

## 10 Value-Dividend Stocks In An Overvalued Market



One of the biggest challenges in managing money is finding the right stocks to add to your portfolio. It is hard enough to cull through the 1500 stocks that make up the S&P 500, 400 and 600 indexes much less the more than 6,000 other securities available for investing in. As you may already suspect, by looking out our portfolios on the site, we have a preference for high-quality names that also provide dividends. We do this by screening our database of stocks for several fundamental and value factors to ensure we are buying top-quality names and then refining that list down to the top-10 dividend payers. We believe that these value stocks, combined with dividends should generate an excess return versus the benchmark index over time. The criteria for our Fundamental Value Dividend screen are:

- *Market Cap > \$1 Billion*

- Dividend Yield > Top 10
- Return On Equity > 15%
- Price To Sales <= 1.5x
- EPS Growth Over The Last 3-Years > 0

The table below are the 10-candidates which resulted from the latest screening.

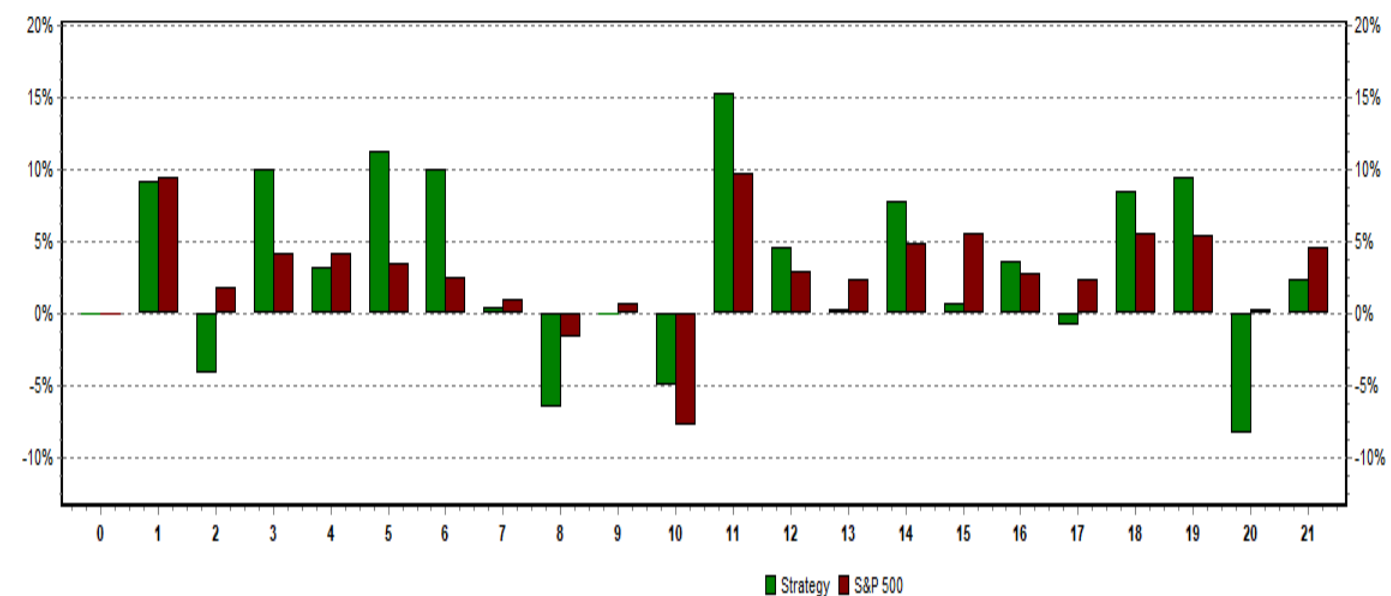
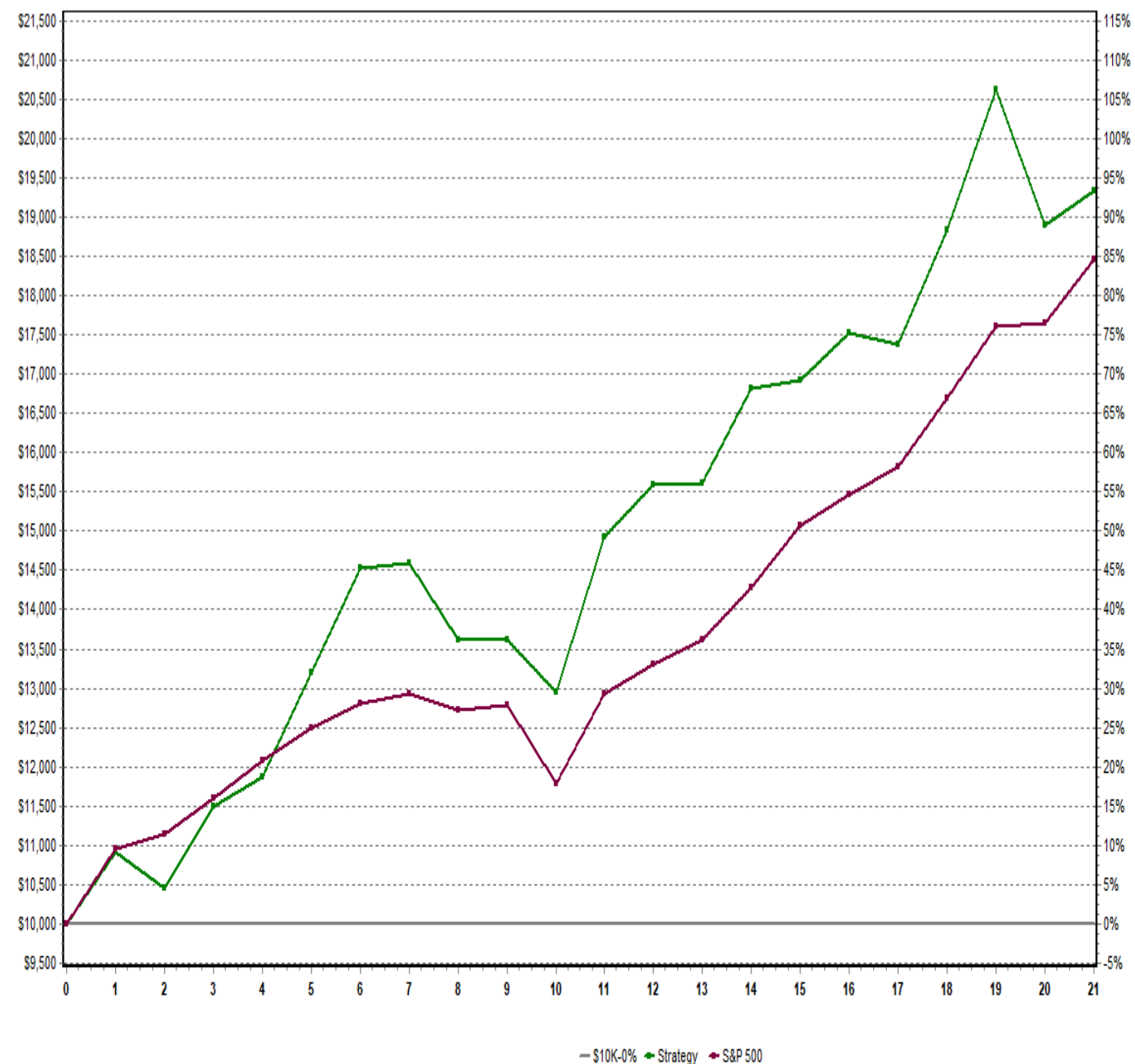
Company	Ticker	Market Cap	Div Yield	ROE	Price/ Sales	Ann EPS Growth This Year	Ann EPS Growth Last Year	Ann EPS Growth 2 Yrs Ago	Zacks Rank
B&G Foods Cl-A	BGS	\$2,001	6.26%	19.62%	1.18	2.42%	35.29%	6.25%	3
Cvs Health Corp	CVS	\$80,030	2.54%	15.48%	0.43	1.03%	13.18%	22.28%	3
Best Buy	BBY	\$21,333	2.32%	24.24%	0.49	24.16%	28.06%	6.92%	3
Big Lots Inc	BIG	\$1,649	2.91%	22.97%	0.31	22.25%	22.56%	20.73%	3
Penske Auto Grp	PAG	\$4,388	2.79%	18.29%	0.19	9.67%	7.08%	12.23%	2
Trinseo Sa	TSE	\$3,310	2.06%	47.83%	0.73	11.68%	58.61%	2450.00%	1
Ingersoll Rand	IR	\$25,367	2.05%	15.95%	1.69	9.20%	10.72%	12.01%	2
Alliancebernstn	AB	\$2,951	8.24%	21.33%	0.86	21.69%	1.07%	0.54%	3
Ameriprise Finl	AMP	\$20,714	2.47%	22.12%	1.66	30.53%	0.86%	9.39%	2
Bgc Partnrs Inc	BGCP	\$3,922	6.00%	30.94%	1.08	42.86%	13.51%	19.36%	2
Average		\$16,566	3.46%	19.66%	0.86	20.22%	18.06%	216.09%	2

You will note that we recently added CVS Health (CVS) to both the [Equity and the Equity/ETF models.](#)

As I stated, the combination of these fundamental measures should yield an excess return over the market over time. The table below assumes that over the last 5-years you bought all 10-stocks and rebalanced them quarterly.

Period	Date	Companies in Portfolio	Tot Return of Portfolio %	S&P 500 Tot Return %	Excess Ret of Screen %	STATISTICS ex.: \$10,000 start	Strategy	S&P 500
1	10/04/13	10	9.1	9.4	-0.3	Total Compounded Return %	93.5%	84.7%
2	12/27/13	10	-4.2	1.8	-6.0	Total Compounded Return \$	\$19,349	\$18,468
3	03/21/14	10	10.0	4.2	5.8	Compounded Annual Growth Rate %	14.6%	13.5%
4	06/13/14	10	3.2	4.1	-0.9	Win Ratio %	76%	90%
5	09/05/14	10	11.3	3.4	7.9	Winning Periods/Total Periods	16 of 21	19 of 21
6	11/28/14	10	10.0	2.5	7.5	Avg. # of Stocks Held	10.0	
7	02/20/15	10	0.4	1.0	-0.7	Avg. Periodic Turnover %	62.5%	
8	05/15/15	10	-6.6	-1.7	-5.0	Avg. Return per Period %	3.4%	3.0%
9	08/07/15	10	0.0	0.6	-0.5	Avg. Winning Period %	6.0%	3.8%
10	10/30/15	10	-5.0	-7.8	2.8	Largest Winning Period %	15.3%	9.7%
11	01/22/16	10	15.3	9.7	5.6	Avg. Losing Period %	-5.0%	-4.8%
12	04/15/16	10	4.5	2.9	1.7	Largest Losing Period %	-8.4%	-7.8%
13	07/08/16	10	0.2	2.3	-2.1	Max. Drawdown %	-11.3%	-8.8%
14	09/30/16	10	7.7	4.9	2.8	Avg. Winning Stretch (# of Periods)	3.0	6.3
15	12/23/16	10	0.6	5.5	-4.9	Best Stretch (# of Periods)	6	11
16	03/17/17	10	3.6	2.7	0.9	Avg. Losing Stretch (# of Periods)	1.0	1.0
17	06/09/17	10	-0.9	2.3	-3.2	Worst Stretch (# of Periods)	1	1
18	09/01/17	10	8.4	5.5	2.8			
19	11/24/17	10	9.5	5.4	4.1			
20	02/16/18	10	-8.4	0.3	-8.7			
21	05/11/18	10	2.4	4.6	-2.2			
Average								
		10.0	3.4	3.0	0.4			
Up Markets								
		19	10.0	4.4	3.8			
Down Markets								

Over the 21-quarterly rebalancing periods the portfolio had an annualized return of 15.6% versus the 13.8% for the market. This 1.80% annual outperformance versus the S&P 500 is shown in the charts below.



Even though interest rates have risen from the lows of last year, the price of money has been persistently lower in this economic cycle than it has been in the past. This factor continues to provide support for income yielding stocks as many investors, including the growing population of retirees, are seeking more stable, fixed income-like returns. The risk of this strategy is that valuations for many companies, including higher dividend payers, have expanded much more than normal, and is reminiscent of the "Nifty-Fifty" period in the late 1970's. While investing in dividend yielding stocks certainly provides additional return to portfolios, just remember that stocks are *"not safe"* investments. They can and will lose value during a market decline. **This is why for our "safe money" we continue to use rallies in interest rates to buy bonds which provide both higher rates of income and safety of principal.**

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With valuation and safety being a top concern for investors, especially with markets at all-time highs, we continue to believe that the best way for investors to generate capital is to invest in quality businesses trading at a reasonable discounts to their intrinsic value. As such, we focus on names which still maintain a reasonable valuation, are consistently growing, and are well founded in their industries. We think these names are more likely to offer investors both the yield they are looking for and are currently trading at prices that provide a reasonable margin of safety.

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