

Sure Dividend

HIGH QUALITY DIVIDEND STOCKS, LONG-TERM PLAN

October 2014 Model Portfolio

By Ben Reynolds

20 Stock Model Portfolio

The 20 Stock Model Portfolio weights the Top 20 high quality dividend stocks based on the 8 Rules of Dividend Investing so that stocks with lower correlations and higher quality scores are more heavily weighted in the portfolio.

The portfolio is designed to spread risk across various factors so investors are not overly exposed to any one stock, industry, or risk factor. The 20 stock portfolio is well diversified, with no holding making up more than 10% of the total portfolio value.

The 20 Stock Model Portfolio Target Weights are for investors looking to start their model portfolio. If you are currently running the portfolio, refer to the **Rebalancing and Closed Positions** portion of this guide to see if rebalancing is needed or if positions need to be switched. This month, Clorox should be sold from the portfolio and replaced with Medtronic.

Portfolio Construction Rules

The 20 Stock Model Portfolio is updated each month. Holdings will be sold if they have a P/E ratio over 40, or if a dividend payment is reduced or eliminated. Additionally, if a position falls out of the top 30% of rankings using the 8 Rules of Dividend Investing, it will be eliminated and replaced with a higher ranked stock.

Otherwise, positions will be rebalanced if they are 50% above or below the target weight. Performance will be tracked on both absolute and risk adjusted metrics and compared to the performance of the S&P500, as measured by the ticker SPY.

Suitability

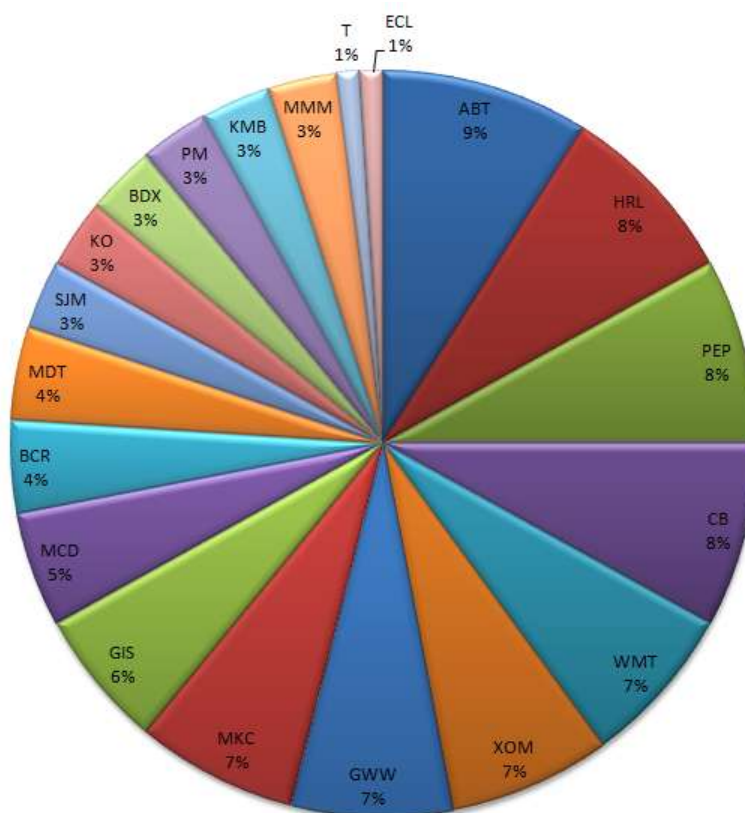
The 20 Stock Model Portfolio is suitable for investors who are no longer in the accumulation phase of investing; people who have a fixed amount of assets and are no longer saving money each month. Retirees are an excellent example of a group for whom this 20 stock model portfolio may be suitable.

The goal of the model portfolio is to provide steady, growing dividend income from extremely stable businesses while minimizing overall volatility by maximizing gains from diversification. The overall portfolio statistics are below for this month's target weights:

Metrics

Growth Rate:	7.23%	Current Dividend Yield:	2.42%
P/E Ratio:	17.69	Standard Deviation:	14.40%

20 Stock Model Portfolio Target Weights



Ticker	Company	Target Weight
ABT	Abbott Laboratories	9%
HRL	Hormel Foods	8%
PEP	PepsiCo	8%
CB	Chubb Corporation	8%
WMT	Wal-Mart Stores	7%
XOM	Exxon Mobil	7%
GWV	W.W. Grainger	7%
MKC	McCormick & Company	7%
GIS	General Mills	6%
MCD	McDonald's	5%
BCR	CR Bard	4%
MDT	Medtronic	4%
SJM	J.M. Smucker	3%
KO	The Coca-Cola Company	3%
BDX	Becton, Dickinson and Company	3%
PM	Philip Morris	3%
KMB	Kimberly-Clark	3%
MMM	3M Company	3%
T	AT&T	1%
ECL	EcoLab	1%

20 Stock Model Portfolio Fundamentals

Ticker	Company	P/E	Yield	Payout Ratio	Growth Rate	Volatility	Correlation
ABT	Abbott Laboratories	18.57	2.11%	39.17%	6.50%	19.84%	.4152
HRL	Hormel Foods	23.55	1.55%	36.45%	6.71%	20.13%	.3598
PEP	PepsiCo	20.33	3.04%	56.97%	10.64%	17.39%	.4565
CB	Chubb Corporation	13.23	2.15%	28.37%	6.58%	27.24%	.4563
WMT	Wal-Mart Stores	15.01	2.48%	37.27%	8.21%	19.14%	.4130
XOM	Exxon Mobil	11.74	2.94%	34.46%	6.20%	25.33%	.4825
GWW	W.W. Grainger	20.42	1.69%	34.56%	10.13%	26.09%	.4354
MKC	McCormick & Co.	20.76	2.16%	44.394%	5.71%	19.18%	.4306
GIS	General Mills	17.83	3.25%	57.95%	6.76%	17.02%	.4160
MCD	McDonald's	17.25	3.42%	58.95%	6.98%	20.14%	.4077
BCR	C.R. Bard	17.62	0.60%	10.60%	6.48%	21.12%	.3735
MDT	Medtronic	15.86	1.88%	29.77%	6.38%	24.13%	.4120
SJM	J.M. Smucker	16.31	2.59%	42.31%	6.30%	21.26%	.3815
KO	The Coca-Cola Co.	20.48	2.83%	58.00%	9.04%	18.71%	.4747
BDX	Becton, Dickinson	18.53	1.88%	34.88%	8.03%	20.23%	.4160
PM	Philip Morris	16.57	4.73%	78.43%	8.63%	24.05%	.4916
KMB	Kimberly-Clark	18.89	3.12%	58.89%	5.32%	17.45%	.4629
MMM	3M Company	18.81	2.44%	45.91%	6.19%	22.75%	.4779
T	AT&T	13.60	5.21%	70.82%	4.02%	22.30%	.4619
ECL	EcoLab	27.63	0.96%	26.61%	10.46%	23.69%	.4791

- P/E is calculated as the current price divided by 2014 EPS as calculated by Value Line; lower is better
- Yield is calculated as the current price divided by the most recent quarterly dividend x 4; higher is better
- Payout ratio is the most recent quarterly dividend x 4 divided by 2014 EPS as calculated by Value Line; lower is better
- Growth Rate is the lower of 10 year revenue per share or dividend per share compound growth; higher is better
- Volatility is the 10 year standard deviation of dividend and split adjusted price series; lower is better
- Correlation is the average correlation coefficient of a stock to the 20 stocks that make up this portfolio; lower is better

20 Stock Model Portfolio Performance (portfolio start date 7/6/14)

Ticker	Company	Start Weight	Current Weight	Total Return	Return Vs SPY
ABT	Abbott Laboratories	9.00%	9.13%	1.20%	1.23%
WMT	Wal-Mart	8.00%	8.20%	2.27%	2.30%
GIS	General Mills	8.00%	7.64%	-4.75%	-4.73%
HRL	Hormel	8.00%	8.50%	5.97%	6.00%
MCD	McDonald's	7.00%	6.71%	-4.49%	-4.47%
PEP	PepsiCo	7.00%	7.35%	4.78%	4.81%
BCR	CR Bard	7.00%	7.01%	-0.17%	-0.14%
SJM	J.M. Smucker	7.00%	6.50%	-7.50%	-7.47%
CLX	Clorox	5.00%	5.29%	5.53%	5.55%
KO	Coca-Cola	5.00%	5.15%	2.76%	2.79%
BDX	Becton, Dickinson	5.00%	4.86%	-3.18%	-3.16%
XOM	ExxonMobil	4.00%	3.70%	-7.83%	-7.81%
PM	Philip Morris	3.00%	2.99%	-0.66%	-0.64%
KMB	Kimberly-Clark	3.00%	2.91%	-3.21%	-3.18%
CB	Chubb Group	3.00%	3.02%	0.33%	0.36%
GWW	W.W. Grainger, Inc.	3.00%	3.08%	2.32%	2.35%
MKC	McCormick & Co.	3.00%	2.90%	-3.70%	-3.67%
T	AT&T	2.00%	1.99%	-0.56%	-0.53%
ECL	EcoLab	2.00%	2.09%	4.21%	4.24%
MMM	3M	1.00%	0.98%	-2.68%	-2.66%
Total	Total	100%	100%	-0.29%	-0.26%

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

Performance Overview

The 20 Stock Model Portfolio made up ground on the overall stock market this month, gaining about 1.4 percentage points on the overall stock market, as measured by the ticker S&P500 ETF SPY. Clorox in particular has performed well, gaining over 8% last month. The rise in the stock's price has caused it to be replaced by Medtronic in the portfolio for next month.

Historically, high quality dividend stocks have outperformed in bear markets and slightly underperformed in bull markets. If the stock market continues downward it is likely the portfolio will suffer less draw downs than the overall market based on historical results.

Rebalancing & Closed Positions

Clorox' price has increased, causing its dividend yield to go down. This has pushed it out of the top 30% of high quality dividend stocks based on the 8 Rules of Dividend Investing. As a result, it has been removed from the 20 Stock Model Portfolio and replaced with Medtronic (MDT). Clorox (CLX) should be sold from the 20 Stock Model Portfolio and replaced with Medtronic (MDT).

No stocks need to be rebalanced as of yet for those who started their portfolio in July. If you started your portfolio more recently then your stocks will have moved less and won't need rebalancing either. If you are building your portfolio now, use the target weights which are the ideal position sizes, not the current weights. Current weights reflect hypothetical position sizes and returns from the date the 20 Stock Model Portfolio was first started.

After Clorox, AT&T is the nearest to falling out of the top 30% of high quality dividend growth stocks based on the 8 Rules of Dividend investing. If AT&T's stock price rises faster than the average of the stocks ahead of it in the 8 Rules rankings, it may be replaced next month. Likely candidates for replacement are Altria (MO) and Johnson & Johnson (JNJ).

Closing Thoughts

Thanks for reading the October edition of Sure Dividend's 20 stock model portfolio. This month was the first that a position was sold (Clorox), and a new position was recommended (Medtronic). The portfolio should have low turnover, with the largest positions changing less frequently than smaller positions. Over a full economic cycle (full bear and bull market period), I believe a portfolio of high quality businesses positioned to minimize overall portfolio volatility will outperform the market with substantially less risk.

We recommend Clorox be sold this month due to its recent price appreciation which has caused it to fall out of the top 30% of stocks based on the 8 Rules of Dividend Investing. The company is trading near all time highs due to plans to exit its loss producing Venezuelan operations as well as rumors of a possible takeover of the company at a premium to current stock prices.

The goal of the 20 stock model portfolio is to provide market beating returns with significantly less volatility. The portfolio will have low turnover. This does not mean Sure Dividend is out of ideas, it simply reflects the conservative nature of the portfolio. The Portfolio is meant to have low turnover to minimize frictional costs like slippage and brokerage fees.

You can reach me at ben@suredividend.com with any comments, suggestions, feedback, or reviews.

Thanks,

Ben Reynolds

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this newsletter should be construed as a recommendation to follow any investment strategy or allocation. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in securities. Past performance is not a guarantee of future performance.