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# *The "Low for Long" Marathon*

Investors searching for income have struggled with low interest rates for several years. Prior to the financial crisis, the yield on the 10-year U.S. Treasury Bond was just over 5%. After adjusting for inflation, investors in June of 2007 could earn a real return of 2.4%. Now, the current yield on the 10-year Treasury bond is 2% -- but with inflation running at almost 3%, Treasury bond investors today are saddled with negative real returns! With the Federal Reserve's recent statement that it intends to maintain low interest rates through 2014, these difficult conditions may prevail for some time.

We recently examined our firm's top twenty-five equity holdings and found that as a group, these high-quality growth companies have an average current dividend yield of 2.2% -- higher than the current yield of a 10-year Treasury bond. These companies have increased their annual payouts by an average of 12% per year for the last ten years, and by nearly 16% over the past five years. Over half are "Dividend Aristocrats," meaning they have raised their dividends for twenty-five consecutive years:

| | Current Dividend | - - - - - Average Annual Dividend Growth - - - - - | | | S&P 500 Dividend |
|---|---|---|---|---|---|
| | | | | Estimated | |
| Company | Yield | Last Ten Years | Last Five Years | Next Five Years | Aristocrat |
| Abbott Labs | 3.4% | 9% | 9% | 9% | Yes |
| Apple | 1.7 | --- | --- | nmf | |
| Automatic Data Proc. | 2.9 | 15 | 17 | 6 | Yes |
| Church & Dwight | 2.0 | 8 | 11 | 21 | |
| Coca-Cola | 2.8 | 10 | 11 | 10 | Yes |
| Colgate-Palmolive | 2.6 | 12 | 13 | 12 | Yes |
| Ecolab | 1.3 | 11 | 12 | 9 | Yes |
| ExxonMobil | 2.3 | 7 | 9 | 7 | Yes |
| Int'l Business Machines | 1.5 | 17 | 26 | 13 | |
| Johnson & Johnson | 3.6 | 14 | 12 | 7 | Yes |
| MasterCard | 0.3 | --- | --- | 5 | |
| McCormick & Co. | 2.3 | 11 | 12 | 10 | Yes |
| McDonald's | 2.9 | 26 | 30 | 10 | Yes |
| Microsoft | 2.6 | --- | 22 | 17 | |
| Nike "B" | 1.4 | 16 | 18 | 8 | |
| PepsiCo | 3.2 | 13 | 16 | 5 | Yes |
| Praxair | 2.0 | 20 | 23 | 12 | |
| Procter & Gamble | 3.2 | 11 | 12 | 11 | Yes |
| Qualcomm | 1.5 | --- | 19 | 7 | |
| Sigma-Aldrich | 1.1 | 15 | 16 | 8 | Yes |
| Stryker | 1.6 | 29 | 38 | 10 | |
| Sysco Corp. | 3.7 | 16 | 12 | 4 | Yes |
| TJX Companies | 1.2 | 22 | 22 | 13 | |
| United Technologies | 2.4 | 15 | 17 | 11 | |
| Walgreen | 2.8 | 17 | 23 | 16 | Yes |
| 25-Company Average | 2.2% | 12% | 16% | 10% | 56% |

*Sources: Value Line, Standard & Poor's*

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*The information provided herein represents the opinions of David Wendell Associates and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.*

These companies not only present attractive earnings and dividend growth potential, they also offer relative stock price stability. The table below shows various rankings by Value Line for safety, stability and predictability from its proprietary database of 1,700 stocks in 90 different industries. Value Line is an investment research firm established in 1931.

A stock's beta ranking represents its stock price volatility in comparison to the market, which has a beta of 1.00. Stocks with a beta below 1.00 are less volatile than the market, while stocks with a beta greater than 1.00 are more volatile. Value Line believes its universe of stocks has a beta of 1.05. As a group, our top twenty-five equity holdings are significantly less volatile than either the stock market as a whole or the stocks in Value Line's universe.

Value Line's safety ranking is a measure of the total risk of one stock compared to all the other stocks in its universe; the ranking reflects a combination of a company's Financial Strength and its stock price stability. The highest safety ranking is 1 while the lowest is 5. Value Line considers stocks with the highest safety ranking to be the safest, most stable and least risky investments in their universe. Only four companies on our list of twenty-five do not receive Value Line's highest safety ranking.

The group of twenty-five stocks also is above average in terms of price stability and earnings predictability. A stock with a price stability ranking of 100 is the most stable while a stock with a ranking of 5 is the least stable. Earnings predictability measures the reliability of an earnings forecast and the most reliable is ranked 100 while the least is ranked 5.

Given the Fed's current "low for long" interest rate strategy and the potential for negative real returns on bonds, we believe a portfolio of high-quality companies offering dividend growth along with financial strength presents investors with a "real" alternative.

| Company | Beta | Safety Rank | Financial Strength | Price Stability | Earnings Predictability |
|---|---|---|---|---|---|
| Abbott Labs | 0.60 | 1 | A++ | 100 | 100 |
| Apple | 1.05 | 2 | A++ | 65 | 70 |
| Automatic Data Proc. | 0.80 | 1 | A++ | 100 | 100 |
| Church & Dwight | 0.60 | 1 | A+ | 100 | 100 |
| Coca-Cola | 0.60 | 1 | A++ | 100 | 100 |
| Colgate-Palmolive | 0.60 | 1 | A++ | 100 | 100 |
| Ecolab | 0.80 | 1 | A | 95 | 100 |
| ExxonMobil | 0.80 | 1 | A++ | 100 | 60 |
| Int'l Business Machines | 0.85 | 1 | A++ | 100 | 100 |
| Johnson & Johnson | 0.65 | 1 | A++ | 100 | 100 |
| MasterCard | 1.15 | 3 | A++ | 50 | 70 |
| McCormick & Co. | 0.60 | 1 | A | 100 | 100 |
| McDonald's | 0.65 | 1 | A++ | 100 | 100 |
| Microsoft | 0.85 | 1 | A++ | 90 | 85 |
| Nike "B" | 0.85 | 1 | A++ | 90 | 95 |
| PepsiCo | 0.60 | 1 | A++ | 100 | 95 |
| Praxair | 0.95 | 2 | A | 90 | 95 |
| Procter & Gamble | 0.60 | 1 | A++ | 90 | 100 |
| Qualcomm | 0.85 | 2 | A+ | 80 | 80 |
| Sigma-Aldrich | 1.00 | 1 | A+ | 90 | 100 |
| Stryker | 0.80 | 1 | A++ | 90 | 100 |
| Sysco Corp. | 0.70 | 1 | A++ | 100 | 100 |
| TJX Companies | 0.80 | 1 | A+ | 90 | 90 |
| United Technologies | 1.00 | 1 | A++ | 95 | 95 |
| Walgreen | 0.80 | 1 | A+ | 90 | 100 |
| 25-Company Average | 0.78 | 1.2 | | 92 | 93 |
| VL Universe Average | 1.05 | 3 | B+ | 53 | 53 |

*Sources: Value Line, Standard & Poor's*

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