

# Sure Dividend

HIGH QUALITY DIVIDEND STOCKS, LONG-TERM PLAN

## July 2014 Edition

By Ben Reynolds

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## Thoughts

The bull market continued through June. It is becoming more and more difficult to find quality businesses trading at fair prices. Many stocks are becoming overvalued due to cheap credit from artificially low interest rates.

As the stock markets continues its bull run, glamour stocks will outperform high quality businesses with slower growth. The market will not continue its upward trajectory indefinitely. When it corrects, high quality dividend growth stocks will be less affected than glamour businesses with bloated valuations and businesses that have relied on cheap credit to remain profitable.

Successful long-term investing requires a steely resolve to not become distracted by the hot stock of the moment. Sticking to the highest quality stocks that reward shareholders through increasing dividends has historically been a winning strategy. This does not mean it outperforms every month, quarter, or even every year. Over time, businesses that are able to compound your investment year after year will outshine businesses that do not have sustainable competitive advantages.

Sure Dividend seeks to find such high quality businesses with strong competitive advantages that reward investors over time. This newsletter examines the 10 stocks I believe are most likely to reward shareholders over the next several years.

## The Top 10 List

The stocks below had the best ranking based on the 8 rules of dividend investing. They are ranked in order from 1 to 10 below.

Ticker	Name	Yield	Payout	Growth	Volatility
WMT	Wal-Mart Stores Inc.	2.55%	39.83%	8.23%	19.14%
PEP	PepsiCo Inc.	3.04%	59.29%	9.25%	17.39%
ABT	Abbott Laboratories	2.14%	40.06%	8.50%	19.84%
GIS	General Mills	3.10%	58.15%	6.84%	17.02%
KO	Coca-Cola Company	2.88%	64.78%	9.04%	18.71%
MCD	McDonald's Corp.	3.21%	58.84%	7.09%	20.14%
XOM	ExxonMobil Corp.	2.72%	37.31%	6.28%	25.33%
PM	Philip Morris	4.47%	73.09%	8.63%	24.05%
CB	Chubb Corp.	2.16%	27.07%	6.45%	27.24%
KMB	Kimberly-Clark Corp.	3.01%	60.16%	5.32%	17.45%

Wal-Mart tops the rankings for the 4<sup>th</sup> consecutive month. The company is an excellent bargain in a largely overvalued market. Abbott Laboratories ranks highly on the list this month due to strong growth and solid scores in every other category.

Abbott & Kimberly-Clark replaced AT&T and BDX this month. The Top 10 stocks have been relatively stable over the last several months.

Changes occur only when companies release new financial data, or when stock prices change and reduce dividend yields.

An equally weighted portfolio of these 10 businesses has the following characteristics:

	<b>Top 10</b>	<b>S&amp;P500</b>
Dividend Yield:	2.93%	1.79%
Payout Ratio:	51.86%	35.66%
Growth Rate:	7.56%	7.43%
Volatility:	14.72%	20.34%
PE Ratio:	18.68	19.76

## Stocks to Sell

The stocks below used to be on the top 10 list, and should now be sold.

**NONE**

## Stocks to Hold

The stocks below used to be on the top 10 list. They have since fallen off the top 10 but should be held, not sold.

- Clorox (CLX) – Added April 2014, replaced by GPC
- Target (TGT) – Added April 2014, replaced by MMM
- Genuine Parts Co. (GPC) – Added May 2014, replaced by PM
- 3M (MMM) – Added May 2014, replaced by T
- AFLAC (AFL) – Added April 2014, replaced by BDX
- AT&T (T) – Added June 2014, replaced by ABT
- Becton, Dickinson, & Co. (BDX) – Added June 2014, replaced by KMB

# Review of April's Top 10 Stocks

## WalMart Stores, Inc.

### Overview

WalMart Stores, Inc. is the world's largest retailer, operating 11,302 stores under 71 names in 27 countries with 2.2 million employees serving nearly 250 million customers each week. The company operates Sam's Club stores as well as its flagship Walmart stores.

### Safety

Walmart has a strong competitive advantage because of its size. The company can purchase products in such a high volume that it has significant control over its suppliers. The company can squeeze vendors for the lowest possible prices and pass the savings on to consumers which further increases sales and reinforces the company's scale.

The company posted 2.1% constant currency sales growth in the most recent quarter. More importantly, international sales increased at 3.4% on a constant currency basis, outstripping US sales. The company's future growth lies with its ability to expand internationally. Positive international sales growth shows the company is executing on its international strategy.

The 2007 to 2009 recession did not slow Walmart. Per share earnings, revenue, dividends, and book value all increased throughout the recession. Wal-Mart stock had a total return of 21.59% in 2008 (during the worst of the recession), compared to -36.24% for the stock market (as measured by the ETF SPY).

### Relevant Stats

10 Year Dividend Growth Rate:	12.33%
Consecutive Years with Dividend Increase:	41
Expected Future Dividend Growth:	9.50%
Forward Dividend Yield:	2.54%

# **PepsiCo.**

## **Overview**

PepsiCo is a worldwide food and beverage corporation with 22 brands that have more than \$1 billion per year in sales. Some of the company's notable brands are listed below:

Drink Brands: Pepsi, Gatorade, and Tropicana

Snack Brands: Doritos, Ruffles, Cheetos, Lay's, Sabritas, & Quaker

PepsiCo is able to sell over \$66 billion worth of drinks and snacks each year due to its powerful brands. The company invests heavily in advertising to strengthen its brands in consumer minds. PepsiCo operates in a very slow changing industry. The company's combination of strong brands in a change resistant industry create a business that is likely to continue rewarding shareholders with both dividend and earnings growth for the long-term.

PepsiCo's largest growth opportunity is continued international expansion. The company currently generates about 50% of its revenues overseas. The company grew emerging market revenue 9% for the first quarter of 2014. PepsiCo has proven it has a viable international growth strategy.

## **Safety**

PepsiCo will continue being a strong, stable company as long as people around the world continue to eat salty snacks and drink sodas, sports drinks, and juices.

PepsiCo has historically done well during recessions. The company's earnings per share only dipped from \$3.34 to \$3.21 during the recession of 2007 to 2009.

## **Relevant Stats**

10 Year Dividend Growth Rate: 11.44%

Consecutive Years with Dividend Increase: 42

Expected Future Dividend Growth: 5.00%

Forward Dividend Yield: 2.92%

# Abbott Laboratories

## Overview

Abbott Laboratories manufactures and sells pharmaceuticals, diagnostic systems & tests, nutritional products, and products for the treatment of vascular diseases. Some of the company's more well known products include Pedialyte, Similac, and Ensure.

Abbott Laboratories generates 71% of its revenues internationally. The company generates the largest portion of its revenue from emerging markets, at 41% of total revenues.

Abbott Laboratories growth is being driven by rising per capita income and increasing populations in the developing world. The company's strong international presence in the rapidly growing health care industry gives Abbott Laboratories a long growth runway.

## Safety

Abbott's earnings are diversified across the health care industry and throughout the world. The company performed very well during the recession of 2007 to 2009. Earnings increased each year of the recession.

## Relevant Stats

10 Year Dividend Growth Rate:	N/A (due to ABBV spinoff)
Consecutive Years with Dividend Increase:	42
Expected Future Dividend Growth:	8.00%
Forward Dividend Yield:	2.11%



# General Mills

## Overview

General Mills is a global producer of branded food products. The company's food portfolio includes cereals, baking products, snacks, frozen foods, meals, and yogurt.

The company has a very impressive history of rewarding shareholders with 115 years of dividend payments without a reduction. The company owns the following brands (among others):

Yoplait, Cheerios, Hamburger Helper, Nature Valley, Old El Paso, Hagen-Dazs, Green Giant, Pillsbury, & Betty Crocker

General Mills ability to consistently pay dividends for 115 years comes from the company's strong brands in the slow changing food industry. As consumer tastes have slowly evolved, General Mills has been able to either acquire successful brands or innovate new brands internally to stay current.

General Mill's future growth will come increasingly from international sales as the company expands globally. General Mills was able to grow international sales 4% in 2014.

## Safety

General Mills safety is exemplified by its 115 year history of dividend payments without a reduction. The company performed very well during the recession of 2007 to 2009. Earnings per share increased throughout the recession. The company also posted positive total stock returns in 2007, 2008, and 2009; a feat very few stocks accomplished.

## Relevant Stats

10 Year Dividend Growth Rate:	10.22%
Consecutive Years with Dividend Increase:	11 (115 yrs w/o decrease)
Expected Future Dividend Growth:	7.50%
Forward Dividend Yield:	3.09%

# Coca-Cola

## Overview

Coca-Cola is the largest beverage company in the world. They have 4 of the world's top 5 sparkling (carbonated) beverages: Coca-Cola, Diet Coke, Fanta, & Sprite. Coca-Cola also owns the following brands:

Dasani, Minute Maid, Powerade, Simply Orange, Vitamin Water, Smart Water, Honest Tea, NOS Energy Drink, and Odwalla (among many more).

In total, the company has 17 brands with over \$1 billion per year in sales. Coca-Cola beverages are enjoyed in over 200 countries, with 1.9 *billion* servings consumed each day. The company is fueling growth through overseas expansion and market share gains in still (non-carbonated) beverages. Coca-Cola has captured *33% of global juice growth since 2007*.

## Safety

Coca-Cola was established in 1886. The world has changed substantially since then. Out of all that change, consumers still enjoy the taste of Coca-Cola.

Coca-Cola is well diversified within the beverage industry with diet, energy, and health conscious options. It is difficult to imagine a scenario where Coca-Cola does not continue to provide quality beverages to the world.

The economic downturn from 2007 to 2009 did not significantly affect Coca-Cola due to the low cost of their products and the power of their brand. Earnings dropped from \$1.51 in 2008 to \$1.47 in 2009. By 2010, earnings had increased to \$1.75 per share. Coca-Cola is among the safest and best branded businesses in the world.

## Relevant Stats

10 Year Dividend Growth Rate:	9.33%
Consecutive Years with Dividend Increase:	52
Expected Future Dividend Growth:	8.00%
Forward Dividend Yield:	2.88%

# McDonald's Corporation

## Overview

McDonald's operates and franchises over 35,000 restaurants. The company serves 70 million customers *every day*. McDonald's was founded in 1940 and is the most recognized fast food brand worldwide.

The company's competitive advantage comes from its strong brand and its ability to expand quickly through franchising. McDonald's golden arches are recognized throughout the world. McDonald's has experience significant international success. The company currently generates more revenue in Europe than in the US.

McDonald's is focusing on growing their brand and business through enhancing the menu, improving customer service, and modernizing its stores throughout the world.

## Safety

McDonald's Corporation is virtually recession-proof due to their low priced food items. During the recession of 2007 to 2009, McDonald's Corporation *earnings per share increased each year*. The company had the lowest drawdown of any dividend aristocrat over the recession.

## Relevant Stats

10 Year Dividend Growth Rate:	19.40%
Consecutive Years with Dividend Increase:	37
Expected Future Dividend Growth:	8.00%
Forward Dividend Yield:	3.22%

# Exxon Mobil

## Overview

Exxon Mobil is the largest oil company in the world and successor to Rockefeller's Standard Oil. Exxon Mobil holds the record for highest profits for a corporation in a year. In fact, the top 5 highest profits in a year belong to Exxon Mobil.

1. Exxon Mobil (2008) \$46.55 billion
2. Exxon Mobil (2007) \$45.01 billion
3. Exxon Mobil (2006) \$44.47 billion
4. Exxon Mobil (2005) \$42.22 billion
5. Exxon Mobil (2011) \$41.84 billion

Exxon Mobil splits its operations into 3 categories: Upstream (79% of profits), Downstream (10% of profits), & Chemical (11% of profits).

Upstream:	Exploration & production of oil	79% of profits
Downstream:	Refining, processing, & transportation	10% of profits
Chemical:	Production of oil based chemicals	11% of profits

## Safety

Exxon Mobil is among the safest companies in the world in which to invest due to the enormous profits from its upstream division. They are financed conservatively with a low debt to income ratio.

Exxon's competitive advantage comes from its scale, industry expertise, and strong ties to government. The business will likely continue to thrive as long as people demand energy in the form of gas and oil. The company's future growth will come from increasing energy demands brought about from the growing global population.

## Relevant Stats

10 Year Dividend Growth Rate:	9.80%
Consecutive Years with Dividend Increase:	31
Expected Future Dividend Growth:	7.50%
Forward Dividend Yield:	2.75%

# Philip Morris International

## Overview

Philip Morris sells Marlboro, Parliament, Virginia Slims, and other cigarette brands internationally. They do not sell tobacco products in the United States; Philip Morris' sister company Altria (MO) sells the same brands in the US. Philip Morris derived its \$80 billion 2013 revenues by region as follows:

European Union:	27.54%
Eastern Europe, Middle East, & Africa:	28.08%
Asia:	33.64%
Latin America & Canada:	10.74%

The biggest challenge facing Philip Morris (and other tobacco companies) is the slow decline in cigarette sales throughout the world brought on by increased awareness to cigarette health effects. Philip Morris has managed to grow in spite of the declining cigarette industry by taking market share from competitors. The company has *expanded margins* as taxes have increased by raising prices slightly more than the cost of cigarette taxes.

## Safety

The company has increased its dividend every year since spinning off from Altria in 2008. In addition, the company's revenue per share has increased each year since 2008. Philip Morris increased Marlboro's market share in all 4 of its major regions in 2013.

The tobacco industry is incredibly profitable and minimally effected by recessions. Philip Morris International is globally diversified and likely to continue rewarding shareholders through its stable cash flows derived from its strong brands.

## Relevant Stats

10 Year Dividend Growth Rate:	11.09% (6 yrs of data)
Consecutive Years with Dividend Increase:	6 (45 including MO history)
Expected Future Dividend Growth:	6.00%
Forward Dividend Yield:	4.43%

# Chubb Corporation

## Overview

Chubb Corporation sells home, car, business, & supplemental health insurance. The company sells insurance through independent agents and brokers throughout North & South America, Australia, Europe, & Asia.

In 2013 75% of Chubb's premium revenue came from the US with just 25% coming from other countries. Their premium revenue by category is broken down below:

Commercial Insurance:	\$5.3 billion (43%)
Personal Insurance:	\$4.3 billion (35%)
Specialty Insurance:	\$2.6 billion (22%)

## Safety

Chubb Corporation approaches insurance very conservatively. Their combined expenses and claims have been less than premium revenue every year since 2002; all investment revenue has been pure profit since 2002.

The company's conservative nature and focus on niche insurance markets give Chubb group its competitive advantage. The insurance industry is very slow to change, making it very likely that Chubb will continue to reward shareholders for the foreseeable future.

Chubb Corporation's earnings are more volatile than many of the consumer products companies on this list due to the nature of the insurance industry.

Chubb Corporation was not significantly affected by the 2007 to 2009 recession. Book value per share dipped only slightly from \$38.56 in 2007 to \$38.13 in 2008. By 2009, book value per share had rebounded to \$47.09

## Relevant Stats

10 Year Dividend Growth Rate:	9.54%
Consecutive Years with Dividend Increase:	32
Expected Future Dividend Growth:	5.00%
Forward Dividend Yield:	2.17%

# Kimberly-Clark Corporation

## Overview

Kimberly Clark Corporation develops, manufactures, and markets personal care products. Kimberly Clark Corporation is Split into 4 operating divisions which each have well known brands:

Personal Care:	Huggies, PullUps, Depend, Kotex
Consumer Tissue:	Kleenex, Scott, Viva
K-C Professional:	Jackson Safety, and other professional eyewear
Health Care:	Various medical products

In 2013 Kimberly Clark had revenues of \$10.79 billion in the US, \$2.99 billion in Europe, and \$8.12 billion in Asia, Latin America, and other. The bulk of their growth comes from outside the US.

Kimberly Clark is expected to spin-off its Health Care division to shareholders this year.

## Safety

Kimberly Clark sells products that do not go out of style at a premium price due to their strong brand. The brand Kleenex is so dominant that many people call tissues “Kleenex”, even if it isn’t the Kleenex brand!

Tissues, paper towels, diapers, and feminine care products will be around for a long time to come. Kimberly Clark does not face any dangers from changing technology or industry trends.

Kimberly Clark is fairly recession proof, as the majority of their products are “essentials” that are purchased regardless of the economy. Kimberly Clarks earnings per share dipped from \$4.25 in 2007 to \$4.06 in 2008.

## Relevant Stats

10 Year Dividend Growth Rate:	8.16%
Consecutive Years with Dividend Increase:	42
Expected Future Dividend Growth:	4.00%
Forward Dividend Yield:	3.03%

## List of All Stocks

The following 128 businesses all have 25+ years of dividend payments without a reduction. The list is ranked in order based on the 8 Rules of Dividend Investing, with the highest ranked stocks first. Canadian stocks are denoted in **Red**.

1.	WMT	27.	JNJ	53.	ADM	79.	TR	105.	GRC
2.	PEP	28.	SHW	54.	PNR	80.	MGEE	106.	BWL.A
3.	ABT	29.	CPB	55.	IMO	81.	ABBV	107.	UHT
4.	GIS	30.	ENB	56.	PH	82.	PPG	108.	ABM
5.	KO	31.	CTAS	57.	TROW	83.	SWK	109.	EGN
6.	MCD	32.	CVX	58.	MHFI	84.	NWN	110.	RPM
7.	XOM	33.	KRFT	59.	CU.TO	85.	TDS	111.	APD
8.	PM	34.	ED	60.	CSVI	86.	FUL	112.	OTTR
9.	CB	35.	ADP	61.	NDSN	87.	WGL	113.	HCP
10.	KMB	36.	VFC	62.	AWR	88.	EV	114.	SJW
11.	SJM	37.	FTS.TO	63.	ITW	89.	EMR	115.	LEF
12.	GWW	38.	HSY	64.	RLI	90.	PNY	116.	NFG
13.	ECL	39.	VAL	65.	MDLZ	91.	CLC	117.	CWT
14.	HRL	40.	TGT	66.	CTBI	92.	EFSI	118.	JCI
15.	BDX	41.	CL	67.	EMP-A	93.	FFIN	119.	UBSI
16.	BCR	42.	BCE	68.	BEN	94.	BKH	120.	NC
17.	T	43.	TMP	69.	BF-B	95.	CINF	121.	UNS
18.	CLX	44.	WAG	70.	DOV	96.	NTRS	122.	TNC
19.	MMM	45.	HP	71.	ORI	97.	SCL	123.	FRT
20.	MKC	46.	SYY	72.	SON	98.	RAVN	124.	CAH
21.	PG	47.	CBSH	73.	ATO	99.	CSL	125.	NUE
22.	FDO	48.	BMS	74.	DCI	100.	CWS	126.	MSA
23.	GPC	49.	UVV	75.	LANC	101.	MSEX	127.	DBD
24.	AFL	50.	LOW	76.	SRCE	102.	MCY	128.	BRC
25.	SIAL	51.	UGI	77.	VVC	103.	WEYS		
26.	MDT	52.	MO	78.	AJG	104.	STR		



## Performance

This section tracks the total return of each recommendation made by Sure Dividend and compares the recommendation versus the total return of the stock market (as measured by the ticker SPY) over the same time period.

Ticker	Start	Start Price	Dividends	Price Now	Return	Market Return	Difference
WMT	7-Apr	\$77.31	\$0.48	\$75.75	-1.40%	8.03%	-9.43%
PEP	7-Apr	\$83.91	\$0.66	\$90.02	8.06%	8.03%	0.03%
KO	7-Apr	\$38.62	\$0.31	\$42.23	10.14%	8.03%	2.10%
MCD	7-Apr	\$97.01	\$0.81	\$100.98	4.93%	8.03%	-3.11%
CB	7-Apr	\$88.64	\$0.50	\$92.85	5.31%	8.03%	-2.72%
XOM	7-Apr	\$96.78	\$0.69	\$102.59	6.72%	8.03%	-1.32%
KMB	7-Apr	\$110.11	\$0.84	\$111.88	2.37%	8.03%	-5.66%
AFL	7-Apr	\$61.72	\$0.37	\$63.29	3.14%	8.03%	-4.89%
CLX	7-Apr	\$88.79	\$0.71	\$91.90	4.30%	8.03%	-3.73%
TGT	7-Apr	\$60.50	\$0.43	\$59.51	-0.93%	8.03%	-8.96%
GPC	5-May	\$84.73	\$0.58	\$89.05	5.78%	5.70%	0.08%
MMM	5-May	\$140.61	\$0.86	\$145.41	4.02%	5.70%	-1.67%
GIS	2-June	\$54.91	\$0.00	\$53.05	-3.39%	3.24%	-6.63%
T	2-June	\$35.44	\$0.00	\$35.84	1.13%	3.24%	-2.11%
PM	2-June	\$88.32	\$0.94	\$85.69	-1.91%	3.24%	-5.15%
BDX	2-June	\$118.05	\$0.55	\$120.12	2.22%	3.24%	-1.02%

\*Comparisons are virtually worthless over short timeframes (like the 3 months or less above). 3 years and longer is a fair timeframe to judge performance.

Only Pepsi, Coca-Cola, and Genuine Parts Company have outperformed the market since inclusion into the Sure Dividend portfolio. Thirteen of the other sixteen selections have underperformed the market since inclusion.

High quality dividend stocks tend to slightly underperform the market in strong bull markets, which we have seen over the last several months. The long-term prospects of all businesses on the list remain positive.

Over a long-horizon, I believe the total return of the Sure Dividend strategy will outpace the total return of the stock market, with significantly less volatility. This performance page accurately tracks how true the above statement turns out to be.

## Portfolio Building Guide

Invest in the top ranked stock you own the smallest dollar amount of each month. Over time, you will build a well-diversified portfolio of great businesses purchased at attractive prices.

### Examples

Portfolio 1		
Ticker	Name	Amount
WMT	Wal-Mart Stores Inc.	\$ 1,002
PEP	PepsiCo Inc.	\$ -
ABT	Abbott Laboratories	\$ -
GIS	General Mills	\$ -
KO	Coca-Cola Company	\$ -
MCD	McDonald's Corp.	\$ -
XOM	ExxonMobil Corp.	\$ -
PM	Philip Morris	\$ -
CB	Chubb Corp.	\$ -
KMB	Kimberly-Clark Corp.	\$ -

Portfolio 2		
Ticker	Name	Amount
WMT	Wal-Mart Stores Inc.	\$ 4,374
PEP	PepsiCo Inc.	\$ 4,878
ABT	Abbott Laboratories	\$ 4,353
GIS	General Mills	\$ 2,952
KO	Coca-Cola Company	\$ 3,309
MCD	McDonald's Corp.	\$ 4,864
XOM	ExxonMobil Corp.	\$ 6,660
PM	Philip Morris	\$ 2,367
CB	Chubb Corp.	\$ 2,818
KMB	Kimberly-Clark Corp.	\$ 6,243

If you had portfolio 1, you would buy PepsiCo, the top ranked stock you own least.

If you had portfolio 2, you would buy Philip Morris, the top ranked stock you own least.

If you have an existing portfolio, switch over to the Sure Dividend strategy over a period of 20 months. Each month, take 1/20 of your initial portfolio value, and buy the top ranked stock you own the least (as per the examples above).

When you sell a stock, use the proceeds to purchase the top ranked stock you own the least. Reinvest dividends in the same manner.

This simple investing process will build a diversified portfolio of high quality dividend stocks over a period of less than 2 years. Your savings will be invested only in highly ranked stocks by buying in over a period of time. Further, higher ranked stocks will get proportionately more investment dollars as they will stay on the rankings longer. You will build up large positions in the highest quality stocks over your investing career.

Alternatively, the Top 10 list is also useful as an idea generation tool for those with a different portfolio allocation plan.

## Ending Thoughts

As we move through 2014, there are fewer high quality investments available at attractive prices. The bull market continues to raise all equity prices. When stock prices begin to fall, those who have invested in businesses that only succeed in times of cheap credit and prosperity will see real value destroyed.

Investing in high quality businesses makes it much more likely that the stocks in your portfolio will be able to survive through all economic environments.

Attempting to time the market by jumping in and out of momentum stocks can lead to short periods of outperformance followed by substantial losses. It is best to keep an even keel and invest dispassionately in businesses with strong competitive advantages.

You can reach me at [ben@suredividend.com](mailto:ben@suredividend.com) with any comments, suggestions, feedback, or reviews.

Thanks,

Ben Reynolds

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### Disclaimer

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