



Model Portfolio: Safest Dividend Yields for August 2017

10 Large/Mid Cap and 10 Small Cap Stocks

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- **Figure 1** shows nine new stocks that make our August list.
- The Safest Dividend Yields Model underperformed the S&P 500 last month.
- The Model Portfolio fell 2.6% on a price return basis (S&P -0.6%) and fell 2.4% on a total return basis (S&P -0.6%).
- Since inception, this Model Portfolio is up 9% price return and 13% total return while the S&P 500 is up 13% price return and 15% total return.
- **Figure 10** shows the 10 stocks that outperformed from July's report.
- The stocks in this model portfolio have safer dividends based on free cash flow and economic earnings.
- Each stock has an Attractive or Very Attractive rating and a dividend yield that is among the highest in the market.

Figure 1: Additions for August

Large/Mid Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
GIS	General Mills, Inc.	AYR	Aircastle Ltd
LYB	LyondellBasell Industries	DSW	DSW Inc.
TUP	Tupperware Brands	NPK	National Presto Industries
		NVEC	NVE Corporation
		TAX	Liberty Tax, Inc.
		WDR	Waddell & Reed Financial

Sources: New Constructs, LLC

This model portfolio helps investors find high and safe dividend yields. When investors search for yield, we believe it is important to distinguish between safe and unsafe dividend yields.

Companies with strong free cash flow provide safer dividend yields because we know they generate the cash flow to support the dividend. Dividend yields from companies with low or negative free cash flow cannot be trusted as much because they may not be able to sustain their dividend because they are financing it with debt or cash on the balance sheet.

This model portfolio is updated the third week of every month.

Please see Appendix B for explanations of additions and deletions to the [Safest Dividend Yields Model Portfolio](#).

The 10 Safest Dividend Yield Large/Mid Cap Stocks for August

We recommend that investors equal-weight holdings in all 10 stocks.

Figure 2: 10 Top Dividend Yield Large/Mid Cap Stocks for August

				High-Quality Earnings		Cheap Valuation			
				As of Last Twelve Months		As of 8/22/17			
Ticker	Company Name	Dividend Yield	Sector	Positive Economic EPS	Return On Invested Capital (ROIC)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)
AGNC	AGNC Investment Corp.	10.0%	Real Estate	\$3.98	22%	3%	0.2	9	\$7,662
MFA	MFA Financial	9.0%	Real Estate	\$0.54	12%	4%	0.5	Less than 1	\$3,504
GME	GameStop Corporation	7.0%	Consumer Discretionary	\$1.90	9%	8%	0.3	Less than 1	\$7,191
TUP*	Tupperware Brands	4.8%	Consumer Discretionary	\$3.19	16%	8%	0.9	Less than 1	\$2,905
IBM	International Business Machines	4.3%	Information Technology	\$5.09	9%	7%	0.8	Less than 1	\$131,413
TU	TELUS Corporation	4.1%	Telecom Services	\$1.31	8%	3%	0.9	1	\$20,963
LYB*	LyondellBasell Industries	4.1%	Materials	\$6.71	19%	7%	0.7	Less than 1	\$35,136
PPL	PPL Corporation	4.0%	Utilities	\$1.02	5%	2%	0.7	Less than 1	\$26,776
WU	Western Union Co.	3.7%	Information Technology	\$1.08	18%	9%	0.8	Less than 1	\$8,830
GIS*	General Mills Inc.	3.4%	Consumer Staples	\$1.82	9%	4%	1.1	4	\$33,183

* Addition to the list in August

Top Dividend Yield Stocks are Sorted by Dividend Yield in Descending Order

Sources: New Constructs, LLC

The 10 Safest Dividend Yield Small Cap Stocks for August

We recommend that investors equal-weight holdings in all 10 stocks.

Figure 3: 10 Top Dividend Yield Small Cap Stocks for August

				High-Quality Earnings		Cheap Valuation			
				As of Last Twelve Months		As of 8/22/17			
Ticker	Company Name	Dividend Yield	Sector	Positive Economic EPS	Return On Invested Capital (ROIC)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)
SFL	Ship Finance International	13.3%	Energy	\$0.54	8%	6%	0.6	Less than 1	\$1,360
CBL	CBL & Associates Properties	13.3%	Real Estate	\$1.34	8%	16%	0.2	Less than 1	\$1,262
WDR*	Waddell & Reed Financial	10.0%	Financials	\$0.94	18%	6%	0.8	Less than 1	\$1,543
ANH	Anworth Mortgage Asset Corp	9.7%	Real Estate	\$0.38	9%	5%	0.4	1	\$605
NVEC*	NVE Corporation	5.5%	Information Technology	\$2.42	176%	4%	1.1	1	\$354
NPK*	National Presto Industries	5.4%	Consumer Discretionary	\$4.07	17%	17%	0.8	Less than 1	\$714
AYR*	Aircastle Ltd	4.7%	Industrials	\$0.48	6%	6%	0.5	Less than 1	\$1,734
TAX*	Liberty Tax, Inc.	4.6%	Consumer Discretionary	\$1.01	13%	7%	0.4	Less than 1	\$180
NRCIB	National Research Corp	4.4%	Health Care	\$2.82	31%	6%	0.7	Less than 1	\$380
DSW*	DSW Inc.	4.3%	Consumer Discretionary	\$0.48	7%	6%	0.8	Less than 1	\$1,479

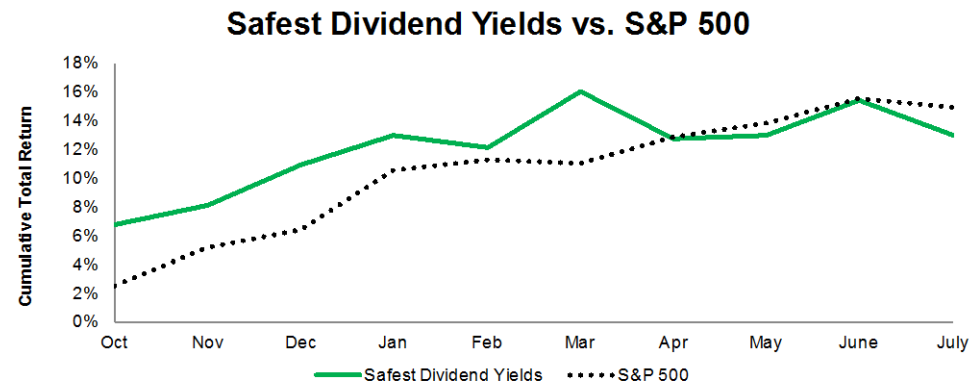
* Addition to the list in August

Top Dividend Yield Stocks are Sorted by Dividend Yield in Descending Order

Sources: New Constructs, LLC

***Safest Dividend Yields: Total Return Performance***

Per Figure 4, the Safest Dividend Yields Model Portfolio has underperformed on a total return basis since inception in October 2016. Since then, The Safest Dividend Yields Model Portfolio has cumulative total returns of 13% compared to 15% for the S&P 500.

Figure 4: Total Return of Safest Dividend Yields Model Portfolio

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs.

Figure 5: Monthly Total Return of Safest Dividend Yields

Portfolio Total Returns				
	4Q16	1Q17	2Q17	July
Safest Dividend Yields	11.0%	5.1%	-0.6%	-2.4%
S&P 500	6.4%	4.6%	4.5%	-0.6%

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs.

Figure 6: Cumulative Total Return of Safest Dividend Yields

Cumulative Portfolio Total Returns				
	4Q16	1Q17	2Q17	July
Safest Dividend Yields	11%	16%	15%	13%
S&P 500	6%	11%	16%	15%

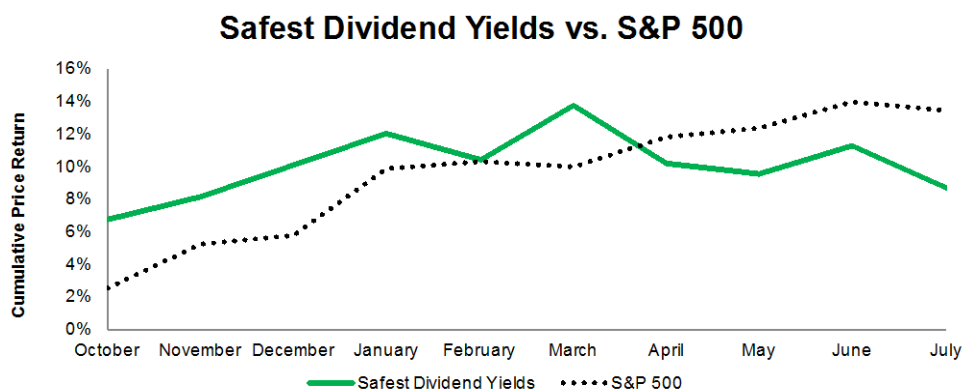
Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs.

Safest Dividend Yields: Price Return Performance

Per Figure 7, the Safest Dividend Yields Model Portfolio has underperformed on a price return basis since inception in October 2016. Since then, The Safest Dividend Yields Model Portfolio has cumulative price returns of 9% compared to 13% for the S&P 500. A detailed breakdown of last month's performance can be seen on the next page.

Figure 7: Price Return of Safest Dividend Yields Model Portfolio



Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

Figure 8: Monthly Price Return of Safest Dividend Yields

Portfolio Price Returns				
	4Q16	1Q17	2Q17	July
Safest Dividend Yields	10.1%	3.5%	-2.4%	-2.6%
S&P 500	5.8%	4.2%	4.0%	-0.6%

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

Figure 9: Cumulative Price Return of Safest Dividend Yields

Cumulative Portfolio Price Returns				
	4Q16	1Q17	2Q17	July
Safest Dividend Yields	10%	14%	11%	9%
S&P 500	6%	10%	14%	13%

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

Safest Dividend Yields: Monthly Price Updates

The [Safest Dividend Yields Model Portfolio](#) (-2.6%) underperformed the S&P 500 (-0.6%) last month. 10 stocks from our [July Safest Dividend Yields Model Portfolio](#) outperformed the S&P 500 and nine stocks had positive returns. See Figure 10 for details. For updates on the performance of all of last month's stocks, see Appendix A. We measure our July performance based on closing prices from July 21, 2017 to August 22, 2017. We published last month's report to subscribers on July 21, 2017.

Figure 10: 10 Stocks that Outperformed from July's Report

Large/Mid Cap			Small Cap		
Ticker	Company Name	Change From 7/21/17	Ticker	Company Name	Change From 7/21/17
GME	GameStop Corporation	4.1%	TACT	TransAct Technologies	15.8%
MFA	MFA Financial	3.5%	NRCIB	National Research Corp	11.6%
AGNC	AGNC Investment Corp	1.8%	MITT	AG Mortgage Investment	3.5%
PPL	PPL Corporation	1.2%	ANH	Anworth Mortgage Asset	2.1%
WU	Western Union Co.	-0.4%	SFL	Ship Finance International	1.1%
S&P 500	S&P 500	-0.6%	S&P 500	S&P 500	-0.6%

Sources: New Constructs, LLC

Note: Gain/decline performance analysis excludes transaction costs and dividends



Safest Dividend Yield: Methodology

Stocks make our Safest Dividend Yield Model Portfolio because they have:

1. Attractive or Very Attractive [rating](#)
2. Dividend Yield >3%
3. Positive [Free Cash Flow](#) and [Economic Earnings](#)

To support sector diversification, we limit the number of stocks per sector on each list to three.

This model portfolio offers a well-screened group of stocks that also delivers yields greater than the market (S&P 500 yields ~2%), dividend sustainability because of strong free cash flow, and the potential for capital appreciation as each stock is currently undervalued.

Explanation of Risk/Reward Rating System

Our Risk/Reward Rating System assigns a rating to every stock under our coverage according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

Overall Risk/Reward Ranking	The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.
Very Unattractive	FCF Yield is not included in the average.
Unattractive	FCF Yield is not included in the average.
Neutral	All criteria are equal-weighted in the average calculation.
Attractive	All criteria are equal-weighted in the average calculation.
Very Attractive	All criteria are equal-weighted in the average calculation.

Economic vs Reported EPS	Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.
Very Unattractive	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Unattractive	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
Neutral	Negative Economic and Reported Earnings
Attractive	Economic Earnings are positive
Very Attractive	Economic Earnings are positive and rising

Return on Invested Capital (ROIC)	Rates stocks based on their ROIC. Values based on Latest Fiscal Year.
Bottom Quintile	Very Unattractive = the bottom 20% of Russell 1000 companies
4th Quintile	Unattractive = the bottom 40% of Russell 1000 companies
3rd Quintile	Neutral = the middle 20% of Russell 1000 companies
2nd Quintile	Attractive = the top 40% of Russell 1000 companies
Top Quintile	Very Attractive = the top 20% of Russell 1000 companies

FCF Yield	Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.
<-5%	Very Unattractive = less than or equal to -5%
-5%<-1%	Unattractive = more than -5% but less than or equal to -1%
-1%<3%	Neutral = more than -1% but less than or equal to +3%
3%<10%	Attractive = more than +3% but less than or equal to +10%
>10%	Very Attractive = more than +10%



Price-to-EBV Ratio	Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.
>3.5 or -1>0	Very Unattractive = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Unattractive = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1

Growth Appreciation Period (yrs)	Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.
>50	Very Unattractive = greater than or equal to 50 years
20>50	Unattractive = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3

Appendix A – Price Performance of Stocks on July's Report

Figure 11: Price Performance of All Stocks from July's Report

Large/Mid Cap			Small Cap		
Ticker	Company Name	Change From 7/21/17	Ticker	Company Name	Change From 7/21/17
GME	GameStop Corporation	4.1%	TACT	TransAct Technologies	15.8%
MFA	MFA Financial	3.5%	NRCIB	National Research Corp	11.6%
AGNC	AGNC Investment Corp	1.8%	MITT	AG Mortgage Investment	3.5%
PPL	PPL Corporation	1.2%	ANH	Anworth Mortgage Asset	2.1%
WU	Western Union Co.	-0.4%	SFL	Ship Finance International	1.1%
SPY	S&P 500	-0.6%	SPY	S&P 500	-0.6%
TU	TELUS Corporation	-1.7%	DIN	DineEquity Inc.	-7.4%
IBM	International Business Machines	-4.1%	SCS	Steelcase Inc.	-8.1%
F	Ford Motor Company	-7.6%	CBL	CBL & Associates	-9.9%
LAMR	Lamar Advertising	-10.3%	BKE	The Buckle Inc.	-15.5%
M	Macy's Inc.	-12.6%	CATO	The Cato Corp	-19.2%
Portfolio Return		-2.6%	Portfolio Return		-2.6%
Combo (Large and Small Cap) Return		-1.7%			

Sources: New Constructs, LLC

Note: Gain/decline performance analysis excludes transaction costs and dividends

Appendix B – Additions and Deletions

Safest Dividend Yield Large/Mid Cap Stocks

Deletions:

- F - Risk/Reward Rating downgraded to Neutral
- M - Displaced by improved rank of other stocks
- LAMR - Displaced by improved rank of other stocks

Additions:

- GIS - Addition by improved yield over other stocks
- LYB - Addition by improved yield over other stocks
- TUP - Addition by improved yield over other stocks

Safest Dividend Yield Small Cap Stocks

Deletions:

- BKE - Displaced by improved rank of other stocks
- CATO - Displaced by improved rank of other stocks
- DIN - Displaced by improved rank of other stocks
- MITT - Displaced by improved rank of other stocks
- SCS - Displaced by improved rank of other stocks
- TACT - Displaced by improved rank of other stocks

Additions:

- AYR - Addition by improved yield over other stocks
- DSW - Addition by improved yield over other stocks
- NPK - Addition by improved yield over other stocks
- NVEC - Addition by improved yield over other stocks
- TAX - Addition by improved yield over other stocks
- WDR - Addition by improved yield over other stocks

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Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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