OUR DIVIDEND GROWTH NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

January 3, 2019
Volume 8 Issue 1

Valuentum Securities Inc.
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Dividend Growth Ideas: AAPL, BKLN, CBRL, CSCO, DLR, XLE, GM, GILD, HAS, IDV, INTC, JNJ, MSFT, NVS, O, ORCL, SDY, XLNX

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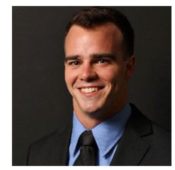

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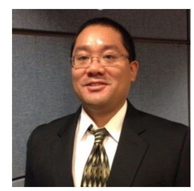

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***NOTE**: The goal of the Dividend Growth Newsletter is to highlight ideas with strong dividend growth potential and update readers about new developments in the market. A simulated portfolio of dividend growth ideas is presented on page 5 of each edition.

Inside This Issue

> "We're also worried about the general make-up of the equity markets today. With the proliferation of index investors and quantitative investors, many of whom are using backward-looking information, not many market participants are paying attention to the price-to-estimated fair value consideration."
>
> – Brian Nelson, CFA

Brace for More Volatility

By Brian Nelson, CFA

Image shown: The S&P 500 ETF (SPY) since August of last year. The markets have broken through key support levels, and now support has become resistance. Volatility remains heightened since the low-vol ETN blew up in February.

Markets are facing big pressure on the trading session January 3.

There's more to the story than rising interest rates. There's more to the story than the US-China trade war. There's more to the story than concerns about the political environment. Price-agnostic (indexing and quant) trading, as I outline in Value Trap, could really take this market on a wild spin. The Dow is trading off aggressively in part due to Apple's poor first-quarter 2019 guidance, which we believe is the warning shot across the bow for more to come. As I've been saying for some time, fasten your seatbelts.

Right now, we played this market well during its multi-year upswing, and we capitalized on the large cash "weightings" in the simulate newsletter portfolios once the markets swooned in unprecedented fashion in December. Regardless of what you may have heard, the month's trading activity was not "normal." Now, we're playing with all of our chips on the table in the simulated newsletter portfolios. That means, we're watching this market like a hawk. We were expecting heightened volatility, and we know you were expecting heightened volatility. At this point, however, it is all about how to play it "correctly," without taking on too much premium risk, which erodes with time.

Please see *Brace for More…*on page 3

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Brian M Nelson

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ISBN-13: 978-0998038490, ISBN-10: 0998038490

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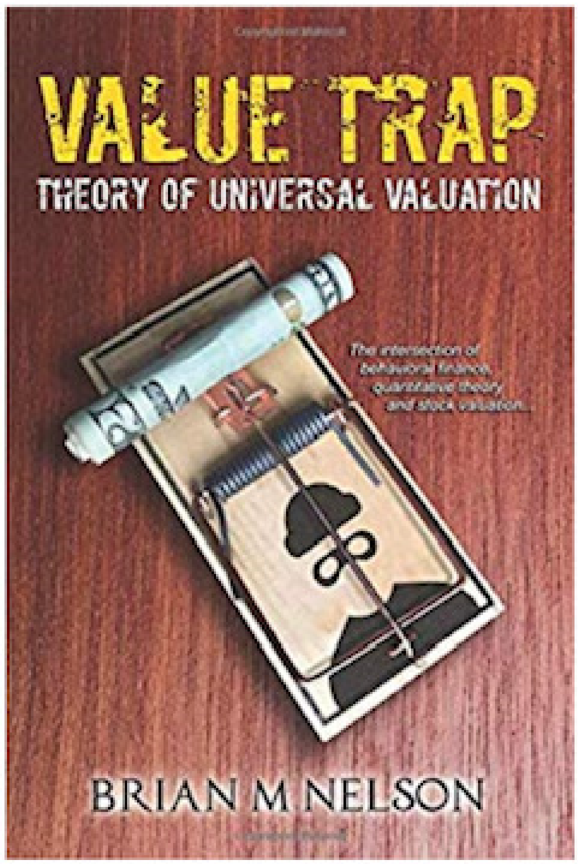

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The wait is no longer! President of Investment Research Brian Nelson's new book is #1 in new releases on Amazon for stock market investing. Order a paperback copy on Amazon or purchase a digital download at the Valuentum Store.

*Brace for More…*from page 1

A lot of members have been asking about put options. To put it simply, put options are a speculative bet (*and they are a bet*) on the price decline of a given security, whether it is a stock or ETF. For example, if I wanted to bet on the price decline of the S&P 500 ETF (SPY) over a certain time period, I would buy put options at a specific strike price for a specific premium (in the money or out of the money or at the money). The longer time duration of the option, the more expected volatility of the asset, and how far away the strike price is away from the trading price are major factors in the price of a put option.

If the security price goes down, the price of the put option goes up, all else equal. If the security price goes up, the price of the put option goes down, all else equal. However, the eroding time value of options and the uncertainty of how volatility is factored into the pricing coupled with large bid/ask spreads make any options trading quite risky. Most options expire worthless, meaning most that buy options often lose their entire premium, so they are dangerous vehicles. We don't dabble in these derivatives much at all, and at most, we'd only risk about 1-3% of the simulated newsletter portfolios at any time. *You can lose a bundle in options. Please be careful.* Always talk to your personal financial advisor if any of these risk-mitigation techniques may be right for you.

That said, I believe the markets could have a long way to go downward, particularly if price-agnostic trading accelerates the fall, but while we have our fingers on the put-option trigger, we're not rushing to add protection yet. Markets tend to ebb and flow, and if we're going to add protection to the simulated newsletter portfolios, it will be on a strong series of up days and when the markets calm down, not on what is shaping up to be one of the worst days on Wall Street for some time after a heightened period of volatility. If we acted today, we'd be paying up the nose for put-option protection, and it's very likely most will not end up in the money as a result. At this juncture, we're going to feel some pain in both the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio, but we're not going to make it worse by overreacting.

As for the simulated High Yield Dividend Newsletter portfolio, it is important to remind you that high yield dividend investing is synonymous with high risk. Remember: these are companies that, almost by default, do not generally cover their dividends/distributions with internally-generated free cash flow (cash flow from operations less all capital spending) and are dependent on a healthy credit and equity market to keep paying such dividends/distributions. The size of their yields can turn a lot of heads sometimes, but you have to understand that, while the market is inefficient, in my view, it is not that inefficient where it would misprice risk so terribly to allow a 10%+ yielding equity when the 10-year is yielding under 3%. That 10%+ yield simply means tremendous risk. Here's what we said in the inaugural January 2018 edition (pdf) of the High Yield Dividend Newsletter, from 12 months ago:

> It couldn't have been 15 years ago, for example, that investors could get a 6%+ yield on a 1-year certificate of deposit (CD) from the local bank. I know because I had one. Now, look at the risks investors have to take to get that kind of yield. Please always work with your personal financial adviser or seek professional help to determine if any idea or strategy may be right for you.
>
> Said bluntly, the ideas in the High Yield Dividend Newsletter may not be your cup of tea. It sounds so silly for us to feel the need to say this, but stock prices can go down, and equities with high yields often have an investor base solely focused on the yield. In the event that a high-yield equity comes under suspicion of a dividend cut, its price may experience a considerable decline in advance of the dividend cut, resulting in not only capital impairment but also reduced income if the dividend cut happens.
>
> We've seen this too many times before to count, but we've always cautioned about the risk of high yielders, avoiding them whenever possible--now, in this (High Yield Dividend) newsletter, we'll be steering through the universe. We are playing in a mine-field with respect to navigating the high-yield space. Frankly, it's like "no-man's" land during World War I, and most of our efforts will be spent hunkering down in the trenches, trying to avoid stepping on what could be called high-yield

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> landmines. We think success in the simulated High Yield Dividend Newsletter portfolio will come from avoiding "unforced errors," and avoiding mistakes, rather than simply chasing the highest yields. If we venture out too far into "no-man's" land, we could get burned.
>
> We're also worried about the general make-up of the equity markets today. With the proliferation of index investors and quantitative investors, many of whom are using backward-looking information, not many market participants are paying attention to the price-to-estimated fair value consideration. This has considerable implications on the traditional underpinnings of equity valuation and the thousands of books written on "value investing" in decades past. If, for example, very few are paying attention to the price-to-estimated fair value equation, will stocks ever be bid toward their fair values again? We think so, of course, but with estimates suggesting only 10% of trading on the markets today is coming from traditional, fundamental investors, we're taking note of the risks.

I love our subscribers, and I can never thank you enough. I genuinely care about you. Sometimes, I catch a lot of flak for focusing too much on the risks and the negatives, but you have to understand: the good stuff takes care of itself. You know this. Your efforts should be mostly spent on protecting the downside. I want you to continue to be skeptical of the high-yield dividend space, and always diversify, diversify, diversify--between asset classes, too. In the second edition of the High Yield Dividend Newsletter (pdf), I pounded the table on what we were up against (last February).

> Let's talk a little about the stock market now. The bull market we are currently in can be viewed about average when compared to other bull markets in history as it relates to duration and total return, but that is what concerns me. If we're talking about average bull markets, then we need to talk about average bear markets, too. The average bear market is fast and cuts deep, with total losses to the tune of 40%, on average. If you're not one to believe in valuation, then you're one to believe in bull markets. And if you believe in bull markets, then you must also believe in bear markets, and bear markets are very, very painful…
>
> I think it is important that we continue to emphasize that high yield dividend investing is very risky. I spent a lot of time in the inaugural edition on the topic of risk, but it is worth emphasizing yet again. For starters, even if we identify solid, high-yielding companies and their fundamentals hold up under adverse market conditions, you can't forget that a market is made up of buyers and sellers that are focused on achieving goals. If yields on fixed-income instruments continue to shoot up, then investors will start to anticipate a continuation of that trend--and start to prepare to reallocate capital to better risk-adjusted opportunities, long before any perceived tipping point actually occurs with yields. This means that they may start selling the very ideas in the simulated High Yield Dividend Newsletter portfolio, pressuring their shares.
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> …
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> I care. I want you to think about your goals and risk tolerances. Can you tolerate a 40% drop in wealth as in an average bear market? If not, should you be in stocks? If you can't handle the tremendous risks of a rising interest-rate environment on the prices of high-yield dividend-paying equities, is this an area that you should be involved with? As yields on certificates of deposits start to reflect rising near-term rates, what might be a better fit for you and your retirement goals? Only you and your financial advisor know the answer to these questions. What I am worried about is that there may be investors that aren't aware of the tremendous risks, and as a result of this multi-year bull market, are taking on risks that they don't know enough about. The stock market doesn't go up in a straight line.

Remember folks: the value of a research publisher is to get the risks in front of you, right away. Our customers come from all over, from Seeking Alpha, YahooFinance, Barron's, and social media and beyond, but I see a lot of content that is often very one-sided in the blogosphere, and a lot of authors on

Please see *Brace for More…*on page 6

Dividend Growth Ideas

By Valuentum Analysts

Valuentum Highlighted as One of
The Best Websites for Dividend-Stock Ideas
-- BARRON'S
https://www.barrons.com/articles/the-best-websites-for-dividend-stock-ideas-1468037242

DIVIDEND GROWTH IDEAS -- as of January 3, 2019

Company Name	Yrly Div's Paid ($) / Shr	Div Yield %	Fair Value	VBI Rating	Price/FV	Last Close	% of Portfolio
Intel (INTC)	1.20	2.70%	$ 56.00	4	0.79	44.49	7.5%-12.5%
Johnson & Johnson (JNJ)	3.60	2.86%	$ 137.00	6	0.92	125.72	7.5%-12.5%
S&P Dividend ETF SPDR (SDY)	2.44	2.78%	-	UR	-	87.80	7.5%-12.5%
Apple (AAPL)	2.92	2.05%	$ 236.00	3	0.60	142.19	5.5%-7.5%
Cisco (CSCO)	1.32	3.21%	$ 54.00	6	0.76	41.07	5.5%-7.5%
Digital Realty Trust (DLR)	4.04	3.93%	$ 96.00	3	1.07	102.67	5.5%-7.5%
iShares Int'l Select Dividend (IDV)	1.70	5.94%	-	UR	-	28.69	5.5%-7.5%
Energy Sector SPDR (XLE)	2.03	3.51%	-	UR	-	57.90	5.5%-7.5%
Invesco Senior Loan (BKLN)	0.98	4.48%	-	UR	-	21.97	3.5%-5.5%
General Motors (GM)	1.52	4.71%	$ 54.00	7	0.60	32.25	3.5%-5.5%
Microsoft (MSFT)	1.84	1.89%	$ 114.00	4	0.85	97.40	3.5%-5.5%
Novartis (NVS)	2.98	3.52%	$ 82.00	7	1.03	84.74	3.5%-5.5%
Oracle (ORCL)	0.76	1.70%	$ 55.00	4	0.81	44.78	3.5%-5.5%
Cracker Barrel (CBRL)	5.00	3.10%	$ 159.00	6	1.02	161.41	2.5%-3.5
Gilead Sciences (GILD)	2.28	3.49%	$ 92.00	3	0.71	65.25	2.5%-3.5
Hasbro (HAS)	2.52	3.23%	$ 95.00	5	0.82	77.90	2.5%-3.5
Realty Income (O)	2.65	4.24%	$ 56.00	3	1.12	62.48	2.5%-3.5
Xilinx (XLNX)	1.44	1.72%	$ 85.00	6	0.98	83.58	2.5%-3.5
Cash Consideration	-	-	-	-	-	-	0.0%

UR = Under Review

This portfolio is not a real money portfolio. Data as of January 3, 2019.

Goal: The goal of the Dividend Growth Newsletter is to highlight ideas with strong dividend growth potential and update readers about new developments in the market. The simulated Dividend Growth Newsletter portfolio seeks to find underpriced dividend growth gems that generate strong levels of free cash flow and have solid balance sheets, translating into excellent Valuentum Dividend Cushion ratios. *Given market conditions and the importance of diversification, not all stocks can be undervalued*. Stocks in the Dividend Growth Newsletter portfolio may have lengthy dividend growth track records spanning decades, but we focus most of our efforts on assessing the future safety and dividend growth potential of ideas.

Every person has different goals and different risk tolerances, so where before in the simulated newsletter portfolios, we would outline the specific percentage weighting, we think providing ranges make much more sense. For example, depending on someone's risk tolerances, a larger cash position in an overheated market may be prudent. On the other hand, the longer one's time horizon, perhaps a smaller cash position may make more sense. This isn't for us to decide, and frankly, we want to be relevant for as many as we can in the investment community because we think we have something for everyone! The Dividend Cushion ratios are so important, so please stay up to date with them.

We've taken the cash weighting in our portfolio to 0%. The midpoints of our respective weighting ranges sum to 100% to reflect the range of possible combinations that may result in this allocation.

*Brace for More…*from page 4

these blogs may not be independent. As I talk in my book, Value Trap, many these days are conflating ownership of a stock with expertise. You know better: Just because someone owns a stock does not make them an expert on investment analysis. I believe Valuentum's independent opinion is so very important in bull markets and in bear markets. We don't get everything right, but you know we're telling you how we think it is.

As I wrap up, I can't begin to tell you just how happy I am to be back in full swing after finalizing the book, Value Trap. I have priced the book in such a way where I hope that everyone will read it. It is a jam-packed 350 pages of content with tons of footnotes that I think will truly create an environment where we can have a genuine conversation about investing, price versus estimated intrinsic value. It's a book that I believe sorts through a lot of topics and helps frame them in a different perspective. I truly hope you read it. It will make our interactions much richer, and you'll get a ton more out of our website.

The paperback is now available on Amazon. If you want to read the book immediately, it's available for pdf download at the Valuentum store. Let's keep watching these markets.

Parting with Altria on News of Stake in JUUL

By Kris Rosemann and Brian Nelson, CFA

Tobacco giant Altria is working to expand its long-term growth potential away from the secular decline in cigarette volumes via an investment in the leading US e-cigarette company. Unfortunately, we think its large investment in JUUL has put the pace of its dividend growth at risk, and we're parting with this long-term winner in both simulated newsletter portfolios. We've lowered Altria's fair value estimate to $54 per share after considering debt associated with its two recent investments. Technical weakness has also put a damper on our excitement.

Image shown: Altria's performance during the past couple years.

Please see *Parting with…*on next page

*Parting with…*from previous page

We're parting ways in both the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio with one of the best-performing companies in history, Altria (MO). We're not unhappy with the performance of the company, but as soon as we said we were okay with some of its share-price weakness, it seemingly rushed out and deployed capital that would have been better used to support the dividend. We think Altria's operating assets are starting to make for a convoluted company with ownership stakes in entities that may now only cloud the view of other analysts measuring value. GE fell into the same trap a few years ago. We're out and not looking back.

On December 20, Altria announced a $12.8 billion investment in JUUL Labs, the US leader in e-cigarettes, or a 35% economic interest, which values the company at ~$38 billion, December 20. The deal should accelerate JUUL's success rates in switching adult smokers to e-vapor products, and it provides Altria access to notable growth potential in the face of ongoing cigarette volume declines. JUUL currently holds roughly 30% of the total US e-vapor category, according to Altria, and it operates in eight countries with significant international growth plans in place. Altria will now participate in the e-vapor category only through JUUL.

The service agreements of the deal include Altria providing JUUL access to premier retail shelf space alongside combustible cigarettes, direct communications with traditional smokers via cigarette pack inserts and mailings via Altria's databases, and the use of Altria's logistics and distribution expertise with the option to utilize its sales organization. JUUL will remain fully independent, but access to this top-notch infrastructure and other areas of expertise, such as regulatory and legislative dealings, should prove to be a significant benefit for JUUL's growth. JUUL may be taking a bit of a trade off in terms of public perception in this regard as it had previously positioned itself as directly opposed to big tobacco.

Under the terms of the transaction, Altria has signed and closed an agreement to invest $12.8 billion in cash for non-voting convertible shares of JUUL, which will convert to 35% of the privately-held company's voting shares upon antitrust clearance. Altria receives a pre-emptive right to purchase shares to maintain its ownership percentage, but it will be subject to a standstill agreement in which its stake in JUUL may not exceed 35% in addition to agreeing not to sell or transfer any JUUL common shares for six years after closing. Altria is committed to supply JUUL services for at least six years, and it will only participate in the e-vapor business through JUUL as long as this is the case.

We think the strategic rationale of the deal for both parties is undeniable, but whether or not Altria is reaching for growth may take some time to be revealed. The tobacco giant announced a cost reduction program in tandem with its JUUL investment announcement that is designed to deliver $500-$600 million in annualized cost savings by the end of 2019 via workforce reductions and cutting back on third-party spending. The program is expected to offset most of the interest expense associated with the $14.6 billion in debt it added to finance the investment in JUUL and its recent $1.8 billion investment (45% stake) in Canadian marijuana company Cronos Group (CRON).

We're not particularly fond of Altria more than doubling its debt load--total debt was $11.9 billion at the end of the third quarter of 2018 compared to cash of $2.4 billion and a ~$17.8 billion investment in AB-InBev (BUD)--but we do like the strategic rationale behind the investments. The financial flexibility that comes from the company's investment in the world's largest brewer often flies under the radar, and the company's free cash flow generation has bounced back nicely through three quarters of 2018 after disappointing in 2016 and 2017.

Beyond the growth potential of JUUL as a standalone e-vapor company is the consideration of Altria's two most recent moves in tandem. The company may be setting up for a significant splash in the marijuana market should recreational use eventually be legalized in the US, and it now holds a notable stake in an up and coming marijuana company as well as a next-generation smoking alternative company.

Please see *Parting with…*on next page

*Parting with…*from previous page

Nevertheless, the investment in JUUL is not without its fair share of risks. The company was the focus of an FDA crackdown earlier this year on flavored e-cigarette liquids that have become increasingly popular among teenagers, and this may only be the tip of the iceberg in terms of regulatory battles the e-vapor space will face in coming years. The partnership with Altria becomes even more valuable for JUUL if this is the case as the company has spent decades dealing with very similar issues.

The deal may also complicate Altria's relationship with Philip Morris (PM), which it spun-off in 2008 to operate independently in international markets, as it has an agreement to commercialize Philip Morris' heated tobacco products in the US if the FDA approved. JUUL's international growth aspirations also raise some questions about the relationship moving forward. Altria does not believe its e-vapor investment will interfere with its agreement in smokeless and heat-not-burn IQOS sales in tandem with Philip Morris, but the two products can largely be viewed as close substitutes.

We think Altria may have thrown in the towel on harvesting its core smoking demographic and may now be entering into a long rebuilding period, as it repositions for the future. This means that we could see even more value-destroying deals, which could further threaten dividend growth. Unfortunately, it looks like the time has come to part with one of the best performing stocks in history. We've lowered Altria's fair value estimate to $54 per share after considering debt associated with its two recent investments.

Here It Comes… Apple's Shot Across the Bow

By Brian Nelson, CFA

Apple surprised the market by issuing first-quarter 2019 guidance below expectations. The company pointed to weakness in China as the main culprit. We continue to expect heightened levels of volatility, and investors in key American icons that might be impacted by consumer backlash in China should be on high alert. No changes to the simulated newsletter portfolios as a result of the news.

We had yet another volatile day to kick off the new year. The Dow opened with a near 400-point slide and then jumped considerably mid-session only to barely finish higher. *You have to read Value Trap. You'll know exactly what I'm talking about*. In case you missed the announcement, the digital PDF download is now available in the Valuentum store:

https://www.valuentum.com/store/products/45

Well, we got the shot across the bow today after-hours with Apple (AAPL) warning about its first-quarter 2019 revenue. We recently moved to being fully-invested in the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio, and now we trek the markets with our finger on the put-option trigger. We caught a nice bounce after the holiday swoon, but now we will feel the brunt of the market's wrath on Apple, as it looks to be trading down about 8% after hours.

We're not making any changes to the simulated newsletter portfolios as a result of the news, but we do expect a downward revision to our fair value estimate range for Apple. The iPhone maker now expects fiscal first-quarter 2019 revenue of $84 billion, down from the high end of the previous expected range of $93 billion, the latter what the market had been expecting. It is now clear that Apple's decision to stop providing guidance for individual product sales was a big red flag. Even so, we don't think we would have altered our "weightings" of the company in either simulated newsletter portfolios.

There may truly be no place to hide in this market, and we continue to believe Apple is a high-quality enterprise. Even though it operates within the fickle land of technology, we're talking about a company with substantial net cash on the books and tremendous free cash flow generation capacity, and one with an extremely healthy dividend. We don't like the news, but we're not panicking. We are, however, getting close to layering on some put options in both simulated newsletter portfolios. Any moves at this point would just be a premature reaction.

Please see *Here It Comes…*on next page

*Here It Comes…*from previous page

Apple mentioned four anticipated factors that impacted performance during its fiscal first quarter of 2019 (and one new one). The only one of the four that didn't play out "broadly in line with (its) expectations" was "economic weakness in some emerging markets." In CEO Tim Cook's words, "this turned out to have a significantly greater impact than (it) had projected." In no uncertain terms, this was China (FXI, MCHI). According to Apple, "most of its revenue shortfall to (its) guidance, and over 100% of (its) year-over-year worldwide revenue decline, occurred in Greater China across iPhone, Mac, and iPad." The company also noted there were fewer upgrades within its iPhone product line than expected (the new factor), but the news with China is a big one.

Without a doubt, it looks like US-China trade tensions are having a big impact, and while the market was already getting jittery in December, it appears these jitters haven't fully played out yet. Apple noted that Chinese economic growth is beginning to slow and that the country's GDP growth for the calendar third quarter was the second-lowest in a quarter century. Apple also noted that traffic to its retail stores and channel partners in China also declined as the quarter progressed. What this means is that fiscal second-quarter performance may be even worse. This may be the biggest negative. Again, we're taking all of this in stride.

Apple remains in the simulated newsletter portfolios, as the stock has already been beaten up quite badly. Though we expect a downward revision to our fair value estimate range, shares will still come out undervalued. We'll only look to get rid of Apple if both its valuation and technical/momentum indicators point in the same direction. Right now, Apple is still looking attractive from a valuation standpoint. The company's competitive advantages remain firmly intact as well, with a huge installed base, brand name, and lucrative services business.

The bigger story, however, is what Apple's results suggest for others depending on China, and whether Chinese consumer backlash from the trade tensions is hurting other American icons: Nike (NKE), Yum! China (YUMC), and McDonald's (MCD). Those that have exposure to luxury good stocks, including Tiffany (TIF) and Michael Kors (KORS) should take note, too. Though seemingly unrelated, it may be worth paying attention to any slowdown in metals and mining if China's economy starts to head south in a hurry. As I explain in Value Trap, this could be the beginning of the greatest period of stock market volatility we have yet seen.

Watch these markets with me.

Oracle Raises Internal Guidance; Share Buybacks Abound

By Kris Rosemann

Oracle's fiscal 2019 second quarter report revealed expectations for accelerating top-line growth thanks in large part to strong momentum in bookings. The company's technology leadership may be greater than ever before, and it continues to generate robust free cash flow. Management's appetite for buybacks appears insatiable.

Simulated Dividend Growth Newsletter portfolio idea Oracle (ORCL) released its fiscal 2019 second quarter report December 18, and management brought with it an increase in its internal expectations for top- and bottom-line growth for the full fiscal year. On the quarterly conference call, CEO Safra Catz stated expectations for an acceleration of constant currency revenue growth in the second half of the fiscal year, and the company's double-digit constant currency earnings per share growth guidance for the full year has been raised, though an explicit guidance range was not released.

Please see *Oracle Raises…*on page 13

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

By Valuentum Analysts

The table 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 may be *among* the most timely dividend growth ideas to consider based on our stock-selection methodology. You'll see that many of them are already ideas included in the simulated Dividend Growth Newsletter portfolio (see page 5).

Though the dividend growth portfolio may be fully invested at times, we may swap in stocks on this list or stocks on the dividend-growth watch list (see the next page) at the right price or if our analyst team believes that a new add may have more potential total return opportunity than a current idea already within the newsletter portfolio. At any time, however, our favorite dividend growth ideas are included in the simulated Dividend Growth Newsletter portfolio.

Don't forget to visit the website at www.valuentum.com.

Company Name	Symbol	Est Div Yield	VBI	Div Growth	Div Safety	Div Cushion
IBM	IBM	4.2%	7	GOOD	GOOD	1.2
General Motors	GM	4.0%	7	GOOD	EXCELLENT	3.4
Crown Castle	CCI	3.7%	7	EXCELLENT	GOOD	1.4
Cardinal Health	CAH	3.5%	7	EXCELLENT	GOOD	1.4
Novartis	NVS	3.4%	7	GOOD	GOOD	1.7
PepsiCo	PEP	3.1%	7	GOOD	GOOD	1.1
Dick's Sporting	DKS	2.4%	7	EXCELLENT	GOOD	2.6
Dover	DOV	2.2%	7	EXCELLENT	GOOD	2.0
Walgreens Boots Alliance	WBA	2.2%	7	EXCELLENT	EXCELLENT	2.8
Silicon Motion Technology	SIMO	2.1%	7	GOOD	EXCELLENT	4.4
CSG Systems	CSGS	2.0%	7	EXCELLENT	EXCELLENT	3.6
Kennametal	KMT	1.9%	7	GOOD	EXCELLENT	2.8
Convergys	CVG	1.8%	7	EXCELLENT	EXCELLENT	4.9
NewMarket	NEU	1.7%	7	EXCELLENT	GOOD	1.5
Disney	DIS	1.5%	7	GOOD	EXCELLENT	2.9
Kansas City Southern	KSU	1.2%	7	GOOD	GOOD	1.4
Fidelity National	FIS	1.2%	7	EXCELLENT	GOOD	1.8
Thermo Fisher Scientific	TMO	0.3%	7	GOOD	EXCELLENT	5.2

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. We also make a few other tweaks with respect to business model risk considerations. 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 overlaid the screen with an Economic Castle assessment to consider business-model risk, too!

Company Name	Symbol	Est Div Yield	Div Cushion	Economic Castle	Multiplier
GameStop	GME	10.2%	1.7	Attractive	17.71
Chico's FAS	CHS	4.4%	3.4	Attractive	14.84
Abercrombie & Fitch	ANF	4.6%	3.1	Attractive	14.20
General Motors	GM	4.0%	3.4	Attractive	13.88
Gilead Sciences	GILD	3.4%	3.5	Very Attractive	12.13
Automatic Data Processing	ADP	1.9%	6.0	Very Attractive	11.57
Manpower	MAN	2.7%	4.2	Attractive	11.15
Honda	HMC	3.1%	3.5	Neutral	10.83
Cooper Tire & Rubber	CTB	1.4%	7.5	Neutral	10.60
Chicago Rivet	CVR	2.6%	3.9	Neutral	10.31
Hewlett-Packard	HPQ	2.8%	3.6	Attractive	10.01
Applied Materials	AMAT	2.3%	4.4	Very Attractive	9.97
Best Buy	BBY	3.5%	2.8	Very Attractive	9.96
Thor	THO	2.3%	4.3	Attractive	9.95
Ralph Lauren	RL	2.4%	4.1	Attractive	9.70
American Eagle	AEO	2.6%	3.6	Attractive	9.37
Total	TOT	5.6%	1.6	Neutral	9.08
Foot Locker	FL	2.8%	3.2	Attractive	9.02
Apple	AAPL	1.5%	6.1	Highest Rated	8.98
Guess	GES	4.4%	2.0	Attractive	8.87
Cummins	CMI	3.5%	2.5	Attractive	8.86
Cisco	CSCO	2.9%	3.0	Very Attractive	8.65
Gap	GPS	3.6%	2.4	Attractive	8.53
KLA-Tencor	KLAC	3.1%	2.7	Very Attractive	8.46
MKS Instruments	MKSI	1.1%	7.7	Attractive	8.30
Paychex	PAYX	3.5%	2.4	Very Attractive	8.23
CA Tech	CA	2.4%	3.5	Very Attractive	8.22
Williams-Sonoma	WSM	3.8%	2.2	Attractive	8.15
Gentex	GNTX	1.8%	4.5	Attractive	8.12
Interpublic	IPG	3.9%	2.1	Very Attractive	8.11
Ford	F	6.3%	1.3	Neutral	8.04
Tapestry	TPR	3.8%	2.1	Attractive	7.98
Fluor	FLR	1.8%	4.4	Attractive	7.87
H&R Block	HRB	3.7%	2.1	Very Attractive	7.84
Omnicom	OMC	3.5%	2.2	Attractive	7.66
Oracle	ORCL	1.7%	4.5	Very Attractive	7.60
Ethan Allen	ETH	4.0%	1.9	Unattractive	7.57
Bristol-Myers Squibb	BMY	3.1%	2.4	Very Attractive	7.57
Rio Tinto	RIO	5.4%	1.4	Neutral	7.54
Graham Holdings Co	GHC	0.8%	9.1	Attractive	7.50
Lear Corp	LEA	1.6%	4.6	Attractive	7.48
McKesson	MCK	1.2%	6.0	Very Attractive	7.45
Granite Construction	GVA	1.1%	6.8	Attractive	7.37
Taiwan Semiconductor	TSM	3.7%	2.0	Attractive	7.18
Tupperware	TUP	9.0%	0.8	Attractive	7.10
ABB	ABB	3.9%	1.8	Attractive	7.07
Caterpillar	CAT	2.8%	2.5	Attractive	7.02
Amgen	AMGN	2.8%	2.5	Very Attractive	6.95
Robert Half	RHI	2.0%	3.6	Very Attractive	6.94
ConocoPhillips	COP	2.0%	3.5	Attractive	6.94

Note: The 'Multiple' in this list considers a company's dividend yield and Dividend Cushion ratio as a multiplicative combination. Though it is a robust and largely objective measure, there could be exogenous or secular dynamics that could impact the business, where a dividend may not be as strong as the financials indicate.

For example, GameStop (GME) is dealing with a secular shift toward digital gaming, while Abercrombie & Fitch (ANF) is navigating changing consumer preferences as millennials seek 'experiences' not 'things' (e.g. fashion). The Dividend Cushion is only one factor that we use in assessing the overall health of a company's dividend.

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 their current share price, even if traditional valuation techniques suggest the company's shares are inexpensive. On a similar note, companies 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 companies 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 more conservative dividend-growth investor may want to consider steering clear of the following firms' shares:

Company Name	Symbol	Industry	Est Div Yield	Div Safety	Div Cushion
Ensco	ESV	Energy Svcs - Offshore Drilling	0.5%	VERY POOR	-50.9
Range Resources	RRC	Independent Oil & Gas	0.7%	VERY POOR	-31.9
CIRCOR Intl	CIR	Electrical Equipment	0.4%	VERY POOR	-27.1
Superior	SUP	Auto Parts Suppliers	1.6%	VERY POOR	-11.0
Yamana Gold	AUY	Metals & Mining - gold	0.6%	VERY POOR	-8.6
R.R. Donnelley	RRD	Commercial Services	12.9%	VERY POOR	-7.1
General Electric	GE	Conglomerates	0.5%	VERY POOR	-7.1
Ryder System	R	Rental and Leasing	2.8%	VERY POOR	-6.2
Owens & Minor	OMI	Healthcare Products	4.3%	VERY POOR	-5.3
HCA Healthcare	HCA	Health Care Services	1.0%	VERY POOR	-4.9
H.B. Fuller	FUL	Chemicals - broad	1.3%	VERY POOR	-4.7
Casey's General	CASY	Food Retailers	0.9%	VERY POOR	-4.3
Intl Game Technology	IGT	Leisure	3.8%	VERY POOR	-3.9
Silgan	SLGN	Containers & Packaging	1.5%	VERY POOR	-3.8
Teekay	TGP	Shipping	3.6%	VERY POOR	-3.8
Centurylink	CTL	Telecom Services - diversified	10.1%	VERY POOR	-3.3
Devon Energy	DVN	Independent Oil & Gas	1.3%	VERY POOR	-3.0
Noble Energy	NBL	Independent Oil & Gas	2.1%	VERY POOR	-2.9
Dine Brands Global	DIN	Restaurants - Fast Cas & Full Svc	2.8%	VERY POOR	-2.3
Olin Corp	OLN	Chemicals - mid/small	3.8%	VERY POOR	-2.3
Wendy's Co	WEN	Restaurants - Fast Food & Coffee	1.9%	VERY POOR	-2.2
CVS Health	CVS	Food Retailers	2.7%	POOR	-2.1
Pitney Bowes	PBI	Commercial Services	11.2%	VERY POOR	-2.1
American Railcar	ARII	Railroads	3.4%	VERY POOR	-1.8
Meredith	MDP	Media - advertising	4.2%	VERY POOR	-1.6
Newell Brands	NWL	Household Durables	4.6%	VERY POOR	-1.6
Molson Coors	TAP	Beverages - alcoholic	2.4%	VERY POOR	-1.3
DDR	DDR	REIT - Retail	11.2%	VERY POOR	-1.2
Macerich	MAC	REIT - Retail	5.0%	VERY POOR	-1.1
Anheuser-Busch InBev	BUD	Beverages - alcoholic	4.4%	VERY POOR	-1.1
Brinker	EAT	Restaurants - Fast Cas & Full Svc	3.1%	VERY POOR	-1.0

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

*Oracle Raises…*from page 9

Oracle reported total revenue growth of 2% on a year-over-year basis in constant currency thanks in part to could service and license support revenue being up 5%, but the larger story comes from the company's large and growing opportunity in Enterprise Resource Planning (ERP) and Human Capital Management (HCM). Its software-as-a-system (SaaS) bookings growth in these areas has accelerated in recent quarters and hit the high-30s percent range in its fiscal second quarter, thanks in part to notable strength in non-renewal bookings driving net bookings to the highest in company history outside of its fiscal fourth quarters.

Management claims to have the most advanced ERP technology and market leadership in cloud ERP with plenty of growth ahead of it, and it points to its new Autonomous Database as the largest technology lead it has ever had over its database competition. The company holds 50% share of the database market, and its technology leadership, via the ongoing pairing of its Autonomous Database with its next generation cloud infrastructure, should ensure this market share remains intact and grows.

While bookings marched higher and revenue growth was muted, Oracle's margins were roughly flat in its fiscal second quarter. Gross margin for cloud services and license support was roughly 86% as ongoing improvement in SaaS gross margins, stability in software support, and continued investments in cloud infrastructure combined to keep the measure in line with the year-ago period, and non-GAAP operating income and margin were also roughly flat. Gross margins should improve as the company's cloud business continues to scale.

Oracle's fiscal second quarter marked its seventh consecutive quarter of double digit earnings per share growth, which came in at 19% in constant currency from the year-ago period as the non-GAAP figure for the period was $0.80. Through the first six months of fiscal 2019, Oracle's operating cash flow dropped ~2% on a year-over-year basis, but lower capital spending helped push free cash flow ~2% higher to nearly $6.5 billion. Cash dividends paid in the period came in at less than $1.5 billion, showcasing impressive coverage of dividends with free cash flow.

However, the company spent more than $19.9 billion in share repurchases in the first half of its fiscal 2019, and though these transactions were completed at price levels below our fair value estimate, given its share price was at a discount to our fair value estimate of $58 throughout the entire first half, the massive cash outflow caused the company's balance sheet to flip to a net debt position. It does hold cash and cash equivalents and marketable securities of $49.4 billion as of the end of its fiscal second quarter, but it also has a total debt position of $58 billion. This compares to a net cash position of $6.6 billion at the end of fiscal 2018.

While we do not take issue with management buying back shares that it perceives to be undervalued, the sheer magnitude of its buybacks thus far in fiscal 2019 has been astounding. As of the end of the first quarter of fiscal 2019, the company reported $19.8 billion remaining under its authorized share repurchase program, and after buying back nearly $10 billion in its fiscal second quarter, it now has more than $9.8 billion authorized for buybacks remaining. We tend to be of the opinion a more balanced capital allocation plan may prove to be a more prudent strategy, even as we agree with management that shares appear attractive.

Beyond the potential for capital appreciation, Oracle's dividend growth prospects are attractive as its Dividend Cushion ratio is currently an impressive 4.4, but we're keeping a close eye on its balance sheet health. Its yield leaves a bit to be desired as it currently sits at just over 1.6%. We're looking for strong dividend growth moving forward, but that may be contingent upon management's willingness to commit to higher quarterly dividend payments in place of its significant run up in share repurchases in recent quarters.

Shale and LNG Drive Upstream Production at Chevron

By Callum Turcan

From 2010 to 2017, Chevron's oil and gas production dropped as output from new producing properties was more than offset by declines at mature fields. By leveraging the company's extensive unconventional growth runway, management appears to have been able to fix a key structural problem. The revival in Chevron's upstream production was aided by the completion of two major LNG developments in Australia that offer near-term upside.

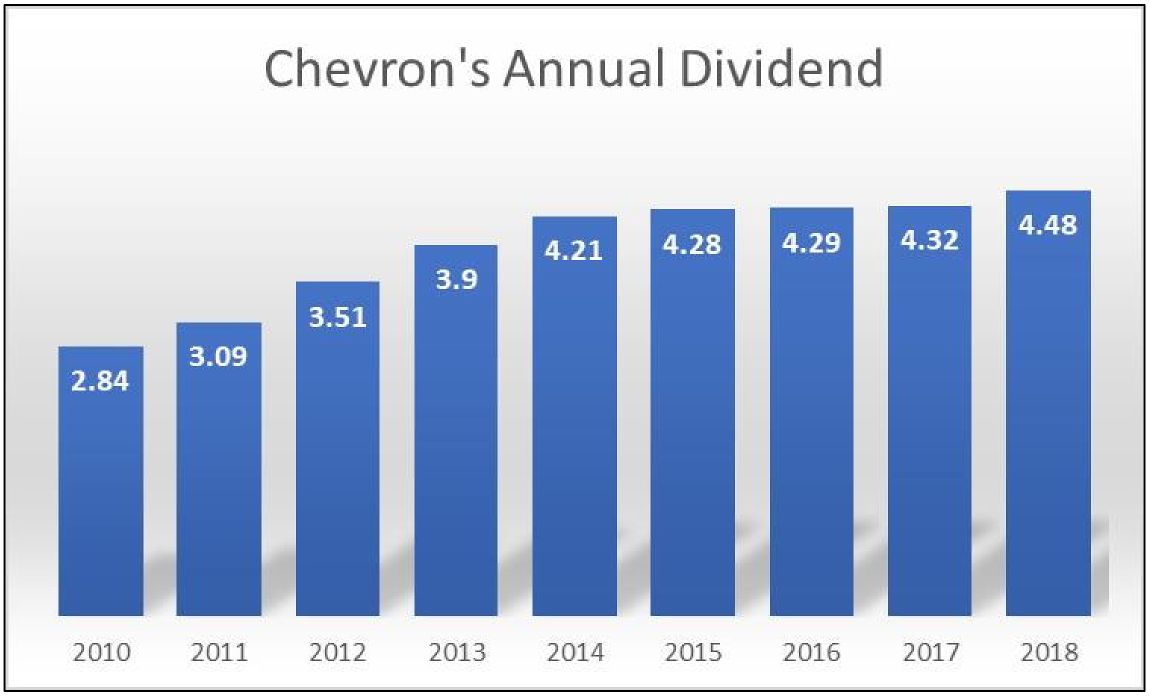


Image Source: Author's Calculations, Chevron Investor Relations

Shares of Chevron Corp (CVX) yield 4.3% as of this writing, and the image above shows annual per share dividend increases from the company since 2010. Its Dividend Cushion ratio currently sits at 1.2. As oil prices followed a generally positive trend from 2010 to 2014, Chevron was able to boost its dividend payments in a notable way, but as we entered "a new normal" in global crude oil markets in 2015 and beyond, the company was forced to keep growth in the payout muted to preserve cash. Lower energy resource pricing weighed on the level of cash flow generated by its upstream operations, an impact that was only exacerbated by a shrinking production base.

Management's response to lower crude oil prices and a shrinking production base was an aggressive allocation of capital to unconventional plays, including those requiring hydraulic fracturing and horizontal drilling. This was made possible thanks in part to two of Chevron's long-cycle liquefied natural gas (LNG) projects in Australia being completed, which helped free up capital to be allocated to unconventional opportunities in North America.

Unconventionals Lead the Way

From 2010 to 2017, Chevron's oil and gas production dropped from 2.8 million barrels of oil equivalent per day (BOE/d) to 2.7 million BOE/d. Natural production declines erode 3%-6% of a mature field's production every year, but delays at the Chevron-operated Gorgon LNG, Wheatstone LNG, and Big Foot projects also played a role in Chevron's upstream output slipping lower. After placing a greater emphasis on developing its unconventional portfolio, Chevron's production increased to 2.9 million BOE/d in the first three quarters of 2018.

Please see *Shale and LNG…*on next page

*Shale and LNG…*from previous page

Chevron set its 2019 capital expenditure budget at $20 billion, up 9% from its 2018 budget, and the 2019 budget includes $6.3 billion in spending attributed to Chevron's stake in affiliated companies. Next year, roughly 87% of Chevron's budget is expected to be allocated towards upstream developments, with the remainder going towards downstream developments and other corporate activities. Chevron's Permian Basin operations will receive $3.6 billion of that capital next year to enable continued production growth after its stellar performance in the region over the past three years. Another $1.6 billion is allocated towards developing other unconventional plays in Chevron's portfolio, including the Duvernay in Canada.

Permian Juggernaut

Through its legacy companies, Chevron has been operating in the Permian Basin since the 1920s. Over the course of almost a century, Chevron acquired the lease on 2.2 million net acres in the prolific oil and gas producing region that stretches across West Texas and Southeastern New Mexico. Even better, Chevron pays minimal to no royalties on 80% of that acreage, greatly enhancing its returns in the play. This means that Chevron keeps a greater share of a producing well's gross revenue due to its ownership of the mineral rights across a large part of its Permian footprint.

It is worth noting that Chevron operates a large conventional legacy position in the Permian, and management differentiates between the two to highlight the firm's unconventional growth trajectory in the basin.

During Chevron's third quarter conference call, management stated that the company is operating 20 rigs and participating in the activities of 21 additional rigs (seven net to Chevron when adjusting for working interests) that are actively developing unconventional Permian plays. Elevated levels of drilling activity enabled Chevron to grow its unconventional Permian production by 80% in the third quarter of 2018 compared to the year-ago period; the addition of 150,000 BOE/d to Chevron's unconventional Permian output brought the division's production up to 338,000 BOE/d.

On a company-wide basis, Chevron produced just under 3 million BOE/d during the third quarter of 2018. Its unconventional Permian output stood at just 100,000 BOE/d in 2015, highlighting the powerful impact developing this asset has had on Chevron. As illustrated in the image below, this is just the beginning of Chevron's strategy in the region. The company plans to double its unconventional Permian production from current levels by the end of 2022 and is already well ahead of schedule.

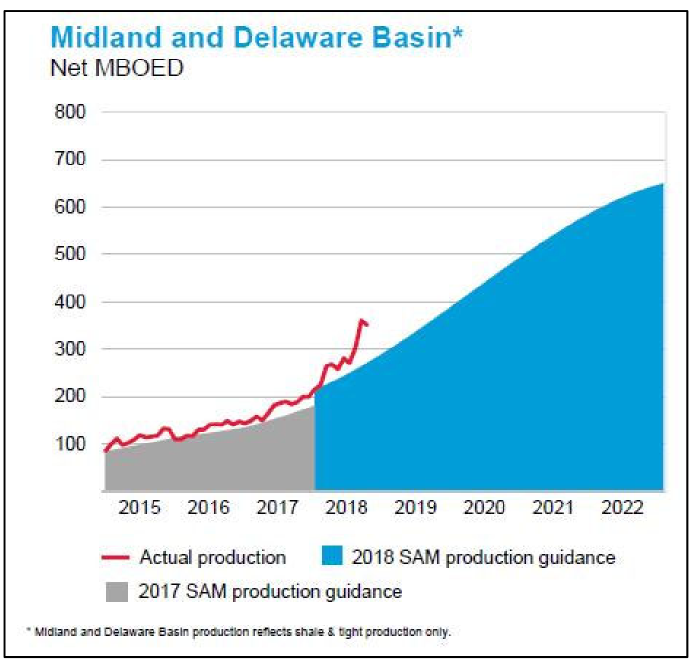


Image Source: Chevron Corporation – November 2018 Presentation

Please see *Shale and LNG…*on next page

*Shale and LNG…*from previous page

Up North

In Canada, Chevron is developing the Duvernay formation in partnership with Kuwait Foreign Petroleum Exploration Company, which is owned by state-run Kuwait Petroleum Corporation. Chevron owns 70% of the joint-venture and acts as operator, with KUFPEC owning the remaining interest. The joint-venture has acquired leaseholds on 330,000 gross acres in the liquids-rich Duvernay shale play, which is located in Central Alberta. Unconventional development activities are being utilized to develop the Duvernay formation, with the primary targets being condensate and natural gas liquids-rich well locations.

At the end of last year, Chevron and KUFPEC announced that the JV was moving forward with full-scale development across 55,000 gross acres within the Kaybob region in the Duvernay play. This program involves drilling up to 250 wells and working with regional midstream players to ensure the proper infrastructure is in place as production growth gets underway.

There is plenty of existing infrastructure in the area, but rising production volumes will require further capacity expansions. By early-2018, Chevron had turned 92 wells in the Duvernay play online (that includes wells completed before the development program was launched). As development activities continue, the addition of significant Duvernay production volumes to Chevron's asset base should complement soaring Permian output.

LNG Projects Operational

Chevron is the operator of two massive liquefied natural gas export terminals in Australia that were completed over the past three years. The first development is the Gorgon LNG facility, which has the capacity to export 15.6 million metric tons of LNG per year. On the upstream side, the development has the capacity to produce 2.6 billion cubic feet of natural gas and 20,000 barrels of condensate per day. In March 2016, the Gorgon LNG facility shipped off its first LNG cargo. Chevron owns 47% of this venture, and as of the third quarter of 2018, its net share of the Gorgon venture's output was 228,000 BOE/d.

Pivoting to the Wheatstone LNG facility, this terminal has the capacity to export 8.9 million metric tons of LNG per year. Chevron owns 64% of the LNG terminal and like at the Gorgon venture, is the operator of the facility. On a side note, Chevron owns 80% of the offshore licenses containing the Wheatstone and Iago fields that are supplying gas to the LNG terminal. The facility's first LNG train shipped out its first cargo on October 2017, and the second LNG train started operations in June 2018 (cargos from Train 2 commenced in July at the latest).

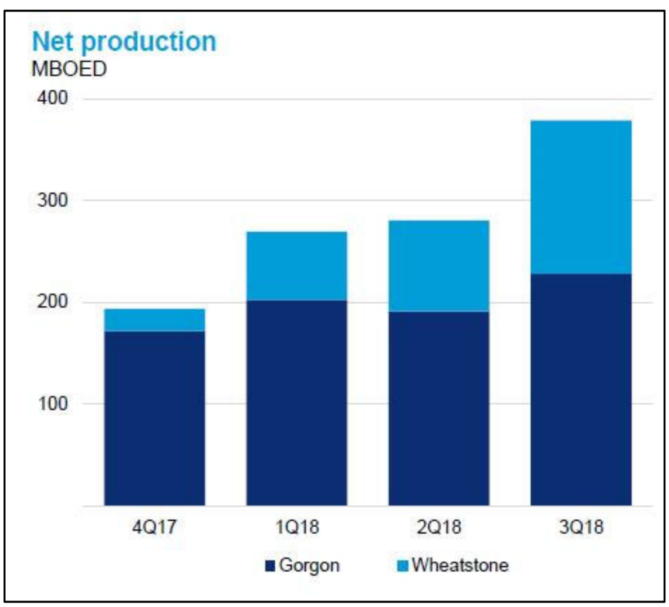


Image Source: Chevron Corporation – November 2018 Presentation

Please see *Shale and LNG…*on next page

*Shale and LNG…*from previous page

As of the third quarter of 2018, Chevron's net share of the Wheatstone facility's production was 151,000 BOE/d. We expect that figure to move higher in the coming quarters due to domestic gas sales slated to begin in 2019 and the completion of maintenance activity that impacted output during the third quarter of 2018. As previously stated, it was essential to bring both developments online. Not only are these LNG developments powerful upstream growth catalysts, but now that both projects are completed, capital that was previously allocated to long-cycle projects can flow to developing Chevron's unconventional operations.

Conclusion

During the first three quarters of 2018, over three-quarters of Chevron's earnings came from its upstream operations, and the company's oil and gas production base is no longer moving lower, which had been cause for concern. By targeting short-cycle opportunities in North America following the completion of its two massive LNG projects in Australia, Chevron may have found the recipe it needs to revive its upstream production base. That won't be enough to offset the recent tumble in global oil prices, but it does highlight how management appears to have fixed a structural flaw. If or when energy resource prices cooperate, Chevron's free cash flow generation should follow suit, which directly enhances its dividend growth potential.

We're staying on the sidelines with respect to Chevron as a candidate for the simulated Dividend Growth Newsletter portfolio. The company's Dividend Cushion ratio currently sits at 1.2, highlighting the inherent risk of depending on volatile energy resource pricing and its large, albeit materially improved, net debt position of ~$26.4 billion at the end of the third quarter of 2018 (was ~$33.9 billion at the end of 2017).

Fully-Invested? Why? Thoughts on Microsoft and Eli Lilly, and Celgene

By Kris Rosemann and Brian Nelson, CFA

Our methodology is really easy to understand once you get to know the things we're looking at. There's also some subjectivity in how we implement our thoughts in the simulated newsletter portfolios, and please stop calling what we do advice. We're not an advisor. We're not a broker. We're a financial publisher. While we're at it, let's talk a bit about Microsoft, Eli Lilly, and Celgene through the lens of our methodology.

I know many of you have been following our simulated newsletter portfolios very closely. Since inception in 2011, the simulated Best Ideas Newsletter has averaged roughly a 25% cash position. We wrote up an extensive summary of the simulated Best Ideas Newsletter portfolio recently, and one of the biggest takeaways was that we "held" a rather large cash "weighting." Our move to "fully invested" should be kept in context. It's not a matter of having a large cash "weighting" one day, and then not having one the next. It's that we have had a large cash "weighting" for years and years (and still did very, very well), and now we don't have one. Here's an example of how much members love what we're doing:

> *"I want to thank you for all your wisdom. I too have been ~30% cash since late 2017 because of your insight. I listened and resisted the temptation of buying as things looked good. It would have been easy to get caught up in the flurry of the market back then while watching our retirement accounts grow. "Putting all our money to work" as others around me did, would have been costly. In fact, a life time of membership fees would not come close to what was potentially saved. As painful as the last 3 months have been, it could have been much worse. I value your research, your newsletters and I look forward to your new release. Congratulations!" -- Chip G.*

Please see *Fully-Invested…*on next page

*Fully-Invested…*from previous page

Given the changing market structure (indexing, quant)—you have to read our book Value Trap (order pdf download here)— where a "melt up" is certainly a possibility, as much as a market crash, in my view, I've taken the view that being "fully invested" in the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio and using put options if/when the time comes may now be the best route. It's more of a change in strategy in how to capitalize on this thesis. Sitting on the sidelines for a melt up is not something I want to happen.

Investing is about considering probabilities and covering both upside and downside scenarios. Remember--those huge cash "weightings" allowed us to capture alpha as the markets swooned this December, and while we've now moved to being "fully invested," it doesn't mean that we don't think a downside scenario isn't still possible. In some respects, we're expecting one of two outcomes--either the markets spin uncontrollably upward or the markets spin uncontrollably downward, the cause of either outcome the proliferation of price-agnostic trading. This market is not "normal."

The most important thing, however, is that if you missed any of our emails during the holiday week, my colleague Kris adds them to the website, and we manage our business such that if you read them one or two or even several weeks after, it shouldn't matter much given our long-term perspective, or probably more appropriately, the price-versus-estimated intrinsic value perspective. Our process is not one in which you're going to miss "something." We hardly make any changes to the simulated newsletter portfolios and when we do, we're not looking for daily or even weekly returns. This might change with put options though. If/when we see a meltdown coming, we're going to seek protection.

That said, I need you to continue to focus on the things that matter. Stock prices and returns are driven by changes in future expectations (think how the market adjusted prices to reflect Apple's newly-issued forward outlook as a result of its first-quarter 2019 guidance), namely the causal impact of the influence of public-to-private arbitrage in driving prices (read more about this in Value Trap). If you're talking about past data and worrying about precision, your efforts are largely wasted. The value of a business is based on the future enterprise free cash flows it generates for shareholders. It is not based on what P/E ratios were 20 years ago, for example. There's going to be tons of meaningless data out there. Please focus on the data that matters, data that captures future expectations: the fair value estimate, the fair value estimate range.

The Valuentum Buying Index takes into consideration three major characteristics: 1) discounted cash flow valuation (aka enterprise valuation); 2) relative value (aka behavioral valuation); and 3) technical/momentum indicators (aka "the information contained in prices"). There is a flow chart on page 14 of every 16-page stock report that provides complete transparency as to how we arrive at our VBI ratings.

Also, the following article walks through the VBI in great detail, but you have to read Value Trap first, or I feel you're going to jump to conclusions based on somebody else's perspective:

https://www.valuentum.com/articles/20110622

In the case of Microsoft (MSFT), we think shares are fairly valued on a discounted cash flow basis (they are trading within our fair value estimate range), it is attractive on a relative value basis (its PE and PEG ratios are attractive compared to the rest of its industry), and its technical indicators are bearish as of the December 26 time stamp found in the upper right hand corner of the report. All of this information can be found on page 1 of the 16-page reports under the chart titled "Investment Considerations" at the top right of the page. A share price decline had taken place since the previous update of Microsoft, which led to the bearish indicator with respect to Microsoft's technical consideration and helped drive its VBI rating to 3.

Please see *Fully-Invested…*on next page

***Fully-Invested…*from previous page**

It is important to remember that in order to score highly on the VBI, a stock must be exhibiting both an attractive valuation opportunity (on both a discounted cash flow and relative value basis) and attractive technicals, the latter of which indicates that the market is confirming our assessment of the stock's value. Much more on this in Value Trap. The majority of stocks within our coverage universe typically fall into what we call the "big middle," or the 3-8 range, indicating that we are typically not looking to add or remove shares from one of the simulated newsletter portfolios.

Let's now talk a bit about Eli Lilly's (LLY) dividend. The VBI does not take dividend considerations into account, only the three aforementioned characteristics. If you are looking for an assessment of the health of the dividend, we point to the Dividend Cushion ratio as a helpful tool, and this ratio helps drive our Dividend Safety and Dividend Growth Potential ratings as well. The fair value estimate is generally independent of dividend policy, save for the case when a company pays a dividend, its share price is adjusted lower by the amount of cash no longer on the balance sheet. This cash is now in the hands of shareholders.

Our process is not mechanical. When the Valuentum Buying Index flashes a strong rating, generally 9 or 10, we consider the idea. There aren't a lot of 9 or 10s on the Valuentum Buying Index and weren't for much of 2018, and the markets have swooned since. This means our methodology is working. We only have two stocks rated 8 on the Valuentum Buying Index, and one of them is Celgene (CELG), which was just taken out today at a substantial premium today. When you come to Valuentum, come to Valuentum with an open mind. Importantly, read Value Trap. It answers a ton of your questions, and what you might think is counter-intuitive actually grows to make a lot of sense.

We're truly blessed to have your interest, and we very much appreciate your membership. An investment in Value Trap is well worth it (if you are a member, the digital download costs only $10.49). We sincerely hope many of you will write reviews of the book on Amazon, too. I will send a reminder in the coming month or so about this. Valuentum flies under the radar when it comes to external exposure on CNBC or social media, and we're hoping to change that in 2019. I think sometimes when people don't see a large following on social media, they may not think we have a lot of members. Our exclusivity sometimes works against us.

However, we do have a lot of members, and you know it. Value Trap is now the #1 New Release for Stock Market Investing on Amazon! That is exciting, and we only have each and every one of you to thank! We want to talk more and more with you during 2019 than ever before, so we can all be on the same page with where we are coming from. This means, however, that you have to read Value Trap. We're not trying to sell books. We really need our biggest fans and our deepest critics to read it!

Microsoft (MSFT) – Page 1 of 2

By Valuentum Analysts

Download Microsoft'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 30-Dec-2018 | Data as of 26-Dec-2018

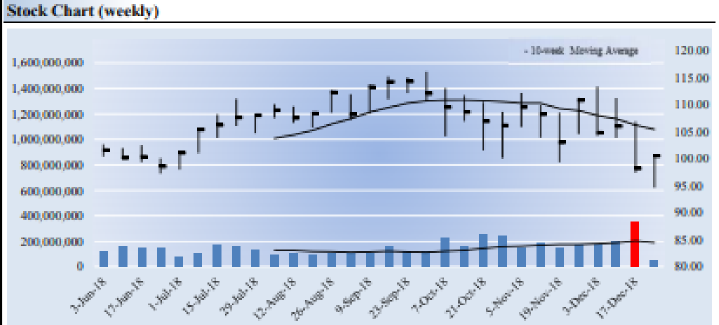
Microsoft MSFT FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Very Attractive	\$91.00 - \$137.00	HEALTHY	EXCELLENT / 3.2	EXCELLENT	1.83%

Microsoft's Dividend Cushion ratio is impressive, and its balance sheet remains a meaningful source of strength even after the pricey LinkedIn acquisition.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	**1.83%**
Annual Dividends per Share	**\$1.84**
Initial Annual Div's Paid, \$10k Investment	**\$182.98**
Dividend Track Record	**HEALTHY**
Dividend Safety	**EXCELLENT**
Valuentum Dividend Cushion™	**3.2**
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).

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)	\$783,765
Avg Weekly Vol (30 wks)	150,243
30-week Range (USD)	94.67 - 116.18
Valuentum Sector	Information Technology
Last Fiscal Year Revenue	110,360
Last Fiscal Year EPS	2.13
Last Fiscal Year EBITDA	45,319
Forward Revenue Growth (5-yr)	9.2%
Forward EPS Growth (5-yr)	26.6%

Dividend Vitals

Current Annual Dividend Yield %	1.8%
Annual Dividends Per Share	1.84
Forward Dividend Payout Ratio	41.0%
3-yr Historical Dividend CAGR	9.8%
15-yr Historical Dividend CAGR	17.7%
3-yr Hist Median Div Payout Ratio	66.2%
15-yr Hist Median Div Payout Ratio	38.0%

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

Initial Annual Income Per Investment (\$)

# of Shares	Investment (\$)	Annual Div's (\$)
25	2,514.00	46.00
50	5,028.00	92.00
100	10,056.00	184.00
200	20,112.00	368.00
300	30,168.00	552.00
400	40,224.00	736.00
500	50,280.00	920.00
1,000	100,560.00	1,840.00
2,000	201,120.00	3,680.00
5,000	502,800.00	9,200.00
10,000	1,005,600.00	18,400.00
50,000	5,028,000.00	92,000.00
100,000	10,056,000	184,000.00

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

Dividend Safety / Cushion **EXCELLENT / 3.2**

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. Microsoft scores a 3.2 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. Microsoft registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be \$2.79 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. Microsoft registers a score of MEDIUM on our scale.

Dividend Track Record **HEALTHY**

Fiscal Year	Div's/Share (\$)	Div Growth %	EPS (\$)	Payout Ratio
Jun-04	0.16	NA	0.75	0.0%
Jun-05	3.40	2025.0	1.12	303.6%
Jun-06	3.32	-2.4	1.20	276.7%
Jun-07	0.39	-88.3	1.42	27.5%
Jun-08	0.43	10.3	1.87	23.0%
Jun-09	0.50	16.3	1.62	30.9%
Jun-10	0.52	4.0	2.10	24.8%
Jun-11	0.61	17.3	2.69	22.7%
Jun-12	0.76	24.6	2.00	38.0%
Jun-13	0.89	17.1	2.58	34.5%
Jun-14	1.07	20.2	2.63	40.7%
Jun-15	1.21	13.1	1.48	81.8%
Jun-16	1.39	14.9	2.10	66.2%
Jun-17	1.53	10.1	2.71	56.5%
Jun-18	1.65	7.8	2.13	77.5%
Jun-19	***1.84***	***11.5***	***4.48***	***41.0%***
Jun-20	*2.06*	*12.0*	*5.08*	*40.6%*
Jun-21	*2.31*	*12.0*	*5.71*	*40.4%*
Jun-22	*2.54*	*10.0*	*6.33*	*40.1%*
Jun-23	*2.79*	*10.0*	*6.91*	*40.4%*

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 Microsoft, please visit our website at www.valuentum.com

Intel (INTC) – Page 1 of 2

By Valuentum Analysts

Download Intel'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 30-Dec-2018 | Data as of 24-Dec-2018

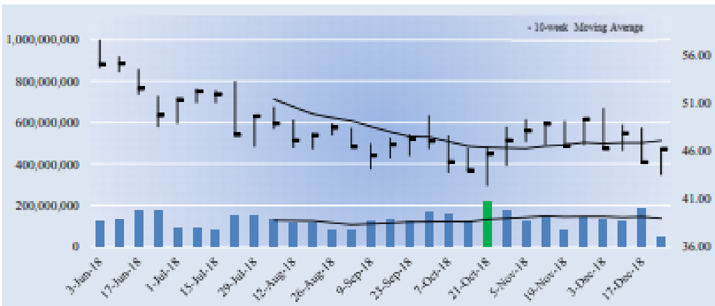
Intel INTC FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	\$45.00 - \$67.00	HEALTHY	GOOD / 2.6	EXCELLENT	2.60%

Intel has an impressive combination of competitive dividend yield and strong Dividend Cushion ratio.

Stock Chart (weekly)



Key Dividend Considerations

Current Annual Dividend Yield	**2.60%**
Annual Dividends per Share	**\$1.20**
Initial Annual Div's Paid, \$10k Investment	**\$259.80**
Dividend Track Record	**HEALTHY**
Dividend Safety	**GOOD**
Valuentum Dividend Cushion™	**2.6**
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).

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)	\$223,329
Avg Weekly Vol (30 wks)	129,678
30-week Range (USD)	42.36 - 57.6
Valuentum Sector	Information Technology
Last Fiscal Year Revenue	62,761
Last Fiscal Year EPS	1.99
Last Fiscal Year EBITDA	26,449
Forward Revenue Growth (5-yr)	5.1%
Forward EPS Growth (5-yr)	22.3%

Dividend Vitals

Current Annual Dividend Yield %	2.6%
Annual Dividends Per Share	1.20
Forward Dividend Payout Ratio	26.2%
3-yr Historical Dividend CAGR	7.7%
15-yr Historical Dividend CAGR	19.8%
3-yr Hist Median Div Payout Ratio	49.1%
15-yr Hist Median Div Payout Ratio	40.8%

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

Initial Annual Income Per Investment (\$)

# of Shares	Investment (\$)	Annual Div's (\$)
25	1,154.75	30.00
50	2,309.50	60.00
100	4,619.00	120.00
200	9,238.00	240.00
300	13,857.00	360.00
400	18,476.00	480.00
500	23,095.00	600.00
1,000	46,190.00	1,200.00
2,000	92,380.00	2,400.00
5,000	230,950.00	6,000.00
10,000	461,900.00	12,000.00
50,000	2,309,500.00	60,000.00
100,000	4,619,000.00	120,000.00

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

Dividend Safety / Cushion **GOOD / 2.6**

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. Intel scores a 2.6 on our Dividend Cushion™, which is GOOD.

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. Intel registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be \$1.63 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. Intel registers a score of MEDIUM on our scale.

Dividend Track Record **HEALTHY**

Fiscal Year	Div's/Share (\$)	Div Growth %	EPS (\$)	Payout Ratio
Dec-03	0.08	NA	0.85	9.4%
Dec-04	0.16	100.0	1.16	13.8%
Dec-05	0.32	100.0	1.40	22.9%
Dec-06	0.40	25.0	0.86	46.5%
Dec-07	0.45	12.5	1.18	38.1%
Dec-08	0.55	22.2	0.92	59.8%
Dec-09	0.56	1.8	0.77	72.7%
Dec-10	0.63	12.5	2.01	31.3%
Dec-11	0.78	23.8	2.39	32.6%
Dec-12	0.87	11.5	2.13	40.8%
Dec-13	0.90	3.4	1.89	47.6%
Dec-14	0.90	0.0	2.31	39.0%
Dec-15	0.96	6.7	2.33	41.2%
Dec-16	1.04	8.3	2.12	49.1%
Dec-17	1.08	3.6	1.99	54.1%
Dec-18	***1.20***	***11.4***	***4.58***	***26.2%***
Dec-19	*1.30*	*8.0*	*4.62*	*28.1%*
Dec-20	*1.40*	*8.0*	*4.87*	*28.7%*
Dec-21	*1.51*	*8.0*	*5.14*	*29.4%*
Dec-22	*1.63*	*8.0*	*5.42*	*30.1%*

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 Intel, please visit our website at www.valuentum.com

Hasbro (HAS) – Page 1 of 2

By Valuentum Analysts

Download Hasbro'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 30-Dec-2018 | Data as of 24-Dec-2018

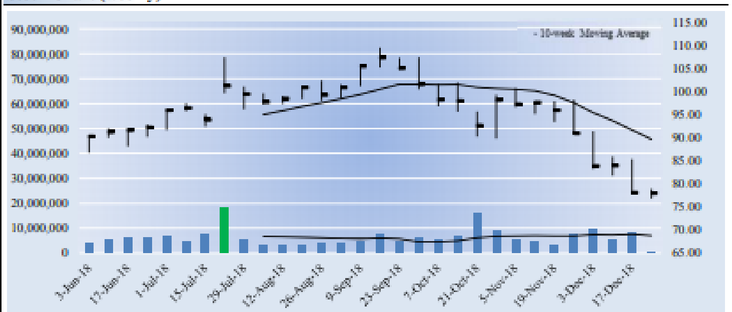
Hasbro HAS FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Very Attractive	$76.00 - $114.00	HEALTHY	GOOD / 1.9	EXCELLENT	3.23%

Hasbro paid an extra quarterly dividend in 2012, which makes comparisons difficult, but we like its dividend growth profile.

Stock Chart (weekly)



Key Dividend Considerations	
Current Annual Dividend Yield	3.23%
Annual Dividends per Share	$2.52
Initial Annual Div's Paid, $10k Investment	$322.99
Dividend Track Record	HEALTHY
Dividend Safety	GOOD
Valuentum Dividend Cushion™	1.9
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).

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.

Company Vitals	
Market Cap (USD)	$9,911
Avg Weekly Vol (30 wks)	6,177
30-week Range (USD)	76.84 - 109.6
Valuentum Sector	Consumer Discretionary
Last Fiscal Year Revenue	5,210
Last Fiscal Year EPS	3.12
Last Fiscal Year EBITDA	1,018
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	17.8%
Dividend Vitals	
Current Annual Dividend Yield %	3.2%
Annual Dividends Per Share	2.52
Forward Dividend Payout Ratio	58.3%
3-yr Historical Dividend CAGR	11.7%
15-yr Historical Dividend CAGR	22.5%
3-yr Hist Median Div Payout Ratio	50.7%
15-yr Hist Median Div Payout Ratio	38.0%

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

Initial Annual Income Per Investment ($)

# of Shares	Investment ($)	Annual Div's ($)
25	1,950.50	63.00
50	3,901.00	126.00
100	7,802.00	252.00
200	15,604.00	504.00
300	23,406.00	756.00
400	31,208.00	1,008.00
500	39,010.00	1,260.00
1,000	78,020.00	2,520.00
2,000	156,040.00	5,040.00
5,000	390,100.00	12,600.00
10,000	780,200.00	25,200.00
50,000	3,901,000.00	126,000.00
100,000	7,802,000	252,000.00

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

Dividend Safety / Cushion **GOOD / 1.9**

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. Hasbro scores a 1.9 on our Dividend Cushion™, which is GOOD.

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. Hasbro registers an EXCELLENT rating on our scale, and we think the firm's annual dividend will be $3.62 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. Hasbro registers a score of MEDIUM on our scale.

Dividend Track Record **HEALTHY**

Fiscal Year	Div/Share ($)	Div Growth %	EPS ($)	Payout Ratio
Dec-03	0.12	NA	0.98	12.2%
Dec-04	0.21	75.0	0.96	21.9%
Dec-05	0.33	57.1	1.09	30.3%
Dec-06	0.45	36.4	1.29	34.9%
Dec-07	0.60	33.3	1.97	30.5%
Dec-08	0.76	26.7	2.00	38.0%
Dec-09	0.80	5.3	2.48	32.3%
Dec-10	0.95	18.8	2.74	34.7%
Dec-11	1.15	21.1	2.82	40.8%
Dec-12	1.74	51.3	2.55	68.2%
Dec-13	1.20	-31.0	2.20	54.5%
Dec-14	1.69	40.8	3.20	52.8%
Dec-15	1.81	7.1	3.57	50.7%
Dec-16	1.99	9.9	4.34	45.9%
Dec-17	2.22	11.6	3.12	71.2%
Dec-18	***2.52***	***13.5***	***4.32***	***58.3%***
Dec-19	*2.82*	*12.0*	*5.05*	*55.9%*
Dec-20	*3.10*	*10.0*	*5.77*	*53.8%*
Dec-21	*3.35*	*8.0*	*6.46*	*51.9%*
Dec-22	*3.62*	*8.0*	*7.07*	*51.2%*

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 Hasbro, please visit our website at www.valuentum.com

About the Valuentum Dividend Cushion™ Ratio

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 by Ned Davis Research, S&P 500 stocks that initiated dividends or grew them over time registered roughly a 9.6% annualized return since 1972 (through 2010), while stocks that did not pay out dividends or cut them performed poorly over the same time period.

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

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™ ratio 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 on the basis of our estimates, but if it falls below 1, trouble may be on the horizon.

In the 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 the Valuentum Dividend Cushion…*on next page

*About the Valuentum Dividend Cushion…*from previous page

Here are the results of the study (a Valuentum Dividend Cushion™ below 1 indicates the dividend may be in trouble). The Valuentum Dividend Cushion™ ratio 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 walk-forward analysis (beyond the limitations of a backtested academic study).

The following link, for example, provides more information of the Dividend Cushion ratio tested in a robust out-of-sample walk-forward study across our coverage universe from its inception in 2012 through 2017:

Our Dividend Growth Methodology Is Rocking! ***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) Forecasts adjusted to reflect Sunoco's poor free cash flow trends beyond last reported year.

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

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

*About the Valuentum Dividend Cushion…*from previous page

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.

Here's a glimpse of the Valuentum Dividend Cushion™ ratio (as of November 2017) 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	Symbol	Sector	Div Cushion
Coca-Cola	KO	Consumer Staples	1.4
PepsiCo	PEP	Consumer Staples	1.2
Air Products & Chemicals	APD	Materials	1.3
Ecolab	ECL	Materials	1.2
PPG Industries	PPG	Materials	2.5
Cintas Corp	CTAS	Industrials	2.7
3M	MMM	Industrials	1.6
W.W. Grainger	GWW	Industrials	1.4
Emerson Electric	EMR	Industrials	2.1
Hormel Foods	HRL	Consumer Staples	2.2
McCormick	MKC	Consumer Staples	1.7
Archer-Daniels-Midland	ADM	Consumer Staples	2.1
Sysco	SYY	Consumer Staples	1.4
Target	TGT	Consumer Staples	1.4
Walgreens Boots Alliance	WBA	Consumer Staples	2.0
Wal-Mart	WMT	Consumer Staples	1.6
Leggett & Platt	LEG	Consumer Discretionary	1.3
Clorox	CLX	Consumer Staples	1.2
Colgate-Palmolive	CL	Consumer Staples	1.8
Johnson & Johnson	JNJ	Consumer Staples	2.2
Kimberly-Clark	KMB	Consumer Staples	1.2
Procter & Gamble	PG	Consumer Staples	1.8
VF Corp	VFC	Consumer Discretionary	1.6
Dover	DOV	Industrials	1.2
Illinois Tool Works	ITW	Industrials	1.6

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.

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

*About the Valuentum Dividend Cushion…*from previous page

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 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

The Valuentum Dividend Cushion™ ratio 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 8, Issue 1

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).