

quality recommendations for current income
and income growth from stocks

<http://mdi.morningstar.com/Default.aspx>



The screenshot shows the top portion of the Morningstar DividendInvestor website. At the top left is the Morningstar logo. Below it, the text "DividendInvestor" is prominently displayed in a large serif font, with the tagline "Quality recommendations for current income and income growth from stocks" underneath. On the right side of the header, there are links for "LOG OUT" and "E-mail alerts", and a personalized welcome message "Welcome G. Leigh!". Below the header is a dark blue banner with a white diagonal line pattern. The banner contains the text "Morningstar's expert analysis and picks are at your fingertips." and three icons representing a document, a desktop monitor, and a smartphone.

Leigh Anderson <leigh@tayara.com>
Houston Investors Association 10 aug 2013
<http://tinyurl.com/ls9cdba>

Overview

- Josh Peters, CFA. Annual Digital Subscription | \$189
- Monthly Newsletter (via downloaded PDF); about 20 pages; weekly email briefs. “Owner’s Manual” with strategy & tutorial.
- Online website with current prices, rankings
- Two “focussed” portfolios, of 18 stocks each
- Builder Portfolio
 - earn annual returns of 11% - 13% over any three-to-five year rolling time horizon
 - seek to minimize risk, as defined by the probability of a permanent loss of capital
 - 2% - 4% current yield, 8% - 10% annual income growth
- Harvest Portfolio
 - earn annual returns of 9% - 11% over any three-to-five year rolling time horizon
 - seek to minimize risk, as defined by the probability of a permanent loss of capital
 - 6% - 8% current yield. 2% - 4% annual income growth

Newsletter Elements

Market condition, commentary

Portfolio performance update (real money)

Portfolio listings (price, yield, MS Star)

Dividend changes, news, threats

Detailed profile of several companies
(currently held and/or prospective buys)

Note: data following are as of 12 July 2013, taken from Aug 2013 edition

What's in the Builder

Current Yield = 3.2%

Portfolio Holding	Star Rating	Economic Moat	Credit Rating	Fair Value	Fair Val Uncert	Current Price	Price/Fair Value	Div Rate	Yield (%)
Stocks to Consider Buying									
Johnson & Johnson JNJ	★★★	Wide	AAA	90.00	Low	89.99	1.00	2.64	2.9
Kinder Morgan Inc. KMI	★★★	Wide	—	41.00	Med	40.07	0.98	1.52	3.8
Philip Morris Int'l PM	★★★	Wide	A-	95.00	Med	89.70	0.94	3.40	3.8
Chevron CVX	★★★	Narrow	AA	125.00	Low	124.06	0.99	4.00	3.2
General Electric GE	★★★★	Wide	AA-	27.00	Med	23.76	0.88	0.76	3.2
Spectra Energy SE	★★★★★	Wide	A-	39.00	Low	35.61	0.91	1.22	3.4
McDonald's MCD	★★★	Wide	AA-	105.00	Low	101.58	0.97	3.08	3.0
Clorox CLX	★★★★★	Narrow	A-	92.00	Low	85.84	0.93	2.84	3.3
U.S. Bancorp USB	★★★	Narrow	A+	39.00	Med	37.66	0.97	0.92	2.4
Intel INTC	★★★	Wide	AA	26.00	Med	23.90	0.92	0.90	3.8
Wells Fargo WFC	★★★	Narrow	A+	46.00	Med	42.63	0.93	1.20	2.8
Procter & Gamble PG	★★★	Wide	AA	83.00	Low	81.55	0.98	2.41	3.0
Emerson Electric EMR	★★★	Narrow	A	58.00	Med	57.22	0.99	1.64	2.9
Sysco SYY	★★★	Wide	A+	36.00	Med	35.60	0.99	1.12	3.1
Rogers Communications RCI	★★★★★	Narrow	A-	60.00	High	40.27	0.67	1.67	4.2
Stocks to Hold									
General Mills GIS	★★	Narrow	A	48.00	Low	51.09	1.06	1.52	3.0
Paychex PAYX	★★★	Wide	—	38.00	Med	39.40	1.04	1.40	3.6
United Parcel Service UPS	★★★	Wide	A+	85.00	Med	86.12	1.01	2.48	2.9

What's in the Harvest

Current Yield = 4.9%

Portfolio Holding	Star Rating	Economic Moat	Credit Rating	Fair Value	Fair Val Uncert	Current Price	Price/Fair Value	Div Rate	Yield (%)
Stocks to Consider Buying									
Spectra Energy Partners SEP	★★★	Wide	—	46.00	Low	45.88	1.00	2.00	4.4
Kinder Morgan Energy KMP	★★★★	Wide	BBB+	98.00	Med	87.40	0.89	5.20	5.9
Royal Dutch Shell B ADR RDS.B	★★★★	Narrow	AA-	79.00	Low	69.80	0.88	3.60	5.2
Health Care REIT HCN	★★★	Narrow	SUS	71.00	Med	67.11	0.95	3.06	4.6
American Electric Pwr AEP	★★★	Narrow	BBB+	48.00	Low	46.55	0.97	1.96	4.2
Public Service Enterprise PEG	★★★	Narrow	BBB+	34.00	Med	33.16	0.98	1.44	4.3
Vodafone Group ADR VOD	★★★	Narrow	BBB+	32.00	Med	29.50	0.92	1.51	5.1
Southern Company SO	★★★	Narrow	A-	45.00	Low	44.99	1.00	2.03	4.5
GlaxoSmithKline ADR GSK	★★★	Wide	A+	56.00	Med	52.96	0.95	2.30	4.3
Energy Transfer Equity ETE	★★★	Wide	—	65.00	Med	64.65	0.99	2.58	4.0
Stocks to Hold									
Magellan Midstream MMP	★★	Wide	BBB+	47.00	Low	55.10	1.17	2.03	3.7
Realty Income O	★★★	Narrow	SUS	44.00	Med	44.84	1.02	2.18	4.9
AmeriGas Partners APU	★★★	Narrow	BB+	46.00	Med	47.18	1.03	3.36	7.1
Kraft Foods Group KRFT	★★★	Narrow	BBB+	53.00	Med	56.69	1.07	2.00	3.5
Altria Group MO	★★	Wide	BBB	30.00	Med	36.92	1.23	1.76	4.8
National Grid PLC ADR NGG	★★	Narrow	BBB+	53.00	Low	57.71	1.09	3.06	5.3
Peoples United Financial PBCT	★★★★	Narrow	A	14.00	Med	15.20	1.09	0.65	4.3
AT&T T	★★	Narrow	A-	32.00	Med	35.81	1.12	1.80	5.0

Buying & Selling Rules

Generally “fully invested”, no timing

Mostly common stock in mid-to-large companies, some MLP & REIT

Buy criteria

- Secure, predictable income
- Economic “moat”
- Margin of safety
- Fair value (discounted cash flow) price

Sell criteria

- Dividend in jeopardy
- Deteriorating fundamentals
- Superior opportunity

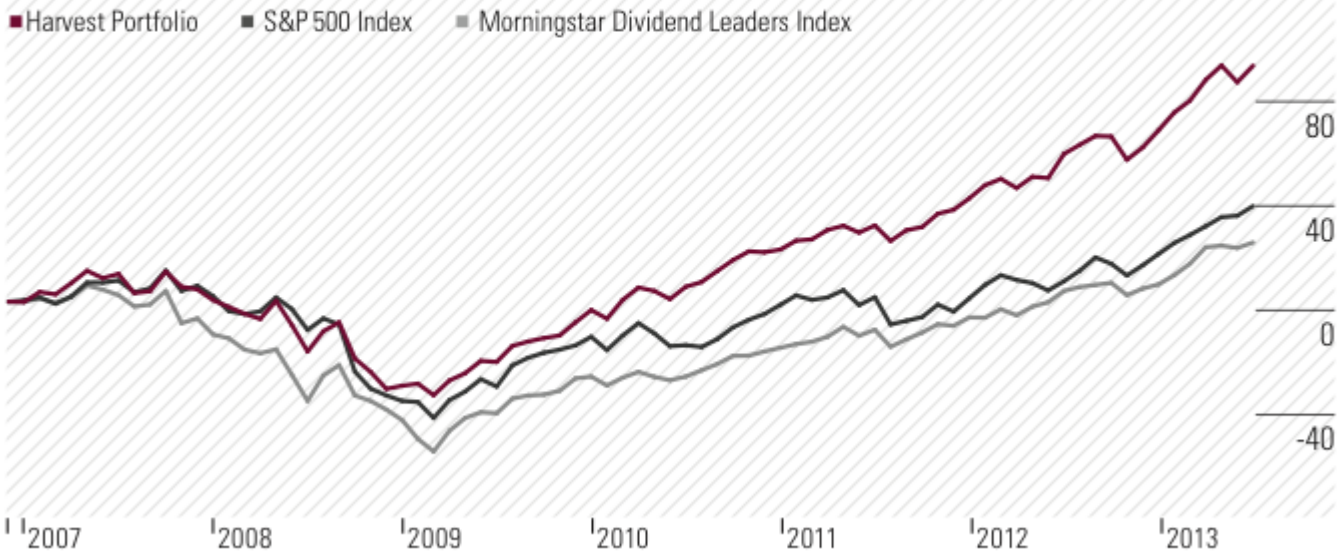
Apply the “Dividend Drill”

Example of “Dividend Drill” for Unilever PLC

- Economic Moat: Wide
- Is dividend safe?
 - sales and cash flows recession-resistant
 - Debt was a modest 1.2 times EBITDA; Morningstar credit rating of A+.
 - payout ratio in the low 60s
- Will dividend grow?
 - history of raising its dividend, with an 8% annual growth rate
 - Core revenue growth has run in the mid single digits for many years
 - forecast 5% revenue growth over the long run
 - expect per-share earnings and dividends to rise at a 7%-9% annual pace.
- What’s the return?
 - With a current yield of 3.3% and expectation of 7%-9% dividend growth, we anticipate total returns averaging 10%-12% over the long run

Return: Harvest

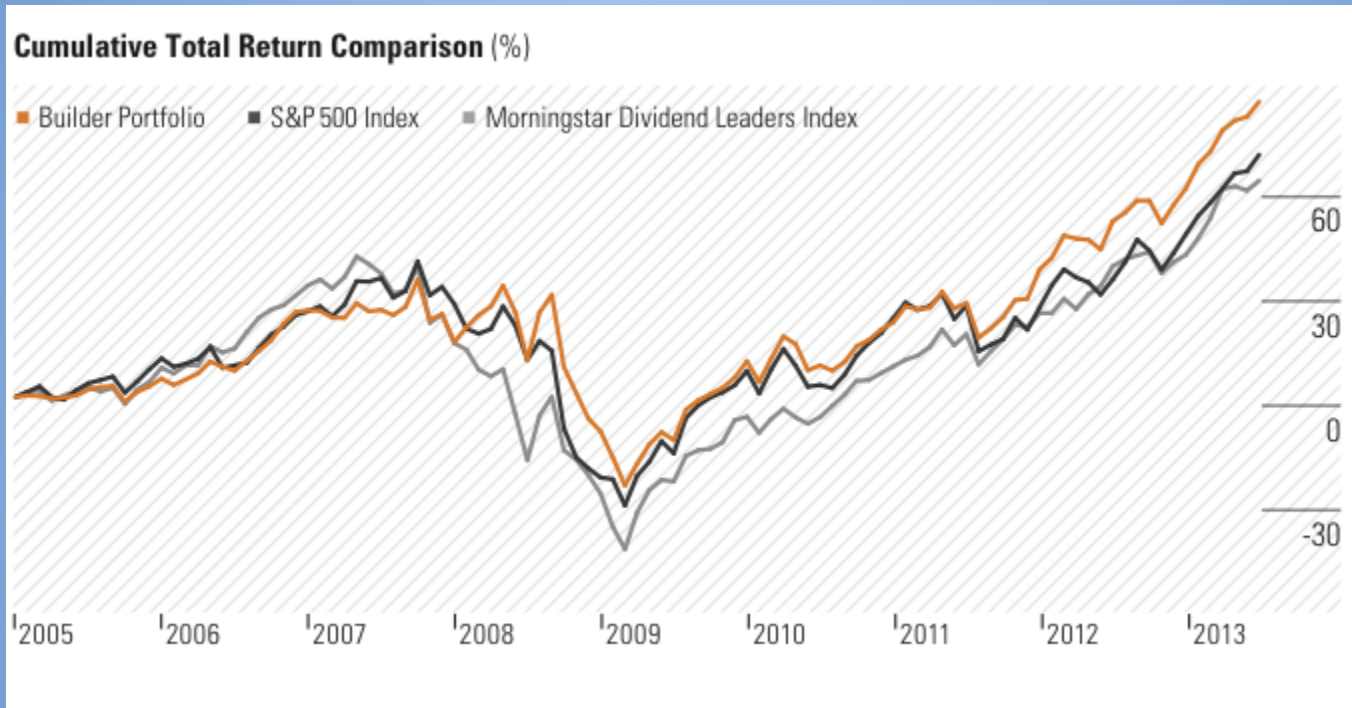
Cumulative Total Return Comparison (%)



Trailing Return (%)	Index Level	This Month	12 Month	Annualized Since Inception
Harvest Portfolio		3.5	21.6	10.3
S&P 500 Index	1,680	2.8	26.6	4.9
M* Dividend Leaders	4,485	1.7	17.8	3.2

Vanguard VYM = 5.7%

Return: Builder



Trailing Return (%)	Index Level	This Month	12 Month	Annualized Since Inception
Builder Portfolio		2.4	22.8	7.5
S&P 500 Index	1,680	2.8	26.6	6.4
M* Dividend Leaders	4,485	1.7	17.8	5.8

Vanguard VIG = 6.8%