The Morning Dividend

Daily dividend investing news from Sure Dividend

Good morning,

Today's May 17th, 2019 edition of The Morning Dividend covers the following new income investing stories:

- The Sure Analysis Research Database Weekly Update
- Warren Buffett's First Quarter Buys & Sells
- Boeing Updates 737 MAX Software, Shares Rise 2%
- Trade War Weighs On Deere's Second Quarter Results
- New From Sure Dividend
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The Sure Analysis Research Database Weekly Update

The current top 10 stocks in the Sure Analysis Research Database with A ratings for Retirement Suitability are:

1. AbbVie Inc. (ABBV)
2. Tanger Factory Outlet Centers Inc. (SKT)
3. Newell Brands Inc. (NWL)
4. Walgreens Boots Alliance Inc. (WBA)
5. The Bank of Nova Scotia (BNS)
6. CVS Health Corp. (CVS)
7. Bank OZK (OZK)
8. Caterpillar Inc. (CAT)
9. Bed Bath & Beyond Inc. (BBBY)
10. AT&T Inc. (T)

We added quarterly updates on the following 71 securities since last week's update:

1. Air Products & Chemicals Inc. (APD)

2. Ally Financial Inc. (ALLY)
3. Barrick Gold Corp. (GOLD)
4. Becton, Dickinson & Co. (BDX)
5. Boston Properties Inc. (BXP)
6. Brookfield Renewable Partners LP (BEP)
7. Buckeye Partners LP (BPL)
8. Canon Inc. (CAJ)
9. CF Industries Holdings Inc. (CF)
10. Chesapeake Financial Shares Inc. (CPKF)
11. Cognizant Technology Solutions Corp. (CTSH)
12. ConocoPhillips (COP)
13. Consolidated Edison Inc. (ED)
14. Copa Holdings SA (CPA)
15. Dominion Energy Inc. (D)
16. Duke Energy Corp. (DUK)
17. Ecolab Inc. (ECL)
18. Emerson Electric Co. (EMR)
19. Franklin Resources Inc. (BEN)
20. Garmin Ltd (GRMN)
21. Genuine Parts Co. (GPC)
22. Gilead Sciences Inc. (GILD)
23. GlaxoSmithKline plc (GSK)
24. Hanesbrands Inc. (HBI)
25. HollyFrontier Corp. (HFC)
26. HSBC Holdings plc (HSBC)
27. Illinois Tool Works Inc. (ITW)
28. Kellogg Co. (K)
29. Kimco Realty Corp. (KIM)
30. KLA-Tencor Corp. (KLAC)
31. L3 Technologies Inc. (LLL)
32. Legg Mason Inc. (LM)
33. Leggett & Platt Inc. (LEG)
34. Marathon Petroleum Corp. (MPC)
35. Mckesson Corp. (MCK)
36. Meredith Corp. (MDP)
37. MGM Resorts Intl. (MGM)
38. Moody's Corp. (MCO)
39. National Fuel Gas Co. (NFG)
40. Newell Brands Inc. (NWL)
41. Newmont Mining Corp. (NEM)
42. Nokia Corp. (NOK)
43. Omega Healthcare Investors Inc. (OHI)
44. Otter Tail Corp. (OTTR)
45. Parker-Hannifin Corp. (PH)
46. Roper Technologies Inc. (ROP)
47. Royal Dutch Shell plc (RDS.B)

48. S&P Global Inc. (SPGI)
49. Siemens AG (SIEGY)
50. Snap-on Inc. (SNA)
51. Sony Corp. (SNE)
52. STAG Industrial Inc. (STAG)
53. Suburban Propane Partners LP (SPH)
54. Suncor Energy Inc. (SU)
55. Sysco Corp. (SYY)
56. T. Rowe Price Grp. Inc. (TROW)
57. Telephone & Data Systems Inc. (TDS)
58. The Coca-Cola Co. (KO)
59. The Gorman-Rupp Co. (GRC)
60. The Sherwin-Williams Co. (SHW)
61. The Southern Co. (SO)
62. The Walt Disney Co. (DIS)
63. The Wendy's Co. (WEN)
64. UGI Corp. (UGI)
65. Ventas Inc. (VTR)
66. WestRock Co. (WRK)
67. Weyerhaeuser Co. (WY)
68. Williams Companies (WMB)
69. Wynn Resorts Ltd (WYNN)
70. Xylem Inc. (XYL)
71. Yamana Gold Inc. (AUY)

We also added the 2 new securities to our investment research database:

1. Fairfax Financial Hldgs. Ltd (FRFHF)
2. NextEra Energy Partners LP (NEP)

If there are any specific companies you'd like added to The Sure Analysis database, let us know here. Your feedback matters; we add companies based on how frequently they are requested.

Warren Buffett's First Quarter Buys & Sells

Warren Buffett is arguably the best investor of all time. Self-directed investors can learn from his success by studying his stock market holdings, which are published in regulatory filings with the U.S. Securities & Exchange Commission. These filings are called "13Fs" and are published on a quarterly basis.

The latest 13F for Buffett's company Berkshire Hathaway (BRK.B) was published earlier this week. In today's Morning Dividend, we wanted to provide an update on the Oracle's stock market activities in the first quarter.

Berkshire Hathaway's 10 Largest Positions
Berkshire Hathaway's 10 largest holdings are listed below:

1. Apple Inc. (AAPL): $47.4 billion
2. Bank of America Corp. (BAC): $24.7 billion
3. Wells Fargo & Company (WFC): $19.8 billion
4. The Coca-Cola Company (KO): $18.7 billion
5. American Express Co. (AXP): $16.6 billion
6. The Kraft-Heinz Company (KHC): $10.6 billion
7. U.S. Bancorp (USB):$6.2 billion
8. JPMorgan Chase & Co. (JPM): $6.0 billion
9. Moody's Corporation (MCO): $4.5 billion
10. Bank of New York Mellon Corp. (BK): $4.0 billion

Buffett's portfolio continues to be remarkably concentrated. 79.5% of this portfolio is held in his top 10 positions and 63.8% is in his top 5 positions.

Changes to the Top 10 and Financial Sector Exposure
The only two majors changes that Buffett made within his top 10 since the last 13F filing was to trim his stake in Wells Fargo by 17 million shares (or $780 million at current prices) and increase his stake in JPMorgan by 9.4 million shares ($1.046 billion at current prices).

The reduction in Buffett's Wells Fargo stake was likely done to stay under the 10% ownership threshold that triggers the company to register as a "bank holding company". This transition triggers additional regulatory scrutiny which Buffett has explicitly stated that he wants to avoid.

Still, Buffett's portfolio suggests he remains extremely bullish on the American banking sector. In an interview with Yahoo! Finance in April, Buffett made the following statement on the banking industry:

"They're a business I understand, and I like the price at which they're selling relative to their future prospects. I think, ten years from now, that they'll be worth more money. And I feel there's a very high probability I'm right."

A remarkable 46.5% of Berkshire's portfolio is invested in the financial sector. In addition, Buffett is close to touching the 10% ownership threshold in four major banks: Wells Fargo (WFC), Bank of America (BAC), Bank of New York Mellon (BNY), and U.S. Bancorp (USB).

Interestingly, Buffett owns just 1.7% of JPMorgan. We would not be surprised to see him significantly increase that stake in the near future. Some back-of-the-envelope math suggests he could deploy about $28 billion into JPM at current prices without crossing the 10% ownership threshold.

Increased Stake in Delta Air Lines, Reduced Stake in Southwest
Buffett made headlines back in 2016 when he began investing in the airline industry. While he was historically vocally bearish on the industry as a whole, his stance changed significantly. Today, Buffett owns $9.6 billion of common equity in the industry, divided as follows:

- Delta Air Lines (DAL): $3.7 billion
- Southwest Airlines Co. (LUV): $2.8 billion
- United Continental Holdings (UAL): $1.8 billion
- American Airlines Group (AAL):$1.4 billion

When Buffett began investing in the sector, many analysts wondered if he planned to eventually acquire one of the companies in full. This mirrors his strategy with several past acquisitions (GEICO and BNSF come to mind) where public market purchases were followed by a bid for the remainder of the business.

If this is the case, Buffett’s activity in the first quarter suggests that he is leaning towards a favorite. His latest 13F shows purchases of 5.4 million of Delta stock (worth $299 million at current prices) while he simultaneously sold 1.2 million of Southwest stock (worth $63 million at current prices). Investors should monitor this trend closely moving forward.

Berkshire's Amazon Stake
The last component of Berkshire’s 13F worth discussing is his Amazon (AMZN) stake. Importantly, this investment was made by one of Buffett’s investment managers (Todd Combs or Ted Weschler) and not Buffett himself.

Berkshire’s recent 13F revealed that the Amazon investment was valued at $861 million at the end of the quarter.

While this is small relative to Berkshire’s overall value (the equity portfolio alone was worth $199.5 billion at the end of the quarter), it’s important to acknowledge that this stake could very well grow over time.

Berkshire’s massive $47.4 billion Apple stake, which was first initiated in the first quarter of 2016, began as a similarly 'small' $1.07 billion position. The Apple investment was also instigated by one of Buffett’s lieutenants.

With that in mind, there is a possibility that the Amazon investment grows into something more substantial in the quarters to come.

Boeing Updates 737 MAX Software, Shares Rise 2%

Yesterday, Boeing's stock (BA) rose by 2% after the company announced that is has completed development of a software update for the 737 MAX. Recall that the plane was originally shipped with software that was involved in two plane crashes that collectively killed 346 people.

In Boeing's press release, the company shared that it has flown the 737 MAX with the updated software for more than 360 hours on 207 flights. The following important passage was also included in the release:

"Boeing is now providing additional information to address Federal Aviation Administration (FAA) requests that include detail on how pilots interact with the airplane controls and displays in different flight scenarios. Once the requests are addressed, Boeing will work with the FAA to schedule its certification test flight and submit final certification documentation."

This announcement (and the events surrounding it) are tremendously important to Boeing and its shareholders. Looking ahead, the two plane crashes have introduced additional uncertainty into Boeing's business and its common equity seems price to deliver mid-single-digit returns moving forward. With that in mind, Boeing earns a hold recommendation from Sure Dividend at current prices.

Trade War Weighs On Deere's Second Quarter Results

Deere & Company (DE) reported second-quarter financial results this morning before the market opened. The stock is down about 4% in premarket trading as Deere missed earnings expectations and provided weaker guidance for the remainder of the fiscal year.

First, let's discuss the company's financial results in the most recent quarter. Deere's net sales increased by 5% while its net sales and revenues (which includes financing revenues) increased by 6%.

Net income declined by 6% while adjusted net income increased by 10%. Adjusted net income excludes tax reform-related charges in the year-ago reporting period.

On a per-share basis, results were even better. Deere's adjusted earnings-per-share increased by 12.1% to $3.52 in the quarter. However, Deere's adjusted EPS missed analyst expectations by $0.11, which contributed to the company's stock price decline this morning.

The more important factor was the company's guidance. Deere expects net sales and revenue to increase by about 5% in fiscal 2019, while net income attributable to Deere & Company is expected to be about $3.3 billion. Deere's previous guidance was for net sales and revenue growth of 7% and net income of $3.6 billion.

Using the company's current level of shares outstanding, this implies earnings-per-share of $10.24. For context, Deere generated $9.39 of adjusted earnings-per-share in fiscal 2018, so even this reduced guidance implies growth of 9.0%.

The following statement from Samuel R. Allen, Deere's Chairman and Chief Executive Officer, helps frame the company's guidance cut:

"Ongoing concerns about export market access, near-term demand for commodities such as soybeans, and a delayed planting season in much of North America are causing farmers to become much more cautious about making major purchases. At the same time, overall economic conditions remain positive, a fact that along with a growing customer base has contributed to strong results from our construction and forestry business."

Given the outcome of this earnings release and our prior research on Deere & Company, we rate the company a hold at current prices. We note that this may change if the company's price drops significantly in response to this earnings release - in which case we would re-rate Deere to a buy.

New From Sure Dividend

Don't miss the following articles and videos that we've published since yesterday's Morning Dividend:

- Article: 4 Consistently High Paying Dividend Stocks With Growth Potential

Also, **The May 2019 edition of The Sure Dividend International Newsletter will go live *this Sunday***.