Sure Dividend

Warren Buffett's Top 20 Dividend Stocks with the Highest Yields

Updated November 25th, 2015

Warren Buffett's net worth is now over $60 billion.

He is (arguably) the greatest investor of all time.

Buffett has grown his wealth by investing in and acquiring business with **strong competitive advantages** trading at **fair or better prices**.

Here's the surprising part…

Most investors know Warren Buffett looks for *quality*, but *few know* the degree to which he invests in *dividend stocks*.

- 92.5% of Warren Buffett's portfolio is invested in dividend stocks
- His top 9 holdings have an average dividend yield of 2.8%
- Many of these dividend stocks have paid rising dividends over decades

Warren Buffett prefers to invest in shareholder friendly businesses with long track records of success.

It happens that dividend stocks with long histories of dividend

increases match what Warren Buffett looks for in a stock investment.

Warren Buffett's Portfolio

Warren Buffett's portfolio currently consists of 46 stocks.

Of these, 32 are dividend stocks.

Warren Buffett's portfolio as a whole generates a dividend yield of 2.6%…

About 29% higher than the S&P 500's dividend yield of 2.0%.

Warren Buffett's top 5 holdings make up over 65% of his portfolio. These 5 stocks represent Warren Buffett's highest conviction picks based on the amount of money he has invested in them.

All of his top 5 holdings are dividend stocks.

His top 5 holdings have a portfolio weighted dividend yield of 2.8%.   Warren Buffett's 5 top holdings are:

- Wells Fargo (WFC) which makes up 19.0% of his portfolio
- Kraft-Heinz (KHC) which makes up 18.0% of his portfolio
- Coca-Cola (KO) which makes up 12.6% of his portfolio
- IBM (IBM) which makes up 9.2% of his portfolio
- American Express (AXP) which makes up 8.8% of his portfolio

Warren Buffett's Top 20 Highest Yielding Dividend Stocks

Each of Warren Buffett's top 20 highest yielding dividend stocks are analyzed below. Relevant metrics including:

- Price-to-earnings ratio
- Dividend history

- Current dividend yield
- Historical growth rate

These metrics are shown to give an idea of the relative investment merit of each business. Reviewing Warren Buffett's highest yielding dividend stocks may give you new ideas on how to improve your portfolio.

20 – The Bank of New York Melon Corporation (BK)

Dividend Yield: 1.6%
Price-to-Earnings Ratio: 18.8
Years of Steady or Rising Dividends: 7
Percent of Warren Buffett's Portfolio: 0.6%
10 Year Earnings-Per-Share Growth Rate: 1.9%

The Bank of New York Melon Corporation (hereafter referred to as BK) is a global financial services corporation with a $47 billion market cap. The company operates in 3 segments:

- Investment Management
- Investment Services
- Other

The Investment Management segment provides investment management services to institutional and retail investors, as well as investment management, wealth and estate planning and private banking solutions to high net worth individuals and families, and foundations and endowments. The segment generated 21% of pre-tax income for BK in its most recent quarter.

The Investment Services segment provides global custody and related services, broker-dealer services, global collateral services, corporate trust, depositary receipt and clearing services as well as global payment/working capital solutions to global financial institutions. The segment generated 76% of pre-tax income for BK in its most recent quarter.

The Other segment primarily includes credit-related activities, leasing operations, corporate treasury activities, global markets and

institutional banking services, business exits, M&I expenses and other corporate revenue and expense items. The segment generated 2% of pre-tax income for BK in its most recent quarter.

The Investment Services segment is BK's largest by far. BK generates the vast majority of its revenue through *fees* rather than interest income. As a result, the company does not stand to gain from rising interest rates.

BK has seen very little earnings-per-share growth over the last decade, despite repurchasing shares. The company is having a difficult time increasing its customer and asset bases. This is not a particularly good sign.

When a company is struggling to grow, it should have a lower price-to-earnings ratio. This is not the case with BK. The company's price-to-earnings ratio is suitable for a company with predictable and average growth, not slow growth.

19 – American Express (AXP)

Dividend Yield: 1.6%
Price-to-Earnings Ratio: 13.0
Years of Steady or Rising Dividends: 38
Percent of Warren Buffett's Portfolio: 8.8%
10 Year Earnings-Per-Share Growth Rate: 9.6%

American Express is one of Warren Buffett's core holdings. He first purchased the stock in 1964… Over 50 years ago. Now *that's a long-term investment*.

American Express is a well known credit provider. The company currently has a market cap of $70 billion. Only Visa (V) and MasterCard (MA) have larger market caps in the credit services industry.

Despite being a well-established business, American Express continues to exhibit solid growth. The company has compounded its earnings-per-share at 9.6% a year over the last decade.

Share repurchases have helped American Express realize its above-average growth rate over the last decade. The company has

repurchased nearly 4% of shares outstanding a year over the last decade.

American Express focuses its credit lending services on those with good credit. As a result, it experiences lower bad credit losses than industry averages.

The company's stock is down around 20% this year. Costco (COST) [which is another Warren Buffett holding] recently announced it would cancel its exclusive card membership agreement with American Express. In the short run, this will impact earnings. In the long run, American Express' competitive advantage remains intact.

The company appears undervalued at this time. A price-to-earnings ratio of 13.0 is far too low for a high quality credit business.

18 – M&T Bank Corporation (MTB)

Dividend Yield: 2.3%
Price-to-Earnings Ratio: 16.7
Years of Steady or Rising Dividends: 25
Percent of Warren Buffett's Portfolio: 0.5%
10 Year Book-Value-Per-Share Growth Rate: 5.4%

M&T Bank Corporation is a bank holding company with 696 locations spread across New York, Pennsylvania, Maryland, Virginia, West Virginia, Delaware, and Washington DC. M&T Bank is one of the few banks that did not cut its dividend payments during the Great Recession of 2007 to 2009. M&T Bank Corporation has grown to become the 16th largest U.S. commercial bank.

M&T Bank Corporation maintains higher than industry average returns-on-equity and returns-on assets. Additionally, the company is highly regarded for its conservative nature. M&T Bank Corporation does not over extend itself by writing risky loans.

The company's conservative nature has produced phenomenal results for long-term shareholders. The company has produced 19.4% annualized total returns for shareholders since 1980, one of

the highest of any stocks from that time.

Rising interest rates are a catalyst for M&T Bank Corporation. Rising rates favor the company as they lead to a greater spread on interest earned from deposits versus interest paid.

Shares of M&T Bank Corporation currently trade for a price-to-earnings ratio of 16.7 and a forward price-to-earnings ratio of 14.5.

The company's future looks bright and it trades at a reasonable valuation multiple. Additionally, M&T Bank Corporation has a dividend yield of 2.3%, somewhat above the S&P 500's dividend yield.

The company's combination of stable growth, fair valuation, and solid dividend yield should appeal to dividend growth investors looking for exposure in the banking sector.

17 – U.S. Bancorp (USB)

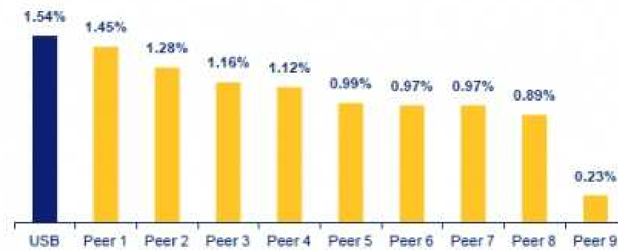
Dividend Yield: 2.3%
Price-to-Earnings Ratio: 13.9
Years of Steady or Rising Dividends: 7
Percent of Warren Buffett's Portfolio: 2.7%
10 Year Book-Value-Per-Share Growth Rate: 7.8%

It is easy to see why Warren Buffett has invested billions of Berkshire Hathaway's portfolio into U.S. Bancorp stock.

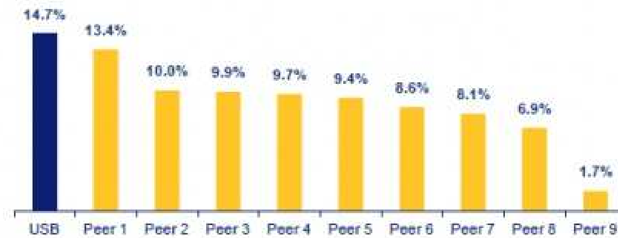
U.S. Bancorp is the banking industry leader in return on assets, return on equity, and efficiency ratio (the efficiency ratio is calculated as expenses before interest expense divided by total revenue).

The image below shows U.S. Bancorp's industry leading status in these important metrics for fiscal 2014.

Return on Average Assets



Return on Average Common Equity



Efficiency Ratio

Not only is U.S. Bancorp highly profitable, it is also very shareholder friendly. The company targets a dividend payout ratio of 30% to 40% a year and also targets spending 30% to 40% of earnings on share repurchases each and every year.

At current price levels, this comes to a shareholder yield of around 5%. The company has also managed to grow assets at about 7.5% a year over the last decade. With a shareholder yield of ~5% and a 7.5% growth rate, investors can expect total returns of around 12.5% a year from U.S. Bancorp.

U.S. Bancorp currently trades at a price-to-earnings ratio of just 13.9. Banks have traditionally traded at price-to-earnings ratios below those of the overall market due to risk of bank failure and strong competition.

U.S. Bancorp has found a way to be more profitable than its peers. In addition, the company remained profitable throughout the Great Recession of 2007 to 2009 – though it did cut its dividend significantly during that period. At its current price-to-earnings ratio, U.S. Bancorp appears to be somewhat undervalued.

16 – Phillips 66 (PSX)

Dividend Yield: 2.4%
Price-to-Earnings Ratio: 10.9
Years of Steady or Rising Dividends: 37 (including history with ConocoPhillips)
Percent of Warren Buffett's Portfolio: 3.7%
10 Year Earnings-Per-Share Growth Rate: N/A

Phillips 66 was created in 2012 when ConocoPhillips spun off its downstream, chemical, retail fuel (gas stations), and midstream natural gas divisions. The stock has gained over 30% since lows in early 2015 that resulted from fears about low oil prices. Phillips 66 currently has a market cap of nearly $50 billion.

Phillips 66 refining and chemical divisions stand to benefit from low oil prices. Unlike upstream oil corporations, Phillips 66 is expected to realize record earnings-per-share in fiscal 2015. The company is currently trading at a price-to-earnings ratio of just 10.9. The company's stock appears to be a bargain at this time.

As a dividend stock, Phillips 66 pays an above average yield of 2.4%. In addition to its above-average dividend yield, Phillips 66 has also been gobbling up its own shares through share repurchases. Since its spin-off in 2012, the company has repurchased about 6% of shares outstanding. The company's share repurchases combined with its dividend yield give it a shareholder yield of 8.5%.

The company plans to grow through continued expansion in the United States. The company will focus it growth capital expenditures on increasing its midstream and chemical capabilities. Overall, investors in Phillips 66 can expect single digit growth in operations boosted by the company's aggressive share repurchases and dividend yield for total returns above 10% a year.

Warren Buffett recently added to his position in Phillips 66, showing that he believes in the company's future despite low oil prices. The company's low price-to-earnings ratio, high shareholder yield, and reasonable growth prospects bode well for shareholders in Phillips 66. The stock is also ranks well using The 8 Rules of

Dividend Investing.

15 – Wells Fargo (WFC)

Dividend Yield: 2.7%
Price-to-Earnings Ratio: 13.4
Years of Steady or Rising Dividends: 6
Percent of Warren Buffett's Portfolio: 19.0%
10 Year Book-Value-Per-Share Growth Rate: 12.0%

Wells Fargo is Berkshire Hathaway's largest holding. Warren Buffett has 19.0% of his portfolio allocated to this one bank. Wells Fargo has grown to become the largest bank in the U.S. based on its $282 billion market cap.

Wells Fargo's growth over the last decade has been impressive. The company has managed to compound book-value-per-share at 12% a year.

Wells Fargo's growth does not come from unnecessary risks. The company managed to remain profitable throughout the Great Recession of 2007 to 2009 – although it did cut its dividend payments in 2009 and again in 2010. Amazingly, Wells Fargo's book-value-per-share actually increased in 2008 and 2009 when the financial world was in a full-on meltdown.

Wells Fargo's operations are divided into 3 primary segments:

- Community Banking
- Wholesale Banking
- Wealth/Brokerage/Retirement

The company's Community Banking segment is its largest, followed by wholesale banking. Together, these 2 segments generate over 90% of Wells Fargo's income.

The Wells Fargo brand is well known in the United States. Wells Fargo has a carefully honed reputation for trust and good service. This has grown the company to become the number 1 in the U.S. in the following categories:

- Middle market commercial lender
- Commercial real estate originator

- Small business lender
- Mortgage originator
- Retail deposits
- Auto lender

If the Federal Reserve increases interest rates, Wells Fargo will likely benefit. The company has accomplished its impressive growth run in an era of falling interest rates. When interest rates rise, the company stands to benefit as it can increase the spread on interest earned from deposit accounts versus interest paid on deposits. This makes Wells Fargo a good choice to partially hedge against rising interest rates.

Wells Fargo currently trades for a price-to-earnings ratio of just 13.4 – well below the S&P 500's price-to-earnings-ratio. Wells Fargo is clearly superior to both the average bank and the average business in the S&P 500. The company's low price-to-earnings ratio is very reasonable and is a good entry point for dividend growth investors looking to start a position in this market-leading bank.

14 – United Parcel Service (UPS)

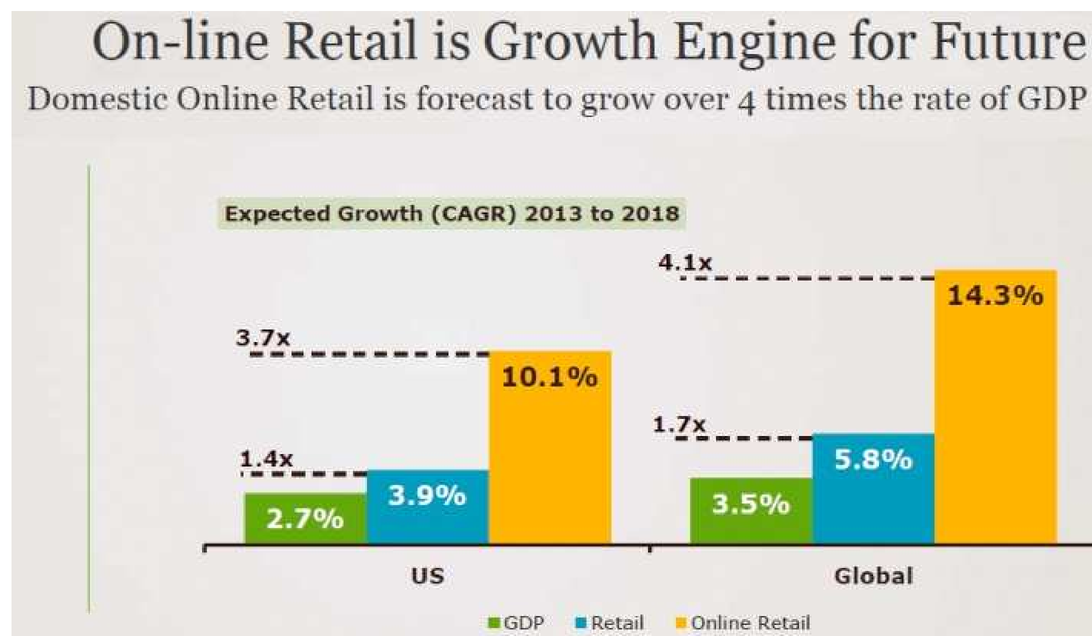
Dividend Yield: 2.8%
Price-to-Earnings Ratio: 23.7
Years of Steady or Rising Dividends: 32
Percent of Warren Buffett's Portfolio: 0.0% (very small amount of ownership)
10 Year Earnings-Per-Share Growth Rate: 3.6%

United Parcel Service is the largest publicly traded freight and delivery company in the world based on its $92 billion market cap. The company was founded in Seattle in 1907 and has grown to become a global business with close to 2,000 operating facilities and nearly 100,000 vehicles in its fleet.

The larger a delivery network gets, the stronger its competitive advantage becomes as it can ship anywhere in the world – often for less thanks to scale advantages. As the largest freight company in the world, United Parcel Service has a strong competitive advantage that will likely get strong as time goes by.

The mail industry in the U.S. is an oligopoly largely dominated by just 3 players: Fed Ex, United Parcel Service, and the U.S. Post Office. Of the three, only the two publicly traded companies are profitable.

Online retail will continue to drive growth for United Parcel Service going forward as the company benefits from increased package shipments. Online retail is expected to grow about 4x as fast as global GDP over the next several years. The image below from UPS' investor presentation shows this growth:



In addition to tailwinds from e-commerce growth, United Parcel Service is also benefitting from growth in emerging markets. The company has focused on expanding its international reach over the last 20 years. As global commerce grows, United Parcel Service stands to gain from increased shipments between countries. In total, the company is expecting 6% to 12% EPS growth going forward

United Parcel Service is a shareholder friendly business. The company has several decades of rising dividends, and has reduced its share count by an average of 2% a year over the last decade.

United Parcel Service is a low-risk business in a fairly slow-changing industry. The company's price-to-earnings ratio does appear to be a bit to high currently, especially considering mediocre earnings-per-share growth over the last decade. United Parcel Service is likely somewhat overvalued at current prices.

13 – Johnson & Johnson (JNJ)

Dividend Yield: 2.9%
Price-to-Earnings Ratio: 19.6
Years of Steady or Rising Dividends: 53
Percent of Warren Buffett's Portfolio: 0.0% (very small amount of ownership)
10 Year Earnings-Per-Share Growth Rate: 6.1%

Johnson & Johnson is the world's leading diversified health care company based on its $282 billion market cap. The company has grown earnings-per-share each year for 31 consecutive years – which is absolutely amazing. In addition, the company has paid increasing dividends for 53 consecutive years. Johnson & Johnson is one of the most safe and stable stocks in which to invest for long-term dividend growth.

A company cannot grow earnings-per-share for over 3 decades without a strong and lasting competitive advantage. The company has a portfolio of well-known consumer brands including: Aveeno, Neutrogena, Band-Aid, Bengay, Neosporin, Listerine, Tylenol, Motrin, Benadryl, Mylanta, Zyrtec, Nicorette, Pepcid, Splenda, and Visine, among others. In total, the company's consumer products generate about 20% of total revenues for the company.

Johnson & Johnson's biggest profitability driver is its pharmaceutical divisions, which is responsible for over 40% of company revenue. Johnson & Johnson has a strong competitive advantage in this segment as well. The company's research and development department and intellectual property portfolio help the company to keep its drug pipeline full. Johnson & Johnson's massive size and strong cash flows give it a large research and development budget that smaller companies cannot match.

The company's third segment is Medical Devices and Diagnostics. The segment is slightly smaller than the company's pharmaceutical segment. The Medical Devices and Diagnostics segment develops, manufactures, and sells medical devices for the following medical fields: cardiovascular, diabetes, diagnostics, orthopedics, surgery, and vision.

Johnson & Johnson is currently trading for a price-to-earnings ratio of 19.6. The company is slightly cheaper than the S&P 500 despite being of a much higher quality than the average business. Johnson & Johnson will not deliver rapid growth for shareholders – earnings-per-share have grown at just over 6% a year over the last decade. With that said, the company does have a solid dividend yield of 2.8% and scores very high marks for safety.

12 – The Kraft Heinz Company (KHC)

Dividend Yield: 3.0%
Price-to-Earnings Ratio: 25.0 forward P/E ratio
Years of Steady or Rising Dividends: 45 (including history with Kraft, Mondelez, and Philip Morris)
Percent of Warren Buffett's Portfolio: 18.0%
10 Year Earnings-Per-Share Growth Rate: N/A due to recent merger

Warren Buffett recently decided to drastically increase his ownership in Kraft Foods. He teamed up with 3G Capital to merge Kraft with Heinz.

The merger between Kraft and Heinz gives Berkshire Hathaway and 3G control of 51% of the new company, with Kraft shareholders owning the remaining 49% of the newly combined Kraft-Heinz company.

The merger builds on the success that 3G Capital has realized by purchasing U.S. brands and aggressively expanding them. The same plan worked well with Budweiser (BUD) and Burger King. 3G Capital merged Burger King with Tim Horton's to create a new business as well. 3G Capital and Warren Buffett make an ideal team for purchasing and expanding high quality brands in slow changing industries.

Shareholders will likely benefit from synergies in the newly formed company as well as from the management expertise of 3G Capital and Warren Buffett. Share repurchases are scheduled to be suspended for 2 years following the merger, but Kraft's regular dividend will continue.

The combined company has 8 brands that generate $1 billion or more a year in sales. The combined company is expected to generate about $28 billion in sales per year.

Close to $22 billion of those sales will come from North America, making Kraft-Heinz the 3rd largest food and beverage corporation in North America based on sales, behind only PepsiCo and Nestle.

The infographic below from Kraft's investor relations shows the combined company's brands and key statistics.

11 – General Electric (GE)

Dividend Yield: 3.0%
Price-to-Earnings Ratio: 20.3 forward P/E ratio
Years of Steady or Rising Dividends: 6
Percent of Warren Buffett's Portfolio: 0.2%
10 Year Earnings-Per-Share Growth Rate: -1.0%

General Electric is one of the world's largest conglomerates based

on the company's $309 billion market cap – although it falls about $25 billion short of Warren Buffett's Berkshire Hathaway.

General Electric shareholders will likely see strong returns over the next few years. The company is committed to divesting its GE Capital business and return somewhere around $90 billion to shareholders through dividends and share repurchases. This process is nearly complete thanks to a recent announcement. GE is selling its commercial lending and leasing business to Wells Fargo.

General Electric spun-off its retail finance and credit card division recently as well, which is now named Synchrony Financial (SYF).

The divestiture of GE Capital is a positive sign for General Electric shareholders. The company is focusing on what it does best – manufacturing a diverse range of products, and selling everything else to generate cash. When a management team actively seeks to make the company smaller to reward shareholders, there is a high likelihood that shareholders will see strong gains as the company regains its focus.

General Electric currently trades at a forward price-to-earnings ratio of 20.3. Additionally, the company has a strong 3.0% dividend yield. Investors in General Electric today will likely do much better than they have done over the last decade thanks to the company's reasonable price-to-earnings ratio, high dividend yield, and large divestiture plans. With that said the company is now either fairly valued or slightly overvalued, even with its favorable outlook.

10 – Coca-Cola (KO)

Dividend Yield: 3.0%
Price-to-Earnings Ratio: 20.9 using forward P/E ratio
Years of Steady or Rising Dividends: 53
Percent of Warren Buffett's Portfolio: 126%
10 Year Earnings-Per-Share Growth Rate: 7.2%

Coca-Cola is Warren Buffett's third largest holding (behind Wells Fargo and Kraft-Heinz). Berkshire Hathaway has around $16 billion invested in Coca-Cola.

Coca-Cola is the global leader in ready-to-drink beverages. The

company has 20 brands that generate $1 billion or more per year in sales, and the Coca-Cola soda brand is the most popular in the world by a wide margin.

Coca-Cola has increased its dividend payments for over 5 decades. The company clearly possesses a strong competitive advantage. Coca-Cola's competitive advantage stems from its powerful brands.

The company supports its brands by spending over $3 billion per year on advertising. Coca-Cola can spend more on advertising than any other beverage company (except for perhaps PepsiCo), which further reinforces its competitive advantage.

Going forward, Coca-Cola's earnings-per-share growth will come from a mix of global expansion and operating efficiency increases. The company is using its global distribution power to leverage popular smaller drink brands and sell them worldwide.

An example of this is the company's acquisition of Monster's non-energy drink brands like Hubert's Lemonade and Hanson's juice drinks. Coca-Cola is taking several steps to improve operating efficiency, including:

- Refranchise U.S. bottling operations
- Decentralize decision making
- Better align employee incentives with company goals

Despite being an old company, Coca-Cola still has plenty room for growth. In addition, the company is very shareholder friendly.

Coca-Cola currently has a high dividend yield of 3.0 to go with solid share repurchases. Over the last 5 years, the company has repurchased about 1.2% of shares outstanding. Share repurchases combined with the company's dividend gives investors a shareholder yield of about 4.2. Total returns for Coca-Cola should be over 10% going forward from dividends (3.0) and earnings-per-share growth (7% or more per year).

9 – Suncor Energy (SU)

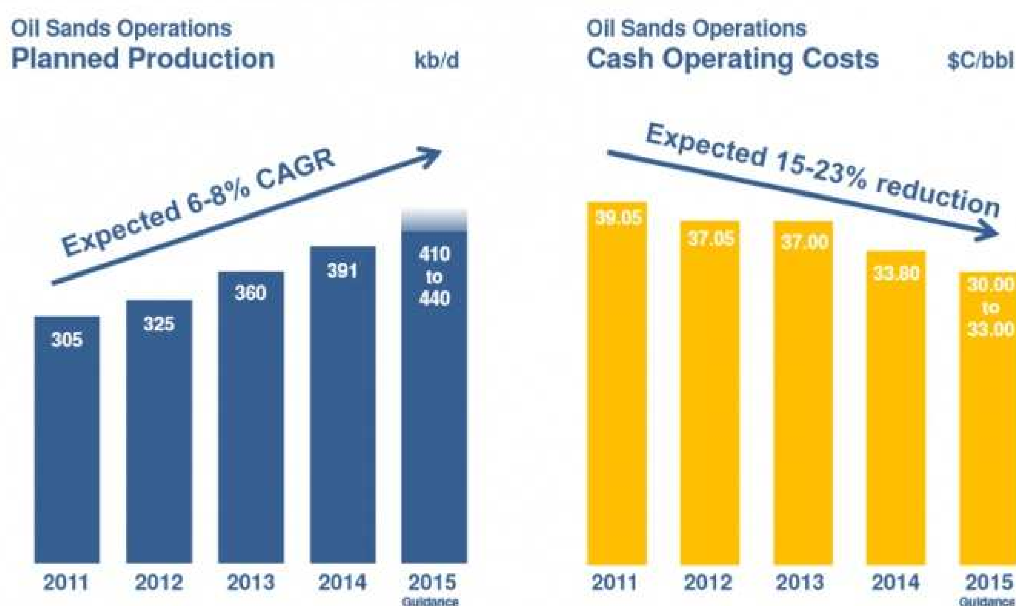
Dividend Yield: 3.1%
Price-to-Earnings Ratio: 25.8 (forward P/E ratio)

Years of Steady or Rising Dividends: 24
Percent of Warren Buffett's Portfolio: 0.6%
10 Year Earnings-Per-Share Growth Rate: 3.6%

Suncor Energy is one of Canada's leading oil sands companies. The company generates the bulk of its earnings from the exploration, acquisition, development, transport, and refining of oil sands. Suncor Energy has a market cap of $40.3 billion and was founded in 1917. The company has paid steady or increasing dividends (in Canadian Dollars) for 24 consecutive years.

Suncor Energy's investing thesis is very simple. The company is one of North America's lowest cost oil producers thanks to exposure to the Canadian oil sands. The company's cash operating costs to produce a barrel of oil from its oil sands operations is just $33.80.

Suncor Energy has significantly increased production from oil sands over the last several years. In addition, the company is focusing on cost control to further reduce its cash operating costs of production. The image below shows the company's positive trends in both increasing oil sands production and decreasing oil sands costs from the company's investor presentation.



Over the past 4 years, Suncor Energy has repurchased about 1% of its shares outstanding each year. In addition, the company has a 2.7% dividend yield for total shareholder yield of 3.7%.

Shareholders in Suncor Energy should see solid earnings-per-share growth when oil prices recover. In the meantime, the company will remain profitable despite low oil prices thanks to its low cost of production.

The downside to investing in Suncor Energy is its high price-to-earnings ratio as compared to other oil companies. Suncor Energy is currently trading for a forward price-to-earnings ratio of about 26, well above most of its oil peers. There are much better bargains in the oil industry today than Suncor.

8 – Deere & Company (DE)

Dividend Yield: 3.1%
Price-to-Earnings Ratio: 11.7
Years of Steady or Rising Dividends: 27
Percent of Warren Buffett's Portfolio: 1.0%
10 Year Earnings-Per-Share Growth Rate: 12.7%

Deere & Company is the largest manufacturer of farming machinery in the world. Deere & Company also manufactures forestry and construction equipment. In addition, the company operates a financing division to help customers finance expensive equipment.

Deere & Company is one of Warren Buffett's more recent purchases. The company is a timely buy as it is nearing its cyclical trough which historically reduces the company's earnings and share price. This gives long-term investors a chance to pick up shares of this high quality business for a discount.

With a price-to-earnings ratio of just 11.7, Deere & Company appears to be significantly undervalued. Peak earnings during the company's last cyclical peak were $9.08 per share. During the next peak, the company should see earnings-per-share of at least $10 per share. The company has traditionally had a price-to-earnings ratio of around 10 during peak earnings years which will result in a share price of at least $100 when the company reaches its cyclical peak.

The company's competitive advantage comes from its brand

recognition and reputation for quality in the farming machinery industry. Deere & Company's competitive advantage has given it a 60% market share of the farming equipment industry in the US and Canada.

Long term growth prospects are bright for Deere & Company. Increased affluence and population growth in emerging markets will likely drive demand for food, grains, and farming equipment globally. Over the last decade, Deere & Company has averaged earnings-per-share growth of over 12% a year.

The company should continue to grow earnings-per-share at a double-digit rate over full market cycles going forward. This will result in more-than-satisfactory returns for shareholders. In addition to solid growth, Deere & Company currently has a dividend yield of around 2.7%, which provides current income for dividend stock investors.

7 – Wal-Mart (WMT)

Dividend Yield: 3.3%
Price-to-Earnings Ratio: 12.9
Years of Steady or Rising Dividends: 42
Percent of Warren Buffett's Portfolio: 2.9%
10 Year Earnings-Per-Share Growth Rate: 7.4%

Wal-Mart is the largest retailer in the world with over 1 billion square feet of retail space. The company has over 4,500 stores in the U.S. as well as over 6,700 outside of the U.S.

Wal-Mart's competitive advantage comes from its massive scale and resulting operating efficiency. The company uses its massive scale to pressures suppliers to lower their prices and then passes savings on to consumers which results in a virtuous feedback loop of improvement. The simplicity of Wal-Mart's business model is one of its strengths.

The company is very shareholder friendly. Wal-Mart has increased its dividend payments for 42 consecutive years, making it a Dividend Aristocrat. Additionally, the company has repurchased about 2.8% of shares outstanding each year.

Wal-Mart's current growth initiatives focus on growing digital sales and building new smaller-store locations to 'fill-in-the-gaps' between its larger supercenter stores. Digital sales are growing at 20%+ a year – on a base of $12 billion. Wal-Mart is already one of the largest e-commerce companies in the world, and it still has much room for improvement and growth. The company's smaller-layout stores are seeing impressive results as well, with neighborhood market stores growing comparable store sales in the mid single digits on a regular basis.

With a price to earnings-ratio under 16, Wal-Mart is a timely purchase. Warren Buffett has invested $4.75 billion of Berkshire Hathaway's funds into Wal-Mart stock. The company's future growth plans combined with its shareholder friendly management and fairly low price-to-earnings ratio make a strong combination for dividend growth investors.

6 – Procter & Gamble (PG)

Dividend Yield: 3.0%
Price-to-Earnings Ratio: 18.0 (forward P/E ratio)
Years of Steady or Rising Dividends: 59
Percent of Warren Buffett's Portfolio: 3.0%
10 Year Earnings-Per-Share Growth Rate: 5.8%

Warren Buffett exchanged 4.32 billion worth of Procter & Gamble shares for Duracell. Even after this, Buffett still has a large holding in Procter & Gamble.

Procter & Gamble is going through a transition. The company is shedding its non-core and underperforming brands to streamline operations and focus on the company's core brands.

As a result of this transition, Procter & Gamble decided to part with its Duracell brand. Warren Buffett agreed to facilitate the Duracell transaction. In the deal, Berkshire Hathaway will exchange its 52.79 million Procter & Gamble shares valued at $4.32 billion for the Duracell division. Procter & Gamble is also contributing about $1.8 billion in cash to Duracell before the spin-off. The transaction values Duracell at about 7x 2014 EBITDA. For comparison, Procter

& Gamble is currently trading at around 11.9x fiscal 2014 EBITDA.

Procter & Gamble has performed well since refocusing its operations on core brands. The company's growth in earnings is being fueled by increasing operating efficiency and cost-cutting. Procter & Gamble appears to be trading around fair value at this time given its forward price-to-earnings ratio of 18.0.

5 – Sanofi (SNY)

Dividend Yield: 3.7%
Price-to-Earnings Ratio: 22.2
Years of Steady or Rising Dividends: 21
Percent of Warren Buffett's Portfolio: 0.1%
10 Year Earnings-Per-Share Growth Rate: 2.5%

Sanofi is a global pharmaceutical company with a market cap of $114 billion. The company is headquartered in Paris, France. In 2014, Sanofi generated 82% of revenue from pharmaceuticals, 12% from vaccines, and 6% from animal health products. The company has heavy exposure to emerging markets, with 36% of 2014 sales coming from these markets.

Sanofi has grown to reach a market cap well over $100 billion thanks to its strong research and development department. The company's ability to roll out new and innovative treatments drives revenue. Fortunately for shareholders of Sanofi, the company's number of product launches is increasing. From 2007 to 2013, the company launched 10 products. From 2014 to 2020, Sanofi is expecting 18 product launches. The image below from the company's most recent presentation shows the company's expected launches to 2020.

Sanofi is a shareholder friendly company. The company has increased its dividend payments each year for the past 21 years (measured in Euros, not USD). The company has recently begun to focus on share repurchases recently. Sanofi has reduced its net share count by about 1% in the last 2 years – with most of that coming last year. Sanofi will likely continue to increase share repurchases to increase the value of each share. Sanofi's 3.7% dividend yield combined with its share repurchase makes for a shareholder yield of about 4.7% a year.

Sanofi's current price-to-earnings ratio of 22.2 is somewhat higher than other high quality pharmaceutical companies. The company is expecting solid growth from its new launches over the coming several years. Nevertheless, Sanofi shares are likely somewhat overvalued at this time.

4 – IBM (IBM)

Dividend Yield: 3.8%
Price-to-Earnings Ratio: 9.5
Years of Steady or Rising Dividends: 23
Percent of Warren Buffett's Portfolio: 9.2%
10 Year Earnings-Per-Share Growth Rate: 12.9%

Warren Buffett is known to avoid technology stocks. He has repeatedly discussed preferring slow changing industries and simple-to-understand businesses. Competitive advantages in slow

changing industries tend to last much longer than those in fast changing industries. Warren Buffett first began purchasing shares of IBM in 2011 – which shocked the investing world as it deviated from his long-time approach of skipping over technology companies.

IBM's long history of profitability sets it apart from many other technology companies. IBM was founded in 1911 and has grown over the last 100+ years to reach a market cap of $168 billion. IBM realized strong earnings-per-share growth of 12.9% a year over the last decade. This growth was largely a result of increased operating efficiency and resulting margin enhancement. The company saw revenue grow at 5.5% a year over the same time period.

IBM has struggled recently. The company is repositioning itself for growth. It recently divested its System X (mainframes) and Customer Care business segments. IBM is divesting itself of lower margin businesses and investing several billion dollars into areas it believes offer much better growth potential: cloud computing, mobile computing, analytics, and information security. The company saw 16% growth in these key areas from 2013 to 2014 – they now generate $25 billion a year in revenues. IBM's goal is to boost revenue in these 4 growth segments to $40 billion by 2018.

Like many of Warren Buffett's other top dividend stock holdings, IBM is a shareholder friendly business. The company currently has a 2.6% dividend yield. Additionally, IBM has repurchased about 5% of its shares outstanding each year over the last decade for a total shareholder yield of 7.6%.

Poor recent performance has caused IBM's price-to-earnings ratio to fall significantly. The company is currently trading at a price-to-earnings ratio of just 9.5. The company appears significantly undervalued at these prices given strong growth in its cloud, mobile, analytics, and information security segments.

3 – General Motors (GM)

Dividend Yield: 4.0%
Price-to-Earnings Ratio: 13.3
Years of Steady or Rising Dividends: 1

Percent of Warren Buffett's Portfolio: 1.2%
10 Year Earnings-Per-Share Growth Rate: N/A

General Motors famously declared chapter 11 bankruptcy in 2009. Since restructuring and going public again in 2010, the company has been profitable every year and even managed slight earnings-per-share growth averaging 1.4% a year.

General Motor's is the United States largest automobile manufacturer. The company has around 17% market share in the United States car and truck market. Around 40% of the company's revenue is now generated overseas, in addition to its North American operations.

General Motors has strong growth prospects ahead. The company is realizing higher operating income margins now thanks to its focus on cost control. The company is seeing solid growth in its joint venture in China. China sales grew 12.1% in fiscal 2014. Growth in China should come in slower this year due to the slow-down in the company's economy. General Motors operates in the highly competitive automobile industry. The company declared bankruptcy in 2009. Since restructuring, it has been able to keep pace with the industry, but growth has been very slow. Bottom line growth is increasing at just 1.37% a year since the restructuring, while revenue growth has 2.7%; about in line with inflation.

General Motors' high dividend yield and low price-to-earnings ratio should appeal to value oriented investors. The company has a low payout ratio of about 47%. General Motors will likely increase dividend payments in excess of its earnings-per-share growth rate over the next several years. If General Motors were to experience better earnings-per-share growth, it would do well for investors. The company's Chevrolet Volt EV concept – which has a 200 mile range – could potentially drive growth for the company in the future. Additionally, the company is currently restructuring operations in Russia, Thailand, and Indonesia. Cost savings from these restructurings should provide a small boost to earnings as well in the coming years.

2 – Verizon (VZ)

Dividend Yield: 5.0%
Price-to-Earnings Ratio: 11.3 (forward P/E ratio)
Years of Steady or Rising Dividends: 31
Percent of Warren Buffett's Portfolio: 0.5%
10 Year Earnings-Per-Share Growth Rate: 7.5%

Verizon is the second highest yielding stock in Warren Buffett's portfolio with its dividend yield of 5.0%. The company is also the leader in wireless in the United States. Verizon controls 34% of the wireless market in the U.S., with AT&T (T) controlling another 31%.

Verizon, AT&T, T-Mobile, and Sprint together account for 90% of the wireless industry in the United States. The oligopolistic wireless industry is not good for consumers – but great for the businesses in the industry which reap higher-than-normal profits from the lack of competition.

Verizon is focused on returning value to shareholders. The company recently announced it plans to sell its wireline assets in California, Florida, and Texas to Frontier Communications (FTR) for $10.5 billion. The move helps Verizon reduce its exposure to its slower growing wireline segment. Verizon also agreed to lease the rights to over 11,300 of its company owned towers to American Tower Corporation (AMT), as well as sell American Tower Corporation 130 towers for an upfront payment of $5 billion. Verizon is using $5 billion of this cash to repurchase shares. This comes to a 2.5% reduction at current prices.

In addition to its intelligent strategic moves, Verizon is seeing strong growth in its wireless segment. The company is benefiting as more-and-more consumers use increasing amounts of data on their smart phones and tablets. The trend toward more data has given Verizon a 7.5% earnings-per-share growth rate over the last several years.

Investors in Verizon should expect total returns of 12.5% a year from the company. Total returns will come from dividends (5.0%) and earnings-per-share growth (~7.5%). Verizon appears undervalued at this time relative to its total return prospects considering its forward price-to-earnings ratio of just

11.3.

1 – AT&T (T)

Dividend Yield: 5.6%
Price-to-Earnings Ratio: 11.3 (forward P/E ratio)
Years of Steady or Rising Dividends: 31
Percent of Warren Buffett's Portfolio: 1.5%
10 Year Earnings-Per-Share Growth Rate: 1.3%

The oligopolistic nature of the United States telecommunications market was covered in detail in the Verizon Wireless analysis above. With investments in both AT&T and Verizon Wireless, it is clear Warren Buffett finds the telecommunications market as a whole favorable for long-term investors.

AT&T's stock has a tremendously high dividend yield of 5.6%. The company has struggled to grow earnings-per-share over the last decade, but that could be changing.

AT&T has changed its growth strategy. The company is making acquisitions to expand outside the United States, and to expand its service offerings. The company has been acquiring telecom companies in Mexico to gain exposure in the country. Mexico is the first logical step for international expansion for AT&T because of the country's geographic proximity to the United States.

Additionally, AT&T recently acquired DirecTV to become the largest pay-tv company. The move positions AT&T for future growth and gives them access to South American markets as DirecTV has sizeable market share in South America.

Going forward, AT&T should compound its earnings-per-share faster over the next decade than it did in the previous decade. Warren Buffett's vote of confidence in the company (it is a recent purchase for the Oracle of Omaha) bodes well for potential investors in this high yield stock. Additionally, the company has a low forward price-to-earnings ratio of just 11.3.

Final Thoughts

Warren Buffett is possibly the greatest investor of all time.

His portfolio is loaded with ultra-high quality businesses that are likely to compound shareholder wealth over long periods of time.

With that said, being a prudent investor requires more than copying Warren Buffett's every move. Instead, intelligent investors should learn from Warren Buffett and analyze his investments themselves to see if each matches your personal investing style.

Examining the highest yielding stocks in Warren Buffett's portfolio is an excellent place to look for candidates to include in your dividend growth portfolio.