



An Introduction to The Dividend-Value Strategy

“When all other factors which rate analytical consideration have been digested, the underlying value of dividends, which determines yield, will in the long run also determine price. The key to value, therefore, lies in yield as reflected by the dividend trend. Individual stock prices fluctuate between repetitive extremes of high dividend yield and low dividend yield. These recurring extremes of yield establish Undervalue and Overvalue price levels. When a dividend is raised, the Undervalue and Overvalue price levels are raised automatically so they will continue to reflect the historically established yield extremes. Each stock has its own distinctive high and low yield characteristics and must be evaluated individually.”

Excerpt from *Dividends Don't Lie*

<http://www.iqtrendsprivateclient.com>

Welcome to IQ Trends Private Client Asset Management.

The investment management philosophy of IQ Trends Private Client Asset Management (Private Client) is based on the investment concepts illustrated throughout the *Investment Quality Trends* newsletter. These concepts, which are based on an original interpretation of the Dividend-Yield Theory, form the basis of the Dividend-Value Strategy.

What Is Investment Quality Trends?

Investment Quality Trends is a financial newsletter that focuses exclusively on dividend paying blue-chip stocks. As an investment tool, *IQ Trends* has earned the confidence and patronage of the professional financial community and we are honored to count them among our subscribers. Although it is a high-privilege to assist many of the leading investment banks and trust companies, mutual funds, investment managers and brokerage firms, we have enjoyed a long association with the serious, private investor that appreciates our passion for: The preservation of principal; an immediate return on investment from dividends and a growing income stream from dividend increases; and, the harvesting of capital gains when appropriate.

Why Dividend Paying Blue-Chip Stocks?

Since our inaugural issue in April, 1966, Investment Quality Trends has helped subscribers make money in the stock market by following the wonderfully old-fashioned idea that the sole purpose of investing is to realize a **Return on Investment (ROI)**.

The stock market offers investors two paths to ROI; Capital Appreciation and Dividends.

As hope springs eternal, we would suggest that every investor who has purchased shares of common stock believed that those shares would be sold for a profit. As learning is experiential, however, we would further suggest that the enlightened investor has learned that ROI based solely on capital appreciation is difficult to achieve on a consistent basis. As such, the cash dividend is the only return path that offers any degree of certainty. This certainty is based on the fact that the cash dividend is a company policy, *which must be declared by the board of directors*. Accordingly, the cash dividend has a record date, an ex date and a payment date. None of these conventions are applicable to capital appreciation.

Beyond providing income, the most basic measurement of return on investment, the cash dividend and *dividend trend* tells us much more about a company than does the price-to-earnings ratio, price-to-book ratio, Profit & Loss Statement or a Balance Sheet.

First, the cash dividend is only possible through the reality of earnings; proof positive that the company is profitable. Second, a rising dividend trend suggests that the company's profitability is in a rising trend. Third, consistent dividend increases are a predictor for rising stock prices. When a cash dividend is increased, the intrinsic value of the shares to the investor is increased. Logically then, the market must recognize this increased value by pushing the price of the shares higher. Lastly, a long-term trend of dividend payments and consistent dividend increases provides a floor of support beneath a stock's price.

It is important to note however, the fact that a company pays a dividend, or offers an exceptionally high dividend-yield for that matter, does not mean it is worthy of investment consideration.

Indeed, only the highest quality dividend paying stocks, which have long-term track records of profitability and uninterrupted dividends, a consistent pattern of dividend increases, liquidity, institutional sponsorship and managerial competence are worthy of your hard-earned capital.

A primary challenge for investors then is to identify which companies are worthy of investment consideration.

Quality and Value: The Pillars of Value Identification.

Our approach to value identification is a two-part process. First, we establish benchmarks for high-quality. Second, we identify the historically repetitive dividend-yield boundaries of value for each company that meets our high-quality criteria.

At IQ Trends we identify the highest-quality dividend paying stocks through the **Criteria for Select Blue Chips**, a filter of six fundamental criterionswe developed in the 1960's, which eliminates all but about 350 of the 15,000+ publicly traded stocks on the domestic exchanges. A stock earns the designation of Select Blue Chip after it has met at least 5 of the 6 following qualifications and may remain with 4 criteria:

- 1. Dividend increases five times in the last twelve years**
- 2. S&P Quality ranking in the "A" category**
- 3. At least 5,000,000 shares outstanding**
- 4. At least 80 institutional investors**
- 5. At least 25 years of uninterrupted dividends**
- 6. Earnings improved in at least seven of the last 12 years**

The reason these criteria are important is simple. We evaluate stocks for purchase and sale according to repetitive cycles of dividend yield. If a dividend is reduced or eliminated, these historic trends become meaningless and a big part of a company's tangible value to the investor disappears. By using these criteria we have found it possible to very reliably identify the types of companies best suited for our analysis. These are robust, high-quality operations, with an institutional following and solid record of profitability. These are companies that have made it through depressions, recessions, and everything in between.

Each stock that meets the Criteria is then evaluated individually to identify its **Profile**, the historically repetitiveboundaries of high-yield/ low-price and low-yield/high-price. Based on the Profile, the current stock price and dividend yield, each stock is then placed into one of four categories: **Undervalued; Rising Trend; Overvalued; and, Declining Trend**. Although the category names may seem mostly self-explanatory, we find that some elaboration is often useful.

Undervalue stocks are those which have declined to areas of historic high yield. Our research shows that at these high yields, investors will be attracted to dividends and eventually initiate a new trend of buying. Generally, the bulk of our investment considerations are initiated from the Undervalue category.

Rising Trend stocks were previously at Undervalue but have risen in price sufficient enough to move their yields more than 10% from historic high levels. These stocks have the benefit of momentum and investor interest. They are expected to continue increasing in price until they reach Overvalue.

“There is no profitable substitute for quality.”

Overvalue stocks have risen from low prices and high yields, to high prices and low yields. Companies within this category historically have very little remaining upside potential. Short of a dividend increase adding additional upside, selling in this area is considered a prudent way to reap hard earned profits and reallocate money into new unexhausted stocks.

Declining Trend stocks have risen to Overvalue and now declined more than 10% away from it. This secular trend will continue until a company reaches Undervalue again, at which point new buying will be initiated. These declines are often drawn out as investors return to their former favorites. In certain instances they may even briefly return to Overvalue.

How Do I Know this Approach Works?

Originally started as a service geared towards the professional financial and banking community, *Investment Quality Trends* has also always appealed to what we call “*The Enlightened Investor.*” This type of individual investor recognizes the importance of dividends and a long-term approach. Market timing even if initially successful, is by nature subject to eventual failure. Such an approach if perfected would destroy the bid-sell system of which the markets are based on. Short-term trading is another risky approach, which leaves most investors frustrated and behind where they started. In fact without a return on an investment, such as a dividend – one is really not investing at all, but involved in speculation.

The investment newsletter industry is highly competitive as the loyalty of the average newsletter subscriber is historically short-lived. As such, the median subscriber retention rate for the industry is roughly 20%. At IQ Trends, our subscriber retention rate is over 75%. Additionally, our articles and research have been featured in *Forbes*, *Barron's*, *The Economist*, *The Wall Street Journal*, *Dow Jones MarketWatch*, and others.

Behind this loyalty and recognition is a solid track record of performance. Since 1986, *The Hulbert Financial Digest* has monitored the recommendations and research of *Investment Quality Trends*. Among our competitors we are consistently ranked as the top performer for risk-adjusted total returns. Consider the following excerpt from the January, 2016 edition of *The Hulbert Financial Digest*:

“Since the beginning of 1986, which is when the *HFD* began tracking *IQT*, the *HFD* calculates that its model portfolio* gained 11.20% annualized through 12/31/2015, beating the 10.20% annualized gain of the Wilshire 5000 over the same period. Better yet, this performance was achieved with 17% less risk. As a result, *IQT* performs even better on a risk-adjusted basis—not only beating the Wilshire 5000 index by a healthy margin, but ranking in the top tier of the 29 newsletters the *HFD* has followed over the last 25 years.”

*The Hulbert Financial Digest model portfolio for tracking purposes consists of all the stocks in the Undervalued and Rising Trend categories, which at any given time could total well over one hundred companies; clearly too many companies to follow on a practical basis.

Does *IQ Trends* Offer Model Portfolios?

Investment Quality Trends provides stock data and information to subscribers with varying degrees of investment expertise and experience in portfolio construction. Accordingly, unlike some newsletter services, we do not suggest or maintain model portfolios. Because we follow such a wide variety of companies that are dynamically moving in price, along with a steady influx of new subscribers, such an approach would be impractical for our particular application.

In general terms however, many studies have shown that the optimum number of stocks for an individual portfolio is twenty five to thirty five. That number is appropriate for diversification while not allowing the portfolio to become unwieldy. Accordingly, investors must be selective and fashion a diversified portfolio of Undervalued and Rising Trend stocks based on personal preferences, investment objectives, financial conditions and tolerance for risk.

To assist subscribers in this endeavor (and at popular urging), we decided in January of 2000 that instead of engaging in the traditional (albeit generally futile) attempt to forecast the year ahead, to construct a portfolio of stocks that offered historically good value for their investment consideration.

The portfolio, which has become known affectionately as “The Lucky 13,” was designed to emphasize sectors of the market that while perhaps were currently out of favor, nonetheless offered exemplary fundamentals and attractive dividend yields. Thirteen stocks were also sufficient to establish the foundation for a portfolio while leaving room for expansion when opportunities become available throughout the year.

In short, The Lucky 13 has been extremely successful and not surprisingly, quite popular. While not every stock in each Lucky 13 portfolio has been a winner, there have been sufficient winners in each group to produce fourteen years of positive total returns, eleven of which have exceeded 10%. Through 2015, the arithmetic average annual return for the portfolio is 12.46%. The compound annual growth rate (CAGR) is 11.56%. For comparison purposes, over the same time period, the arithmetic average annual return for the S&P 500 is 5.75%; the CAGR is 3.99%.

In August, 2006, we initiated another feature to compliment the Lucky 13 called The Timely Ten. The Timely Ten is comprised of stocks from the **Undervalued** category that **generally** have an S&P Quality Ranking of A- or better, a “**G**” designation for exemplary long-term dividend growth, a P/E ratio of 15 or less, a payout ratio of 50% or less (75% for Utilities), long-term debt-to-equity of 50% or less (75% for Utilities), and technical characteristics on the daily and weekly charts that suggest the potential for imminent capital appreciation.

The Timely Ten was not designed to be just another “best of, right now” list. Rather, it is our reasoned expectation based on our methodology and experience, that these ten currently Undervalued stocks offer the greatest real total-return potential over the next five years. Do we believe that all 10 will appreciate simultaneously or immediately? Of course not: Our five decades of research and experience, however, leads us to believe that these stocks, purchased at current Undervalued levels, are well positioned for both growth of capital and income.

Accordingly, whether you are building a portfolio from scratch, are partially invested and seeking new positions, or are fully invested and in need of some affirmation and hand holding, The Timely Ten represents our top ten recommendations as of each issue. Short of utilizing the personal investment management services of IQ Trends Private Client Asset Management, this is as close to hands on advice you can get.

How Does Private Client Differ From IQ Trends?

Investment Quality Trends as an investment tool is a very sharp arrow in your analytical quiver. As a newsletter though, its sole purpose is to provide a unique source of research and analysis to both the professional and private investment communities to assist them in their investment considerations.

Private Client, on the other hand, is a registered investment advisor that creates and manages investment portfolios for an international base of clients that includes Foundations and Endowments, Pension and Benefit Plans, Trusts, and high-net-worth individuals.

What Platforms/Services Are Offered Through Private Client?

Private Client offers both constantly supervised discretionary investment management and non-discretionary investment consulting based on the investment philosophy and methods espoused in the *Investment Quality Trends* newsletter.

There are two constantly supervised discretionary investment management platforms: The Flagship Separate Account; and, the Select Blue Chip FOLIO.

The Flagship Separate Account is a traditional, customized separate account managed on a discretionary basis. This account may be held at the custodian of your choice. There is a \$1,000,000 minimum account size requirement for this platform and fees begin at 1.00% on the first \$5,000,000, .75% on \$5,000,001 to \$10,000,000, and negotiable for accounts in excess of \$10,000,000. The fees are billed quarterly in arrears.

The **Select Blue Chip FOLIO** is an actively managed model portfolio linked to an account with FOLIOfn Institutional. Once an account has been established and funded, the account is linked to the Private Client model portfolio. Whenever securities are added to, deducted from or re-balanced in the Private Client model portfolio, buy and sell orders are automatically generated to sync the account to the Private Client model.

There is no minimum account requirement for the Select Blue Chip FOLIO. Total fees to the account are 75 basis points (.75%) per annum, billed monthly in arrears. The investment management fee paid to Private Client is 50 basis points (.50%). The fee to FOLIOfn Institutional for confirmations, statements, tax and performance reporting and trading commissions is 25 basis points (.25%).

Private Client offers a Consulting Service that consists of advice and recommendations on portfolio securities to individuals, fiduciaries of qualified plans, trusts, endowments and foundations, financial advisors, investment managers, corporations and small businesses on a non-discretionary basis.

Through this service buy, sell, and hold recommendations are made for the respective portfolio from the universe of **Select Blue Chip** stocks as identified by the *Investment Quality Trends* newsletter.

Generally the client will apprise us as to the current portfolio composition and we will make recommendations as to transactions that are appropriate for the portfolio. In this service we do not have the authority or discretion to implement the recommendations on the client's behalf.

There is an hourly rate of \$350 for the Consulting Service, with a minimum requirement of one hour. After the first hour the hourly rate is pro-rated in fifteen minute segments.

What if I still have a question?

For those interested in obtaining more information and disclosure documents for individual management services in accordance with our approach, please call Mr. Kelley Wright at (866) 927-5250 ext. 202.

"To know values is to know the meaning of the market."

-- Charles Dow

“IQT is the Bible of value investors.”

--The Economist

“IQ Trends is high-test text...”

--Barron's

Statistics and information within I.Q. Trends are thoroughly researched and believed to be accurate. However, discrepancies may occur. Investors should recheck critical data before making stock purchases. The security portfolios of our employees, officers, or affiliated companies may, in some instances, include securities mentioned in this issue.

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