Sure Dividend

HIGH QUALITY DIVIDEND STOCKS, LONG-TERM PLAN

May 2014 Edition

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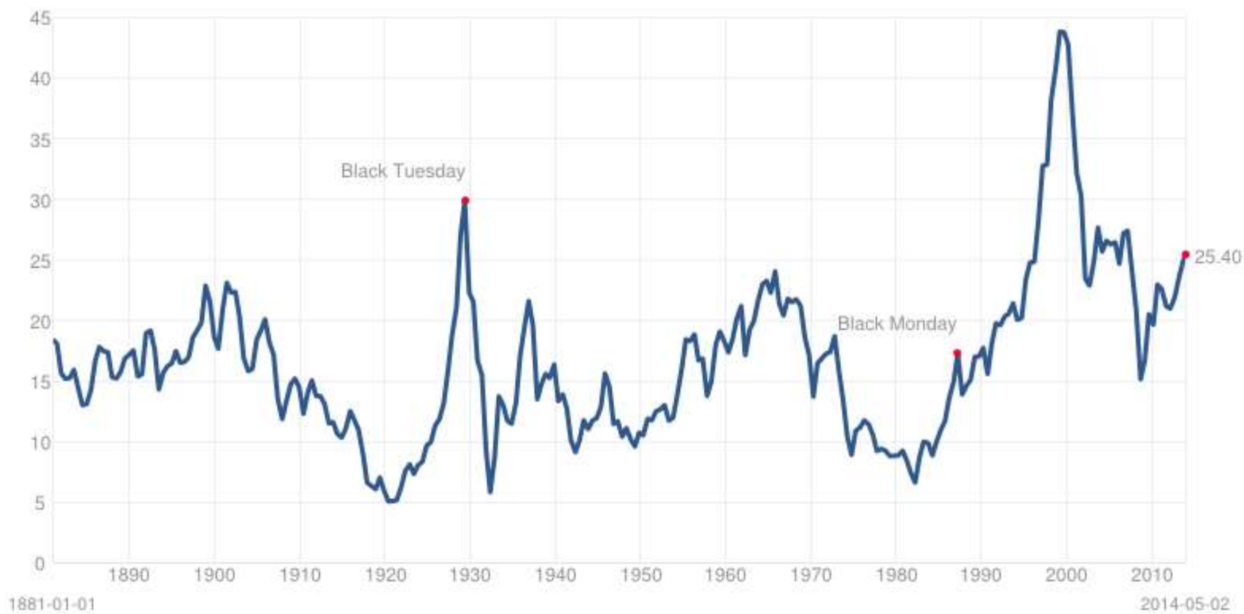
Thoughts

April saw the overall stock market rise slightly by 0.61%. The Shiller P/E ratio, which compares the S&P500's price to its earnings for the last 10 years, is at 25.40. The Shiller P/E average is only 15.51.



Source: multpl.com

Corporate profits are up due to increasing profit margins. Currently, profit margins are near all time highs. Historically, profit margins have been mean reverting. I expect the market to contract as corporate profit margins go back to their historical levels.

Trying to time the market is virtually impossible.   It could correct tomorrow, or 5 years from now. What *is possible* is controlling what you invest in. When you focus on buying high quality businesses at fair or better prices, market moves become irrelevant. Invest in businesses that have been around for several decades, and are very likely to be around for several more decades.

My hope is that this newsletter presents you with many such businesses.

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.

Rank	Ticker	Name	Yield	Payout	Growth	Volatility
1	WMT	Wal-Mart Stores Inc.	2.52%	39.64%	8.23%	19.14%
2	PEP	PepsiCo Inc.	2.65%	51.27%	9.25%	17.39%
3	KO	Coca-Cola Company	2.98%	64.91%	9.04%	18.71%
4	MCD	McDonald's Corp.	3.19%	58.72%	7.24%	20.14%
5	CB	Chubb Corp.	2.16%	22.15%	6.65%	27.24%
6	XOM	ExxonMobil Corp.	2.58%	34.00%	6.46%	25.33%
7	KMB	Kimberly-Clark Corp.	3.03%	60.29%	5.31%	17.45%
8	GPC	Genuine Parts Co.	2.69%	51.27%	6.13%	22.64%
9	MMM	3M Company	2.44%	49.55%	6.21%	22.75%
10	AFL	AFLAC Inc.	2.34%	21.89%	8.53%	43.52%

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

Review of April's Top 10 Stocks

Wal-Mart Stores, Inc.

Overview

Wal-Mart Stores, Inc. is the world's largest retailer, operating 10,942 stores under 71 names in 27 countries. They own Wal-Mart, and Sam's Club. The majority of their stores are in North and South America.

Safety

Wal-Mart is among the most stable companies in the world. Their core focus is to reduce prices for their shoppers. As they increase scale, they can decrease prices in a positive feedback cycle. This process has made them one of the largest businesses in the world.

The 2007 to 2009 recession affected Wal-Mart minimally. In fact, their earnings per share *did not decrease* during the recession.

Relevant Stats

10 Year Dividend Growth Rate:	15.35%
Consecutive Years with Dividend Increase:	41
Expected Future Dividend Growth:	9.50%
Forward Dividend Yield:	2.52%

PepsiCo.

Overview

PepsiCo is a worldwide food and beverage corporation. They have 22 brands that do over $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

Safety

PepsiCo will continue being a strong, stable company as long as around the world continue to eat salty snacks and drink sodas, sports drinks, and juices. PepsiCo does comparably 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: 11.20%
Consecutive Years with Dividend Increase: 42
Expected Future Dividend Growth: 5%
Forward Dividend Yield: 3.06%

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).

Coca-Cola beverages are enjoyed in over 200 companies, with 1.9 *billion* servings consumed each day.

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:	8.01%
Consecutive Years with Dividend Increase:	52
Expected Future Dividend Growth:	8.00%
Forward Dividend Yield:	2.98%

McDonald's Corporation

Overview

McDonald's Corporation operates 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. McDonalds is the most recognized fast food brand worldwide. McDonald's is a global corporation with more revenue coming from Europe than the US.

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 known as a kid friendly restaurant that serves cheap food quickly.

McDonald's faces head winds from competing fast food brands and a trend toward healthier food. In spite of this, they have increased revenue per share by about 8.5% over the last 10 years.

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*.

Relevant Stats

10 Year Dividend Growth Rate:	21.26%
Consecutive Years with Dividend Increase:	38
Expected Future Dividend Growth:	8.5%
Forward Dividend Yield:	3.19%

Chubb Corporation

Overview

Chubb Corporation sells home, car, business, & supplemental health insurance. Chubb Corporation 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 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:	9.25%
Consecutive Years with Dividend Increase:	32
Expected Future Dividend Growth:	4.00%
Forward Dividend Yield:	2.16%

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:	9.81%
Consecutive Years with Dividend Increase:	31
Expected Future Dividend Growth:	7.50%
Forward Dividend Yield:	2.83%

Kimberly Clark Corporation

Overview

Kimberly Clark Corporation develops, manufactures, and markets personal care products.   Kimberly Clark Corporation is Split into 4 operating divisions which each have well known brands:

Personal Care:	Huggies, PullUps, Depend, Kotex
Consumer Tissue:	Kleenex, Scott, Viva
K-C Professional:	Jackson Safety, Smith & Wesson, Wilson
Health Care:	Various medical products

In 2013 Kimberly Clark had revenues of $10.79 billion in the US, $2.99 billion in Europe, and $8.12 billion in Asia, Latin America, and other. The bulk of their growth comes from outside the US.

Kimberly Clark is expected to spin-off its Health Care division to shareholders this year.

Safety

Kimberly Clark sells products that do not go out of style at a premium price due to their strong brand. The brand Kleenex is so dominant that many people call tissues “Kleenex”, even if it isn’t the Kleenex brand!

Tissues, paper towels, diapers, and feminine care products will be around for a long time to come. Kimberly Clark does not face any dangers from changing technology or industry trends.

Kimberly Clark is fairly recession proof, as the majority of their products are “essentials” that are purchased regardless of the economy. Kimberly Clarks earnings per share dipped from $4.25 in 2007 to $4.06 in 2008.

Relevant Stats

10 Year Dividend Growth Rate:	8.16%
Consecutive Years with Dividend Increase:	42
Expected Future Dividend Growth:	4.00%
Forward Dividend Yield:	3.03%

Genuine Parts Company

Overview

Genuine Parts Company distributes automotive, industrial, electrical, and office parts and components throughout North America. GPC also distributes auto parts in Australia & New Zealand. The business operates in 4 divisions:

NAPA (Automotive): 53% of sales
Motion Industries (Industrial): 31% of sales
S.P. Richards (Office): 12% of sales
EIS (Electrical): 4% of sales

GPC's acquisition of Exego in 2013 gave GPC a presence in Australia and New Zealand. Genuine Parts Company's 58 consecutive years of dividend increases is one of the longest streaks of any business.

Safety

Genuine Parts was only moderately affected by the recession of 2009. Sales dipped from $69.09 per share in 2008 to $63.29 in 2009, then quickly rebounded above $70 in 2010. The business remained profitable throughout the recession.

GPC's profitability depends upon sales from its automotive and industrial division. Historically, these businesses have been adaptable and recession resistant based on the company's long history of profitability.

Relevant Stats

10 Year Dividend Growth Rate:	6.07%
Consecutive Years with Dividend Increase:	58
Expected Future Dividend Growth:	9.00%
Forward Dividend Yield:	2.69%

3M Company

Overview

3M is a truly diversified manufacturing and technology company with a global presence. The business operates in 5 divisions, each of which is highly diversified:

- **Industrial**: Manufacturing of products for automotive, adhesive, filtration, aeronautic, acoustic, marine, and other industries
- **Safety and Graphics:** Reflective signs, respirators, body protection, biometric systems, films, inks, and other products
- **Electronics and Energy**: Optical solutions for monitors, televisions, phones, and tablets; telecom, renewable energy, and infrastructure protection products, and more
- **Health Care:** Medical tapes, bandages, and adhesives; drug delivery systems; medical software
- **Consumer**: Owns quality consumer brands Scotch, Post-It, Command, Filtrete, & ACE bandages

3M is among the leading manufacturers of products for many of the markets it serves. It is the 2nd largest diversified machinery business in the world (behind GE), and one of only 7 stocks to be on the Dividend Aristocrats index continuously since 1989.

Safety

3M's highly diversified portfolio of products creates an extremely stable business. 3M performed well during the most recent recession. Revenues were down from $36.43 to $32.54 per share from 2008 to 2009, but quickly rebounded the following year. The company was profitable throughout the recession.

Relevant Stats

10 Year Dividend Growth Rate:	8.22%
Consecutive Years with Dividend Increase:	55
Expected Future Dividend Growth:	11.00%
Forward Dividend Yield:	2.44%

AFLAC Incorporated

Overview

AFLAC sells life, health, and cancer insurance policies primarily in the US & Japan. Approximately 78% of revenues came from Japan in 2012, with the remaining 22% coming from US operations. AFLAC is the largest seller of cancer insurance in the world.

AFLAC focus on finding new distribution channels for their products. In Japan, their insurance products are sold at banks and post offices.

Safety

AFLAC's profits are subject fluctuations in the USD/Yen exchange rate. Revenue & profits were down by about 20% due to weakness in the Yen. AFLAC's revenue concentration in Japan makes it susceptible to the Japanese economy.

AFLAC's earnings per share are more volatile than many of the consumer products corporations on this list. The long-term outlook on the insurance industry is very stable compared to other industries. I cannot imagine people forgoing insurance at all in the future.

Relevant Stats

10 Year Dividend Growth Rate:	15.77%
Consecutive Years with Dividend Increase:	31
Expected Future Dividend Growth:	8.50%
Forward Dividend Yield:	2.34%

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 over the same time period.

Ticker	Start	Start Price	Dividends	5/3/14 Price	Return	Mkt. Return	Difference
WMT	7-Apr	$77.31	-	$79.12	2.34%	2.02%	0.32%
PEP	7-Apr	$83.91	-	$85.52	1.92%	2.02%	-0.10%
KO	7-Apr	$38.62	-	$40.95	6.03%	2.02%	4.02%
CB	7-Apr	$88.64	-	$92.61	4.48%	2.02%	2.46%
XOM	7-Apr	$96.78	-	$102.01	5.40%	2.02%	3.39%
KMB	7-Apr	$110.11	-	$111.03	0.84%	2.02%	-1.18%
AFL	7-Apr	$61.72	-	$63.15	2.32%	2.02%	0.30%
CLX	7-Apr	$88.79	$0.71	$89.58	1.69%	2.02%	-0.33%
TGT	7-Apr	$60.50	-	$62.01	2.50%	2.02%	0.48%

Comparisons are virtually worthless over short timeframes (like the 1 month above). 3 years and longer is a fair timeframe to judge performance.

With that being said, 7 out of 10 recommendations are outperforming the market. All 10 have positive returns. Outperformance will not happen every month. There will be good months and bad months (as there are with any investing strategy). Typically, high quality dividend stocks outperform during bear markets and slightly underperform during bull markets.

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.

How to Use this Newsletter

For Monthly/Regular Savers

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 Inc.	$ 1,002
PEP	PepsiCo Inc.	$ -
KO	Coca-Cola Company	$ -
MCD	McDonald's Corp.	$ -
CB	Chubb Corp.	$ -
XOM	ExxonMobil Corp.	$ -
KMB	Kimberly-Clark Corp.	$ -
GPC	Genuine Parts Co.	$ -
MMM	3M Company	$ -
AFL	AFLAC Inc.	$ -

Portfolio 2		
Ticker	**Name**	**Amount**
WMT	Wal-Mart Stores Inc.	$ 4,374
PEP	PepsiCo Inc.	$ 4,878
KO	Coca-Cola Company	$ 4,353
MCD	McDonald's Corp.	$ 2,952
CB	Chubb Corp.	$ 3,309
XOM	ExxonMobil Corp.	$ 4,864
KMB	Kimberly-Clark Corp.	$ 6,660
GPC	Genuine Parts Co.	$ 2,367
MMM	3M Company	$ 2,818
AFL	AFLAC Inc.	$ 6,243

If you had portfolio 1, you would buy ExxonMobil, the top ranked stock you own least.

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

When a stock comes up to be sold, sell it and use the proceeds to purchase a new stock (or stocks) from the top 10 list. Always purchase the highest ranked stock you own the least of.

As your investments pay you dividends, *reinvest them* alongside your normal monthly savings amount. You will slowly be investing more each year as your dividends increase.

For Large Lump Sum Savings

Invest in each of the top 10 stocks, so that you own the same dollar amount of each of them.

Example

If you invest $50,000 your portfolio will look like this:

Portfolio		
Ticker	**Name**	**Amount**
WMT	Wal-Mart Stores Inc.	$ 5,000.00
PEP	PepsiCo Inc.	$ 5,000,00
KO	Coca-Cola Company	$ 5,000.00
MCD	McDonald's Corp.	$ 5,000.00
CB	Chubb Corp.	$ 5,000.00
XOM	ExxonMobil Corp.	$ 5,000.00
KMB	Kimberly-Clark Corp.	$ 5,000.00
GPC	Genuine Parts Co.	$ 5,000.00
MMM	3M Company	$ 5,000.00
AFL	AFLAC Inc.	$ 5,000.00

When a stock comes up to sell, sell it and use the proceeds to purchase a new stock (or stocks) from the top 10 list. Always purchase whatever stock is highest ranked that you own the least dollar amount.

As your investments pay you dividends, *reinvest them* into the highest ranked stock you own least. Reinvest your dividends when you have enough money to make the transaction cost (your brokerage trading fee) less than 1% of the total order cost.

Example

If your broker charges $8.00 per transaction, you should only reinvest your dividends when you have over $800 to invest.

Ending Thoughts

"The single greatest edge an investor can have is a long-term orientation"

- Seth Klarman, Founder of Baupost Group

What the market does over the next several months does not matter. Investing in high quality stocks does not generate wealth overnight. You must ride the turbulent markets for years to see the compounding effects of high-quality stocks. Over time, great businesses reward shareholders due to the economic advantages they hold over competitors.

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 on the 10 stocks included in this newsletter each month.

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