

# Sure Dividend

LONG-TERM INVESTING IN HIGH QUALITY DIVIDEND STOCKS

## January 2017 Edition

By Ben Reynolds

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## Opening Thoughts - Lessons from Flowers Foods -

Flowers Foods stock gained 28.7% over the last month. Such rapid price appreciation is abnormal for stable businesses with long dividend histories.

Flowers Foods stock price rise was due to the company announcing it settled its contractor/employee litigation for only \$9 million. For comparison, fear surrounding the litigation knocked *around \$1 billion* in market cap value off of Flowers Foods.

The gain pushed Flowers Foods out of the top 10. Despite strong returns, it is likely not overvalued. The company is a long-term hold.

The results from Flowers Foods are impressive. Usually shareholders must wait longer for the market to reappraise a stock's value. The underlying template of the Flowers Foods investment is straightforward and very effective:

1. Find shareholder friendly businesses with strong competitive advantages
2. Wait for either a one-time event or weak operating results
3. Buy when others are selling (and the price has declined)

Many of the recommendations in the Sure Dividend Newsletter follow this general guideline. While the recommendations are from the 8 Rules rankings, they tend to match the above template.

There are no 'magic formulas' in investing. It isn't easy to buy when others are selling. When Flowers Foods announced its litigation issues, many investors decided the stock was 'too risky'. While the business risk did (slightly) increase with the announcement, the *price risk* – the risk that you buy in at too high a price and impair your returns – was reduced significantly. When opinion sours on a stock, it is difficult to buy into it. But this tends to be the best time to buy in.

More often than not, the market overreacts. But that doesn't mean it overreacts every time. Sometimes beaten down stocks do not recover. The competitive advantage erodes and the business slowly dies. Investing is about maximizing your chance for success, not about being right 100% of the time.

I believe that investing in shareholder friendly businesses with strong competitive advantages and holding to allow these businesses to compound your wealth maximizes the chance for investing success.

## The Top 10 List – January 2017

Name	Price	Fair Value	Score	Months	Yield	Payout	Growth	Beta	Volatility
AbbVie (ABBV)	\$63	\$71	1.00	4	4.1%	54%	11.8%	0.44	27.3%
Cardinal Healt. (CAH)	\$72	\$104	0.98	9	2.5%	35%	14.6%	0.77	34.1%
Johnson & Joh. (JNJ)	\$115	\$131	0.95	3	2.8%	49%	8.7%	0.55	16.3%
Abbott Labs (ABT)	\$38	\$43	0.94	2	2.8%	49%	8.9%	0.56	20.1%
V.F. Corp. (VFC)	\$53	\$62	0.92	1	3.1%	54%	11.5%	0.89	29.0%
Computer Ser. (CSVI)	\$40	\$41	0.92	4	2.8%	54%	13.7%	N/A	26.6%
Medtronic (MDT)	\$71	\$81	0.92	2	2.4%	38%	8.8%	0.72	24.4%
Boeing (BA)	\$156	\$180	0.91	4	3.6%	59%	12.0%	1.00	30.0%
Disney (DIS)	\$104	\$114	0.91	8	1.5%	27%	14.1%	1.06	27.9%
Hormel (HRL)	\$35	\$34	0.90	2	2.0%	44%	13.6%	0.45	19.5%

*Notes: The 'Score' column shows how close the composite rankings are between the top 10. The highest ranked stock will always have a score of 1. The 'Months' column shows the number of consecutive months a stock has been in the Top 10. The 'Price' column shows the price as of the date the newsletter was published. The 'Fair Value' column gives a rough estimate of the fair value of each stock. Real fair value is unknowable.*

Flowers Foods (FLO) fell out of the top 10 this month due to strong price appreciation. It is still a solid long term hold. Flowers Foods was replaced in the top 10 by V.F. Corporation.

The stability of the top 10 list shows the ranking method is consistent, not based on rapid swings. Stocks that fall out of the top 10 are *holds*, not *sells*. Selling occurs rarely; only when a stock becomes extremely overvalued (normalized P/E ratio > 40), or if a past recommendation reduces its dividend.

An equally weighted portfolio of the top 10 has the following characteristics:

	<b>Top 10</b>	<b>S&amp;P500</b>
Dividend Yield:	2.8%	2.0%
Payout Ratio:	46.0%	51.6%
Growth Rate:	11.8%	7.4%
P/E Ratio:	17.1	25.8

# Analysis of Top 10 Stocks

## AbbVie (ABBV)

### Overview & Current Events

AbbVie was created on January 1<sup>st</sup>, 2013 when it was spun off from Abbott Laboratories. AbbVie is one of the world's largest biopharmaceutical businesses thanks to its \$102 billion market cap. AbbVie employs ~28,000 people and operates 7 research and development facilities globally.

AbbVie recently (10/28/16) announced a 12.3% dividend hike. The boost gives the company's stock a dividend yield of 4.1% at current prices; roughly double the S&P 500's yield. The company has grown its dividend by 60% since its spin-off in 2013. AbbVie also reported 7.1% adjusted earnings-per-share growth in its most recent quarter (10/28/16). The company is expecting ~12% earnings-per-share growth in fiscal 2016, which is about in line with the recently announced dividend increase.

### Competitive Advantage & Recession Performance

AbbVie's competitive advantage comes from its large size. It can acquire promising smaller biopharmaceutical companies and scale their products. The company also has a full product pipeline resulting from its research and development department. Like other pharmaceutical companies, AbbVie protects its research through long-term patents.

Abbott Laboratories still owned AbbVie's business during the Great Recession. AbbVie is assumed to be similarly recession resistant because health care is a top priority regardless of the overall economy.

### Growth Prospects, Valuation, & Catalyst

AbbVie's patent portfolio on Humira began expiring at the end of 2016. AbbVie's management will "vigorously defend" Humira from competitors. Humira is responsible for around 60% of the company's revenue. The company expects Humira revenue to *increase* to \$18 billion by 2020 (from \$15.5 billion currently) through global expansion and other uses for the drug. In addition, the company expects another \$25 to \$30 billion in revenue from its late-stage drug portfolio. The company is expecting growth of around 14% a year going forward. I believe growth of 10% to 12% a year is more likely. Still, this would give the company 14% to 16% total returns with its ~4% dividend yield.

AbbVie is currently trading for an adjusted P/E ratio of 13.2. The company has traded for an average P/E ratio of ~15 since it was spun-off. This implies a fair value of around \$71 a share. The stock is currently trading for ~\$63 a share. If Humira sales continue to grow in 2017 and beyond – proving Humira patent fears were overblown – AbbVie's valuation multiple will likely rise.

### Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	32%	<b>10 Year EPS Growth Rate:</b>	N/A <sup>2</sup>
<b>Dividend Yield:</b>	4.1%	<b>10 Year Dividend Growth Rate:</b>	N/A
<b>Most Recent Dividend Increase:</b>	12.8%	<b>10 Year Historical Avg. P/E Ratio:</b>	N/A
<b>Estimated Fair Value:</b>	\$71/share <sup>3</sup>	<b>10 Year Annualized Total Return:</b>	N/A
<b>Dividend History:</b>	44 years of consecutive increases <sup>4</sup>		

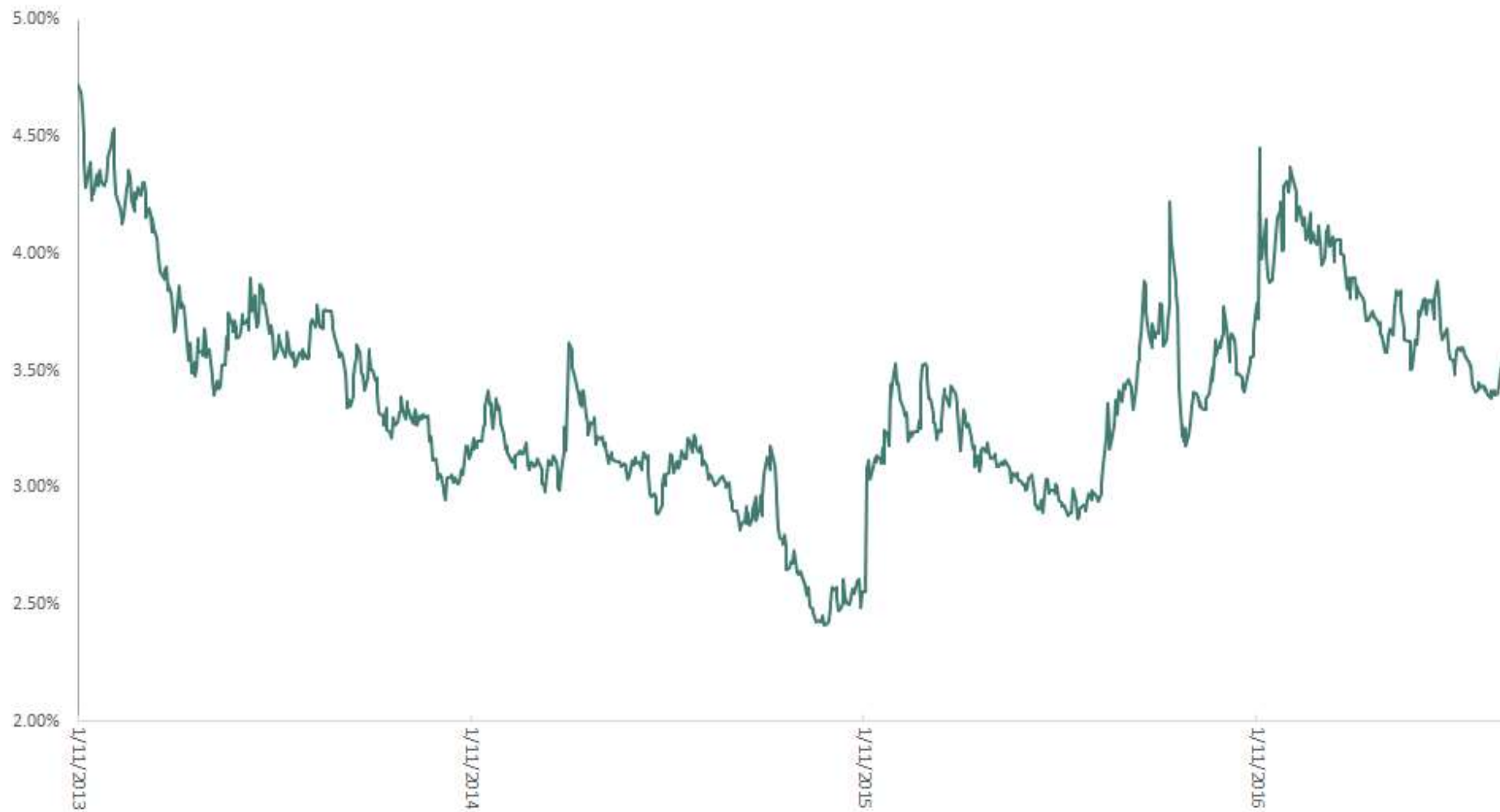
<sup>1</sup> Since 2013. Maximum drawdown occurred in October of 2015

<sup>2</sup> 10 Year stats are all not available due to the company's creating on 1/1/2013.

<sup>3</sup> Currently trading for \$62.62 share

<sup>4</sup> Includes history with Abbott Laboratories, which qualifies the stock for the Sure Dividend system, 45<sup>th</sup> year will be 2017.

### AbbVie Dividend Yield History



**Note:** Most recent dividend increase (payable 2/15/17 to shareholders of record as of 1/13/17) isn't included in the yield image above.

# Cardinal Health (CAH)

## Overview & Current Events

Cardinal Health is one of the 3 largest name-brand and generic drug distributors in the U.S. (McKesson and AmerisourceBergen are the others). These 3 companies have a combined ~85% market share in the U.S. pharmaceutical distribution industry. Cardinal Health serves over 25,000 U.S. pharmacies and provides resources to more than 70% of U.S. hospitals. It is also a top 10 medical distributor in China.

Cardinal Health posted mixed results in its most recent quarter (10/31/16). Revenue grew 14% while adjusted EPS fell 10%. The company reduced its expected EPS growth for fiscal 2017 from a range of 5% to 9% to a range of 3% to 7%. The company is expected to post only mediocre results in 2017 due to lower margins from increased competition amongst the 'Big 3' in the industry.

## Competitive Advantage & Recession Performance

Cardinal Health has a scale-based competitive advantage over smaller competitors. The company serves over 100,000 health care locations *daily* and has revenue of \$126 billion in the last year. Low margins (Cardinal Health has a razor thin 5.2% *gross margin*) in the prescription distribution industry limit new entrants and make the company's scale-based competitive advantage more powerful.

Cardinal Health managed to grow revenue-per-share and dividends-per-share each year through the Great Recession. EPS fell significantly in 2009 due to the spin-off of CareFusion. Cardinal Health's core business segments grew revenue and profit during the Great Recession. Cardinal Health is a recession resistant business as it provides a service (pharmaceutical distribution) that is in demand regardless of the economy.

## Growth Prospects, Valuation, & Catalyst

Prescription medication usage and prescriptions per person continue to rise in the United States.

Cardinal Health also regularly repurchases shares and allocates its capital well. I expect EPS growth of 8% to 12% a year over the long run (after fiscal 2017). The company's management is aiming for 10% to 15% earnings-per-share growth. Expected EPS growth combined with the company's current 2.5% dividend yield gives investors expected total returns of 10.5% to 14.5% per year.

Cardinal Health is currently trading for an adjusted P/E ratio of 13.8. The company has an average P/E ratio of 20 over the last 3 years, which better reflects its growth prospects. Using a P/E ratio of 20, Cardinal Health's fair value is around \$104/share. The stock is currently trading ~\$72/share. Cardinal Health's valuation multiple will likely increase when recent fierce price competition in the industry calms and earnings-per-share growth resumes.

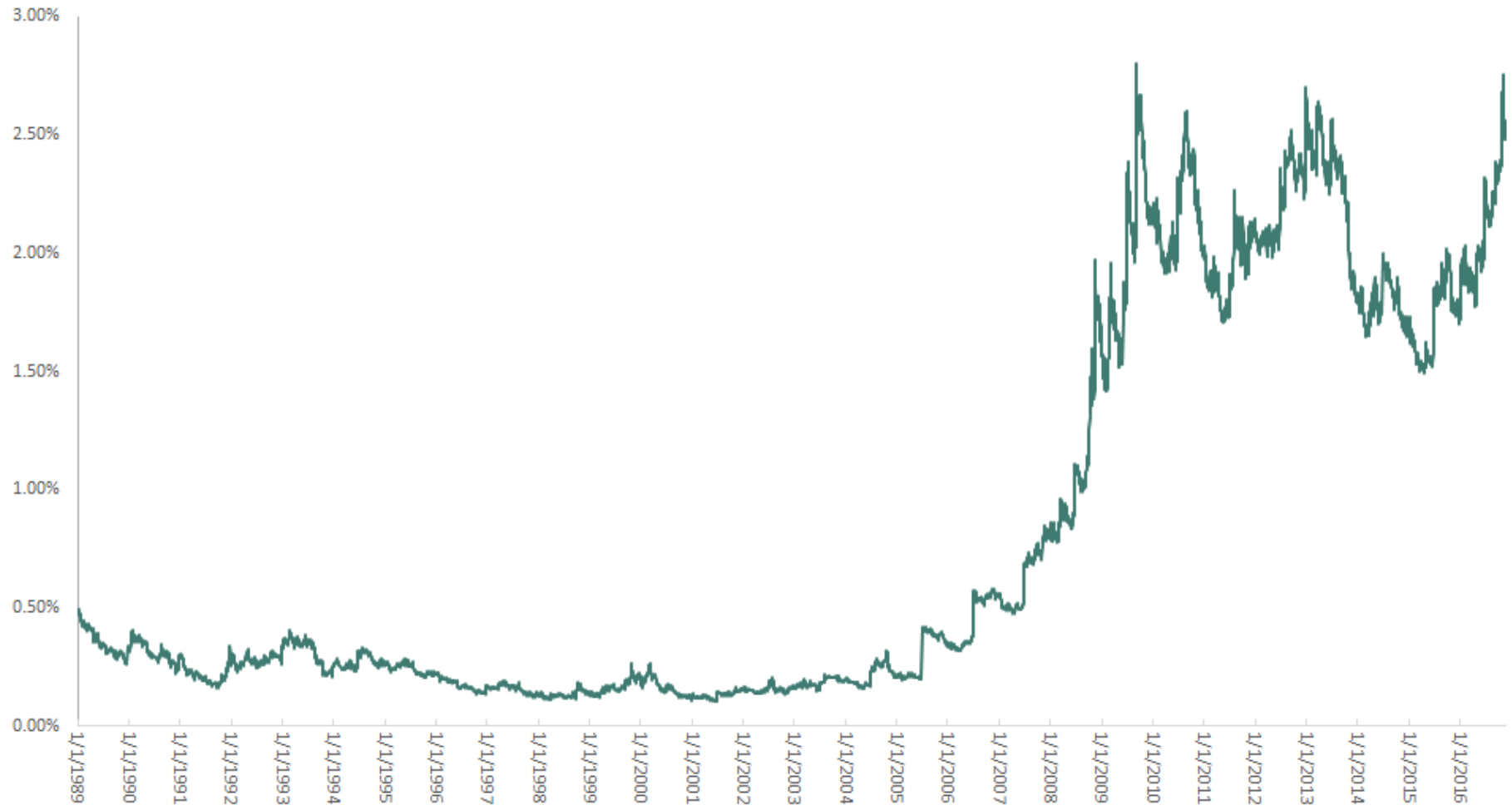
## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	63%	<b>10 Year EPS Growth Rate:</b>	3.4%
<b>Dividend Yield:</b>	2.5%	<b>10 Year Dividend Growth Rate:</b>	16.2%
<b>Most Recent Dividend Increase:</b>	16.1%	<b>10 Year Historical Avg. P/E Ratio:</b>	17.3
<b>Estimated Fair Value:</b>	\$104/share <sup>2</sup>	<b>10 Year Annualized Total Return:</b>	8.6%
<b>Dividend History:</b> 31 years of consecutive increases			

<sup>1</sup> Since year 2000. Maximum drawdown occurred in November of 2008

<sup>2</sup> Currently trading for \$71.97 per share

### Cardinal Health Dividend Yield History





# Johnson & Johnson (JNJ)

## Overview & Current Events

Johnson & Johnson is the largest health care corporation in the world based on its \$315 billion market cap. The company was founded in 1886 and has increased its adjusted earnings-per-share for 32 consecutive years – the longest earnings growth streak of any business I’ve encountered.

Johnson & Johnson operates in 3 segments: consumer, medical devices, and pharma. Johnson & Johnson owns many well-known consumer brands including Tylenol, Band-Aid, Aveeno, Listerine, Zyrtec, among others.

Johnson & Johnson posted strong results in its latest quarter (10/18/16). The company saw adjusted earnings-per-share grow 12.8% versus the same quarter a year ago, with sales growth (excluding divestitures) of 5.9%. Growth was led by the United States pharmaceutical division, which grew sales 11.2%. The company is expecting 8.2% earnings-per-share growth for fiscal 2016.

## Competitive Advantage & Recession Performance

Johnson & Johnson’s 32 consecutive years of *earnings-per-share increases* speak to its strong competitive advantages. The company’s competitive advantages come from a mix of its well-known brands, overall positive reputation, and its excellent research and development department.

Johnson & Johnson is recession resistant. The company’s health care products are just as necessary during recessions as they are during times of prosperity. Johnson & Johnson managed to grow its earnings-per-share and dividends each year through the Great Recession of 2007 to 2009; a rare feat.

## Growth Prospects, Valuation, & Catalyst

Johnson & Johnson’s strongest growth driver will be its pharmaceutical segment. Johnson & Johnson had the most pharmaceutical products approved by the FDA every year from 2011 through 2016. The company has 11 new pharmaceutical products in its pipeline that each have \$1 billion+ annual sales potential. Overall, I expect Johnson & Johnson to grow its earnings-per-share by 6% to 8% a year. This growth combined with the company’s 2.8% dividend yield gives investors expected total returns of 8.8% to 10.8% a year.

With an adjusted price-to-earnings ratio of 17.6, Johnson & Johnson appears undervalued relative to its tremendous competitive advantage in today’s low interest rate market. The company has solid total return prospects and is an extremely low risk investment. Johnson & Johnson has one of the lowest stock price standard deviations of any stock, which reflects its consistent and stable earnings. I believe a price-to-earnings ratio of 20 is fair for this high-quality business. The company does not have a well-defined catalyst. Its valuation multiple should slowly rise if the business continues to perform well.

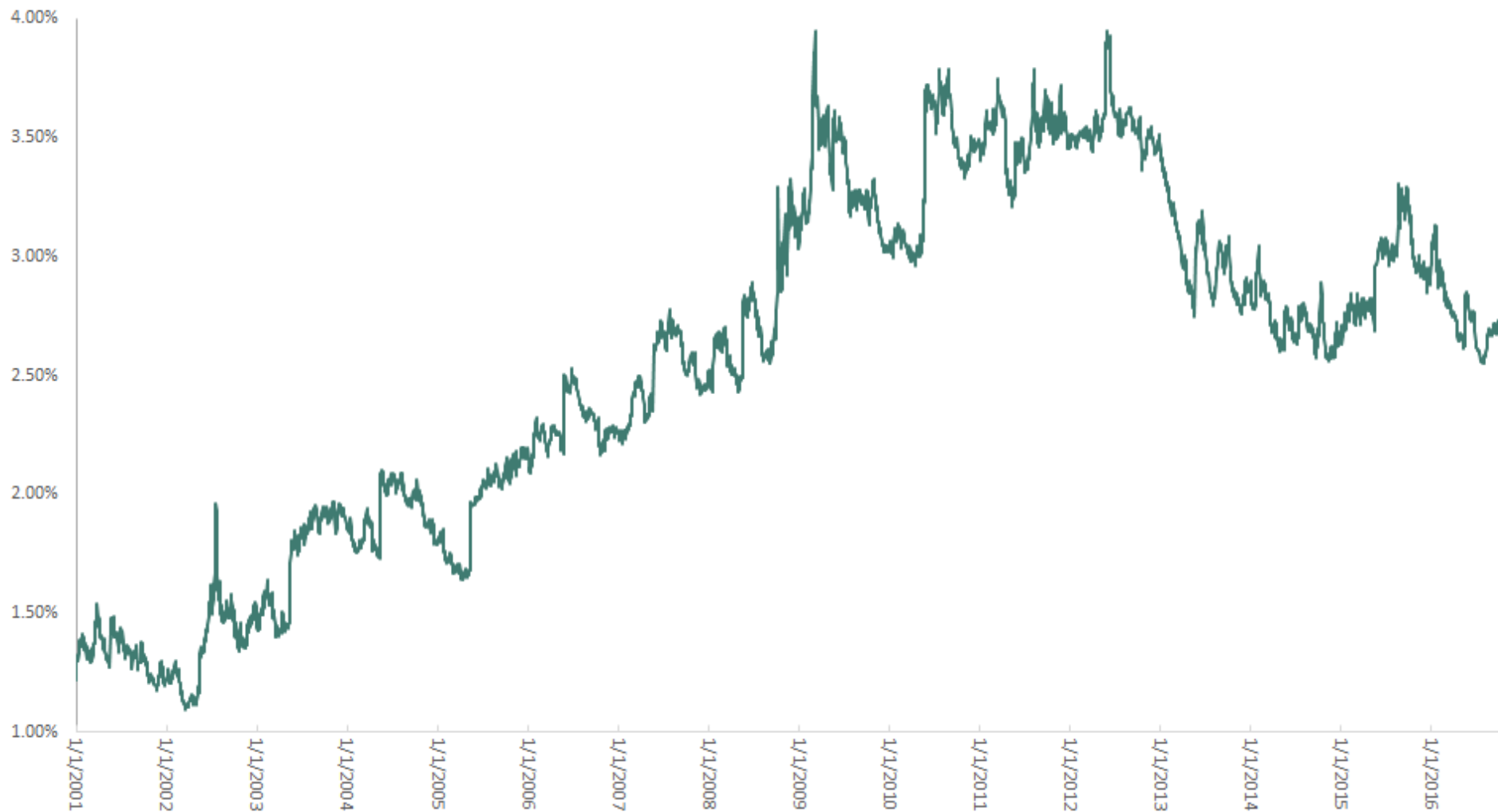
## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>7</sup>:</b>	36%	<b>10 Year EPS Growth Rate:</b>	4.6%
<b>Dividend Yield:</b>	2.8%	<b>10 Year Dividend Growth Rate:</b>	8.7%
<b>Most Recent Dividend Increase:</b>	6.7%	<b>10 Year Historical Avg. P/E Ratio:</b>	15.2
<b>Estimated Fair Value<sup>8</sup>:</b>	\$131/share	<b>10 Year Annualized Total Return:</b>	8.5%
<b>Dividend History:</b> 54 Consecutive years of dividend increases			

<sup>7</sup> Since year 2000. Maximum drawdown occurred in July of 2002.

<sup>8</sup> Currently trading for \$115.21/share

### Johnson & Johnson Dividend Yield History



# Abbott Labs (ABT)

## Overview & Current Events

Abbott Labs is a global health care business with ~50% of revenue from emerging markets, and another ~20% from developed international markets. Abbott operates in 4 segments: Nutrition, Diagnostics, Medical Devices, and Established Pharmaceuticals. Abbott is involved in several deals:

- Sale of optics business to Johnson & Johnson for \$4.25 billion
- Acquisition of St. Jude Medical for \$25 billion (expected to close by end of 2016)
- Acquisition of Alere (ALR) for \$5.8 billion (acquisition in question)

Abbott executives continue to fight the Alere acquisition. The company's management issued a statement (12/7/16) stating that they seek to terminate the acquisition due to criminal subpoenas against Alere, a 5 month delay in Alere filing its 10k, and a "systematic failure of internal control" at Alere.

Abbott reported its third quarter results in October (10/19/16). Adjusted EPS grew 9.3%. The company also recently announced (12/9/16) a 1.9% dividend increase. The small increase is due to the company's cash commitment to the St. Jude and Alere deals.

## Competitive Advantage & Recession Performance

Abbott Labs' competitive advantage comes from its mix of global scale and manufacturing, in addition to well-known nutrition brands. The company's 45 consecutive years of dividend increases shows how durable Abbott's competitive advantage is.

Abbott Laboratories grew EPS each year through the Great Recession. Abbott Laboratories' stock fell just 5% in 2008 while the S&P 500 declined 38%. The company is extremely recession resistant.

## Growth Prospects, Valuation, & Catalyst

International exposure gives Abbott excellent long-term prospects as it benefits from faster growing (relative to developed markets) emerging markets and global aging populations. I expect earnings-per-share growth of 9% to 10% a year over the long-run. This growth combined with the company's 2.8% dividend yield gives investors expected total returns of 11.8% to 12.8% a year.

Abbott's historical average P/E since the AbbVie spin-off is 19. A fair value P/E is at least 20 given Abbott's long-term growth prospects. Abbott's P/E is currently at 17.7. The company appears somewhat undervalued at current prices. Abbott's P/E ratio will likely start to revert upwards once the Alere transaction (or withdrawal) is complete.

## Key Statistics, Ratios, & Metrics<sup>1</sup>

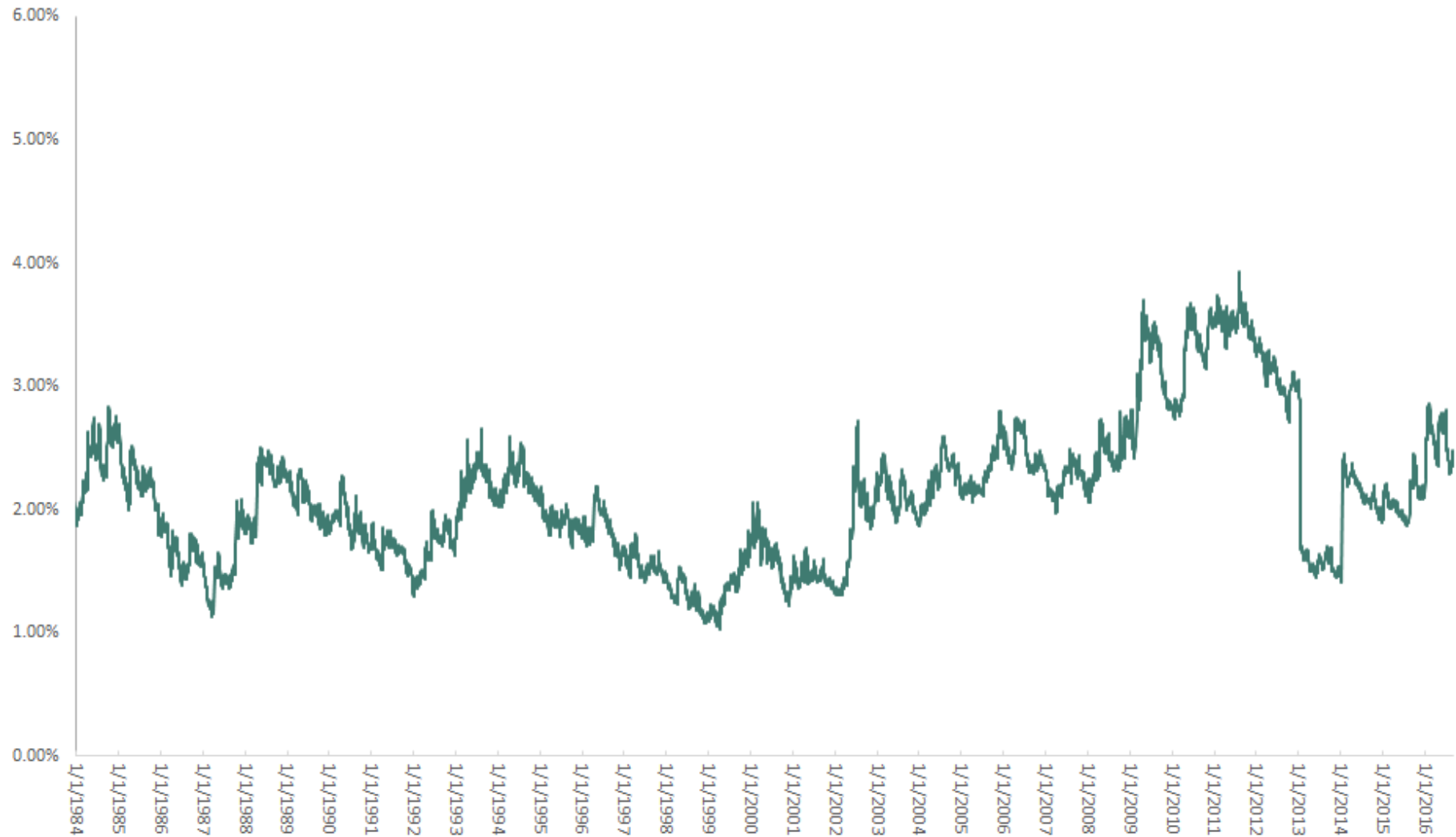
<b>Maximum Drawdown<sup>2</sup>:</b>	46%	<b>10 Year EPS Growth Rate:</b>	N/A
<b>Dividend Yield:</b>	2.8%	<b>10 Year Dividend Growth Rate:</b>	N/A
<b>Most Recent Dividend Increase:</b>	1.9%	<b>10 Year Historical Avg. P/E Ratio:</b>	N/A
<b>Estimated Fair Value<sup>3</sup>:</b>	\$43/share	<b>10 Year Annualized Total Return:</b>	9.5%
<b>Dividend History:</b> 45 years of consecutive increases			

<sup>1</sup> 10 Year EPS Growth Rate, 10 Year Dividend Growth Rate, and 10 Year Historical Average P/E Ratio are 'N/A' due to ABBV Spinoff. Dividend history does not include effects of spin-offs. Dividend yield history below is skewed due to ABBV spinoff.

<sup>2</sup> Since year 2000. Maximum drawdown occurred in July of 2002

<sup>3</sup> Currently trading for \$38.41 per share

### Abbott Labs Dividend Yield History



**Note:** Most recent dividend increase (payable 2/15/17 to shareholders of record as of 1/13/17) isn't included in the yield image above

# V.F. Corporation (VFC)

## Overview & Current Events

V.F. is the world's largest publicly traded apparel supplier. The company owns the Lee, Wrangler, Vans, The North Face, Timberland, Nautica, Jansport, Kipling, and Reef brands (among others).

V.F. posted mixed results in its most recent quarter (10/24/16). Revenue *declined* 1%, while earnings-per-share grew 13%. Excluding one time tax reduction gains, earnings-per-share grew 7.1%. The growth came from a mix of margin improvements from efficiency gains, lower taxes due to growing international sales, and large share repurchases. V.F. also announced a 13.5% dividend increase in its quarterly announcement.

V.F. will have a new CEO (Steve Rendle) taking the helm starting in 2017. Succession planning has been in progress for years at V.F. – the move is not sudden. Additionally, the company recently (8/26/16) sold its Contemporary Brands segment for \$120 million. The segment was struggling to grow and included the following brands: Ella Moss, Splendid, 7 for All Mankind.

## Competitive Advantage & Recession Performance

V.F.'s competitive advantage comes from its durable brands. Most of the company's top brands are in the jeanswear and outdoor & action sports segments. These segments of the apparel industry are less prone to rapid fashion shifts. This allows the company's key brands to remain relevant (and grow) for decades. The company's top 5 brands have been around for over 40 years.

V.F. Corporation performs surprisingly well during recessions. The company saw earnings-per-share decline just 7.2% during the worst of the Great Recession. The company's brands continue to sell reasonably well, even during recessions.

## Growth Prospects, Valuation, & Catalyst

V.F. has compounded its earnings-per-share in double digits over the last decade. The company continues to see strong growth internationally and with online sales, while department store sales are weak. I expect annualized 9% to 14% total returns from V.F. over full economic cycles from share repurchases of 2% a year, ~3% dividend yield, revenue growth of 3% to 6% a year, and margin improvements of 1% to 3% a year.

V.F. stock is currently trading for a P/E ratio of 17.1. This is a bit above the company's 10 year historical P/E ratio, but I believe the stock's brand strength was not properly valued by the market for much of the last decade. A fair P/E ratio for V.F. is around 20 considering its brand strength, shareholder friendly management, and recession resistance. When the company returns to mid-single digit revenue growth, it will likely see its valuation multiple revise upward.

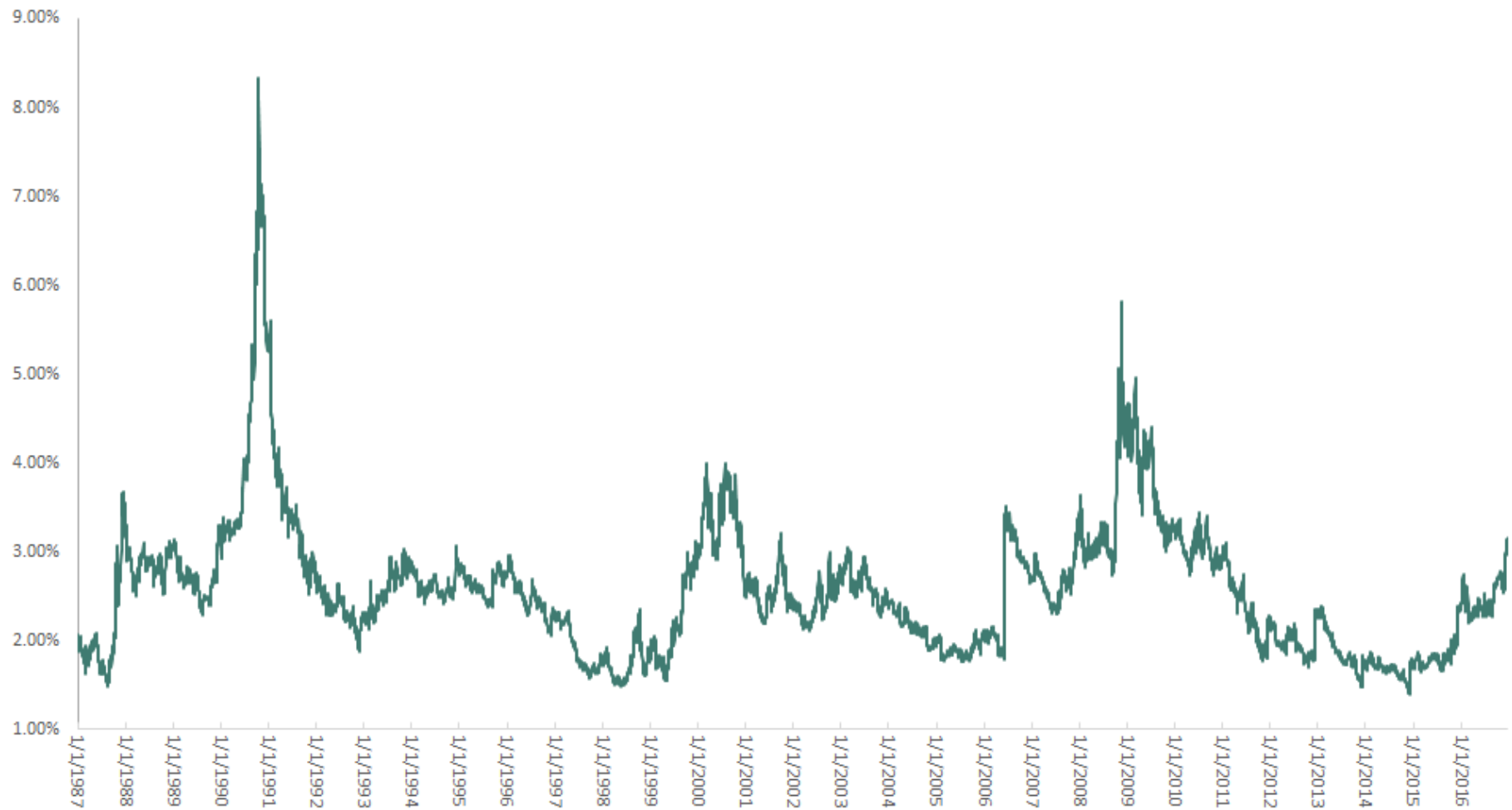
## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	57%	<b>10 Year EPS Growth Rate:</b>	10.4%
<b>Dividend Yield:</b>	3.1%	<b>10 Year Dividend Growth Rate:</b>	16.9%
<b>Most Recent Dividend Increase:</b>	13.5%	<b>10 Year Historical Avg. P/E Ratio:</b>	15.4
<b>Estimated Fair Value:</b>	\$62/share <sup>2</sup>	<b>10 Year Annualized Total Return:</b>	12.9%
<b>Dividend History:</b>	44 years of consecutive increases		

<sup>1</sup> Maximum drawdown occurred in November of 2008

<sup>2</sup> Currently trading for \$53.35 per share

### V.F. Corporation Dividend Yield History



# Computer Services (CSVI)

## Overview & Current Events

Computer Services provides several services for regional banks, including: core bank processing, payment processing, regulatory compliance, and document services. Computer Services was founded in 1965 and has paid increasing dividends for 45 consecutive years. The company is the smallest in this month's top 10 with a market cap of just \$557 million and trades with a low average volume.

Computer Services saw revenue grow 3.1% and earnings-per-share grow 11.3% in its most recent quarter (10/4/16). The company's growth is being driven by a mix of high customer retention and adding new customers. The company currently has \$34 million in cash on its books, with no long-term debt. Computer Services is growing, has a long dividend history, and a clean balance sheet.

## Competitive Advantage & Recession Performance

Computer Services' long dividend increase history shows clear evidence of a durable competitive advantage. The company's competitive advantage stems from its trusted reputation and full-service offerings to banks. The company continues to make acquisitions in the highly fragmented regional bank service industry.

Computer Services posted excellent results through the Great Recession of 2007 to 2009. The company's earnings-per-share *grew each year* through this difficult time – even while the financial sector suffered. The company's services are vital to its customers, even during recessions. Computer Services is a recession resistant business.

## Growth Prospects, Valuation, & Catalyst

Computer Services has grown its earnings-per-share at 10.6% a year over the last decade. Dividends grew at 16.9% a year over the same time. Computer Services uses its stable cash flows to repurchase shares and pay out increasing dividends. The company will continue to grow going forward through bolt-on acquisitions and organic growth. I expect total returns of between 11% and 13% a year going forward from the company's ~3% dividend yield and 8% to 10% expected earnings-per-share growth.

Computer Services' P/E ratio over the last five years has averaged around 18.5. The company is currently trading for a P/E ratio of 19.2. A P/E ratio of around 20 is likely appropriate considering the expansion in market P/E levels. The company appears to be a trading around fair value.

## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	20%	<b>10 Year EPS Growth Rate:</b>	10.6%
<b>Dividend Yield:</b>	2.8%	<b>10 Year Dividend Growth Rate:</b>	16.9%
<b>Most Recent Dividend Increase:</b>	12.0%	<b>10 Year Historical Avg. P/E Ratio:</b>	N/A <sup>2</sup>
<b>Estimated Fair Value<sup>3</sup>:</b>	\$41/share	<b>10 Year Annualized Total Return:</b>	N/A <sup>4</sup>
<b>Dividend History<sup>5</sup>:</b>	45 years of consecutive increases		

<sup>1</sup> Since October of 2011. Maximum drawdown occurred in March of 2016

<sup>2</sup> Due to small size of company, full historical data not available

<sup>3</sup> Currently trading for \$39.70 per share

<sup>4</sup> Due to small size of company, full historical data not available

<sup>5</sup> Dividend history not available due to lack of historical price data

# Medtronic (MDT)

## Overview & Current Events

Medtronic is the world's largest manufacturer of implantable medical devices. The company was founded in 1949 and has a market cap of nearly \$100 billion today. Medtronic relocated to Ireland after acquiring Covidien in 2015 to reduce its tax burden. The company has 88,000 employees in ~160 countries.

Medtronic posted strong results in its most recent quarter (11/22/16). Constant currency adjusted EPS grew 15%. Revenue grew 4% in constant currencies. The company expects revenue growth to pick up in the second half of its fiscal 2017 as it releases new products. Medtronic also recently (12/9/16) announced a 13% dividend increase.

## Competitive Advantage & Recession Performance

Medtronic's competitive advantage comes from its patent portfolio, large research and development expenditures (and competency), and global reach. The company spent ~\$2 billion on research and development in fiscal 2016 which is about 7% of revenues.

Medtronic is a recession resistant business. Demand for the company's medical devices is not correlated with the economic cycle. Medtronic grew earnings-per-share *each year* through the Great Recession from 2007 to 2009. The company has managed to grow adjusted earnings-per-share *every year* since at least the year 2000.

## Growth Prospects, Valuation, & Catalyst

Medtronic's goal is to deliver double-digit earnings-per-share growth over the long run. The company has realized this goal since CEO Omar Ishrak took over in 2011. The company will continue to grow through investing in research and development to create innovative, patented medical products. Medtronic uses its global reach to quickly scale and profit from innovations. Medtronic is very shareholder friendly; regularly returning ~100% of earnings to shareholders through both dividends and share repurchases. The company has a low payout ratio of under 40%. Dividends should continue to grow faster than earnings going forward. I expect total returns of 12%+ from the company's 10%+ expected earnings-per-share growth and 2.4% dividend yield.

Medtronic's P/E ratio averaged above 20 (and was often above 30) from 2000 through 2006. Since then, the company's P/E ratio has trended lower. I believe a fair P/E ratio for the company is at least 18, reflecting its safety and strong growth prospects. Medtronic is currently trading for an adjusted P/E ratio of 15.9. The company's valuation multiple should rise as revenue growth improves.

## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	58%	<b>10 Year EPS Growth Rate:</b>	8.8%
<b>Dividend Yield:</b>	2.4%	<b>10 Year Dividend Growth Rate:</b>	15.5%
<b>Most Recent Dividend Increase:</b>	13.2%	<b>10 Year Historical Avg. P/E Ratio:</b>	15.3
<b>Estimated Fair Value:</b>	\$81/share <sup>2</sup>	<b>10 Year Annualized Total Return:</b>	5.0%
<b>Dividend History:</b>	39 Years of consecutive dividend increases		

<sup>1</sup> Since year 2000. Maximum drawdown occurred in March of 2009

<sup>2</sup> Currently trading for \$71.23 per share



### Medtronic Dividend Yield History



**Note:** Most recent dividend increase (payable 1/13/17 to shareholders of record as of 12/23/16) isn't included in the yield image above

# Boeing (BA)

## Overview & Current Events

Boeing is the largest commercial aircraft manufacturer in the world based on its market cap of \$96 billion. The company's stock has performed well of late, gaining 19% in the last quarter. Despite recent gains, the stock is still trading at a reasonable valuation multiple.

Boeing recently (12/12/16) announced a 30% hike of its dividend, and authorized another \$14 billion in share repurchases. The company has repurchased around \$7 billion in shares in 2016. Boeing also posted another quarter of solid results (10/26/16). Adjusted earnings-per-share surged 39% versus the same quarter a year ago, due in large part to one-time tax savings.

## Competitive Advantage & Recession Performance

Boeing's competitive advantage comes from being the largest aircraft business in the world. The company designs and manufactures aircraft and satellites, both commercial and military. The company operates in 140 countries, giving it a global reach. There are ~12,000 Boeing manufactured planes in service today. These all require parts and service, 'locking in' customers.

Boeing is not a recession resistant stock. Aircraft sales decline precipitously during recessions. EPS fell from a high of \$5.26 in 2007 to just \$1.87 in 2009 during the Great Recession. The company's stock fell 71% off of highs during this time as well. Despite this, Boeing remains profitable during recessions and is committed to paying steady or rising dividends to shareholders.

## Growth Prospects, Valuation, & Catalyst

I expect Boeing to continue compounding EPS at around 10% a year going forward. Growth will come from a mix of new sales, margin improvements, and share repurchases. The company reduced its share count by 4% a year from 2012 through 2015 – and continues to buy back more stock. This growth combined with the company's ~3.5% dividend yield means expected total returns of ~13.5% a year. Growth will be uneven; *expect large declines during recessions*.

Boeing is trading for a P/E ratio of 15.9 (using adjusted earnings). The company appears undervalued based on its 10 year historical P/E ratio of 18.7. Based on its historical P/E ratio, I believe fair value to be around \$180/share at current earnings levels.

## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	71%	<b>10 Year EPS Growth Rate:</b>	12.0%
<b>Dividend Yield:</b>	3.6%	<b>10 Year Dividend Growth Rate:</b>	13.2%
<b>Most Recent Dividend Increase:</b>	30.0%	<b>10 Year Historical Avg. P/E Ratio:</b>	18.7
<b>Estimated Fair Value<sup>2</sup>:</b>	\$180/share	<b>10 Year Annualized Total Return:</b>	7.8%
<b>Dividend History:</b> 46 years without a reduction			

<sup>1</sup> Since year 2000. Maximum drawdown occurred in March of 2009.

<sup>2</sup> Currently trading for \$155.68/share.

### Boeing Dividend Yield History



**Note:** Most recent dividend increase (payable 3/3/17 to shareholders of record as of 2/10/17) isn't included in the yield image above

# Disney (DIS)

## Overview & Current Events

Disney is the world's largest media business. Disney owns (in full or in part): Star Wars, Marvel, ESPN, ABC, The A&E Network, a cruise line, a global network of resorts, Touchstone, and Pixar. The company was founded in 1923 by Walt and Roy Disney and currently has a market cap of \$166 billion.

Disney grew adjusted earnings-per-share 11% in its fiscal 2016 (11/10/16). The year marks Disney's highest revenue and net income in corporate history. The company had a relatively weak 4<sup>th</sup> quarter, however. Adjusted earnings-per-share fell 8%, and sales fell 3%. Cable network income fell 13% on the quarter. Despite weak results in the 4<sup>th</sup> quarter, fiscal 2016 was a success at Disney. The company's long-term growth prospects remain bright, driven by its collection of brands.

## Competitive Advantage & Recession Performance

Disney Corporation is nearly 100 years old. The company has a market cap of \$166 billion, yet it continues to grow at a rapid pace. The company's growth is a result of its incredible intellectual property portfolio – specifically its Disney, Star Wars, & Marvel brands. The company has shown an ability to create *new* multi-billion dollar franchises (like Frozen). Disney's competitive advantage is extremely durable. Fantasy and imagination will never go out of style.

Disney saw EPS decline by 17% during the worst of the Great Recession. Consumers tend to cut back on vacations, cruises, and seeing movies during times of economic difficulty. The company isn't designed to thrive during recessions. Still, Disney remains highly profitable through recessions.

## Growth Prospects, Valuation, & Catalyst

Disney has grown EPS at 13.5% a year over the last decade. The company's rapid growth is a result of its strong franchises. Despite its growth, the market has been pessimistic about Disney. The company generates around 40% of its operating income from cable affiliate fees – which will likely slowly decline. The company's overall growth prospects remain bright thanks to its strong intellectual property portfolio and global theme parks. Licensing revenue from mobile views should continue to grow as well. Overall, I expect 10%+ earnings-per-share growth from Disney. This growth along with the company's 1.5% dividend yield gives investors expected total returns of 11.5%+.

Disney is a high quality business with above-average growth potential. I believe the company should trade for a price-to-earnings ratio of at least 20 which implies a fair value of around \$114/share. Disney shares are currently trading for \$104/share with a price-to-earnings ratio of 18.3. The stock appears to be undervalued relative to the overall market.

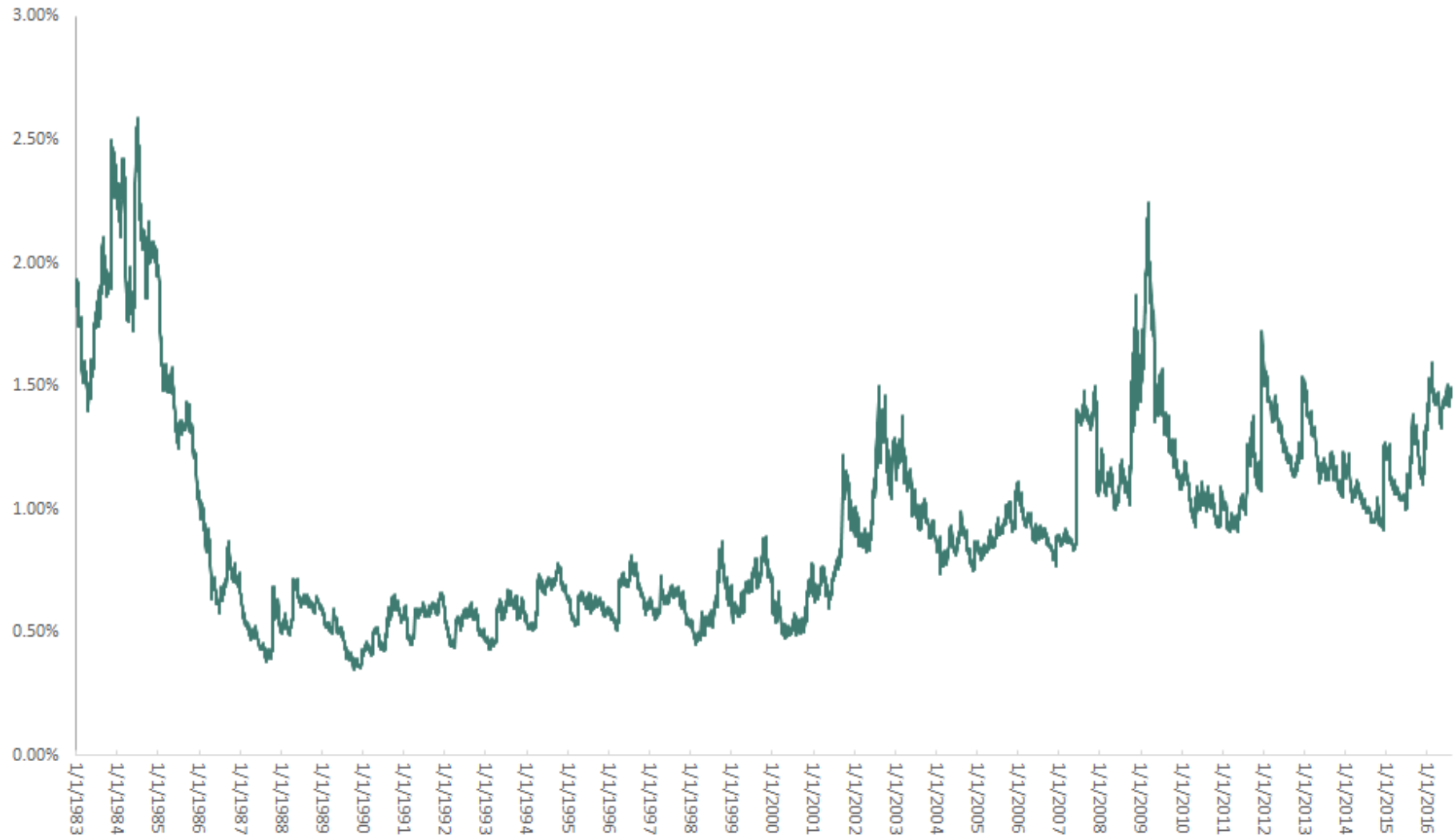
## Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	68%	<b>10 Year EPS Growth Rate:</b>	13.5%
<b>Dividend Yield:</b>	1.5%	<b>10 Year Dividend Growth Rate:</b>	18.1%
<b>Most Recent Dividend Increase:</b>	15.7%	<b>10 Year Historical Avg. P/E Ratio:</b>	16.6
<b>Estimated Fair Value:</b>	\$114/share <sup>2</sup>	<b>10 Year Annualized Total Return:</b>	13.3%
<b>Dividend History:</b> 33 years without a reduction			

<sup>1</sup> Since year 2000. Maximum drawdown occurred in August of 2002

<sup>2</sup> Currently trading for \$104.22 per share

### Disney Dividend Yield History



# Hormel (HRL)

## Overview & Current Events

Hormel was founded in 1891 and has grown to \$9.5 billion in annual sales. Hormel has grown its adjusted earnings-per-share every year since 2008 due to the strength of its brand portfolio. The company's brands include: Jennie-O turkey, Skippy peanut butter, Muscle Milk, Applegate Organics, Hormel, Dinty Moore, Wholly Guacamole, and Spam, among others.

Hormel recently released (11/22/16) its 4<sup>th</sup> quarter fiscal 2016 earnings. The company realized 18% EPS growth on the year, with 22% adjusted EPS growth in the 4<sup>th</sup> quarter versus the same quarter a year ago. The stock declined 11% over the last month due to weak (in comparison to recent results) guidance for 2017. Hormel is expecting 5% sales growth in fiscal 2017 and 4% to 6% EPS growth. For comparison, the company's guidance in 2015 for 2016 was EPS growth of ~10%, but realized 18% EPS growth. Hormel's management tends to under-promise and over-deliver. The recent downturn is an excellent opportunity to get into one of the strongest businesses around. Hormel also recently increased (11/21/16) its dividend 17.2%, marking the 51<sup>st</sup> consecutive annual increase.

## Competitive Advantage & Recession Performance

Hormel's competitive advantage comes from its strong brand portfolio in a slow changing industry. The company has increased its earnings-per-share in 27 of the last 30 years, and increased dividends for 51 consecutive years in a row. Hormel also benefits from its larger size. The company regularly acquires smaller, fast growing food brands and scales their business.

Hormel is a recession resistant business. The company's food products remain in demand regardless of the overall economy. Hormel has a mix of higher priced brands (Muscle Milk, Wholly Guacamole) and bargain-priced brands (Spam, Dinty Moore). The company saw earnings-per-share grow 21% in 2009, during the worst of the Great Recession.

## Growth Prospects, Valuation, & Catalyst

Hormel has compounded its earnings-per-share at 12% a year over the last decade. Dividends have grown even faster at 17% a year. Hormel still has a relatively low payout ratio of 44%. I expect dividends to continue growing a bit faster than earnings-per-share. Earnings-per-share should continue compounding at 10%+ over full economic cycles as Hormel continues to grow both its current brands and acquire and scale new brands. This growth combined with the company's 2% dividend yield gives investors expected total returns of around 12%. It should be noted that Hormel has one of the lowest stock price volatiles of any stock, giving it a unique mix of double-digit growth and safety.

Hormel is an extremely high quality business. It is currently trading for a price-to-earnings ratio of 22. Hormel is likely trading for around fair value.

## Key Statistics, Ratios, & Metrics

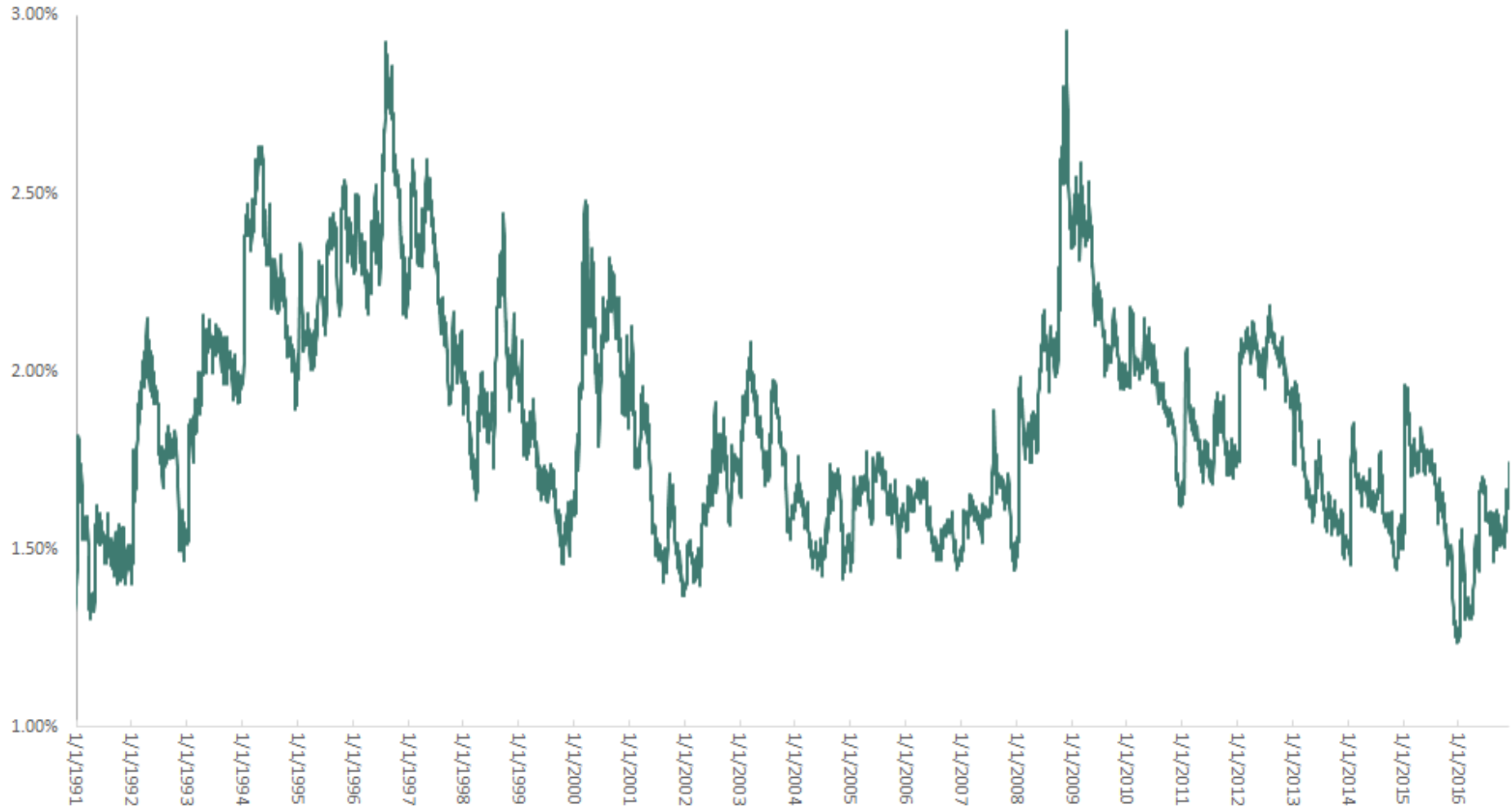
<b>Maximum Drawdown<sup>1</sup>:</b>	40%	<b>10 Year EPS Growth Rate:</b>	11.8%
<b>Dividend Yield:</b>	2.0%	<b>10 Year Dividend Growth Rate:</b>	17.1%
<b>Most Recent Dividend Increase:</b>	17.2%	<b>10 Year Historical Avg. P/E Ratio:</b>	17.2
<b>Estimated Fair Value:</b>	\$34/share <sup>2</sup>	<b>10 Year Annualized Total Return:</b>	15.3%
<b>Dividend History:</b>	51 consecutive years of dividend increases <sup>3</sup>		

<sup>1</sup> Since year 2000. Maximum drawdown occurred in December of 2008

<sup>2</sup> Currently trading for \$34.81 per share

<sup>3</sup> Hormel's dividend yield history below does not reflect recent dividend increase because it has not yet been paid.

### Hormel Dividend Yield History



**Note:** Most recent dividend increase (payable 2/15/17 to shareholders of record as of 1/17/17) isn't included in the yield image above.

## Analysis of International Stocks

Three international stocks currently rank in the top 10. One is Canadian (RY) another Danish (NVO), and the 3<sup>rd</sup> is German (MUV2). International stocks are removed from the top 10 list above for US investors who don't wish to invest in international stocks (and deal with foreign withholding taxes). Canada has a 15% dividend withholding tax for the US, but does not impose a dividend withholding tax on IRA or 401k accounts of United States investors. Denmark has a 28% dividend withholding tax. Germany has a 26.4% withholding tax.

Name	Ticker (Foreign)	Growth Rate	Dividend Yield	P/E Ratio	Rank (If Int'l Stocks in Top 10)
Novo Nordisk	NYSE:NVO	21.6%	2.5%	17.3	2 (after ABBV, before CAH)
Munich Re	ETR:MUV2	7.6%	4.6%	10.3	4 (after CAH, before RY)
Royal Bank Canada	NYSE:RY	9.9%	3.7%	13.4	5 (after MUV2, before JNJ)

**Novo Nordisk** is a global pharmaceutical firm with leading positions in diabetes and hemophilia. The company generates 50% of its sales in the United States driven by its 37% share of the United States' insulin market. Future growth won't be as fast as its historical 21.6% 10 year EPS growth rate, but could still reach double digits.

**Royal Bank of Canada** is the largest bank, insurer, and wealth management business in Canada. It is the 10<sup>th</sup> largest investment bank in the world, and 5<sup>th</sup> largest wealth management company in the world. The company offers a compelling mix of value, yield, and growth.

**Munich Re** is a large shareholder-friendly insurer. The company specializes in reinsurance. Munich Re was founded in 1880 and is headquartered in Munich, Germany. It was a past Buffett holding as well.

## List of Past International Recommendations

The name, ticker, and date 1<sup>st</sup> recommended are listed below:

Canadian Utilities (TSE:CU) in April 2015	Weir Group (LON:WEIR) in Aug.2015	Fortis (TSE:FTS) in July 2015
Rotork (LON:ROR) in August 2015	Cranswick (LON:CWK) in August 2015	Empire Co. (TSE:EMP.A) in Aug. 2015
Spectris (LON:SXS) in November 2015	PZ Cussons (LON:PCZ) in Jan. 2016	TD Bank Group (NYSE:TD) in June 2016

Cobham (LON:COB) in March 2016, sold in June 2016



## List of Stocks by Sector

Each of the 188 stocks with 25 or more years of dividend payments without a reduction is sorted by rank below in order based on The 8 Rules of Dividend Investing (highest to lowest) based on its GICS sector. Dividend yield is included next to each stock's ticker symbol.

### Consumer Discretionary

1. VF Corp. (VFC) - 3.1%
2. Disney (DIS) - 1.5%
3. Target Corp. (TGT) - 3.3%
4. Lowe's Companies (LOW) - 2%
5. McDonald's Corp. (MCD) - 3.1%
6. Home Depot (HD) - 2.1%
7. Nike (NKE) - 1.4%
8. Polaris Industries (PII) - 2.7%
9. Genuine Parts Co. (GPC) - 2.8%
10. Leggett & Platt Inc. (LEG) - 2.8%
11. NACCO Industries (NC) - 1.2%
12. Weyco Group Inc. (WEYS) - 2.7%
13. Bowl America (BWL.A) - 4.1%

### Consumer Staples

1. Hormel Foods Corp. (HRL) - 2.0%
2. Wal-Mart Stores Inc. (WMT) - 2.9%
3. Walgreens Boots Alliance (WBA) - 1.8%
4. Flowers Foods (FLO) - 3.2%
5. Altria Group Inc. (MO) - 3.6%
6. Mondelez (MDLZ) - 1.7%
7. Procter & Gamble Co. (PG) - 3.2%
8. Church & Dwight (CHD) - 1.6%
9. Kimberly-Clark Corp. (KMB) - 3.2%
10. General Mills (GIS) - 3.1%
11. Young & Co's Brewery (YNGA.L) - 1.3%
12. Colgate-Palmolive Co. (CL) - 2.4%
13. Coca-Cola Company (KO) - 3.4%
14. Philip Morris (PM) - 4.5%
15. Henkel (HEN3.E) - 1.3%
16. Kellogg (K) - 2.8%
17. Kerry Group (KYGA.L) - 0.8%

18. PepsiCo Inc. (PEP) - 2.9%
19. Universal Corp. (UVV) - 3.4%
20. Kraft-Heinz Company (KHC) - 2.7%
21. Nestle (NESN.V) - 3.1%
22. Empire Co. (EMP.A.TO) - 2.5%
23. Clorox Company (CLX) - 2.7%
24. McCormick & Co. (MKC) - 2.0%
25. Brown-Forman Class B (BF-B) - 1.6%
26. PZ Cussons plc (PZC.L) - 2.4%
27. Sysco Corp. (SYY) - 2.4%
28. Hershey (HSY) - 2.4%
29. Archer Daniels Midland (ADM) - 2.6%
30. L'Oreal (OR.E) - 1.8%
31. Unilever (UL) - 3.4%
32. Lancaster Colony Corp. (LANC) - 1.6%
33. Cranswick plc (CWK.L) - 1.7%
34. Diageo plc (DEO) - 3%
35. Tootsie Roll Industries (TR) - 0.9%

### Energy

1. Phillips 66 Partners LP (PSXP) - 4.4%
2. ExxonMobil Corp. (XOM) - 3.3%
3. Enbridge, Inc. (ENB) - 3.8%
4. Chevron Corp. (CVX) - 3.7%
5. Helmerich & Payne Inc. (HP) - 3.6%
6. Phillips 66 (PSX) - 2.9%
7. Imperial Oil (IMO) - 1.3%

## Financials

1. Munich Re (MUV2.B) - 4.6%
2. Royal Bank of Canada (RY) - 3.7%
3. Bank of Nova Scotia (BNS) - 4%
4. Bank of Montreal (BMO) - 3.6%
5. Canadian Imperial Bank (CM) - 4.5%
6. T. Rowe Price Group (TROW) - 2.9%
7. AFLAC Inc. (AFL) - 2.5%
8. Franklin Resources (BEN) - 2.0%
9. TD Bank Group (TD) - 3.3%
10. Waddell & Reed (WDR) - 9.4%
11. Harleysville Savings (HARL) - 3.9%
12. S&P Global (SPGI) - 1.3%
13. SEI Investments (SEIC) - 1.1%
14. American Express (AXP) - 1.7%
15. Chesapeake Financial (CPKF) - 2.3%
16. Eagle Financial Services (EFSI) - 3.4%
17. Torchmark Insurance (TMK) - 0.8%
18. Old Republic International (ORI) - 3.9%
19. Arthur J Gallagher (AJG) - 2.9%
20. Eaton Vance Corp. (EV) - 2.7%
21. Farmers & Merchants Ban. (FMCB) - 2.0%
22. RLI Corp. (RLI) - 1.3%
23. Cincinnati Financial (CINF) - 2.5%
24. Erie Indemnity Company (ERIE) - 2.8%
25. Commerce Bancshares (CBSH) - 1.6%
26. Community Trust Banc. (CTBI) - 2.6%
27. M&T Bank Corporation (MTB) - 1.8%
28. Northern Trust (NTRS) - 1.7%
29. Mercury General Corp. (MCY) - 4.1%
30. Tompkins Financial Corp. (TMP) - 1.9%
31. First Financial Corp. (THFF) - 1.9%
32. 1st Source Corp. (SRCE) - 1.6%
33. UMB Financial (UMBF) - 1.3%
34. First Financial Bankshares (FFIN) - 1.6%
35. United Bankshares Inc. (UBSI) - 2.9%
36. Westamerica Bancorporat. (WABC) - 2.5%

## Health Care

1. AbbVie (ABBV) - 4.1%
2. Novo Nordisk (NVO) - 2.5%
3. Cardinal Health (CAH) - 2.5%
4. Johnson & Johnson (JNJ) - 2.8%

5. Abbott Laboratories (ABT) - 2.8%
6. Medtronic Inc. (MDT) - 2.4%
7. Becton Dickinson & Co. (BDX) - 1.8%
8. United Health Group (UNH) - 1.6%
9. Baxter International (BAX) - 1.2%
10. C.R. Bard Inc. (BCR) - 0.5%
11. Merck & Co. (MRK) - 3.2%
12. Roche (ROG.V) - 3.5%
13. Eli Lilly & Company (LLY) - 2.8%

## Industrials

1. Boeing (BA) - 3.6%
2. W.W. Grainger Inc. (GWW) - 2.1%
3. General Dynamics (GD) - 1.8%
4. United Technologies (UTX) - 2.4%
5. Pentair Ltd. (PNR) - 2.5%
6. Cummins (CMI) - 3.0%
7. United Parcel Service (UPS) - 2.7%
8. 3M Company (MMM) - 2.5%
9. Snap-on (SNA) - 1.7%
10. Roper Technologies (ROP) - 0.8%
11. Johnson Controls (JCI) - 2.7%
12. Illinois Tool Works (ITW) - 2.1%
13. Emerson Electric (EMR) - 3.4%
14. Carlisle Companies (CSL) - 1.3%
15. Eaton (ETN) - 3.4%
16. Cintas Corp. (CTAS) - 1.2%
17. Wolters Kluwer NV (WKL.A) - 2.2%
18. Rotork plc (ROR.L) - 2.1%
19. Parker-Hannifin Corp. (PH) - 1.8%
20. Stanley Black & Decker (SWK) - 2.0%
21. RR Donnelley (RRD) - 3.4%
22. Nordson Corp. (NDSN) - 1.0%
23. Weir Group plc (WEIR.L) - 2.6%
24. Spectris Group plc (SXS.L) - 2.2%
25. Mine Safety Appliances (MSA) - 1.9%
26. Dover Corp. (DOV) - 2.3%
27. Deere & Co. (DE) - 2.3%
28. Spirax-Sarco Engineering (SPX.L) - 1.7%
29. Clarcor Inc. (CLC) - 1.2%
30. ABM Industries Inc. (ABM) - 1.7%
31. HNI Corp (HNI) - 2.0%
32. Brady Corp. (BRC) - 2.2%
33. Caterpillar (CAT) - 3.3%

34. Donaldson Company (DCI) - 1.7%
35. Tennant Company (TNC) - 1.2%
36. Gorman-Rupp Company (GRC) - 1.5%

### **Information Technology**

1. Computer Services Inc. (CSVI) - 2.8%
2. Jack Henry & Associates (JKHY) - 1.3%
3. Automatic Data Proc. (ADP) - 2.2%
4. Linear Technologies (LLTC) - 2.1%

### **Materials**

1. Sherwin-Williams Co. (SHW) - 1.3%
2. Air Products & Chem. (APD) - 2.4%
3. Valspar Corp. (VAL) - 1.4%
4. PPG Industries Inc. (PPG) - 1.7%
5. Ecolab, Inc. (ECL) - 1.3%
6. Praxair (PX) - 2.6%
7. Stepan Company (SCL) - 1.0%
8. Bemis Company (BMS) - 2.4%
9. RPM International Inc. (RPM) - 2.2%
10. Sonoco Products Co. (SON) - 2.8%
11. Air Liquide (AIE) - 2.4%
12. H.B. Fuller Company (FUL) - 1.2%
13. Nucor Corp. (NUE) - 2.5%

### **Real Estate**

1. Public Storage (PSA) - 3.6%
2. Realty Income (O) - 4.2%
3. National Retail Properties (NNN) - 4.1%
4. Universal Health Realty Trust (UHT) - 4.0%
5. Federal Realty Inv. Trust (FRT) - 2.8%

### **Telecommunication Services**

1. BCE, Inc. (BCE) - 4.7%
2. Verizon Wireless (VZ) - 4.3%
3. AT&T Inc. (T) - 4.6%
4. Vodafone Group plc (VOD) - 5.3%
5. Telephone & Data Systems (TDS) - 2.0%

### **Utilities**

1. Southern Company (SO) - 4.6%
2. Fortis (FTS.TO) - 3.9%
3. SCANA Corp. (SCG) - 3.1%
4. Consolidated Edison (ED) - 3.6%
5. Aqua America (WTR) - 2.6%
6. Vectren Corp. (VVC) - 3.2%
7. Atmos Energy (ATO) - 2.4%
8. UGI Corp. (UGI) - 2.1%
9. Conn. Water Service (CTWS) - 2.0%
10. WGL Holdings Inc. (WGL) - 2.6%
11. Northwest Natural Gas (NWN) - 3.1%
12. MGE Energy (MGEE) - 1.9%
13. Black Hills Corp. (BKH) - 2.7%
14. American States Water (AWR) - 2.1%
15. SJW Corp. (SJW) - 1.4%
16. National Fuel Gas (NFG) - 2.9%
17. Middlesex Water Co. (MSEX) - 2.0%
18. MDU Resources Group (MDU) - 2.7%
19. Otter Tail (OTTR) - 3.1%
20. Canadian Utilities (CU.TO) - 3.5%
21. California Water Service (CWT) - 2.0%

## List of Stocks by Rank

Each of the 188 stocks with 25 or more years of dividend payments without a reduction is listed below in order based on The 8 Rules of Dividend Investing (highest to lowest). The dividend yield of each stock is also shown.

- |  |  |
|--|--|
| 1. AbbVie (ABBV) - 4.1%                | 35. AFLAC Inc. (AFL) - 2.5%            |
| 2. Novo Nordisk (NVO) - 2.5%           | 36. Franklin Resources (BEN) - 2.0%    |
| 3. Cardinal Health (CAH) - 2.5%        | 37. McDonald's (MCD) - 3.1%            |
| 4. Munich Re (MUV2.B) - 4.6%           | 38. Home Depot (HD) - 2.1%             |
| 5. Royal Bank of Canada (RY) - 3.7%    | 39. Young & Co's Bre. (YNGA.L) - 1.3%  |
| 6. Johnson & Johnson (JNJ) - 2.8%      | 40. TD Bank Group (TD) - 3.3%          |
| 7. Abbott Laboratories (ABT) - 2.8%    | 41. Sherwin-Williams Co. (SHW) - 1.3%  |
| 8. VF Corp. (VFC) - 3.1%               | 42. Waddell & Reed (WDR) - 9.4%        |
| 9. Computer Services (CSVI) - 2.8%     | 43. Colgate-Palmolive Co. (CL) - 2.4%  |
| 10. Medtronic Inc. (MDT) - 2.4%        | 44. United Health Group (UNH) - 1.6%   |
| 11. Boeing (BA) - 3.6%                 | 45. BCE, Inc. (BCE) - 4.7%             |
| 12. Disney (DIS) - 1.5%                | 46. Nike (NKE) - 1.4%                  |
| 13. Hormel Foods Corp. (HRL) - 2.0%    | 47. Air Products & Chem. (APD) - 2.4%  |
| 14. Becton Dickinson (BDX) - 1.8%      | 48. Cummins (CMI) - 3.0%               |
| 15. W.W. Grainger (GWW) - 2.1%         | 49. Valspar Corp. (VAL) - 1.4%         |
| 16. Wal-Mart Stores (WMT) - 2.9%       | 50. Baxter International (BAX) - 1.2%  |
| 17. Walgreens Boots (WBA) - 1.8%       | 51. Coca-Cola Company (KO) - 3.4%      |
| 18. General Dynamics (GD) - 1.8%       | 52. United Parcel Service (UPS) - 2.7% |
| 19. Flowers Foods (FLO) - 3.2%         | 53. Verizon Wireless (VZ) - 4.3%       |
| 20. Altria Group Inc. (MO) - 3.6%      | 54. Philip Morris (PM) - 4.5%          |
| 21. United Technologies (UTX) - 2.4%   | 55. AT&T Inc. (T) - 4.6%               |
| 22. Mondelez (MDLZ) - 1.7%             | 56. Henkel (HEN3.E) - 1.3%             |
| 23. Bank of Nova Scotia (BNS) - 4.0%   | 57. PPG Industries Inc. (PPG) - 1.7%   |
| 24. Target Corp. (TGT) - 3.3%          | 58. Southern Company (SO) - 4.6%       |
| 25. Procter & Gamble Co. (PG) - 3.2%   | 59. Kellogg (K) - 2.8%                 |
| 26. Bank of Montreal (BMO) - 3.6%      | 60. Kerry Group (KYGA.L) - 0.8%        |
| 27. Phillips 66 Partners (PSXP) - 4.4% | 61. Ecolab, Inc. (ECL) - 1.3%          |
| 28. Church & Dwight (CHD) - 1.6%       | 62. PepsiCo Inc. (PEP) - 2.9%          |
| 29. Canadian Imperial Bank (CM) - 4.5% | 63. Universal Corp. (UVV) - 3.4%       |
| 30. Pentair Ltd. (PNR) - 2.5%          | 64. Praxair (PX) - 2.6%                |
| 31. Lowe's Companies (LOW) - 2.0%      | 65. C.R. Bard Inc. (BCR) - 0.5%        |
| 32. T. Rowe Price (TROW) - 2.9%        | 66. Kraft-Heinz Company (KHC) - 2.7%   |
| 33. Kimberly-Clark (KMB) - 3.2%        | 67. Polaris Industries (PII) - 2.7%    |
| 34. General Mills (GIS) - 3.1%         | 68. Nestle (NESN.V) - 3.1%             |

- |   |   |
|---|---|
| 69. Stepan Company (SCL) – 1.0%         | 110. ExxonMobil Corp. (XOM) - 3.3%      |
| 70. 3M Company (MMM) - 2.5%             | 111. RR Donnelley (RRD) - 3.4%          |
| 71. Empire Co. (EMP.A.TO) - 2.5%        | 112. Nordson Corp. (NDSN) – 1.0%        |
| 72. Snap-on (SNA) - 1.7%                | 113. Eaton Vance Corp. (EV) - 2.7%      |
| 73. Merck & Co. (MRK) - 3.2%            | 114. Vectren Corp. (VVC) - 3.2%         |
| 74. Jack Henry & Asso. (JKHY) - 1.3%    | 115. Hershey (HSY) - 2.4%               |
| 75. Clorox Company (CLX) - 2.7%         | 116. Enbridge, Inc. (ENB) - 3.8%        |
| 76. Genuine Parts Co. (GPC) - 2.8%      | 117. Atmos Energy (ATO) - 2.4%          |
| 77. Roper Technologies (ROP) - 0.8%     | 118. UGI Corp. (UGI) - 2.1%             |
| 78. Fortis (FTS.TO) - 3.9%              | 119. Air Liquide (AI.E) - 2.4%          |
| 79. Johnson Controls (JCI) - 2.7%       | 120. Weir Group plc (WEIR.L) - 2.6%     |
| 80. Illinois Tool Works (ITW) - 2.1%    | 121. Farmers & Merchan. (FMCB) - 2.0%   |
| 81. Emerson Electric (EMR) - 3.4%       | 122. Chevron Corp. (CVX) - 3.7%         |
| 82. SCANA Corp. (SCG) - 3.1%            | 123. RLI Corp. (RLI) - 1.3%             |
| 83. Harleysville Savings (HARL) - 3.9%  | 124. Conn. Water Service (CTWS) - 2.0%  |
| 84. Carlisle Companies (CSL) - 1.3%     | 125. Spectris Group plc (SXS.L) - 2.2%  |
| 85. S&P Global (SPGI) - 1.3%            | 126. H.B. Fuller Company (FUL) - 1.2%   |
| 86. Eaton (ETN) - 3.4%                  | 127. Roche (ROG.V) - 3.5%               |
| 87. Bemis Company (BMS) - 2.4%          | 128. Archer Daniels Mid. (ADM) - 2.6%   |
| 88. McCormick & Co. (MKC) – 2.0%        | 129. Public Storage (PSA) - 3.6%        |
| 89. Brown-Forman (BF-B) - 1.6%          | 130. WGL Holdings Inc. (WGL) - 2.6%     |
| 90. Consolidated Edison (ED) - 3.6%     | 131. Mine Safety Applia. (MSA) - 1.9%   |
| 91. Leggett & Platt Inc. (LEG) - 2.8%   | 132. L'Oreal (OR.E) - 1.8%              |
| 92. SEI Investments (SEIC) - 1.1%       | 133. Dover Corp. (DOV) - 2.3%           |
| 93. Automatic Data Proc. (ADP) - 2.2%   | 134. Vodafone Group plc (VOD) - 5.3%    |
| 94. Cintas Corp. (CTAS) - 1.2%          | 135. Realty Income (O) - 4.2%           |
| 95. American Express (AXP) - 1.7%       | 136. Deere & Co. (DE) - 2.3%            |
| 96. Wolters Kluwer NV (WKL.A) - 2.2%    | 137. Unilever (UL) - 3.4%               |
| 97. Chesapeake Financial (CPKF) - 2.3%  | 138. Cincinnati Financial (CINF) - 2.5% |
| 98. PZ Cussons plc (PZC.L) - 2.4%       | 139. Eli Lilly & Company (LLY) - 2.8%   |
| 99. RPM International Inc. (RPM) - 2.2% | 140. National Retail Prop. (NNN) - 4.1% |
| 100. Aqua America (WTR) - 2.6%          | 141. Erie Indemnity Co. (ERIE) - 2.8%   |
| 101. Rotork plc (ROR.L) - 2.1%          | 142. Spirax-Sarco Engin. (SPX.L) - 1.7% |
| 102. Eagle Financial (EFSI) - 3.4%      | 143. Lancaster Colony (LANC) - 1.6%     |
| 103. Sysco Corp. (SYY) - 2.4%           | 144. Clarcor Inc. (CLC) - 1.2%          |
| 104. Parker-Hannifin Corp. (PH) - 1.8%  | 145. Commerce Banc. (CBSH) - 1.6%       |
| 105. Sonoco Products Co. (SON) - 2.8%   | 146. Community Trust (CTBI) - 2.6%      |
| 106. Torchmark Insurance (TMK) - 0.8%   | 147. Helmerich & Payne Inc. (HP) - 3.6% |
| 107. Stanley B&D (SWK) – 2.0%           | 148. Northwest Natural Gas (NWN) - 3.1% |
| 108. Old Republic Int'l (ORI) - 3.9%    | 149. MGE Energy (MGEE) - 1.9%           |
| 109. Arthur J Gallagher (AJG) - 2.9%    | 150. M&T Bank Corp.(MTB) - 1.8%         |

151. Cranswick plc (CWK.L) - 1.7%	170. National Fuel Gas (NFG) - 2.9%
152. Black Hills Corp. (BKH) - 2.7%	171. Middlesex Water (MSEX) - 2.0%
153. Northern Trust (NTRS) - 1.7%	172. Linear Technologies (LLTC) - 2.1%
154. ABM Industries Inc. (ABM) - 1.7%	173. Federal Realty Inv. (FRT) - 2.8%
155. American States Water (AWR) - 2.1%	174. Weyco Group Inc. (WEYS) - 2.7%
156. Phillips 66 (PSX) - 2.9%	175. MDU Resources Gro. (MDU) - 2.7%
157. HNI Corp (HNI) - 2.0%	176. Tennant Company (TNC) - 1.2%
158. SJW Corp. (SJW) - 1.4%	177. UMB Financial (UMBF) - 1.3%
159. Brady Corp. (BRC) - 2.2%	178. First Financial Bank. (FFIN) - 1.6%
160. Mercury General (MCY) - 4.1%	179. Nucor Corp. (NUE) - 2.5%
161. Caterpillar (CAT) - 3.3%	180. Otter Tail (OTTR) - 3.1%
162. Donaldson Company (DCI) - 1.7%	181. Imperial Oil (IMO) - 1.3%
163. NACCO Industries (NC) - 1.2%	182. Gorman-Rupp (GRC) - 1.5%
164. Diageo plc (DEO) - 3.0%	183. United Bankshares (UBSI) - 2.9%
165. Tompkins Financial (TMP) - 1.9%	184. Canadian Utilities (CU.TO) - 3.5%
166. First Financial Corp. (THFF) - 1.9%	185. Westamerica Banc.(WABC) - 2.5%
167. 1st Source Corp. (SRCE) - 1.6%	186. California Water Service (CWT) - 2%
168. Universal Health Real. (UHT) - 4.0%	187. Bowl America (BWL.A) - 4.1%
169. Tootsie Roll Industries (TR) - 0.9%	188. Telephone & Data Sys. (TDS) - 2.0%

## Portfolio Building Guide

The process of building a high quality dividend growth portfolio is not complex: **Each month invest in the top ranked stock in which you own the smallest dollar amount out of the Top 10.** Over time, you will build a well-diversified portfolio of great businesses purchased at attractive prices. Alternatively, the Top 10 list is also useful as an idea generation tool for those with a different portfolio allocation plan. If you are looking to add additional yield to your portfolio, the Sure Retirement Newsletter offers a Top 10 list with 5%+ dividend yields.

### Examples

Portfolio 1		
Ticker	Name	Amount
ABBV	AbbVie	\$ 1,002
CAH	Cardinal Health	\$ -
JNJ	Johnson & Johnson	\$ -
ABT	Abbott Laboratories	\$ -
VFC	VF Corp.	\$ -
CSVI	Computer Services	\$ -
MDT	Medtronic Inc.	\$ -
BA	Boeing	\$ -
DIS	Disney	\$ -
HRL	Hormel Foods Corp.	\$ -

Portfolio 2		
Ticker	Name	Amount
ABBV	AbbVie	\$ 4,374
CAH	Cardinal Health	\$ 4,878
JNJ	Johnson & Johnson	\$ 4,353
ABT	Abbott Laboratories	\$ 2,952
VFC	VF Corp.	\$ 3,309
CSVI	Computer Services	\$ 4,864
MDT	Medtronic Inc.	\$ 6,660
BA	Boeing	\$ 2,367
DIS	Disney	\$ 2,818
HRL	Hormel Foods Corp.	\$ 6,243

- If you had portfolio 1, you would buy CAH, the top ranked stock you own least.
- If you had portfolio 2, you would buy BA, the top ranked stock you own least.

If you have an existing portfolio or a large lump sum to invest, switch over to the Sure Dividend strategy over 20 months. Each month, take 1/20 of your initial portfolio value, and buy the top ranked stock you own the least out of the Top 10. 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. Further, higher ranked stocks will receive 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.

***If your portfolio grows too large to manage comfortably*** (for example, you are not comfortable holding 40+ stocks – which would happen after around 4 years of the Sure Dividend system), you will need to sell holdings. I recommend eliminating positions that have the lowest yields if you are in or near retirement. If you are not near retirement, eliminate positions that rank the lowest in the newsletter until you are comfortable with the number of positions in your portfolio. Reinvest proceeds into the highest ranked stocks *you currently own*, until your highest ranked holding makes up 10% of your portfolio's total value. Then add to the next highest ranked holding, and so on.

## List of Past Recommendations

The stocks below are all of the previous recommendations of Sure Dividend that are no longer in the top 10 using The 8 Rules of Dividend Investing. Total returns since the 1<sup>st</sup> recommendation date are shown, along with sell date (if applicable).

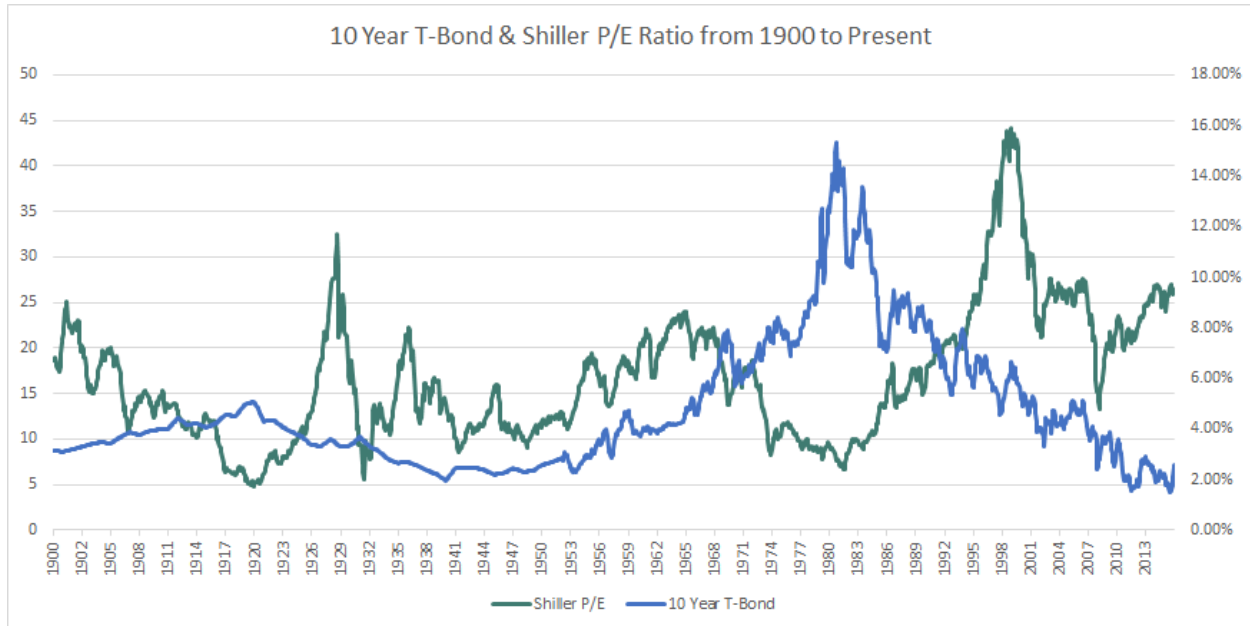
Name	Rank Now	Status	1 <sup>st</sup> Rec. Date	Sell Date	Return	S&P 500 Ret.
Target (TGT)	24	Hold	April 2014	N/A	29.9%	28.3%
Clorox (CLX)	75	Hold	April 2014	N/A	45.7%	28.3%
Kimb.-Clark (KMB)	33	Hold	April 2014	N/A	17.6%	28.3%
ExxonMobi (XOM)	110	Hold	April 2014	N/A	2.0%	28.3%
AFLAC (AFL)	35	Hold	April 2014	N/A	20.0%	28.3%
PepsiCo (PEP)	62	Hold	April 2014	N/A	34.9%	28.3%
McDonald's (MCD)	37	Hold	April 2014	N/A	37.2%	28.3%
Coca-Cola (KO)	51	Hold	April 2014	N/A	17.0%	28.3%
Wal-Mart (WMT)	16	Hold	April 2014	N/A	-3.7%	28.3%
Genuine Parts (GPC)	76	Hold	May 2014	N/A	21.4%	25.5%
3M (MMM)	70	Hold	May 2014	N/A	36.2%	25.5%
AT&T (T)	55	Hold	June 2014	N/A	36.8%	22.6%
Becton, Dickinson (BDX)	14	Hold	June 2014	N/A	47.0%	22.6%
Philip Morris (PM)	54	Hold	June 2014	N/A	17.5%	22.6%
General Mills (GIS)	34	Hold	June 2014	N/A	21.4%	22.6%
J.M. Smucker (SJM)	N/A	Hold	August 2014	N/A	34.3%	21.4%
EcoLab (ECL)	61	Hold	October 2014	N/A	6.2%	19.4%
Kellogg (K)	59	Hold	December 2014	N/A	17.2%	13.4%
Deere & Company (DE)	136	Hold	January 2015	N/A	26.2%	15.5%
Helmerich & Pa. (HP)	147	Hold	February 2015	N/A	33.1%	15.4%
Altria (MO)	20	Hold	April 2015	N/A	40.5%	11.6%
W.W. Grainger (GWW)	15	Hold	July 2015	N/A	2.7%	11.7%
BCE, Inc. (BCE)	45	Hold	August 2015	N/A	12.9%	9.9%
Caterpillar (CAT)	161	Hold	August 2015	N/A	27.0%	9.9%
United Tech. (UTX)	21	Hold	August 2015	N/A	15.3%	9.9%
Eaton (ETN)	86	Hold	Sept. 2015	N/A	24.0%	16.9%
Cummins (CMI)	48	Hold	Nov. 2015	N/A	35.8%	10.4%
Procter & Gamble (PG)	25	Hold	Dec. 2015	N/A	10.8%	10.2%
Verizon (VZ)	53	Hold	Dec. 2015	N/A	21.1%	10.2%
Johnson Controls (JCI)	79	Hold	Dec. 2015	N/A	25.2%	10.2%
Archer-Daniels (ADM)	128	Hold	January 2016	N/A	31.4%	13.6%
General Dynamics (GD)	18	Hold	March 2016	N/A	32.6%	13.8%
Flowers Foods (FLO)	19	Hold	March 2016	N/A	13.7%	13.8%
Phillips 66 (PSX)	156	Hold	July 2016	N/A	12.6%	8.4%
Walgreens Boots (WBA)	17	Hold	Sept. 2016	N/A	1.8%	3.2%
Chubb (CB)	N/A	Sold	April 2014	July 2015	32.1%	15.2%
Baxalta (BXLT)	N/A	Sold	July 2015	Feb. 2016	15.4%	-9.3%
ConocoPhillips (COP)	N/A	To Be Sold	Dec. 2014	@\$58 Oil	-20.3%	13.4%

Out of the 38 past recommendations no longer in the Top 10, 25 (66%) are beating the S&P 500 (as measured by the ETF SPY), and 36 of 38 (95%) have positive returns.



## Closing Thoughts – Beware The Bull –

The image below shows the Shiller P/E ratio and the 10 Year T-Bond yield from 1900 to now:



*Notes: Data from multpl.com. The Shiller P/E ratio uses average earnings over last 10 years instead of trailing twelve months earnings to smooth P/E ratio)*

We are in a period of historically low interest rates, though they are beginning to rise. The Shiller P/E ratio is at a level only seen during the ‘Roaring 20’s’ and the tech bubble onward. If interest rates rise, or fear takes hold in the market, stock prices are likely to decline significantly. *Prepare yourself.* Do not sell your holdings when stock prices fall. Great businesses tend to pay steady or rising dividends through recessions.

On the other hand, high valuation multiples and low interest rates could persist for another decade. It’s impossible to predict the future. The prudent course of action remains to invest in great businesses for the long run and hold for the long run.

Thanks,

Ben Reynolds  
Sure Dividend

**The next newsletter publishes on Sunday February 5<sup>th</sup>, 2017**

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### Disclaimer

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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.