The Dogs of the Dow and Dividend Dependability

Last month, I provided you with Young Research's dividend dependability ratings for the 30 blue-chip Dow companies. Young Research's Dividend Dependability ratings use a combination of fundamental and qualitative factors to rate the dividend safety of each Dow component.

Every company in the Dow pays a dividend and compared to the average dividend paying company, Dow companies have above average dividend safety, but that didn't prevent General Electric from cutting its dividend last year, or GM slashing its dividend while still a Dow component, or Eastman Kodak from cutting its dividend or, or, or.

High yielding Dow stocks are tempting to income investors. You are often talking about high yields on some of America's best companies. In a low yield environment, a 3%+ dividend yield on a blue-chip stock has inherent appeal. But if you are retired or soon to be retired, and you rely on your dividend income to fund expenses, a dividend cut could put a dent in your retirement income. That is especially true if you follow one of the more popular Dow dividend investing strategies—The Dogs of the Dow.

The Dogs of the Dow is popular partly because it has worked over long periods of time, but also because it is a simple strategy to follow. All an investor must do is rank the 30 Dow stocks by yield at the end of each year and buy the 10 highest yielding stocks in equal amounts. The stocks are held for the balance of the year, and at the start of the following year the process is repeated.

The problem with the strategy is that the highest yielding stocks may be at most risk of a dividend cut. A high yield sometimes means a stock is out of favor (that's what Dogs of the Dow investors are hoping for), but it can also signal that the dividend is at risk. How do you avoid the problem?

That's where Young Research's Dividend Dependability ratings can help you. The highest yielding stocks in the Dow to start 2018 are Verizon, IBM, Pfizer, Exxon, Chevron, Merck, Coca-Cola, Cisco, Procter & Gamble, and General Electric.

Six of these stocks fall into the bottom third for dividend dependability. Those stocks include IBM, Exxon, Chevron, Merck, Cisco, and General Electric. The four that rate in the top twenty for dividend dependability are Verizon, Pfizer, Coca-Cola, and Procter & Gamble.

If you want to invest for yield, but reduce your risk of owning a company that may cut its dividend, you can replace the six Dogs of the Dow stocks that rank in the bottom third for dividend dependability with the highest yielding stocks from the remaining stocks that rank in the top two-thirds for dividend dependability.

Based on current yields, those stocks include Intel, Johnson & Johnson, McDonald's, Boeing, Travelers, and United Technologies. Add those to positions in Verizon, Pfizer, Coca-Cola, and Procter and Gamble, and you are looking at an average yield of 2.8%. The average projected dividend growth for this group of stocks in 2018 is 6.3%. Compare that to the 10 stocks in the Dogs of the Dow that have an average yield of 3.4% and projected dividend growth of 3.9%. You give up 0.60% in yield for the comfort of more dependable dividends and better dividend growth prospects.

Not a bad trade for investors who rely on regular dividend income.

For more on dividend dependability, read parts one, two, and three of my series on the subject.

The Dow’s Most Dependable Dividend Payers Part III

Continuing with Young Research’s dividend dependability rankings, the group of stocks listed below score best out of the 30 stocks in the Dow in terms of dividend dependability. Many of the most dependable dividend payers in the Dow have below average yields, but above average dividend growth prospects.

I have again listed the stocks in alphabetical order and provided the indicated dividend yield, projections for dividend growth in 2018, and commentary on why the stock scored where it did in terms of dividend dependability.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
1	WAL-MART STORES INC	2.08	1.97	A solid balance sheet, low earnings variability, and strong dividend coverage put WalMart in the top group for dividend dependability

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
2	VISA INC-CLASS A SHARES	0.69	17.39	Visa's strong earnings growth prospects, high dividend coverage, and low earnings variability make it one of the Dow's most dependable dividend payers.
3	UNITEDHEALTH GROUP INC	1.35	17.57	Strong growth and dividend coverage as well as low earnings variability put UNH in the top group.
4	PROCTER & GAMBLE CO/THE	3.00	1.87	A solid balance sheet, moderate growth, a good qualitative score, and a strong record of dividend growth keep P&G in the Dow's top group despite below average dividend coverage.
5	NIKE INC -CL B	1.30	11.11	Above average dividend coverage, a strong balance sheet, and moderate earnings growth pushed Nike into the top group.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
6	MICROSOFT CORP	1.97	7.55	Strong earnings growth, solid dividend coverage, and a AAA balance sheet drive Microsoft's dividend score.
7	JOHNSON & JOHNSON	2.38	4.82	A solid balance sheet, a strong record of dividend growth, and low earnings variability make JNJ one of the Dow's most dependable dividend payers.
8	HOME DEPOT INC	1.89	6.74	Strong earnings growth, good dividend coverage, an above average earnings variability score, and a good balance sheet pushed HD into the top group.
9	BOEING CO/THE	2.32	20.42	Exceptional earnings growth, good dividend coverage, and a solid balance sheet helped Boeing.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
10	3M CO	1.99	5.53	Solid earnings growth, moderate dividend coverage, low earnings variability, and a strong balance sheet put 3M in the top group for dividend dependability.

You can read part II here and part I here

Merry Christmas – Boogie-Woogie Choo-Choo Train

Crash II, Preview

Breaking news at youngsworldmoneyforecast.com will post next week!

You will learn exactly why investors today are being misled by both the Dow 30 and the S&P 500.

You will find out why I expect historically poor performance for most investor portfolios over the next five years.

You will read the complete details of an easy-to-deploy strategy that will help you ride out the coming storm with a positive total return.

You will understand exactly why I use this strategy myself and at my investment management company.

You will not want to miss the boat here.

The Dow’s Most Dependable Dividend Payers Part II

Continuing with Young Research’s dividend dependability rankings, the group of stocks listed below rank in the middle of the pack among all 30 Dow stocks on Young Research's dividend dependability score. In this group you will find a nice balance between yield and dividend dependability.

I have again listed the stocks in alphabetical order and provided the indicated dividend yield, projections for dividend growth in 2018, and commentary on why the stock scored where it did in terms of dividend dependability.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
1	CATERPILLAR INC	2.13	1.94	Average dividend coverage and decent earnings growth help CAT overcome one of the highest earnings variability rankings in the Dow
2	WALT DISNEY CO/THE	1.52	7.69	Above average dividend coverage along with average growth, financial strength, and earnings variability push Disney into group two.
3	MCDONALD'S CORP	2.32	6.79	Low dividend coverage and below average financial strength keep McDonalds out of the top 10.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
4	INTEL CORP	2.51	6.03	Low scores on qualitative factors along with average scores on the quantitative factors put Intel in the middle of the pack group.
5	VERIZON COMMUNICATIONS	4.49	2.05	Low dividend coverage, below average financial strength, and below average growth prospects put Verizon in group two.
6	PFIZER INC	3.50	6.25	Below average dividend coverage, high earnings variability, and a strong balance sheet result in a tier two ranking for Pfizer.
7	TRAVELERS COS INC/THE	2.17	3.89	Average across the board rankings place Travelers in second grouping for dividend dependability.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
8	UNITED TECHNOLOGIES CORP	2.25	5.88	Average ratings for growth, dividend coverage, and financial strength keep UTX in the middle tier.
9	COCA-COLA CO/THE	3.22	5.41	Coke's low dividend coverage and low earnings growth keep the company out of the Top 10 for dividend dependability.
10	APPLE INC	1.46	9.76	Solid earnings growth, strong dividend coverage, and a strong balance sheet help Apple, while low qualitative factors drag it down.

You can read part I here.

Crash!

I have been investing since the spring of 1964, and I do not remember being as uncomfortable with the health of the financial markets as I am today. Given that unpleasant prelude, I also want to advise all investors that my own investing position has not changed since I began investing 53 years ago.

I do not market time, i.e., moving in and out of the markets. I pay zero attention to daily, weekly or monthly price movements and have never made an earnings projection in my life.

I do not keep tabs on the exact value of my own account. My assets are spread around with custodial friends whom I have known for decades. Not a lot changes for me year to year. Dust continues to gather on old portfolio friends, some of which I often forget I own because they have been with me so long. I tend not to break off long associations with old friends, whether individuals or portfolio proxies. More important, I never lose a minute’s sleep or worry about tomorrow.

You may find the Dick Young method of investing boring. If you had any idea of exactly how little money I started with and how much I have today—strictly as a result of interest, dividends and compound interest—you might, for a second, gasp. I do not rate highly in terms of exciting returns. Quite the opposite. *Boring* pretty well sums up the Dick Young lifetime investment ideology.

I have accomplished what I have with only Debbie’s help. I have never had any partners or any debt. And I don’t listen to the views of many, except perhaps those of Dave Hammer, my longest friend in the investment industry.

I am a long way from an investment genius and could probably name countless investment industry folk who are a whole lot smarter than am I. I loved Shaker Heights High School, but rarely studied. Eventually I did graduate, much to my own as well as my MIT-alum father's great surprise.

I have little use for today's Marxist-centric, ridiculously priced college tuition structure or academia in general. Given that, I remain loyal to Babson College, which I loved and where I did study. I actually managed to escape with a great degree due 100% to a newly gained ability to concentrate when I actually cared about the material I was given.

So, as you can see, I have been on a well-worn course for a long time, and, yes, I have learned a lot along the way. You may even conclude that I just might be able to offer you and your family a small bit of intelligence, comfort and support as you proceed along your own investing career. By this time, you probably clearly understand that there are areas where you cannot expect me or my investment management company to be of any help whatsoever.

I started off my warning letter to you with the word *crash* because without a number of prescient moves our much maligned (due in no small measure to his own shoot-from-the-hip tweets) president has made, my projected crash undoubtedly would have already set upon us.

We all have to play the hand we're dealt and, for each of us, the hope is that our individual intuition can carry the day. I wish all of you a Happy New Year—one that benefits you and makes you comfortable given your individual goals and responsibilities.

My best advice to you is to start the New Year off with a brand new resolution:

Do not do stupid things and you will greatly improve your odds

of concluding 2018 with a smile on your face.

Warm regards,

Dick

The Dow's Most Dependable Dividend Payers

Which companies are the most dependable dividend payers in the Dow? That may seem like an odd question to ask considering the Dow is comprised of some of America's most successful blue-chip companies. But while Dow stocks may have more reliable dividends than your average company, dividend dependability should not be taken for granted. General Electric, once considered America's most venerable blue-chip industrial, slashed its dividend last month. Citigroup, Bank of America, (both former Dow members), and JP Morgan were once among America's most respected banks, but all three cut their dividends during the financial crisis.

Young Research developed a dividend dependability ranking to provide you with a snapshot of the Dow stocks that have the most secure dividends today. If you are a retired investor who relies on quarterly dividend checks to fund a portion of your retirement spending, Young Research's rankings can help you minimize the chances of a cash flow shortfall.

The rankings are based on a variety of quantitative and qualitative factors including dividend coverage, earnings variability, financial strength, and growth prospects.

Over the coming weeks, I will provide you with insight and commentary on all 30 Dow stocks. This week I focus on the ten stocks that rank lowest in terms of dividend dependability.

The Dow's Least Dependable Dividend Payers

The ten stocks below, listed in alphabetical order, are ranked lowest for dividend dependability by Young Research. For each stock I have provided the indicated dividend yield, projections for dividend growth in 2018, and commentary on why the stock scored where it did in terms of dividend dependability. Note that a low dividend dependability ranking does not signal an imminent dividend cut. A low ranking does indicate that the *risk* of a dividend cut is greater than it is for the average Dow company, especially in the event of adverse economic, business, or market conditions.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
1	MERCK & CO. INC.	3.49	2.10	Above average earnings variability and below average growth projections drag down ranking.
2	JPMORGAN CHASE & CO	2.14	7.70	Lower than average financial strength and qualitative factors bring down ranking.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
3	INTL BUSINESS MACHINES CORP	3.89	6.70	IBM barely missed the second grouping. Qualitative factors and low earnings growth projections dragged it down.
4	GOLDMAN SACHS GROUP INC	1.21	8.60	Above average earnings variability, lower than average financial strength, and qualitative factors bring down ranking.
5	GENERAL ELECTRIC CO	2.71	-50.00	One of highest earnings variability ratings kept GE, even with a reduced dividend, in the lowest grouping.
6	EXXON MOBIL CORP	3.73	2.60	A high payout ratio, high earnings variability, and qualitative factors pushed Exxon into the bottom grouping.
7	DOWDUPONT INC	2.13	0.00	High earnings variability, below average growth projections, and lower than average financial strength bring down ranking.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
8	CISCO SYSTEMS INC	3.09	10.60	Lower earnings growth projections and qualitative factors drag Cisco down.
9	CHEVRON CORP	3.61	1.80	High payout ratio, high earnings variability, and qualitative factors drag down ranking.
10	AMERICAN EXPRESS CO	1.42	9.00	Above average earnings variability, lower than average financial strength, and qualitative factors bring down ranking.

As you may have noticed, a number of the least dependable dividend payers offer above average yields. Dividend dependability and dividend yield are inversely related. You will find as I run through all 30 Dow stocks, that the companies with the most dependable dividends have below average yields. How you choose to successfully balance dividend dependability and yield in your portfolio will depend on your own investment objectives and risk tolerance. Dividend dependability isn’t the only factor that should be used to craft dividend portfolios, but it is an important factor.

Dick Young's Short Term Bull & Bear Portfolio (STBB)

One Man's Opinion

Let's see if STBB is for you.

You're basically bullish on the stock market, and you have a nice chunk of cash handy that you hate to see withering away in your bank, earning squat.

You are going out of the country on an extended business trip, and you have no time to futz with your portfolio. Well, you and I are in the same boat. So I decided to share my most recent STBB short-term portfolio concept with followers to my reinvigorated *Young's World Money Forecast*, first launched in 1978. *Young's World Money Forecast* never died. It simply went on a 40-year vacation.

YWMF and I are now back at it. My goal is to encourage serious investors to start thinking carefully about their money and who they can work with over the next couple of decades to steer the family financial ship of state. YWMF is the perfect medium for me to share with you what I think is going on in the world. My opinions are just that, so do your homework and make your own conclusions. I am pleased to be able to offer advice during your learning process, but at the end of the day, you need to be your own boss.

As head of global investment strategy for RIA Richard C. Young & Co. Ltd., I hope you will give the name Dick Young some worthy consideration in the years ahead.

OK then, we are off and running.

My guiding principle is to include only stocks from the Dow Jones Industrial Average. Why? Because it’s like I am a DJIA insider. I’ve been in this business since what feels like the day ol’ Charles Dow thought this Dow thing up. Slightly kidding, of course, but you get the picture.

Here’s the basic deal. YWMF is all about the Dow—dedicated, you might say, to the Dow. I do not advise buying non-dividend-paying stocks to our clients, ever.

Did you know that every stock in the Dow pays a dividend? Or that long-term dividend-paying stocks offer better and more consistent returns than non-dividend-paying stocks? Serious investors, like I presume you are, simply sleep better, take less risk, and generally avoid the neck-snapping bear market volatility that is the bedmate of non-dividend-paying portfolios. No thanks to non-dividend-paying stocks, not tomorrow, not ever. We are long-term dividend and compounding disciples.

To reemphasize: My STBB portfolio includes only Dow dividend payers. I have followed the Dow, along with the leading and coincident economic indicators, for nearly five decades. I examine the monthly economic indicators under a figurative microscope to tenths of one percent. Back in the really old days, I forecasted both the leaders and the coincidents down to tenths of one percent each month. As you can see, my association with the Dow and the economic indicators is long and intense.

I emphasize my cutting-edge research with the economic indicators because you, as an investor with a high investment acuity and a long track record of success, are perfectly cognizant of the direct hand-and-glove association between the economy and the stock market. Trust me, as the stock market goes, so goes the Dow, but with far less bone-crunching volatility and much improved results thanks to dividend cash flow.

So what’s the play?

My complete playing field will include Dow stocks—longs/shorts.

If the Dow advances over the period in which my long/short Dow stock portfolio is open, the model will make money with the stocks that advance and will lose money with the stocks that decline. And the opposite will prevail for the short stocks.

If instead the Dow declines? My model will take profits in the shorted Dow stocks, and stay with the long Dow stocks until they recover and show a profit. Each of these stocks is a dividend-paying blue chip likely to increase its dividend in the year ahead. Based strictly on investing criteria, there is not a reason or a rush to sell the long positions.

In the end, everything equal, a pleasing experience in a low-risk environment figures to be the outcome.

Each week, I will review the model portfolio for potential changes. If no changes are required, I’ll simply post No Changes for the week. At some point I’ll close out the model portfolio, which I will note promptly on my new STBB strategy site page. No two-week delay as there is with the snail-mail print newsletter era. We are now in the digital age. And you will have me on your side every day of every week. I am spending full time researching for our family investment firm’s clients and spending no time producing intelligence for the masses.

Debbie and I are off to Paris/Burgundy. Make it a good week.

Warm regards,

Dick

Richard C. Young

These 9 Dow Stocks are Offering You a Bribe, Take It

There are 9 Dow stocks currently paying 3% *or more. (See which stocks I'm talking about in my new "Dow Lab")* Not one of these top 2017 cash flow winners for shareholders is in the top 12 Dow stock price performers for the year.

What we are looking at in 2017 is a "follow the leader" momentum based market move completely untethered from the long term anchor of dependable cash flow for shareholders.

I cannot think of a more dangerous signal for serious money.

As of Sept 2017, all investors should be concentrating on companies that bribe today's stockholders with a yield of more than 3% and the promise of a higher dividend in 2017 than in 2016.

Dividends are Vital. The Reason Why Is Compound Interest

Why are dividends important? Because they allow the power of compound interest to work for you. I was speaking with a client yesterday who is in the process of helping his children establish Roth IRAs. I told him it’s amazing how just getting in the game can do wonders for one’s financial well-being: Imagine what this will look like in 50-years. Remember, just the process of starting an investment puts you or a loved one light years ahead of those bogged down and doing nothing at all.

Take a look below at the power of compound interest. An investor who makes eight annual contributions starting at age 25 and then makes no more will end up at age 64 with $227,390 at an assumed growth rate of 9%. Meanwhile, another investor who skips those eight contributions early in life and begins investing later at 33 and makes annual contributions each year until age 64 will end up with only $214,560 that year (assuming the same 9% growth rate). That’s the power of compounding.

Originally posted March 24, 2017.

THE POWER OF COMPOUND INTEREST

Get A Head Start To Retirement!

Assumed growth rate of 9%.

HYPOTHETICAL INVESTOR #1		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	$1,200	$1,308
26	$1,200	$2,734
27	$1,200	$4,288
28	$1,200	$5,982
29	$1,200	$7,828
30	$1,200	$9,841
31	$1,200	$12,034
32	$1,200	$14,425
33	$0	$15,724
34	$0	$17,139
35	$0	$18,681
36	$0	$20,362
37	$0	$22,195
38	$0	$24,193
39	$0	$26,370
40	$0	$28,743
41	$0	$31,330
42	$0	$34,150
43	$0	$37,223
44	$0	$40,573
45	$0	$44,225
46	$0	$48,205
47	$0	$52,544
48	$0	$57,273
49	$0	$62,427
50	$0	$68,046
51	$0	$74,170
52	$0	$80,845
53	$0	$88,121
54	$0	$96,052
55	$0	$104,697
56	$0	$114,119
57	$0	$124,390
58	$0	$135,585
59	$0	$147,788
60	$0	$161,089
61	$0	$175,587
62	$0	$191,389
63	$0	$208,615
64	$0	$227,390

TOTAL CONTRIBUTIONS:	**$ 9,600**
TOTAL EARNINGS:	**$ 217,790**
FINAL ACCOUNT BALANCE:	**$ 227,390**

HYPOTHETICAL INVESTOR #2		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	$0	$0
26	$0	$0
27	$0	$0
28	$0	$0
29	$0	$0
30	$0	$0
31	$0	$0
32	$0	$0
33	$1200	$1,308
34	$1200	$2,734
35	$1200	$4,288
36	$1200	$5,982
37	$1200	$7,828
38	$1200	$9,841
39	$1200	$12,034
40	$1200	$14,425
41	$1200	$17,032
42	$1200	$19,872
43	$1200	$22,969
44	$1200	$26,344
45	$1200	$30,023
46	$1200	$34,033
47	$1200	$38,404
48	$1200	$43,168
49	$1200	$48,362
50	$1200	$54,022
51	$1200	$60,192
52	$1200	$66,917
53	$1200	$74,248
54	$1200	$82,238
55	$1200	$90,948
56	$1200	$100,441
57	$1200	$110,789
58	$1200	$122,068
59	$1200	$134,362
60	$1200	$147,762
61	$1200	$162,369
62	$1200	$178,290
63	$1200	$195,644
64	$1200	$214,560

TOTAL CONTRIBUTIONS:	**$ 38,400**
TOTAL EARNINGS:	**$ 176,160**
FINAL ACCOUNT BALANCE:	**$ 214,560**