



DOW THEORY
FORECASTS®



Top Secrets
of
Dividend
Investing

Dividends Every Month, High-Yielding Stocks, and More

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Arranging to receive dividends every month is often considered the “holy grail” of dividend investing. Many investors talk about it, but few ever seem to accomplish it. If they do, they sacrifice significant investment quality simply because a mediocre stock fills the slot they have open.

Such trade-offs are not necessary anymore. This Special Report from the research staff at **Dow Theory Forecasts** shows you how to get dividends every month, recommends which stocks to buy, and unlocks other secrets to successful dividend investing. It guides you through the maze of choices — and pitfalls — you face in arranging to receive dividends every month.

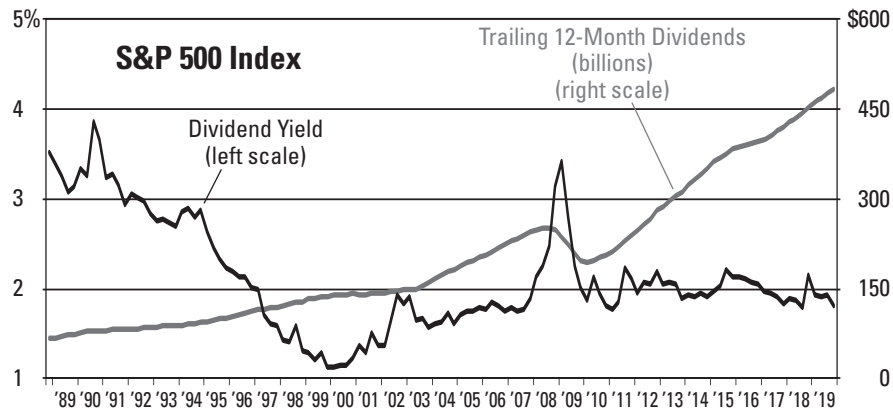
Top Secrets of Dividend Investing will help you put more cash in your pocket through its specific recommendations of high-yield investments, preferred stocks, and rock-solid investments in companies that have increased their dividends in at least 15 consecutive years.

The recommendations here will help you build up a stable and steady stream of current income. Get payments you can count on, month after month from high-quality stocks. Put more cash in your pocket from dividend investing with this valuable resource.

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Dividend payouts on the rise



S&P 500 Index companies paid about \$484 billion in dividends in the 12 months ended December.

Dividends still in style

In the wake of the market's rises and falls over the last 10 years, even many growth investors now like to receive dividends.

Income-oriented investors have always appreciated a generous payout, but the importance of dividends is never more apparent than during periods when the market is weak. The S&P 500 Index fell 38.5% in 2008. While dividends alone couldn't make up that shortfall, they eased the pain a bit. Including dividends, the S&P 500 delivered a negative return of about 36%.

More importantly, the dividends provided cash flow during a period of tight credit. Dividends offer appealing downside protection, in many cases delivering steady cash flows regardless of market movements.

Unfortunately, the market has not always been kind to dividend-paying stocks, particularly those with very high yields. High-profile dividend cuts during the financial crisis, many from firms known for many years of rising payouts, underscore the risks involved in chasing yield, in focusing on companies that pay out a large percentage of their profits in dividends. Fortunately, dividend growth has been solid marketwide in recent years.

Since 1988, a period that contained stretches of both favorable and unfavorable business conditions, the dividends paid by S&P 500 Index components rose every year until 2009. Total payments fell in the December 2008 quarter for the first time since the June 2003 quarter and kept declining in 2009. In 2009, S&P 500 companies paid \$195.6 billion in dividends, down 21% from the \$247.3 billion paid in 2008. Those 2009

dividends represented 39% of the earnings for the year, roughly in line with the average of 39% over the last 20 years. In 2010, the index paid nearly \$206 billion in dividends, up 5% and representing about 27% of earnings. Dividends rose 17% in both 2011 and 2012, then 11% in 2013, 12% in 2014, and 9% in 2015, before slowing to 4% in 2016. In 2017, dividend growth reached 6%, followed by 8% growth in 2018.

Dividend payments are likely to keep rising over the next several years — at a modest pace. However, the future direction of dividend *yields* will be determined mostly by the performance of equities.

Over the last 98 years, the Dow Jones Industrials yielded an average of 4.1%. Over the last 20 years, the yield has averaged a much lower 2.5%, and the average over the last 10 years was 2.8%.

Now is an excellent time for investors to revisit their dividend-paying stocks. The Top 20 lists on the pages ahead offer three methods for putting together income-oriented portfolios.

Please keep in mind that few of the stocks we recommend pay extremely high yields. That's because the *Forecasts* prefers to concentrate on stocks that deliver both growth and income. We generally shy away from stocks that pay out more than 65% of their earnings as dividends, as such companies often have little financial flexibility to invest in their business or adjust their operations to adapt to changing markets. In addition, high yields come at a price.

Investors who seek 4% yields in the stock market should be prepared to take on extra risk, just as do investors who seek extremely high profit growth.

The *Forecasts* believes a portfolio containing stocks that grow their dividends as well as their earnings can deliver better returns than a portfolio containing just stocks that pay high yields. However, the pages ahead should provide interesting ideas for many types of investors.

Dow Jones Industrial Average dividend yield

Year	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Yield	3.0%	2.5%	2.3%	3.0%	2.5%	2.5%	3.1%	2.9%	2.8%	3.0%	3.8%	1.9%	2.4%	2.7%	2.4%	2.4%

Get dividends every month

Do you want monthly income from your portfolio?

You don't have to take on extra risk to get it.

Investors seeking dividends every month, along with solid dividend-growth potential and below-average volatility, should consider our "Top 20 stocks for dividends every month." Not all of the stocks are rated Buy or Long-Term Buy, but all are worth holding in an income-oriented portfolio.

The portfolio is only modestly diversified, in part because we set a minimum yield requirement, which eliminated a lot of companies in the technology, consumer-discretionary, and health-care sectors.

But as part of a larger, diversified equity portfolio, this Top 20 list has appeal for investors seeking a steady stream of income. The portfolio yields 2.3%.

Top 20 stocks for dividends every month

All 20 of the companies listed below have yields of at least 1.0% and dividend growth of at least 7% over the last three years, if they have paid dividends that long. A portfolio containing equal-weighted positions in all 20 stocks would yield 2.3% and pay dividends every month.

<i>Company (Price; Ticker)</i>	<i>Dividend</i>	<i>Yield</i>	<i>Payout Ratio</i>	<i>3-Year Div. Growth (Annual.)</i>	<i>Sector</i>	<i>Advice</i>
Dividends paid January, April, July, and October						
Comcast (\$42; CMCSa)	\$0.92	2.2%	29%	15%	Communication	Focus Buy †
Hewlett Packard Ent. (\$13; HPE)	0.48	3.7	26	27	Technology	A
J.P. Morgan Chase (\$127; JPM)	3.60	2.8	33	22	Financials	Focus Buy †
Lam Research (\$297; LRCX)	4.60	1.6	28	49	Technology	Buy †
Medtronic (\$107; MDT)	2.16	2.0	38	8	Health care	A
Stryker (\$203; SYK)	2.30	1.1	25	11	Health care	Buy †
Dividend paid February, May, August, and November						
Apple (\$292; AAPL)	\$3.08	1.1%	23%	11%	Technology	Focus Buy †
Charles Schwab (\$42; SCHW)	0.72	1.7	28	36	Financials	Buy †
Citigroup (\$69; C)	2.04	2.9	24	66	Financials	L-T Buy
Citizens Financial (\$34; CFG)	1.56	4.6	40	44	Financials	Buy †
Delta Air Lines (\$49; DAL)	1.61	3.3	22	30	Industrials	A
General Dynamics (\$172; GD)	4.08	2.4	32	10	Industrials	A
Morgan Stanley (\$47; MS)	1.40	3.0	26	22	Financials	A
Dividend paid March, June, September, and December						
BlackRock (\$510; BLK)	\$14.52	2.8%	45%	13%	Financials	A
CDW (\$126; CDW)	1.52	1.2	23	38	Technology	Focus Buy †
ConocoPhillips (\$52; COP)	1.68	3.3	52	10	Energy	A
Microsoft (\$170; MSFT)	2.04	1.2	36	9	Technology	Focus Buy †
Northrop Grumman (\$338; NOC)	5.28	1.6	23	14	Industrials	Buy †
Southwest Airlines (\$49; LUV)	0.72	1.5	16	23	Industrials	Buy †
UnitedHealth Group (\$262; UNH)	4.32	1.6	26	20	Health care	Buy †

† Also qualifies as a Long-Term Buy. NM Not meaningful because company didn't pay dividends three years ago.

Top 20 stocks with low payout ratios

All 20 of the stocks below have grown their dividends at an annualized rate of at least 10% over the last five years, or since they began paying dividends if it has been less than five years. Given their payout ratios of no more than 40%, further dividend growth seems likely.

Company (Price; Ticker)	Dividend	Yield	Payout Ratio	5-Yr. Annualized Growth		Advice
				EPS	Dividends	
Anthem (\$261; ANTM)	\$3.80	1.5%	17%	17%	13%	A
Apple (\$292; AAPL)	3.08	1.1	23	11	10	Focus Buy †
Booz Allen Hamilton (\$71; BAH)	1.24	1.7	39	14	17	L-T Buy
CDW (\$126; CDW)	1.52	1.2	23	21	45	Focus Buy †
Charles Schwab (\$42; SCHW)	0.72	1.7	28	23	23	Buy †
Citigroup (\$69; C)	2.04	2.9	24	9	117	L-T Buy
Citizens Financial (\$34; CFG)	1.56	4.6	40	21	NM	Buy †
Comcast (\$42; CMCSa)	0.92	2.2	29	16	13	Focus Buy †
CVS Health (\$63; CVS)	2.00	3.2	28	9	13	Buy †
Delta Air Lines (\$49; DAL)	1.61	3.3	22	17	38	A
J.P. Morgan Chase (\$127; JPM)	3.60	2.8	33	14	17	Focus Buy †
Lam Research (\$297; LRCX)	4.60	1.6	28	26	53	Buy †
Leidos Holdings (\$110; LDOS)	1.36	1.2	24	11	NM	Focus Buy †
Microsoft (\$170; MSFT)	2.04	1.2	36	15	10	Focus Buy †
Morgan Stanley (\$47; MS)	1.40	3.0	26	19	28	A
Northrop Grumman (\$338; NOC)	5.28	1.6	23	17	14	Buy †
Royal Caribbean (\$84; RCL)	3.12	3.7	32	23	22	A
Southwest Airlines (\$49; LUV)	0.72	1.5	16	16	26	Buy †
Stryker (\$203; SYK)	2.30	1.1	25	12	11	Buy †
UnitedHealth Group (\$262; UNH)	4.32	1.6	26	22	24	Buy †

NM Not meaningful. † Also qualifies as a Long-Term Buy. ° Dividend and yield estimated.

Payout ratio key to future dividend growth

For our money, the best income stocks combine three attributes:

- ▶ **Dividend growth.** Consistent dividend increases bespeak a commitment to sharing the wealth with stockholders.
- ▶ **Profit growth.** Without profit growth, dividend increases can be difficult to fund. And over the long haul, stock prices tend to increase in line with earnings.
- ▶ **Moderate or low payout ratios.** The payout ratio represents the portion of earnings paid out as dividends. Companies with low payout ratios tend to have more flexibility to raise the dividend, expand the business, or handle an economic downturn.

What happens to the dividend when a company with a high payout ratio runs into financial difficulty? Most of the possible scenarios — such as cutting the payout, borrowing to fund the payout, or abandoning growth investments to fund the payout — are bad for shareholders.

Yielding to high yields

Talk about wanting what you can't have.

It's no secret that investor interest in high-yielding stocks is running high. The problem is that while many investors seek high yields, the pond in which they are fishing is rather shallow. And most of the fish in the pond look quite ugly.

Don't forget that yield is oftentimes a proxy for risk, and even income-oriented investors can benefit from some growth.

The bottom line is that simply picking the highest-yielding stocks is not the best approach to building a quality income portfolio. You should evaluate a variety of factors when fishing for yield. Quadrix® scores will help weed out higher-yielding stocks with poor fundamentals. You can find Quadrix scores at the subscribers-only portion of our Web site — www.DowTheory.com.

Top 20 high-yielding stocks

All of the stocks below deliver a yield of at least 1.5%.

Company (Price; Ticker)	Dividend	Yield	Payout Ratio	— Quadrix Scores* —			Advice
				Quality	Financial Strength	Overall	
Bank of America (\$31; BAC)	\$0.72	2.3%	24%	73	75	83	A
Booz Allen Hamilton (\$71; BAH)	1.24	1.7	39	94	42	83	L-T Buy
Bristol-Myers Squibb (\$62; BMY)	1.80	2.9	29	88	76	95	Focus Buy †
Charles Schwab (\$42; SCHW)	0.72	1.7	28	94	95	99	Buy †
Citigroup (\$69; C)	2.04	2.9	24	74	64	94	L-T Buy
Citizens Financial (\$34; CFG)	1.56	4.6	40	84	82	99	Buy †
Comcast (\$42; CMCSa)	0.92	2.2	29	74	57	62	Focus Buy †
CVS Health (\$63; CVS)	2.00	3.2	28	66	38	86	Buy †
Delta Air Lines (\$49; DAL)	1.61	3.3	22	97	82	100	A
Goldman Sachs (\$217; GS)	5.00	2.3	20	56	55	86	A
Hewlett Packard Ent. (\$13; HPE)	0.48	3.7	26	45	60	83	A
J.P. Morgan Chase (\$127; JPM)	3.60	2.8	33	74	84	93	Focus Buy †
Lam Research (\$297; LRCX)	4.60	1.6	28	99	74	81	Buy †
Lockheed Martin (\$402; LMT)	9.60	2.4	40	95	57	84	A
MetLife (\$47; MET)	1.76	3.7	29	48	54	92	A
Morgan Stanley (\$47; MS)	1.40	3.0	26	84	64	99	A
Northrop Grumman (\$338; NOC)	5.28	1.6	23	84	50	67	Buy †
PNC Financial (\$140; PNC)	4.60	3.3	39	77	89	83	A
UnitedHealth Group (\$262; UNH)	4.32	1.6	26	99	61	92	Buy †
Walgreens Boots (\$48; WBA)	1.83	3.8	31	71	38	79	A

† Also qualifies as a Long-Term Buy. * Quadrix scores are percentile ranks, with 100 the best.
 ° Dividend and yield estimated.

Notes