Sure Dividend

HIGH QUALITY DIVIDEND STOCKS, LONG-TERM PLAN

June 2014 Edition

By Ben Reynolds

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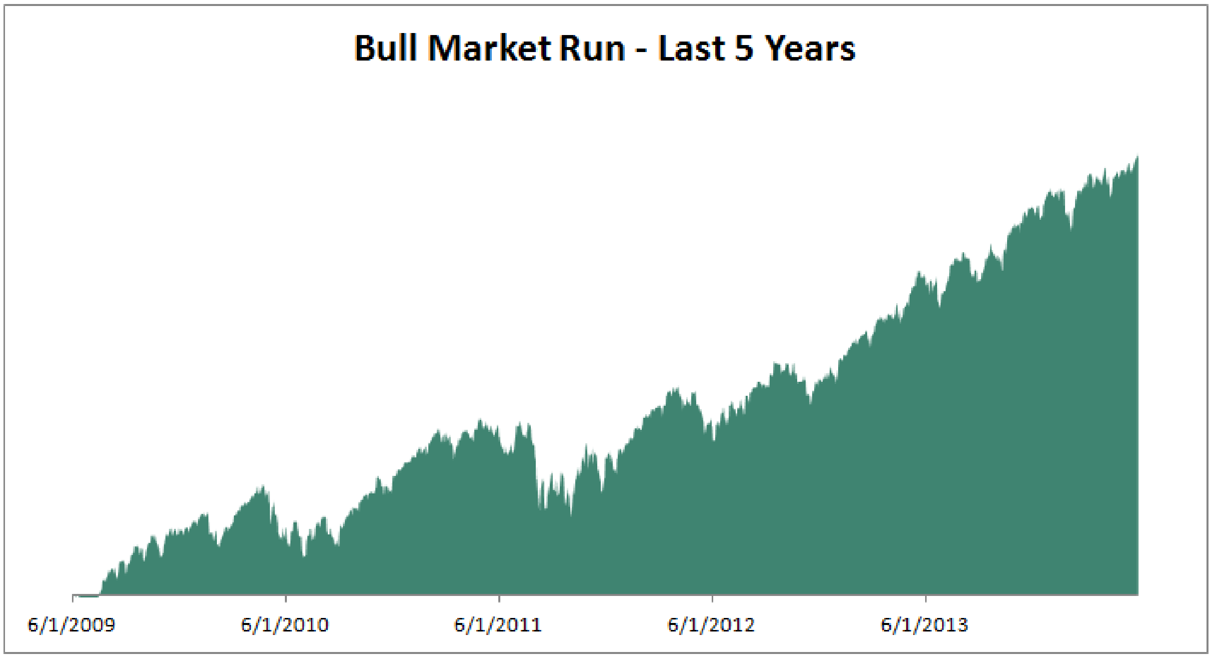
Thoughts

The stock market continued its impressive 5 year run through May.



This sustained level of performance is abnormal. Do not be lulled into a false sense of security; the bull market will end sometime. I do not know when (and no one really does).

When the bull market ends, shares of high quality businesses will fall with the overall market. Historically, Dividend Aristocrats and high quality businesses in stable industries have had lower maximum drawdowns than other stocks. Do not panic when the market corrects. Use the market mood swings to add to your positions in great businesses when they are on sale.

June is the first month we are relaxing our 25 years of consecutive dividend increases constraint. We added General Mills, Philip Morris, and Hershey to the list of investable businesses. These businesses have paid dividends for well over 25 consecutive years, *with no decreases*. Philip Morris would be a Dividend Aristocrat if it retained the dividend history of its parent company, Altria. I believe including these businesses in the list will only make our search for high quality businesses more thorough.

The Top 10 List

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

Ticker	Name	Yield	Payout	Growth	Volatility
WMT	Wal-Mart Stores	2.50%	39.85%	8.23%	19.14%
PEP	PepsiCo Inc.	2.97%	59.23%	9.25%	17.39%
MCD	McDonald's Corp.	3.19%	58.86%	7.24%	20.14%
KO	Coca-Cola Company	2.98%	64.99%	9.04%	18.71%
GIS	General Mills	2.99%	60.12%	6.84%	17.02%
PM	Philip Morris	4.25%	72.83%	8.63%	24.05%
XOM	ExxonMobil Corp.	2.75%	37.29%	6.46%	25.33%
CB	Chubb Corp.	2.16%	23.94%	6.65%	27.24%
T	AT&T Inc.	5.19%	53.66%	4.02%	22.30%
BDX	Becton, Dickinson & Co.	1.85%	45.80%	8.04%	20.23%

Once again, Wal-Mart is the top ranked stock, followed by Pepsi, McDonald's, and Coca-Cola. Chubb and ExxonMobil also make the list from last month. This month, there are 4 new additions: General Mills, Philip Morris, AT&T, and Becton, Dickinson.

The highest yielding stock on the list is AT&T, with a yield over 5%. Chubb has the lowest payout ratio at just 23.94%. Pepsi is the fastest growing business on the list, with a 10 year growth rate of 9.25%. General Mills has the lowest volatility, with a standard deviation of just over 17%.

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

	Top 10	**S&P500**
Dividend Yield:	3.08%	1.88%
Payout Ratio:	51.66%	35.66%
Per Share Growth Rate:	7.44%	7.43%
Volatility:	15.19%	20.34%
PE Ratio:	17.32	19.20

Stocks to Sell

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

NONE

Stocks to Hold

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

Clorox (CLX) – Added April 2014, replaced by GPC

Target (TGT) – Added April 2014, replaced by MMM

Kimberly-Clark (KMB) – Added April 2014, replaced by GIS

Genuine Parts Co. (GPC) – Added May 2014, replaced by PM

3M (MMM) – Added May 2014, replaced by T

AFLAC (AFL) – Added April 2014, replaced by BDX

Review of April's Top 10 Stocks

Wal-Mart Stores, Inc.

Overview

Wal-Mart Stores, Inc. is the world's largest retailer, operating 11,302 stores under 71 names in 27 countries with 2.2 million employees serving nearly 250 million customers each week. The company operates Sam's Club stores in addition to its Wal-Mart stores.

Safety

Wal-Mart is among the most stable companies in the world. Their core focus is to improve the company's productivity loop. As productivity improves, prices are lowered, driving more customers, which in turn increases productivity in a positive feedback cycle. The productivity loop has made Wal-Mart the largest retailer in the world and the 10th largest publicly traded company by market cap.

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

Relevant Stats

10 Year Dividend Growth Rate:	12.33%
Consecutive Years with Dividend Increase:	41
Expected Future Dividend Growth:	9.50%
Forward Dividend Yield:	2.50%

PepsiCo.

Overview

PepsiCo is a worldwide food and beverage corporation. They have 22 brands with more than $1 billion per year in sales. Some of their notable brands are listed below:

Drink Brands: Pepsi, Gatorade, and Tropicana
Snack Brands: Doritos, Ruffles, Cheetos, Lay's, Sabritas, & Quaker

Pepsi's revenue is split almost evenly between snacks and beverages. This gives the company the flexibility to reinvest cash flows from stagnant soda sales into the faster growing snack industry.

The company is expanding internationally and gaining deeper traction in overseas markets. Revenue growth was up 6% for the most recent quarter year over year in Asia, the Middle East, and Africa.

Safety

PepsiCo will continue being a strong, stable company as long as people around the world continue to eat salty snacks and drink sodas, sports drinks, and juices. PepsiCo does well during recessions. There Earnings per share only dipped from $3.34 to $3.21 during the recession of 2007 to 2009.

Relevant Stats

10 Year Dividend Growth Rate: 11.44%
Consecutive Years with Dividend Increase: 42
Expected Future Dividend Growth: 5.00%
Forward Dividend Yield: 2.97%

McDonald's Corporation

Overview

McDonald's Corporation operates and franchises over 35,000 restaurants. About 80% of its restaurants are franchised, with the remainder operated by McDonald's Corporation. McDonald's was founded in 1940 and is the most recognized fast food brand worldwide. McDonald's is a global corporation with more revenue coming from Europe than the US. The company's 2013 revenue by region is listed below:

US:	31.49%
Europe:	40.20%
Asia/Pacific/Middle East/Africa:	23.04%
Other Countries/Corporate:	5.26%

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

Safety

McDonald's Corporation is known worldwide for its "Golden Arches", "Big Mac" burger, and salty French fries. They have one of the most valuable brands in the world. McDonald's is a kid friendly restaurant that serves cheap food quickly. In 2013, McDonald's served about *70 million people every day*.

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

Relevant Stats

10 Year Dividend Growth Rate:	19.40%
Consecutive Years with Dividend Increase:	38
Expected Future Dividend Growth:	8.00%
Forward Dividend Yield:	3.19%

Coca-Cola

Overview

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

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

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

Safety

Coca-Cola was established in 1886. The world has changed substantially since then. Out of all that change, consumers still enjoy the taste of Coca-Cola. Coca-Cola is well diversified within the beverage industry with diet, energy, and health conscious options. It is difficult to imagine a scenario where Coca-Cola does not continue to provide quality non-alcoholic beverages to the world.

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

Relevant Stats

10 Year Dividend Growth Rate:	9.33%
Consecutive Years with Dividend Increase:	52
Expected Future Dividend Growth:	8.00%
Forward Dividend Yield:	2.98%

General Mills

Overview

General Mills is a global producer of branded food products. The company's food portfolio includes cereals, baking products, snacks, frozen foods, meals, and yogurt. The company has a very impressive history of rewarding shareholders. General Mills has paid regular dividends without interruption or reduction for 115 years. The company owns the following brands (among others):

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

General Mills is growing through international expansion and its line of healthy foods. The company's Small Planet line (includes LARA Bar and Cascadian Organics) has grown revenue 8% over the most recent nine months. International sales have increased by 11% over the same period.

Safety

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

Relevant Stats

10 Year Dividend Growth Rate:	10.22%
Consecutive Years with Dividend Increase:	10 (115 yrs w/o decrease)
Expected Future Dividend Growth:	7.50%
Forward Dividend Yield:	2.99%

Philip Morris International

Overview

Philip Morris sells Marlboro, Parliament, Virginia Slims, and several other cigarette brands internationally. They do not sell tobacco products in the United States; Philip Morris' sister company Altria (MO) sells the same brands domestically.

Philip Morris derived its $80 billion 2013 revenues by region as follows:

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

Safety

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

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

Relevant Stats

10 Year Dividend Growth Rate:	11.09% (6 yrs of data)
Consecutive Years with Dividend Increase:	6 (45 including MO history)
Expected Future Dividend Growth:	6.00%
Forward Dividend Yield:	4.25%

Exxon Mobil

Overview

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

1.	Exxon Mobil	(2008)	$46.55 billion
2.	Exxon Mobil	(2007)	$45.01 billion
3.	Exxon Mobil	(2006)	$44.47 billion
4.	Exxon Mobil	(2005)	$42.22 billion
5.	Exxon Mobil	(2011)	$41.84 billion
6.	Apple	(2012)	$41.47 billion

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

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

Safety

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

Exxon's biggest long-term threat is that another form of energy will eventually replace oil. Worldwide oil demand has been increasing every year due to rapid economic development, primarily in Asia. In the very long term (50 years, 100 years, 200 years?) we may move on from oil. For the foreseeable future, the world will run on fossil fuels.

Relevant Stats

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

Chubb Corporation

Overview

Chubb Corporation sells home, car, business, & supplemental health insurance. The company sells insurance through independent agents and brokers throughout North & South America, Australia, Europe, & Asia. They were established in 1882. In 2013 75% of Chubb's premium revenue came from the US with just 25% coming from other countries. Their premium revenue by category is broken down below:

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

Safety

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

Chubb Corporation's earnings are more volatile than many of the consumer products companies on this list due to the nature of the insurance industry. Chubb Corporation was not significantly affected by the 2007 to 2009 recession. Book value per share dipped only slightly from $38.56 in 2007 to $38.13 in 2008. By 2009, book value per share had rebounded to $47.09

Relevant Stats

10 Year Dividend Growth Rate:	9.54%
Consecutive Years with Dividend Increase:	32
Expected Future Dividend Growth:	4.00%
Forward Dividend Yield:	2.16%

AT&T

Overview

AT&T provides telecommunications services to businesses and consumers primarily in the US. 54% of the company's revenue comes from its wireless division, which provides businesses and consumers with wireless data and voice communications services. The company's growth area is its wireless Smartphone subscriber base. Wireless Smartphone subscribers grew 10.2% in 2013, and 19.6% in 2012.

Safety

The telecommunications industry has very high barriers to entry resulting from large capital expenditures required to build wireless networks. Further, regulation limits competition by limiting the number of participants in each market. AT&T, Sprint, Verizon, & T-Mobile control over 90% of the market. High barriers to entry give pricing power to the dominant firms. Wireless operating margins are likely to stay north of 20% for AT&T because of the nature of the telecommunications industry.

AT&T remained profitable throughout the recession of 2007 to 2009. The company's earnings per share dipped from a high of $2.76 to a low of $2.12 in 2009. AT&T's subscription based pricing model creates high switching costs for consumers looking elsewhere for telecommunications services. AT&T's earnings and revenues are fairly stable because of the company's subscription based pricing model.

Relevant Stats

10 Year Dividend Growth Rate:	3.94%
Consecutive Years with Dividend Increase:	30
Expected Future Dividend Growth:	4.00%
Forward Dividend Yield:	5.19%

Becton, Dickinson & Company

Overview

Becton, Dickinson & Company (BDX) manufacturers and sells medical devices worldwide. The company generates about 60% of its revenue from international sales. BDX divides its operations into 3 segments:

Medical:	53% of revenues
Diagnostics:	32% of revenues
Biosciences:	14% of revenues

The company is seeing very strong growth in emerging markets. Revenue in China in particular is growing rapidly, up 17% in the last twelve months. The company has managed its solid growth through innovation and deeper penetration into the rapidly expanding medical products industry in the emerging markets.

Safety

BDX was established in 1898 and has paid increasing dividends for 42 consecutive years. The business has been able to keep pace with the ever changing medical devices industry through its long history of innovation.

BDX was not significantly affected by the 2007 to 2009 global downturn. The company managed to grow earnings per share each year from 2007 to 2009. Medical products are in demand even during recessions as health spending is very difficult to cut back.

Relevant Stats

10 Year Dividend Growth Rate:	13.67%
Consecutive Years with Dividend Increase:	42
Expected Future Dividend Growth:	10.00%
Forward Dividend Yield:	1.85%

List of All Stocks

The following 112 businesses all have 25+ years of dividend payments with no decreases. The list is ranked in order based on the 8 Rules of Dividend Investing, with the highest ranked stocks first.

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

Performance

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

Ticker	Start	Start Price	Dividends	Price Now	Return	Market Return	Difference
WMT	7-Apr	$77.31	$0.48	$76.77	-0.08%	4.52%	**-4.60%**
PEP	7-Apr	$83.91	$0.00	$88.33	5.27%	4.52%	**0.75%**
KO	7-Apr	$38.62	$0.00	$40.91	5.93%	4.52%	**1.41%**
MCD	7-Apr	$97.01	$0.81	$101.43	5.39%	4.52%	**0.87%**
CB	7-Apr	$88.64	$0.00	$92.66	4.54%	4.52%	**0.02%**
XOM	7-Apr	$96.78	$0.69	$100.53	4.59%	4.52%	**0.07%**
KMB	7-Apr	$110.11	$0.00	$112.35	2.03%	4.52%	**-2.49%**
AFL	7-Apr	$61.72	$0.37	$61.23	-0.19%	4.52%	**-4.71%**
CLX	7-Apr	$88.79	$0.71	$89.62	1.73%	4.52%	**-2.79%**
TGT	7-Apr	$60.50	$0.43	$56.76	-5.47%	4.52%	**-9.99%**
GPC	5-May	$84.73	$0.00	$86.33	1.89%	2.26%	**-0.37%**
MMM	5-May	$140.61	$0.86	$142.55	1.99%	2.26%	**-0.27%**

Comparisons are virtually worthless over short timeframes (like the 2 months above). 3 years and longer is a fair timeframe to judge performance.

As of last month, all 10 recommendations had a positive return. This month the 2 recommended discount retailers (WMT & TGT) dipped into negative return territory, along with AFLAC. Target in particular has performed poorly. The business is experiencing short-term headwinds from a credit card data breach and the opening of 124 new Target stores in Canada, which negatively impacted earnings. The business' long term outlook is favorable, as the expansion into Canada should provide long-term growth.

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

Portfolio Building Guide

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

Examples

Portfolio 1		
Ticker	**Name**	**Amount**
WMT	Wal-Mart Stores	$ 1,002
PEP	PepsiCo Inc.	$ -
MCD	McDonald's Corp.	$ -
KO	Coca-Cola Company	$ -
GIS	General Mills	$ -
PM	Philip Morris	$ -
XOM	ExxonMobil Corp.	$ -
CB	Chubb Corp.	$ -
T	AT&T Inc.	$ -
BDX	Becton, Dickinson & Co.	$ -

Portfolio 2		
Ticker	**Name**	**Amount**
WMT	Wal-Mart Stores	$ 4,374
PEP	PepsiCo Inc.	$ 4,878
MCD	McDonald's Corp.	$ 4,353
KO	Coca-Cola Company	$ 2,952
GIS	General Mills	$ 3,309
PM	Philip Morris	$ 4,864
XOM	ExxonMobil Corp.	$ 6,660
CB	Chubb Corp.	$ 2,367
T	AT&T Inc.	$ 2,818
BDX	Becton, Dickinson & Co.	$ 6,243

If you had portfolio 1, you would buy PepsiCo, the top ranked stock you own least.
If you had portfolio 2, you would buy Chubb Corp., the top ranked stock you own least.

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

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

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

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

Ending Thoughts

"Rule Number 1: Never lose money.
Rule Number 2: Never forget rule number 1."

- Warren Buffett, CEO of Berkshire Hathaway

This newsletter aims to find businesses that don't violate Warren Buffett's 2 rules of investing. This doesn't mean the stock price never fluctuates, but that the real economic value of the business continues to increase as the business grows over time.

Shareholder friendly businesses that are semi-resistant to the creative destruction of free markets through a strong competitive advantage are likely to compound investors wealth over long periods of time.

I hope you have enjoyed reading this newsletter. I believe it is an excellent value, but I want it to be even more valuable to you. Please tell me what other information you would like to see in this newsletter.

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