



Carla Pasternak's

Dividend Opportunities

STREETAUTHORITY

About Us

DividendOpportunities.com

Issue Archives

Premium Content

Research Reports

Subscribe

Wednesday, June 10, 2009



[Printer-Friendly](#) | [PDF Version](#) | [Whitelist Us](#) | [Trouble viewing images?](#)

The Safest Dividend in the Dow

-- Carla Pasternak

The 30 stocks in the Dow Jones Industrial Average sport some attractive yielding stocks -- many with more than twice the average yield of the S&P 500. But the question is: Which company has the safest dividend in the Dow?

General Electric's (NYSE: GE) double-digit dividend yield looked pretty juicy a few months ago -- that is, until they slashed it by -68%. And Citigroup (NYSE: C), which recently got kicked out of the Dow, had a once-rich yield. Now its quarterly dividend payment stands at one lonely penny per share.

But rest assured, there are still plenty of solid Dow dividend payers -- companies that should continue to deliver yields of 6% or more for years to come. And I've sorted through the blue-chip index and applied several stringent criteria to arrive at the safest one. (*Full Story Below*)

Also in Today's Issue...

Capture 14% Yields and Total Returns up to +185.6%

On the last trading day of 2009, 94% of the picks in this high-yielding portfolio were up. Most of them have returned more than +10%, and several have returned +100% or more. But the best part is that these picks carry stable yields of up to 14.3%!

[Go here to see for yourself.](#)

Turn a \$200 investment into \$1 Million

There's a reason penny stocks have been Wall Street's favorite hidden investment for years now: they give the best shot at winning it big.

[Click Here to get in on these Hidden Investments!](#)

The Safest Dividend in the Dow

Following last year's dismal market performance, investors are understandably cautious. Both Wall Street and Main Street are looking for something they can be sure of in the year ahead. And for income investors, that means finding a safe and rewarding dividend yield.

It used to be that dividend payers themselves were the thing investors could be sure of. Tucked in the shadow of more aggressive and volatile Wall Street darlings, these venerable firms conducted their business, generated solid cash flows, posted their earnings and paid their dividends. These companies all made money the old-fashioned way. They earned it. High-flying? No. Dependable? Yes.

Income Notes

For the first time since October, high-yield debt is pricing at a 9.99 percentage-point premium over Treasurys -- hair below the distressed benchmark of 10 percentage points, according to S&P.

Spreads peaked at a whopping 17.54 percentage points in December, according to S&P data. Their recalibration this year has been led by high returns in the retail and auto sectors -- ones that had been hardest hit in 2008.

-- Wall Street Journal

One Stock a Month is All You'll Ever Need

For the entire 2009 calendar year 100% of Amy Calistri's *Stock of the Month* picks have been winners. ALL of her picks are up -- as much as +58.4% in just a few months. And her subscribers are making money hand over fist alongside her. One has made \$10,272... another is up \$46,002.

[Click here to get her latest pick.](#)

Recent Articles

[How to Profit From](#)

But last year was a tough year for dividend payers. Sixty-one of the companies in the S&P 500 Index cut their dividends in 2008, equating to \$40.6 billion in lost dividend income. But it's time to apply last year's hard lessons and take a clear-eyed look at risk, performance strength, dividend coverage and, lastly, potential return.

The Dow Jones Industrial Average represents some of the strongest names in America. The 30 members of the Dow are worth a collective \$2.83 trillion and are considered to be the market leaders in their industries. So these corporate titans are a good place to start searching for the safest dividend.

Safety Criteria No. 1: Yield

The first step in the process is not to look at the Dow at all, but to start with the 10-year Treasury note, currently yielding 3.86%. In theory, stocks represent more risk than Treasuries, so you want to make sure you're getting compensated for that risk with a higher yield.

Using the yield of the 10-Year Treasury as our threshold eliminates most of the Dow. Though the Dow components pay an average dividend yield of 3.3%, about 40 basis points higher than the S&P 500 Index, our chart shows that only seven Dow components yield more than the 10-Year Treasury.

Company Name	Current Yield
Kraft Foods (NYSE: KFT)	4.4%
Caterpillar (NYSE: CAT)	4.4%
Pfizer (NYSE: PFE)	4.5%
Merck (NYSE: MRK)	5.9%
DuPont (NYSE: DD)	6.1%
Verizon (NYSE: VZ)	6.3%
AT&T (NYSE: T)	6.8%

Safety Criteria No. 2: Performance Stability

Next, I want to be sure the outlook for the company is stable. If there is notable trouble on the horizon, one place it will show up is in a company's projected earnings. For the purposes of this analysis, I'll shy away from any company expected to show more than a -5% decline in earnings this year, based on the consensus Bloomberg estimate.

Company	2008 EPS	'09 Est. EPS	Change
Kraft Foods	\$1.18	\$1.91	+62.0%
Caterpillar	\$5.66	\$1.18	-79.1%
Pfizer	\$2.42	\$1.95	-19.4%
Merck	\$3.42	\$3.22	-6.0%
DuPont	\$2.78	\$1.75	-37.1%
Verizon	\$2.54	\$2.54	0%
AT&T	\$2.81	\$2.08	-26.1%

Considering the challenges of the current economic environment, it's not surprising that this analysis takes five more companies out of contention.

We're left with just two firms: Kraft and Verizon.

Safety Criteria No. 3: Dividend Coverage

Remember, safety is the first and most important criteria I look at when examining a dividend-paying stock. With that in mind, I decided to look into the most recently reported quarter for each company and compare net earnings to total dividends paid. We must exclude any company that paid more in dividends than it earned. That sort of arrangement is unsustainable. Any company whose dividend costs exceed its net earnings lacks the margin of safety that conservative income investors in this market must demand.

[Record Government Spending and Capture This 19.2% Yield -- Right Now](#)

By Andy Obermueller

The U.S. government is spending an unprecedented \$12.8 trillion, creating a historic opportunity for investors that know how to profit from it. But the time to act is now -- while there are still triple-digit gains and near-20% yields to be had.

[Read On...](#)

[There's Still Time to Make This Double Play and Lock in a 11.9% Yield](#)

By Amy Calistri

Both foreign currency valuations and metals prices are coming off their lows. Investors exploiting either trend are starting to see above-average gains. But investors shouldn't settle for just double-digit appreciation. After all, there are investments that are capturing both these trends -- and paying double-digit yields to boot.

[Read On...](#)

[We're Finding Stocks Paying \\$26,500 a Year in Dividends](#)

Now is a great time to invest. Every dollar we're investing is giving us two, three, four even five times as much income as it did just a year ago -- it's as if a giant "multiply your money" certificate has dropped into our laps.

[Click here to learn more.](#)

This is a tough hurdle to clear: The first quarter of 2009 presented extremely difficult operating conditions. Any company able to comfortably maintain its distributions in such a challenging environment clearly has demonstrated a wide economic moat.

Here are the results:

- Kraft earned \$662 million and paid out \$426 million for a payout ratio of 64.7%.
- Verizon earned \$1.6 billion against its \$1.3 billion dividend obligation for a payout ratio of 79.4%.

Safety Criteria No. 4: Track Record and Upside Potential

We're still left with two companies. Both Kraft and Verizon have above-average yields, have a stable outlook and have demonstrated an ability to cover their dividends under tough economic conditions.

At this point, I'll turn to history as a guidepost, looking at each company's average P/E, dividend growth rate and average annual total returns for the past five years.

	Discount to Avg. P/E	Dividend Growth Rate	Avg. Annual Total Returns
Kraft Foods	-27.1%	+10.6%	+0.5%
Verizon	-27.1%	+3.3%	+2.2%

Amazingly, both companies are trading at almost identical discounts to their five-year average P/E. If each stock returned to its average P/E, Verizon would appreciate +37.1% while Kraft would appreciate +37.2%. Apparently that's not going to break a tie.

Verizon does yield 1.9% more than Kraft, although Kraft has grown its dividend at a faster rate. Both companies also outperformed the S&P 500's annualized total returns for the past five years. But Verizon outgained Kraft by +1.7% a year -- by almost the same amount as its dividend premium over Kraft.

As a telecommunications provider, Verizon is an essential service with high subscriber loyalty. Kraft Foods includes strong consumer food brands like Kraft cheeses, Oscar Mayer meats and Nabisco cookies. Both companies boast of above-average yields and both dividends passed my stringent safety criteria.

If pressed, I'd have to tip the scale to Verizon for the safest dividend in the Dow. Its higher 6.3% yield has made a positive impact on its total returns. And that difference is something we income investors can take to the bank.



C. Pasternak

-- Carla Pasternak
Editor, *Carla Pasternak's Dividend Opportunities*

P.S. -- Don't miss a single issue! Add our address,

Reader Favorites

[Escape the U.S. Financial Turmoil](#)

By Andy Obermueller

[How to Add a Margin of Safety to Your Stock Portfolio in a Tumultuous Market](#)

By Andy Obermueller

Special Offers

[The Next Way the Government Will Make Investors Rich](#)

The *StreetAuthority Investor Update* is a free weekly newsletter designed to help you track down the market's most profitable stocks, funds, and ETFs. Sign up today and you'll also receive a free in-depth research report -- *The Next Way the Government Will Make Investors Rich*.

Research@GlobalDividend.com, to your Address Book or Safe List. For instructions, [go here](#).

[Home](#) | [Issue Archives](#) | [About Us](#) | [Meet the Staff](#) | [Subscribe](#)
[Premium Content](#) | [Research Reports](#) | [Media Coverage](#) | [Testimonials](#)

We sincerely hope that you benefit from your subscription to this newsletter, and we're willing to do whatever it takes to keep you as a satisfied customer. However, if at any time you wish to discontinue your complimentary subscription, you can do so by simply [visiting this link](#) and confirming your request, or by calling (301) 216-2005.

Please note that StreetAuthority, LLC is not a registered investment firm or broker/dealer. Readers are advised that the material contained herein should be used solely for informational purposes. StreetAuthority does not purport to tell or suggest which investment securities members or readers should buy or sell for themselves. Site users should always conduct their own research and due diligence and obtain professional advice before making any investment decision. StreetAuthority will not be liable for any loss or damage caused by a reader's reliance on information obtained in this newsletter or on our web site. Our readers are solely responsible for their own investment decisions.

The information contained herein does not constitute a representation by the publisher or a solicitation for the purchase or sale of securities. Our opinions and analyses are based on sources believed to be reliable and are written in good faith, but no representation or warranty, expressed or implied, is made as to their accuracy or completeness. All information contained in this report should be independently verified with the companies mentioned. The editor and publisher are not responsible for errors or omissions. StreetAuthority receives no compensation of any kind from any companies that may be mentioned in our newsletters or on our web site. Any opinions expressed are subject to change without notice. Owners, employees and writers may hold positions in the securities discussed in this report or on our web site.

**(C) Copyright 2001-2010. StreetAuthority LLC All Rights Reserved.
Unauthorized Reproduction or Distribution is Strictly Prohibited.**