Cracker Barrel (CBRL)	2/1/2016	133.50	18	2,410.00	168.53	3,033.54	1.6%	86.40
CVS Health (CVS)	1/6/2017	81.84	107	8,763.88	78.29	8,377.03	4.5%	214.00
Energy Sector SPDR (XLE)	4/1/2015	72.63	121	8,795.76	65.85	7,967.85	4.3%	201.87
General Motors (GM)	12/1/2016	36.43	119	4,342.17	34.43	4,097.17	2.2%	180.88
Hasbro (HAS)	12/30/2011	31.89	110	3,514.90	105.97	11,656.70	6.3%	250.80
Hanesbrands (HBI)	1/26/2017	23.77	221	5,260.17	21.09	4,660.89	2.5%	132.60
Intel (INTC)	12/30/2011	24.25	289	7,015.25	36.12	10,438.68	5.6%	315.01
Johnson & Johnson (JNJ)	12/30/2011	65.58	107	7,024.06	128.78	13,779.46	7.4%	359.52
Microsoft (MSFT)	12/30/2011	25.96	77	2,005.92	70.10	5,397.70	2.9%	120.12
Proctor & Gamble (PG)	12/30/2011	66.71	105	7,011.55	88.13	9,253.65	5.0%	289.80
PP&L (PPL)	12/30/2011	29.42	238	7,008.96	39.96	9,510.48	5.1%	376.04
Realty Income (O)	7/24/2013	44.35	60	2,668.00	55.54	3,332.40	1.8%	151.80
S&P Dividend ETF SPDR (SDY)	4/20/2016	81.33	105	8,546.65	89.65	9,413.25	5.1%	212.78
Vanguard REIT ETF (VNQ)	2/1/2016	77.07	32	2,473.24	82.62	2,643.84	1.4%	116.86
SPY put option contracts, Aug exp	-	-	2	1,099.00	255.00	510.00	0.3%	-
Latest Changes: Added put options, removed MDT, GE, COH.								
Cash -- changes in cash balance reflects dividends received and trading gains/losses, where applicable						49,234.12	26.5%	4,156.52
Dividend Growth Portfolio				100,000.00		**185,653.42**	100.0%	**TBD**
DG Portfolio Annualized Return (from inception through current date)								**12.1%**
DG Portfolio Annualized Return Goal (Mid-to-High Single Digit Returns)								7.5%
DG Portfolio Annualized Return Outperformance								**4.6%**

UR = Under Review

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

DIVIDEND GROWTH PORTFOLIO -- as of June 1, 2017 — Fundamental data as of June 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	3.24%	mid June 2017	mid June 2017 (quart)	1.3	GOOD	GOOD	$60.00	3	1.26
Apple (AAPL)	2.52	1.65%	August 2017	August 2017 (quart)	5.0	EXCELLENT	EXCELLENT	$165.00	5	0.93
Alerian MLP ETF (AMLP)	0.92	7.66%	mid Aug 2017	late Aug 2017 (quart)	-	-	-	-	UR	-
Boeing (BA)	5.68	3.03%	early Aug 2017	early Sep 2017 (quart)	2.0	GOOD	EXCELLENT	$175.00	7	1.07
Cisco (CSCO)	1.16	3.65%	early July 2017	July 2017 (quart)	2.7	GOOD	EXCELLENT	$42.00	7	0.76
Cracker Barrel (CBRL)	4.80	2.85%	mid July 2017	July 2017 (quart)	1.7	GOOD	GOOD	$171.00	7	0.99
CVS Health (CVS)	2.00	2.55%	mid July 2017	July 2017 (quart)	1.1	GOOD	GOOD	$104.00	6	0.75
Energy Sector SPDR (XLE)	1.67	2.53%	mid June 2017	June 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-
General Motors (GM)	1.52	4.41%	early June 2017	June 2017 (quart)	1.8	GOOD	POOR	$43.00	6	0.80
Hasbro (HAS)	2.28	2.15%	mid June 2017	late July 2017 (quart)	2.1	GOOD	EXCELLENT	$87.00	6	1.22
Hanesbrands (HBI)	0.60	2.84%	mid Aug 2017	Aug 2017 (quart)	1.0	GOOD	GOOD	$27.00	6	0.78
Intel (INTC)	1.09	3.02%	mid Aug 2017	Aug 2017 (quart)	2.3	GOOD	EXCELLENT	$42.00	7	0.86
Johnson & Johnson (JNJ)	3.36	2.61%	mid Aug 2017	Aug 2017 (quart)	2.5	GOOD	EXCELLENT	$121.00	7	1.06
Microsoft (MSFT)	1.56	2.23%	mid Aug 2017	Aug 2017 (quart)	2.3	GOOD	EXCELLENT	$62.00	7	1.13
Proctor & Gamble (PG)	2.76	3.13%	early July 2017	mid July 2017 (quart)	1.5	GOOD	EXCELLENT	$74.00	4	1.19
PP&L (PPL)	1.58	3.95%	late June 2017	late June 2017 (quart)	Held for diversification reasons.			$32.00	6	1.25
Realty Income (O)	2.53	4.56%	monthly	monthly	2.1	GOOD	GOOD	$59.00	3	0.94
S&P Dividend ETF SPDR (SDY)	2.03	2.26%	mid June 2017	late June 2017 (quart)	-	-	-	-	UR	-
Vanguard REIT ETF (VNQ)	3.65	4.42%	mid June 2017	late June 2017 (quart)	-	GOOD	NEUTRAL	-	UR	-
SPY put option contracts, Aug expiration, $237 strike	-	-	-	-	-	-	-	-	-	-

Standard Disclaimer: Our Dividend Growth Newsletter 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.

***Walmart Comes...*from page 4**

Walmart has had its hands full navigating the current tumultuous environment as wage rate inflation adds to operating costs and as negative public perception weighs on the top line. Amazon continues to steal share from the retailer, but we were very encouraged by improved traffic trends in the US and a pace of e-commerce growth at Walmart.com that would be the envy of any national retailer, large or small. Walmart has a lot of strategic options, too. A spin off of Sam's Club would force the market to more tangibly perform a sum-of-the-parts analysis on the equity, perhaps building in a premium from offering the market more choices. Comparable sales at Sam's Club advanced 1.6% (ex-fuel) in the first quarter, better than consensus, so momentum continues at the membership warehouse that competes head on with Costco (COST). Many have noted that Wayfair (W) could be a viable acquisition candidate for Walmart, and we'll be watching the M&A front closely. Walmart's 12% stake in JD.com (JD) is a gem of an asset, and Store No 8, Walmart's innovation hub, could yield some very interesting results in coming years. Rivalries remain fierce across every front, however, and pricing pressures, from groceries to packaged goods and beyond, may never go away. Facebook (FB) could become a big contender, too, with the social media giant rolling out a food ordering option. GrubHub's (GRUB) shares didn't react well to this.

Walmart has come roaring back, but shares of Target (TGT) continue to languish, now trading in the mid-$50s from the mid-$80s in early 2016. We had warned about Target when we thought its deal with CVS (CVS) and its decision not to continue to invest in Canada were major long-term blunders. We explained our negative outlook for Target in our May 2016 note, "Target and Non-GAAP Earnings." At the time, we explained that we didn't like the short-term nature of Target's executive incentive structure and that it had led management astray, leading it to give up on some key long-term growth avenues. Target's first-quarter results, released May 17, weren't bad, but revenue still declined 1.1% from the prior-year period. Though comparable digital sales at Target advanced 22% in the quarter, first-quarter comparable sales fell 1.3%, and unlike in the case of Walmart, traffic fell. We're not convinced that Target is completely out of the woods, and we're a bit concerned both traffic and digital performance continue to lag behind Walmart's efforts, especially with Amazon nipping away at both big box giants. For the full-year 2017, Target expects a low-single-digit decline in comparable sales. Shares of Target yield ~4.4%, and its Dividend Cushion ratio isn't bad. We're watching shares closely.

Deere Runs! South America Not As Bad?

By Brian Nelson, CFA

Please see *Deere Runs...*on next page

***Deere Runs…*from previous page**

On May 19, agricultural equipment maker Deere (DE) reported solid quarterly results for the period ending April 30 that showed strong improvement in farm and construction equipment demand. Management noted that in its recently-completed second quarter "market conditions showed signs of further stabilization…(and) farm machinery sales in South America experience(ed) a strong recovery," too. Deere increased its full-year earnings forecast to $2 billion, which it expects to be driven by 9% sales growth. Shares of Deere yield just north of 2% at the moment.

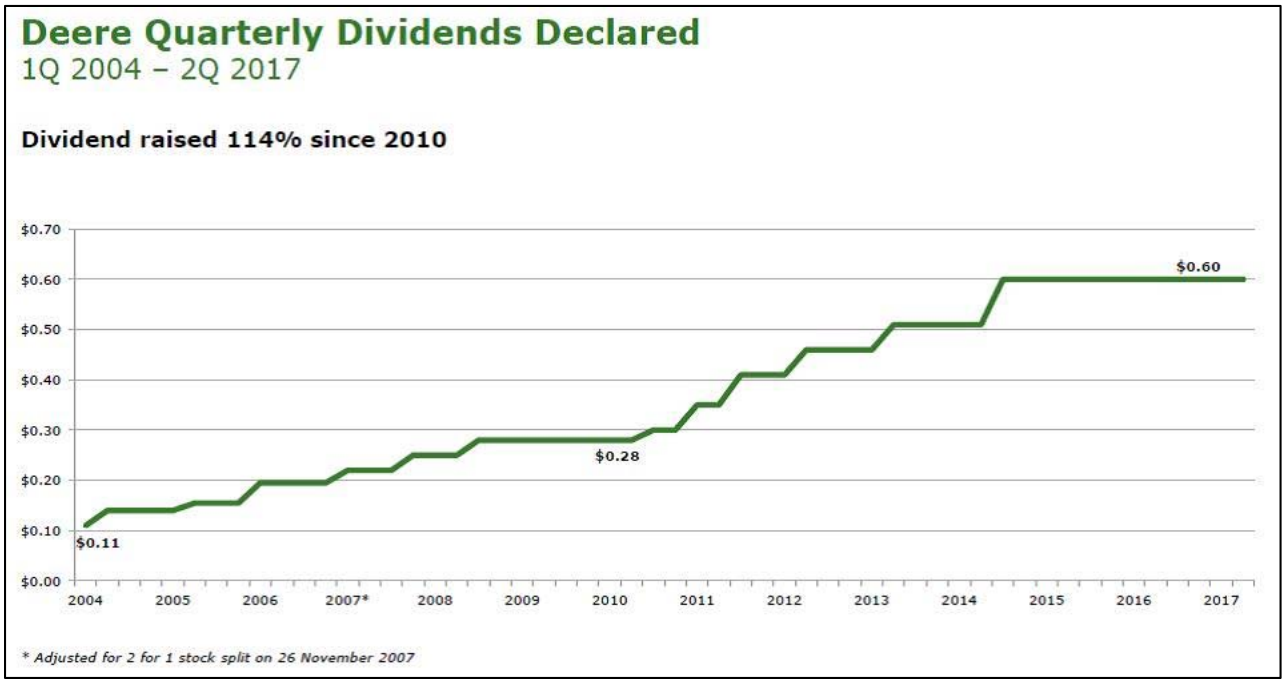


Image Source: Deere

Investors were extremely pleased with Deere's execution and even more enthused by the executive team's increased guidance for "significantly higher earnings for the full year." The high end of our fair value range for Deere rests just above $130 per share, but there may be some upside to that range if Deere continues to execute well and equipment pricing holds up. The company has been able to realize a 2% price increase across its worldwide equipment operations. We don't think the commentary in the press release could have been more optimistic:

> "Deere is demonstrating a continuing ability to produce impressive results through all phases of the business cycle," Allen said. "This resilience illustrates our success driving improved operating efficiencies and developing a wider range of revenue sources. It also shows the impact of the company's consistent investments in advanced technology, new products and additional markets. These actions are leading to strong performance in 2017, and they reinforce our conviction that Deere is well-positioned to deliver significant value to customers and investors over the long term."

The news from Deere has come as somewhat of a relief from renewed concerns about the conditions in Brazil (EWZ), as Deere expects "sales of tractors and combines (to be) up about 20% (thanks to) improving economic and political conditions" in the country and Argentina (ARGT). Agricultural equipment sales in the US and Canada are expected to be down roughly 5% for 2017, however, as weakness in the livestock sector and low crop prices weigh on farm incomes. Deere expects industry sales in the European Union to be flat-to-down 5%, while sales are projected to be flat-to-up modestly in Asia.

Please see *Deere Runs…*on next page

***Deere Runs...*from previous page**

Agriculture & Turf Retail Sales
Industry Outlook

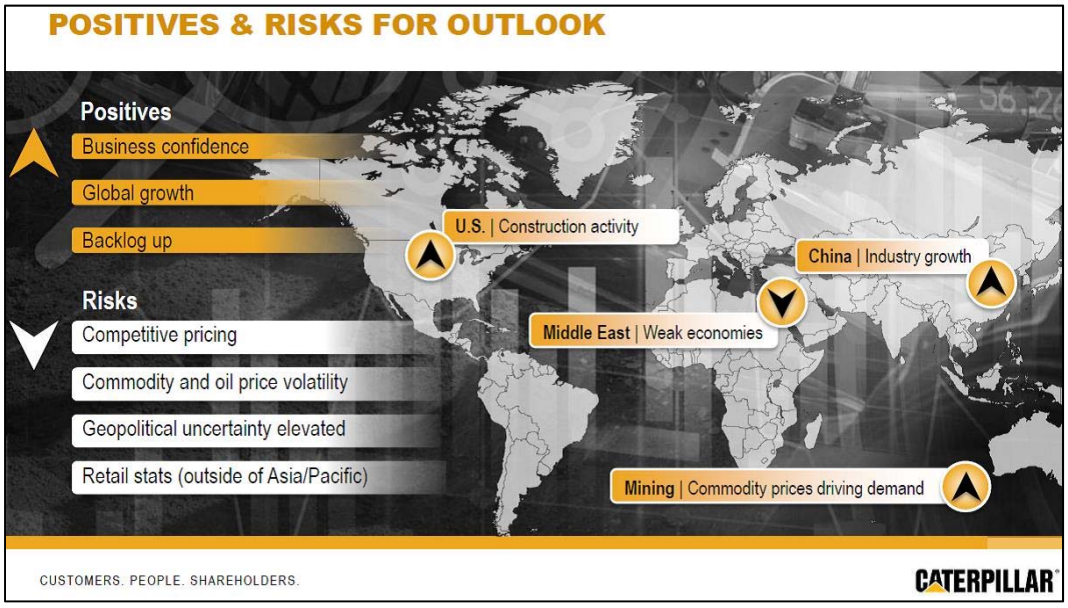
	Fiscal 2017 Forecast	Previous Forecast
U.S. and Canada Ag	~ 5%	5-10%
EU 28 Ag	Flat to down 5%	~ 5%
South America Ag (tractors and combines)	~ 20%	15-20%
Asia Ag	Flat to up slightly	Flat to up slightly
U.S. and Canada Turf and Utility	~ Flat	~ Flat

Source: Deere & Company forecast as of 19 May 2017 (previous forecast as of 17 February 2017)

Image Source: Deere

When Caterpillar (CAT) released first-quarter performance April 25, we noted upbeat commentary by Cat's executive team in a recent write-up, and results by both equipment giants reflect enough evidence, in our view, that commodity end markets may be shaping up just a bit, even as we note ongoing weakness in iron ore prices, a key driver behind sales of earth moving equipment. Cat expects demand from 'Resource Industries' to be up 10%-15% from 2016 performance, however. Same quarter sales advanced for the first time in two years during Cat's first-quarter report, and the equipment maker upped its 2017 revenue and adjusted earnings guidance to the range of $38-$41 billion (was $36-$39 billion) and $3.75 per share (was $2.90), excluding restructuring costs. Cat pointed to uncertainty as a result of the ongoing volatility of commodity prices, something that will never go away, but both Cat and Deere continue to benefit from expense control and improved execution. Cat yields ~3%.

All in, we're encouraged by what we're seeing across the earth-moving equipment industry, and Cat and Deere have decent dividend yields, respectively. Cyclicality will always be a risk to fundamental performance, however.



Changing Millennial Preferences and the Death of the Blue Box?

By Brian Nelson, CFA

In August 2014, I talked Tiffany (TIF) on CNBC (https://www.valuentum.com/articles/20140828), and I warned viewers at the time that shares were a bit too pricey for our taste when they were trading north of $100 per share. Our fair value back then had been in the mid-$80s, where shares currently reside today, and since then, we've grown incrementally more bearish on the intrinsic value of the diamond seller; our fair value at the time of this writing is now in the mid-$70s. Tiffany is a prime example of a company that we love, but a stock that is too pricey for our taste. Remember--just because a company is a good one doesn't mean its stock offers a bargain to investors. As an investor, you're hoping to find bargains, as you would when you buy groceries when they are on sale at the store. Buying stocks for $0.50 on the $1 is the definition of investing, and owning quality businesses is only part of the equation.

For Tiffany, it's all about brand and status, supported by extensive marketing. That little blue box, for example, may be worth more to the consumer than the diamond itself, and the negative buzz surrounding the vast mark-ups at the high-end luxury dealers continues, "I Want What It's Worth." The case is being made that mark-ups at Tiffany, Richemont's Cartier (CFRUY), and Harry Winston (SWGAF) are considerable (~300%), perhaps playing into the hands of other producers that have similar (same?) diamonds but at much lower prices, namely Costco (COST) and Blue Nile (NILE). As millennials (MILN) continue to value experiences over "stuff," the value of the Tiffany blue box may very well be challenged over the long haul. We think Tiffany's brand and status will become ever-more costly to maintain as the years go on, and this will only pressure levels of profitability. The Internet has changed the game, and Blue Nile may be best positioned.

We may be witnessing cracks in the thesis regarding the importance of "jewelry or watches as status symbols" for the ultra-rich, too. The thesis many held with Richemont was the belief that the luxury watch giant would be able to hold at bay wearable technology produced by the likes of Apple (AAPL) and Fitbit (FIT). However, the market is learning that "being and looking healthy" is also somewhat status-like, and the convergence between status and function may have caught Richemont and others by surprise. On May 12, for example, Richemont released results for the its fiscal 2017 (ending March 31) that showed sales declining 4% at both actual and constant rates, while operating profit tumbled 14%. Here's what Richemont had to say in its May press release:

> The past year posed challenges for Richemont. The Group responded to changes in demand, which particularly affected our watch businesses, and shifting patterns of consumption.

If "being and looking healthy" is becoming a status symbol, and all signs are pointing that it is, Apple seems to be at the forefront of this wave, too. We're not panicking over Richemont, as the company continues to generate tremendous cash flow from operations (€1.89 billion in fiscal 2017) and has a solid net cash position (€5.79 billion at the end of March), but underlying consumer trends seem to be moving away from the storied watch maker and into the hands of wearable technology, once shunned by the ultra-rich in favor of pricier alternatives. The concern with Tiffany may be much of the same, if well-documented millennial trends continue to proliferate, where attending shows from Live Nation (LYV), for example, may be much more important to the fiancée than receiving a bulky diamond ring in a blue box. Revenue in Live Nation's first quarter, results released April 29, advanced an impressive 17%, while adjusted operating income leapt 25%. Times seem to be changing, as they always do. Just look at what is happening at the department stores and teen retail.

Now that said, Tiffany's performance in its first-quarter report, released May 24, wasn't terrible. Total revenue advanced modestly, and the company beat expectations on the bottom line, but global comparable store sales declining 3% wasn't all that reassuring in the face of changing millennial

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

By Valuentum Analysts

The table below showcases stocks 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	Est Div Yield	VBI	Div Growth	Div Cushion
Omega Healthcare	OHI	7.3%	7	EXCELLENT	1.4
ONEOK Partners	OKS	6.1%	7	GOOD	1.7
AbbVie	ABBV	4.0%	7	GOOD	1.1
Garmin	GRMN	4.0%	7	GOOD	1.9
Exxon Mobil	XOM	3.8%	7	EXCELLENT	1.2
Coca-Cola	KO	3.5%	7	EXCELLENT	1.3
Cisco	CSCO	3.4%	7	EXCELLENT	2.7
Unilever N.V.	UN	3.4%	7	GOOD	1.5
Unilever PLC	UL	3.4%	7	GOOD	1.5
IBM	IBM	3.3%	7	EXCELLENT	1.4
Eaton	ETN	3.2%	7	GOOD	0.8
VF Corp	VFC	3.2%	7	EXCELLENT	1.7
ABB	ABB	3.1%	7	GOOD	1.8
Boeing	BA	3.1%	7	EXCELLENT	2.0
Intel	INTC	3.0%	7	EXCELLENT	2.3
Williams-Sonoma	WSM	2.9%	7	EXCELLENT	2.6
Cracker Barrel	CBRL	2.8%	7	GOOD	1.7
PepsiCo	PEP	2.7%	7	GOOD	1.2
Polaris Indust	PII	2.6%	7	EXCELLENT	1.3
Kaiser Aluminum	KALU	2.5%	7	EXCELLENT	1.6
Johnson & Johnson	JNJ	2.5%	7	EXCELLENT	2.5
Microsoft	MSFT	2.4%	7	EXCELLENT	2.3
Dr Pepper Snapple	DPS	2.4%	7	GOOD	1.0
Whirlpool	WHR	2.3%	7	EXCELLENT	2.3
United Technologies	UTX	2.2%	7	GOOD	1.7
Medtronic	MDT	2.1%	7	EXCELLENT	1.7
Republic Services	RSG	2.0%	7	GOOD	1.4
Ingersoll-Rand	IR	2.0%	7	GOOD	1.9
DuPont	DD	2.0%	7	GOOD	2.3
Deere	DE	2.0%	7	GOOD	0.6

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	7.0%	2.2	Very Attractive	15.19
Abercrombie & Fitch	ANF	6.7%	1.8	Unattractive	12.02
Guess	GES	8.3%	1.4	Unattractive	11.78
Finish Line	FINL	2.8%	4.2	Attractive	11.72
Chico's FAS	CHS	2.8%	4.2	Attractive	11.64
Cooper Tire & Rubber	CTB	1.0%	12.0	Neutral	11.58
AVX Corp	AVX	2.8%	3.6	Attractive	10.02
QUALCOMM	QCOM	4.0%	2.4	Highest Rated	9.74
American Eagle	AEO	3.3%	2.9	Attractive	9.74
CA Tech	CA	3.2%	3.0	Highest Rated	9.55
Scholastic Corp	SCHL	1.4%	6.5	Attractive	9.31
Cisco	CSCO	3.4%	2.7	Very Attractive	9.21
Hewlett-Packard	HPQ	3.6%	2.4	Unattractive	8.78
Best Buy	BBY	2.8%	3.1	Attractive	8.73
Western Union	WU	3.6%	2.4	Neutral	8.59
Apple	AAPL	1.7%	5.0	Highest Rated	8.59
Insperity	NSP	1.4%	5.9	Neutral	8.36
Resources Connection	RECN	2.6%	3.2	Very Attractive	8.32
Graham Holdings Co	GHC	0.9%	9.5	Attractive	8.20
Fluor	FLR	1.5%	5.4	Attractive	8.15
Ralph Lauren	RL	2.4%	3.3	Attractive	8.01
Gap	GPS	3.8%	2.1	Attractive	7.98
Amgen	AMGN	3.0%	2.7	Very Attractive	7.98
Meridian	VIVO	3.7%	2.1	Attractive	7.76
Garmin	GRMN	4.0%	1.9	Attractive	7.75
NTT Docomo	DCM	3.0%	2.5	Attractive	7.74
Paychex	PAYX	3.0%	2.6	Very Attractive	7.65
Chicago Rivet	CVR	2.0%	3.8	Neutral	7.60
Deluxe	DLX	1.6%	4.6	Very Attractive	7.59
Pfizer	PFE	3.7%	2.0	Attractive	7.58
Lear Corp	LEA	1.4%	5.3	Attractive	7.54
Williams-Sonoma	WSM	2.9%	2.6	Attractive	7.48
Helmerich & Payne	HP	3.9%	1.9	Neutral	7.46
General Motors	GM	4.1%	1.8	Attractive	7.45
Gentex	GNTX	1.7%	4.3	Attractive	7.40
Applied Materials	AMAT	1.1%	6.5	Very Attractive	7.32
Xilinx	XLNX	2.4%	3.1	Highest Rated	7.32
Nu Skin	NUS	2.7%	2.7	Attractive	7.30
Archer-Daniels-Midland	ADM	2.9%	2.4	Attractive	7.15
Oracle	ORCL	1.7%	4.1	Very Attractive	7.14
Taiwan Semiconductor	TSM	2.8%	2.5	Attractive	7.09
Foot Locker	FL	1.6%	4.4	Attractive	7.08
Intel	INTC	3.0%	2.3	Attractive	7.02
Capella Education	CPLA	1.9%	3.6	Highest Rated	7.01
Power Integrations Inc	POWI	0.8%	8.8	Very Attractive	7.01
Ethan Allen	ETH	2.7%	2.6	Unattractive	6.96
Dick's Sporting	DKS	1.7%	4.1	Attractive	6.79
Novartis	NVS	3.6%	1.8	Attractive	6.66
Cardinal Health	CAH	2.5%	2.6	Very Attractive	6.51

Yields to Consider Avoiding

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	0.9%	VERY POOR	-72.1
KB Home	KBH	Homebuilders	0.6%	VERY POOR	-41.2
Range Resources	RRC	Independent Oil & Gas	0.3%	VERY POOR	-39.9
Windstream	WIN	Telecom Services - diversified	8.5%	VERY POOR	-36.3
Lennar	LEN	Homebuilders	0.3%	VERY POOR	-15.4
Frontier Comm	FTR	Telecom Services - diversified	8.5%	VERY POOR	-14.7
Devon Energy	DVN	Independent Oil & Gas	0.6%	VERY POOR	-8.6
Tailored Brands	TLRD	Retail - Men's, Women's, Kids' Apparel	6.3%	VERY POOR	-6.3
Ryder System	R	Rental and Leasing	2.4%	VERY POOR	-6.2
Yamana Gold	AUY	Metals & Mining - gold	0.7%	VERY POOR	-6.1
Deltic Timber	DEL	Building Materials	0.5%	VERY POOR	-5.8
MDC	MDC	Homebuilders	3.7%	VERY POOR	-3.1
Ball Corp	BLL	Containers & Packaging	0.7%	VERY POOR	-3.1
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	2.1%	VERY POOR	-3.0
Rent-A-Center	RCII	Rental and Leasing	3.6%	VERY POOR	-2.9
Huntsman	HUN	Chemicals - broad	2.4%	VERY POOR	-2.7
Hill-Rom	HRC	Medical Instruments	1.0%	VERY POOR	-2.2
Olin Corp	OLN	Chemicals - mid/small	2.6%	VERY POOR	-1.9
Centurylink	CTL	Telecom Services - diversified	8.9%	VERY POOR	-1.9
Service Corp Intl	SCI	Personal Services	1.7%	VERY POOR	-1.9
Orchids Paper	TIS	Paper Products	11.2%	VERY POOR	-1.9
CF Industries	CF	Chemicals - agriculture	4.1%	VERY POOR	-1.8
PG&E	PCG	Utilities - Large	2.8%	VERY POOR	-1.7
Viacom	VIA	Media - CATV	1.7%	VERY POOR	-1.5
DineEquity	DIN	Restaurants - Fast Cas & Full Svc	7.3%	VERY POOR	-1.5
Noble Energy	NBL	Independent Oil & Gas	1.2%	VERY POOR	-1.5
R.R. Donnelley	RRD	Commercial Services	3.2%	VERY POOR	-1.2
Teva Pharma	TEVA	Pharma - Generic/Other	3.8%	VERY POOR	-1.1
Regal	RGC	Movie Production	3.9%	VERY POOR	-1.1
First Energy	FE	Utilities - Large	4.5%	VERY POOR	-1.0
Molson Coors	TAP	Beverages - alcoholic	1.7%	VERY POOR	-1.0
Newell Brands	NWL	Household Durables	1.8%	VERY POOR	-1.0
NiSource	NI	Utilities	3.1%	VERY POOR	-1.0
SL Green	SLG	REIT - Retail	2.9%	VERY POOR	-0.9
Silgan	SLGN	Containers & Packaging	1.3%	VERY POOR	-0.9
Eastman Chemical	EMN	Chemicals - broad	2.6%	VERY POOR	-0.8
Wyndham	WYN	Hotels	2.4%	VERY POOR	-0.7
D. R. Horton	DHI	Homebuilders	1.0%	VERY POOR	-0.7
Royal Caribbean	RCL	Leisure	2.0%	VERY POOR	-0.6
Quad/Graphics Inc	QUAD	Book Publishing	5.2%	VERY POOR	-0.6
CMS Energy	CMS	Utilities	3.1%	VERY POOR	-0.6
Duke Energy	DUK	Utilities - Large	4.2%	VERY POOR	-0.5
Rayonier	RYN	Building Materials	3.5%	VERY POOR	-0.5
Diebold	DBD	Commercial Services	1.6%	VERY POOR	-0.5
Dunkin' Brands	DNKN	Restaurants - Fast Food & Coffee	2.4%	VERY POOR	-0.5

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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preferences. Management attributed weakness in its Americas region to "lower spending by both foreign tourists and local customers," and while we think this is true, we think the root cause of this may not be completely temporary in light of recent trends, perhaps best expressed by Richemont. On a constant-currency basis, comparable sales also declined in its Asia-Pacific and Japan regions, and were it not for Europe's 3% advance, it would have been a clean sweep of weakness at Tiffany. Long-term investors in Tiffany's equity have a lot to think about, in our view: In 20 years, will the blue box show off more status than the latest and greatest wearable gadget at that time? If current trends are any indication, it might not.

Pipeline Woes Continue to Plague Amgen

By Alexander J. Poulos

Earnings Release

We have written a few bearish pieces on biotech stalwart Amgen (AMGN) this year. In the first piece, "The Dreaded Patent Cliff: 3 Pharmaceutical Companies at Risk," we presented a number of areas of concern, most notably the expected drop in revenue from Amgen's two main products. In its first-quarter earnings release, issued April 26, Amgen posted earnings per share of $3.15 on a non-GAAP basis versus $2.90 for the same period last year. Upon first glance, the numbers would indicate solid growth, but upon further examination, a worrisome trend emerges. The "earnings beat" is a direct result of a decrease in expenses and a lower share count, as top line revenue declined 1%.

Our cautiousness on Amgen's equity is supported by top-selling product Enbrel posting a disturbing product sales drop of 15% as compared to the prior period. Enbrel has the unenviable task of having to compete in the suddenly-crowded field of inflammatory disease. Underscoring our concern is the recent loss of patent protection in Europe combined with volume loss in the US and pricing concerns. The competitive landscape is similar for Neulasta, a neutrophil stimulator. Neulasta is prepping for a biosimilar challenge, which could eat into market share. To the credit of Amgen's management team, however, it is attempting to migrate patients to the ONPRO system, which is patent protected. Neulasta posted a tepid 2% revenue growth in the quarter on a year-over-year basis, and we believe expansion will reverse in the coming quarters, putting additional pressure on Amgen's pipeline to make up for lost revenue.

Near-Term Pipeline

Amgen has spent a considerable sum in the field of cardiovascular disease, a large and growing market, but one that will require a differentiated product to garner a significant share. Amgen has pinned its hope on Repatha, a PCSK9 treatment for hypercholesterolemia. Uptake thus far remains tepid as the enormous price tag has limited the utilization of the product. Amgen is optimistic the recent release of outcomes data would lower payer resistance. In a recent article dubbed, "Analyzing Amgen's Sudden Fall," Repatha lowered overall cholesterol, but missed on the crucial endpoint of reducing cardiac death which would have cast aside the barriers erected by payers.

The share price of Amgen had ran up on the enthusiasm of the yet-to-be-released full details of the clinical results. The market had bid the shares up on the headline that the Fournier trial achieved its primary endpoint, with Amgen's stock price eclipsing $184 for a brief moment on March 15. The initial enthusiasm, however, has since worn off, post the full clinical trial results, as the share price has given up nearly the entirety of the gains for 2017.

The second product in Amgen's pipeline with multi-billion dollar promise is Evenity, a humanized monoclonal antibody for the treatment of osteoporosis. Expectations are running high for the product, but the optimism, too, came to a screeching halt. Amgen reported a cardiac signal that was not present

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in the FRAME study, a rather unfortunate turn of events as Evenity met its primary and secondary endpoints for the reduction of fractures in the recently completed ARCH study. The finding comes as a bit of a shock, as Amgen and its co-development partner UCB do not expect approval of Evenity in the US this year. The adverse cardiac reading will delay approval while potentially permanently impairing the commercial viability of the product. The setback in Evenity removes another key peg from Amgen's near-term pipeline.

The final compound in the near-term pipeline of note, in our view, is Erenumab, a monoclonal antibody for the treatment of migraine headaches. Amgen is co-developing the product with Novartis (NVS), which in our view, limits the overall impact on Amgen's revenue. Eli Lilly (LLY) recently posted data of its own monoclonal antibody dubbed Galcanezumab, with a similar side-effect profile. We expect that the initial price tag of each monoclonal antibody will be steep, thus setting the stage for PBM's to post a host of roadblocks limiting the initial uptake. With little to differentiate the two products, we envision a scenario where significant price concessions will be needed in order to gain formulary placement. We would not be at all surprised if the initial uptake mirrors Repatha, which in our view, remains a huge disappointment for Amgen shareholders thus far.

Biosimilar Aspirations are Not a Panacea

Amgen continues to push for a presence in the biosimilar space, a puzzling move in our opinion. Amgen does not have a dedicated generic drug arm such as the Sandoz division that is housed under the Novartis corporate umbrella. In essence, Amgen is creating a new specialized division that will carry lower margins than its proprietary drug division. We view the biosimilar field through the same lens as the solid dosage forms marketed by firms such as Teva (TEVA) and Mylan (MYL). Both Teva and Mylan are attempting to diversify from their generic roots into higher-margin branded products with mixed results. The generic drug market continues to face a deflationary headwind--we would not be at all surprised if the biosimilar "gold rush" follows the same fate. We believe Amgen would be far better served devoting the resources to R&D in an attempt to find new novel treatments instead of attempting to make a cheaper version of another company's product.

Conclusion

We just can't get excited with Amgen at the moment. Shares remain stuck in the $140-$160 range with very brief short-lived forays above the range. As discussed above, the lack of a meaningful pipeline catalyst coupled with competitive challenges in its top two products continues to plague the bullish case for Amgen. While the dividend is interesting, we feel Best Ideas Newsletter portfolio member Johnson and Johnson (JNJ) remains the better choice as Amgen continues to work through its challenges.

Disclosures: Healthcare and biotech contributor Alexander Poulos is long Novartis and Eli Lilly.

Investing Versus Speculating: Ford, GM, Tesla

By Brian Nelson, CFA

There are many definitions of investing and speculating that run the gamut from the views of investor Benjamin Graham to famed trader Jesse Livermore, but I have rather simple definitions of investing and speculating.

Investing involves estimating a company's intrinsic value and buying a stock when one thinks the price is far below intrinsic value and holding that security until price reaches intrinsic value, or through the high end of an informed fair value range, for example. This definition of investing and the art of intrinsic value estimation are core and vital to the Valuentum process (in fact, they are the very first components!). **Speculating**, on the other hand, is something very much different than investing. Speculating involves

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betting that a stock or market price will advance over the long haul irrespective of present fundamental assessments, or betting that a stock or market price will advance even when intrinsic value measures don't support it.

It's easy to see why investing makes so much more sense. After all, as an investor, you're actually evaluating the business that you are investing in and spending time estimating what it may be worth on the basis of a forward-looking evaluation. On the other hand, when one thinks about the definition of speculating, it speaks to a much more foolhardy proposition where risk management is essentially thrown out the window. In many ways, I view the practice of indexing as a lot more like speculating than investing. After all, indexers are betting on a stock market advance over the long haul, irrespective of current intrinsic value estimates or risks involved that could impair their capital permanently. Indexers are essentially buying everything at any price and holding it no matter what. That can be very risky.

Why did I spend time writing about the differences between investing and speculating today? Well, first, let's cover the news at Ford, and then we'll further the discussion. Today, May 22, Ford (F) ousted CEO Mark Fields after several years of his attempts to get the auto company back on track. His run-in with the Trump administration given efforts to move facilities to Mexico coupled with falling profits haven't helped his case to continue at the helm. We once held Ford in the Best Ideas Newsletter portfolio, but we moved out of it some time ago in light of the troubles we noticed that were on the horizon. Here is the email transaction alert email from September 2014. Ford was trading at nearly $15 at that time.

We're optimistic new Ford CEO Jim Hackett will hit the ground running, helping the company make the most of its efforts in autonomous driving and smart mobility. Hackett had served at Ford Smart Mobility, a subsidiary of Ford that had been working aggressively to develop emerging mobility services. Interestingly, Hackett was CEO of Steelcase, a leader in office furniture, for 20 years prior to retiring in February 2014, a year after he joined Ford's Board of Directors. Some are calling his promotion a radical one, but it's too early to tell. We'll be watching Ford closely in the coming months, but we see no reason to change our fair value estimate at the moment. That's the big news of the day thus far.

Now, let's talk General Motors (GM) and how it fits the definition of investing. Trading at ~5 times the high end of its non-GAAP earnings guidance range for 2017, shares of General Motors are on sale, and we're not the only ones that think so. Greenlight Capital, the fifth-largest stockholder in the automaker, recently penned a letter to shareholders of GM: "It has been six and a half years since General Motors Company completed its initial public offering at $33 per share. And despite what the Company calls its '26th consecutive quarter of strong results,' GM's stock currently trades at about $34. The S&P 500 index has more than doubled in that time. As best we can tell, GM does not recognize its $34 stock price is a problem and has no plan to address the *discount to its intrinsic value*. Shareholders should not be as complacent or content as GM's management and its Board of Directors have been in addressing this discount." Our discounted-cash-flow derived fair value estimate of GM is in the mid-$40s, and its dividend yield of ~4.6% is icing on the cake! This idea has a lot going for it, both with respect to an above-price intrinsic value estimate and a rather sizable dividend yield backed by automotive cash flows.

Now onto what we describe as speculating--and that of course involves a discussion of Tesla (TSLA). Believe what you will, even that Tesla's stock price may go to the moon (if you so feel), and it may very well, but that is not the point or maybe it is the point – it's all speculation! Tesla is currently losing money hand-over-fist and burning through cash, and while its cars are exciting as ever, competition is no less fierce. Technology changes so fast that even if Tesla were to gain some multi-year edge, it couldn't possibly last long enough, in our view, for the company to reap enough benefits and cash flows to justify its current stock price and market capitalization, now north of $50 billion. Said differently, Tesla desperately needs a "moat" to justify its current market cap, and it doesn't have one. Here's what we said April 7, 2017:

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*Investing Versus...*from previous page

> In 2015 and 2016, (Tesla) has reported an operating loss of $717 million and $667 million, respectively. Net income in each year has fared worse, cumulatively at more than a loss of $11 per share. Cash and cash equivalents stood at ~$3.4 billion at the end of 2016, less than the $6 billion in long-term debt, so the balance sheet remains far from net cash-rich. Capital expenditures have run, on average, at ~$1.5 billion during the past couple years. Where's the value? It's all "castles in the air" when it comes to Tesla.

Not only is there little to support Tesla's existing market cap, but CEO Elon Musk is out saying his stock isn't worth what the market is pricing it at either, per Business Insider:

> "I do believe this market cap is higher than we have any right to deserve," (Musk) said in an interview with The Guardian, pointing out his company produces just 1% of GM's total output. "We're a money losing company."
>
> "This is not some situation where, for example, we are just greedy capitalists who decided to skimp on safety in order to have more profits and dividends and that kind of thing," he continued. "It's just a question of how much money we lose. And how do we survive? How do we not die and have everyone lose their jobs?"

Knowing the difference between investing and speculating, as in the examples of GM and Tesla, is extremely important. Otherwise, it becomes incredibly difficult to sort through news and research. Holders of GM's stock like Greenlight Capital are investors, while holders of Tesla's stock are speculators. We may love the products of both companies and think as highly of Elon Musk as we do GM CEO Mary Barra, but that's not the point. GM's stock is supported by tangible earnings and free cash flow, while Tesla's stock is built up on hopes and dreams long into the future, a future so far away that it can't reasonably be forecasted with any sort of precision. We like investing at Valuentum. That's where we focus on with our writings.

Reminding You of Some of Our Favorites

By Brian Nelson, CFA

AAPL Rating History	Price	Fair Value	VBI
1-May-17	$147.51	$165.00	5
20-Jan-17	$120.00	$159.00	7
17-Oct-16	$116.60	$147.00	7
19-Aug-16	$109.36	$148.00	7
15-Apr-16	$109.85	$148.00	7
18-Dec-15	$106.03	$142.00	3
17-Jul-15	$129.62	$142.00	6
15-May-15	$128.77	$148.00	6
20-Feb-15	$129.50	$139.00	6
21-Nov-14	$116.47	$135.00	6
12-Sep-14	$101.66	$115.00	6
13-Jun-14	$91.28	$103.00	6

Please see *Reminding You...*on next page

*Reminding You...*from previous page

Apple

The market has seemingly always had Apple's (AAPL) shares mispriced. Our fair value estimate of the iPhone giant has been above its trading price for years, and we've included the company in both newsletter portfolios since inception. It's been a win-win for Valuentum investors and dividend growth investors alike. A look at Apple's rating history (newest to oldest) showcases just how much conviction we've had in the idea, and shares have now almost converged to our present $165 per share fair value estimate. Berkshire Hathaway (BRK.A, BRK.B) doubled its stake during the first quarter of 2017, and we're witnessing some pretty impressive price targets from the sell side. BofA Merrill Lynch recently upped its target to $180, and some are even saying shares of Apple could catapult to $200, even higher than the upper bound of our fair value range. We like Apple--it deserves more attention.

Altria

Shares of Altria (MO) have been on fire for several years now, and we've let the company run and run and run. We like its stake in Anheuser-Busch-Inbev (BUD), as it offers diversification across two recession-resistant industries, tobacco and alcohol. Remember as a holder of Altria's shares, you're not providing the company with 'new' money, so technically you're not supporting tobacco or alcohol consumption if that may offend you. As an investor in Altria's shares, you benefit from the market mispricing of its valuation and reap the rewards of a dividend that's already embedded within the valuation context. That said, shares of Altria are trading above our estimate of its intrinsic value, but this is nothing new. A dividend that continues to expand at the pace of non-GAAP earnings is one reason why we're not parting with shares completely. We may take profits, trimming our position, but we think Altria is one for the long haul. Jeremy Siegel thinks so, too.

Microsoft

Certainly we didn't like that Microsoft (MSFT) acquired LinkedIn. We thought it was a foolish use of capital, but we forgive the company. How couldn't we? Its net cash position is massive. Microsoft continues to impress fundamentally, too, and we were among the few research shops that had been pounding the table for years on its equity. With almost every trip to American Association of Individual Investor (AAII) meetings, our team used Microsoft to explain the strength of a company's dividend, and boy has Microsoft not disappointed. Shares have run past our fair value estimate, but its dividend is rock-solid, and we expect the company to continue to impress. In case you're looking for our old presentation slide decks, they can be found in the Valuentum Learning Center. Think about how excited the market would have been, however, if Microsoft had used those billions it spent on LinkedIn for a one-time dividend, or plans to make even bigger hikes to the payout for years! We're not complaining though.

Alert – Spring Cleaning in the Dividend Growth Newsletter Portfolio

By Brian Nelson, CFA

We're removing Medtronic.

Medtronic (MDT) reported decent fiscal fourth-quarter results May 25 that showed revenue advancing ~5% and bottom-line earnings-per-share beating consensus by a couple pennies. We're not messing around in this frothy market though, and we've learned from our miscue with Teva Pharma (TEVA). Medtronic has too much debt this late into the credit cycle for our comfort, and frankly, we're starting to question more and more why it might have changed how it measures free cash flow. We're letting shares go from the Dividend Growth Newsletter portfolio. The company was added to the Dividend Growth Newsletter portfolio under $40, and all 78 remaining shares of Medtronic will be removed at $85.84.

Alert: Adding Protection!

By Brian Nelson, CFA

We're adding protection to the newsletter portfolios and finally making a move on Netflix.

Nothing should be alarming in this note. We've talked about our concerns about the broader stock market for some time now, and how we think we're in a bubble. One has to look no further than the very intro to the May edition of the Best Ideas Newsletter here, released Monday, May 15, for example, or our continued reminder of how markets perform during periods of contractionary monetary policy. Of course we're still content with riding the market higher--should it go in that direction, perhaps on the backs of incremental index investors and dividend growth re-investors--but we're also being as prudent as optimistic. As a result, we're making a couple moves today in the newsletter portfolios.

First, it should be no surprise that we continue to believe market valuations are far from attractive. Forward earnings multiples on the S&P 500 (SPY) are quite lofty relative to historical averages, and we're skeptical that future growth will be able to justify them. As I often say, valuations don't matter until they do, and sometimes valuations can act as their own catalyst. Need something more tangible? Well, today, we're starting to see some cracks in the foundation of the "Trump trade" optimism, as skepticism about the President's ability to execute on plans for corporate tax reform has started to build. We've held the opinion that corporate tax reform will be no easy task to achieve, by anyone, and the market finally seems to be catching on. Fiscal 2018 consensus numbers are at risk, in our view.

Today, we're not doing anything special, but we are adding protection to both newsletter portfolios in the form of put options on the S&P 500. We're also finally stepping up to the plate on our call on Netflix (NFLX) after these many months of expecting a share-price collapse. We've watched Netflix's stock go up and up and up since we first highlighted our take, and now we're finally ready to bet on convergence to intrinsic value, thankfully with an even better entry point. Opportunistically, we'll be adding put options on Netflix to the Best Ideas Newsletter portfolio (not the portfolio in this publication, but the Best Ideas Newsletter portfolio). Of course, just a reminder, buying put options can result in the complete loss of the investment (premium), and option investing is not for everyone. These ideas fit well within the newsletter portfolio context at the moment, in my opinion, but they may not be right for you. Always be sure to seek professional help with your personal financial advisor.

Summary

Dividend Growth Newsletter portfolio

Put options – added 2, Aug 18, 2017, contracts on SPY, $237 strike for $5.45 each. Total = $1,090, excluding commissions.

Best Ideas Newsletter portfolio

Put Options – added 5, Aug 18, 2017, contracts on NFLX, $125 strike for $1.52 each. Total = $760, excluding commissions.

Put options – added 2, Aug 18, 2017, contracts on SPY, $237 strike for $5.45 each. Total = $1,090, excluding commissions.

General Electric (GE) – Page 1 of 2

By Valuentum Analysts

Download General Electric's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at www.valuentum.com.

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 16-May-2017 | Data as of 12-May-2017

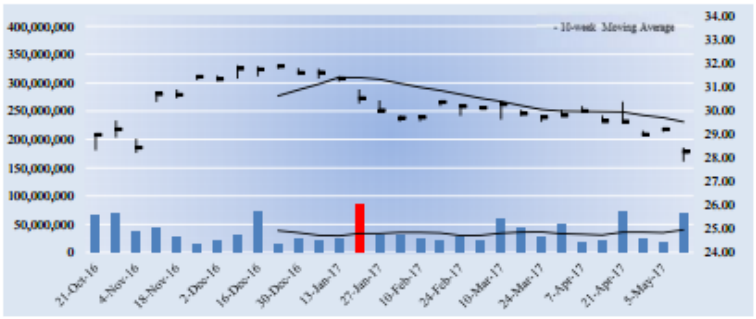
General Electric GE FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$23.00 - $38.00	RISKY	POOR / 0.8	POOR	3.40%

As GE's financial operations wind down, we will no longer be applying an adjusted Dividend Cushion ratio, which mitigates its debt load. Our updated Dividend Cushion ratio for GE now only reflects its industrial operations.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	3.40%
Annual Dividends per Share	$0.96
Initial Annual Div's Paid, $10k Investment	$339.58
Dividend Track Record	RISKY
Dividend Safety	POOR
Valuentum Dividend Cushion™	0.8
Dividend Growth Potential	POOR
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	MEDIUM

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Dividend Strength

Dividend Safety \ Dividend Growth	Very Poor	Poor	Good	Excellent
Excellent				
Good				
Poor		■		
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Company Vitals

Market Cap (USD)	$232,295
Avg Weekly Vol (30 wks)	36,758
30-week Range (USD)	27.85 - 31.94
Valuentum Sector	Industrials
Last Fiscal Year Revenue	123,693
Last Fiscal Year EPS	1.07
Last Fiscal Year EBITDA	18,824
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	19.7%

Dividend Vitals

Current Annual Dividend Yield %	3.4%
Annual Dividends Per Share	0.96
Forward Dividend Payout Ratio	58.3%
3-yr Historical Dividend CAGR	2.6%
15-yr Historical Dividend CAGR	6.8%
3-yr Hist Median Div Payout Ratio	93.0%
15-yr Hist Median Div Payout Ratio	50.9%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	706.75	24.00
50	1,413.50	48.00
100	2,827.00	96.00
200	5,654.00	192.00
300	8,481.00	288.00
400	11,308.00	384.00
500	14,135.00	480.00
1,000	28,270.00	960.00
2,000	56,540.00	1,920.00
5,000	141,350.00	4,800.00
10,000	282,700.00	9,600.00
50,000	1,413,500.00	48,000.00
100,000	2,827,000.00	96,000.00

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

Dividend Safety / Cushion — POOR / 0.8

After rolling forward our discounted cash flow model (2017 first forecast year), our opinion of GE's dividend has soured. We also no longer calculate an adjusted Dividend Cushion ratio for the conglomerate as its transformation to a purely-industrial entity is largely complete. This has resulted in its debt load playing a more meaningful role in its Dividend Cushion ratio. As a result of such changing dynamics, as well as the high amount of uncertainty surrounding GE and the moving parts in its business, we now assign it a Dividend Safety rating of POOR. We're still expecting a shareholder friendly management team to work to grow the payout, however.

Dividend Growth Potential — POOR

We assign GE a Dividend Growth Potential rating of POOR. The company achieved better marks with our methodology when it had retained its financial operations and prior to its foray into energy (Alstom). We expect management to continue to grow the payout in the near term, but we're starting to question whether industrial free cash flow is sufficient to cover future dividend obligations.

Risk of Capital Loss — MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. General Electric registers a score of MEDIUM on our scale.

Dividend Track Record — RISKY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-02	0.36	NA	1.51	23.8%
Dec-03	0.38	5.6	1.55	24.5%
Dec-04	0.60	57.9	1.59	37.7%
Dec-05	0.88	46.7	1.72	51.2%
Dec-06	1.00	13.6	1.99	50.3%
Dec-07	1.12	12.0	2.20	50.9%
Dec-08	1.24	10.7	1.78	69.7%
Dec-09	0.61	-50.8	1.03	59.2%
Dec-10	0.46	-24.6	1.15	40.0%
Dec-11	0.61	32.6	1.23	49.6%
Dec-12	0.70	14.8	1.39	50.4%
Dec-13	0.79	12.9	1.47	53.7%
Dec-14	0.89	12.7	1.51	58.9%
Dec-15	0.92	3.4	0.17	541.2%
Dec-16	0.93	1.1	1.00	93.0%
Dec-17	***0.96***	***3.2***	***1.65***	***58.3%***
Dec-18	*0.99*	*3.0*	*1.91*	*51.8%*
Dec-19	*1.02*	*3.0*	*2.16*	*47.2%*
Dec-20	*1.05*	*3.0*	*2.40*	*43.7%*
Dec-21	*1.08*	*3.0*	*2.63*	*41.1%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on General Electric, please visit our website at www.valuentum.com

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Apple (APPL) – Page 1 of 2

By Valuentum Analysts

Download Apple's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at www.valuentum.com.

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 5-May-2017 | Data as of 1-May-2017

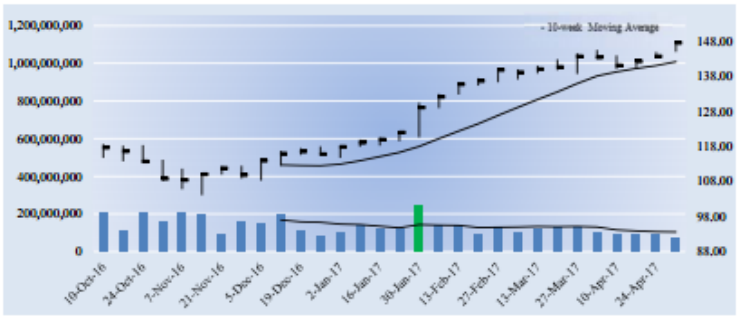
Apple AAPL FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Highest Rated	$135.00 - $195.00	HEALTHY	EXCELLENT / 5	EXCELLENT	1.71%

Apple's dividend growth potential is excellent thanks to its robust free cash flow generation and fortress-like balance sheet.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	1.71%
Annual Dividends per Share	$2.52
Initial Annual Div's Paid, $10k Investment	$170.84
Dividend Track Record	HEALTHY
Dividend Safety	EXCELLENT
Valuentum Dividend Cushion™	5.0
Dividend Growth Potential	EXCELLENT
Risk of Capital Loss	MEDIUM
ValueRisk™ (Equity Margin of Safety)	LOW

The Valuentum Dividend Cushion is a ratio that compares the firm's excess cash and cash flow to its future dividend stream. A score above 1 indicates cash flow is sufficient to cover future dividends (higher is better).

Company Vitals

Market Cap (USD)	$811,346
Avg Weekly Vol (30 wks)	134,594
30-week Range (USD)	104.08 - 148.09
Valuentum Sector	Information Technology
Last Fiscal Year Revenue	215,639
Last Fiscal Year EPS	8.31
Last Fiscal Year EBITDA	70,529
Forward Revenue Growth (5-yr)	5.3%
Forward EPS Growth (5-yr)	7.9%

Dividend Vitals

Current Annual Dividend Yield %	1.7%
Annual Dividends Per Share	2.52
Forward Dividend Payout Ratio	27.9%
3-yr Historical Dividend CAGR	INF
15-yr Historical Dividend CAGR	NA
3-yr Hist Median Div Payout Ratio	26.2%
15-yr Hist Median Div Payout Ratio	0.0%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	3,687.75	63.00
50	7,375.50	126.00
100	14,751.00	252.00
200	29,502.00	504.00
300	44,253.00	756.00
400	59,004.00	1,008.00
500	73,755.00	1,260.00
1,000	147,510.00	2,520.00
2,000	295,020.00	5,040.00
5,000	737,550.00	12,600.00
10,000	1,475,100.00	25,200.00
50,000	7,375,500.00	126,000.00
100,000	14,751,000	252,000

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

Dividend Safety / Cushion — EXCELLENT / 5

We assess the safety of a firm's dividend by adding the company's net cash to our forecast of its free cash flows over the next five years. We then divide that sum by the total expected dividends over the next five years. This process results in our Dividend Cushion™ ratio. A Dividend Cushion™ above 1 indicates a firm can cover its future dividends with net cash on hand and future free cash flow, while a score below 1 signals trouble may be on the horizon. And by extension, the greater the score, the safer the dividend, as excess cash can be used to offset any unexpected earnings shortfall. Apple scores a 5 on our Dividend Cushion™, which is EXCELLENT.

Dividend Growth Potential — EXCELLENT

We judge the future potential growth of the dividend by evaluating the capacity for future increases, as measured by the Dividend Cushion™, and management's willingness to consistently raise the dividend, as measured by the firm's dividend track record. Apple registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $4.18 per share within the next several years.

Risk of Capital Loss — MEDIUM

We assess the risk of capital loss based on our analysis of a firm's intrinsic value at this point in time. If the stock is undervalued (based on our DCF process), we think the risk of failing to recoup one's original capital investment (ex dividends) is relatively LOW. If the stock is fairly valued (it falls within our fair value estimate range), we think the likelihood of losing capital (ex dividends) is MEDIUM. If the stock is trading above our estimate of its intrinsic value, we think the likelihood of losing at least a portion of one's original investment (ex dividends) is HIGH. Apple registers a score of MEDIUM on our scale.

Dividend Strength

Dividend Growth

Dividend Safety	Very Poor	Poor	Good	Excellent
Excellent				
Good				
Poor				
Very Poor				

Firms that have safe and growing dividends score at the top right of our scale.

Dividend Track Record — HEALTHY

Fiscal Year	Div's/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Sep-02	0.00	0.0	0.09	0.0%
Sep-03	0.00	0.0	0.10	0.0%
Sep-04	0.00	0.0	0.36	0.0%
Sep-05	0.00	0.0	1.56	0.0%
Sep-06	0.00	0.0	2.27	0.0%
Sep-07	0.00	0.0	3.93	0.0%
Sep-08	0.00	0.0	5.36	0.0%
Sep-09	0.00	0.0	9.08	0.0%
Sep-10	0.00	0.0	15.15	0.0%
Sep-11	0.00	0.0	27.68	0.0%
Sep-12	0.38	0.0	6.31	6.0%
Sep-13	1.63	328.9	5.68	28.7%
Sep-14	1.81	11.0	6.45	28.1%
Sep-15	1.98	9.4	9.22	21.5%
Sep-16	2.18	10.1	8.31	26.2%
Sep-17	*2.52*	*15.6*	*9.04*	*27.9%*
Sep-18	*2.90*	*15.0*	*10.38*	*27.9%*
Sep-19	*3.33*	*15.0*	*11.05*	*30.2%*
Sep-20	*3.73*	*12.0*	*11.64*	*32.1%*
Sep-21	*4.18*	*12.0*	*12.16*	*34.4%*

Light green shading denotes a dividend increase, while light red shading denotes a dividend decrease. Heavy green shading denotes a significant dividend increase, while heavy red shading denotes a significant dividend decrease or an excessive payout ratio. NA = Not Applicable.

To view our full 16-page equity report on Apple, please visit our website at www.valuentum.com

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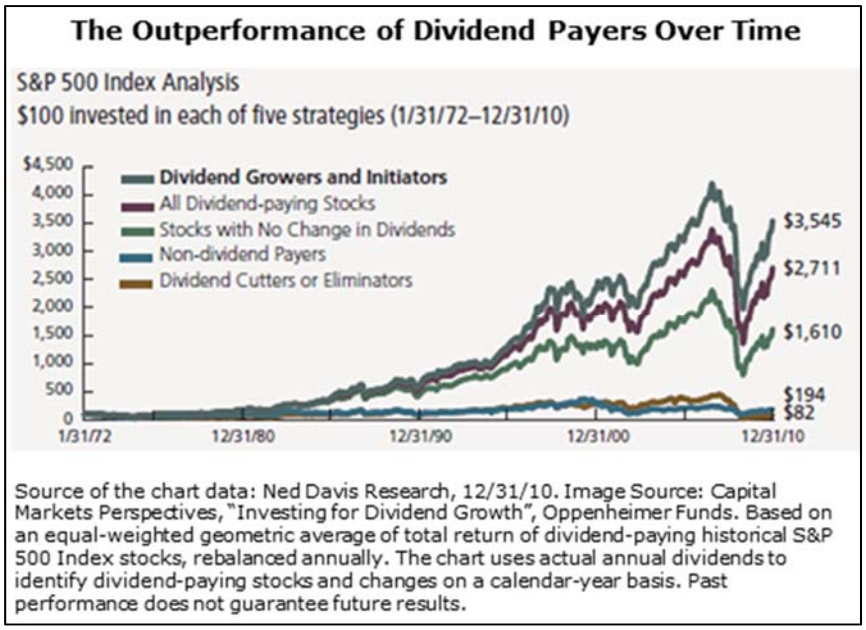
VALUENTUM

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 only part of the story. After all, you're investing for the future, so the future is what you should care about more.

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

*About Our Valuentum Dividend Cushion…*from previous page

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.

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

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

(1) Forecast period for ConAgra, 2007 through 2011.
(2) Marriott is an instance where management prematurely cut its dividend, in our opinion. The Cushion reflected little risk at the time of cut, and sure enough Marriott restored its payout to record high
(3) Forecast adjusted to reflect Sunoco's poor free cash flow trends obey and 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.

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

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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 6

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).

Corrections & Amplifications

You may have received a May edition of the Dividend Growth Newsletter containing an article titled, "Seeking Balance: What's Happening in the Crude Oil and Iron Ore Markets." This article detailed various dynamics in the crude oil market, including the level of OPEC's compliance with its production cap agreement. Since the publishing of the newsletter, updated data has been released, revealing the level of compliance had been overstated for the month of March 2017. This item has since been corrected and resulted in no change in our opinions outlined in the piece.

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