



Featured Stock in August's Safest Dividend Yields Model Portfolio

11 new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on August 21, 2019.

Recap from July's Picks

Our Safest Dividend Yields Model Portfolio underperformed the S&P 500 from July 19, 2019 through August 19, 2019. The Model Portfolio fell 5.8% on a price return basis and fell 5.5% on a total return basis. The S&P 500 fell 1.6% on a price return and total return basis. The best performing large cap stock was up 14%, and the best performing small cap stock was up 10%. Overall, nine out of the 20 Safest Dividend Yield stocks outperformed the S&P from July 19, 2019 to August 19, 2019.

Get the best fundamental research

This Model Portfolio leverages our [Robo-Analyst technology](#)¹, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks.²

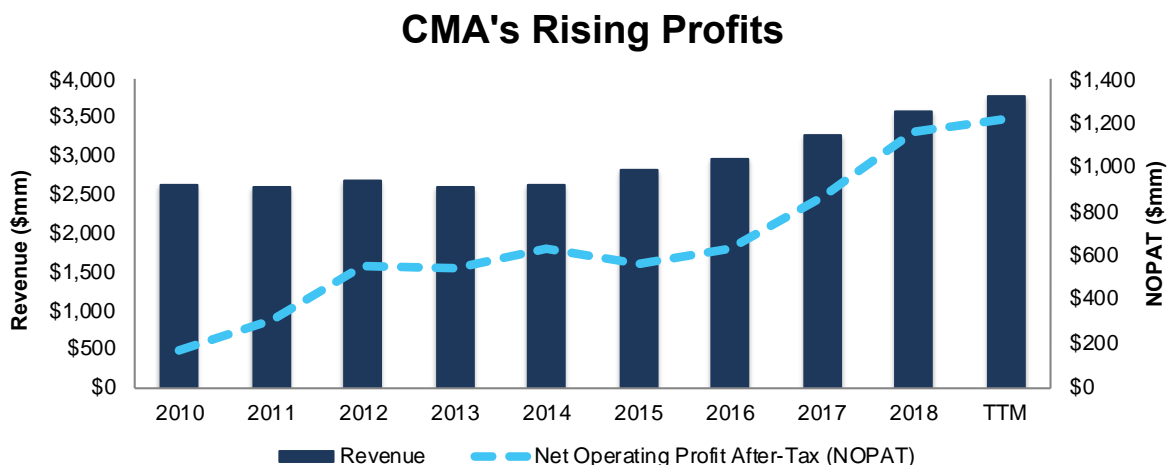
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong [free cash flow](#) provide higher quality and safer dividend yields because we know they have the cash to support the dividend. We think this portfolio provides a uniquely well-screened group of stocks that can help clients outperform.

Featured Stock for August: Comerica Inc. (CMA: \$60/share)

CMA is the featured stock in August's Safest Dividend Yields Model Portfolio.

CMA has grown revenue by 4% compounded annually and after-tax operating profit (NOPAT) by 27% compounded annually since 2010. Trailing twelve months (TTM) NOPAT is up 18% over the prior TTM period. NOPAT margin has increased from 6% in 2010 to 32% TTM while return on invested capital (ROIC) has improved from 2% to 13% over the same time.

Figure 1: CMA Profitability Since 2010



Sources: New Constructs, LLC and company filings

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

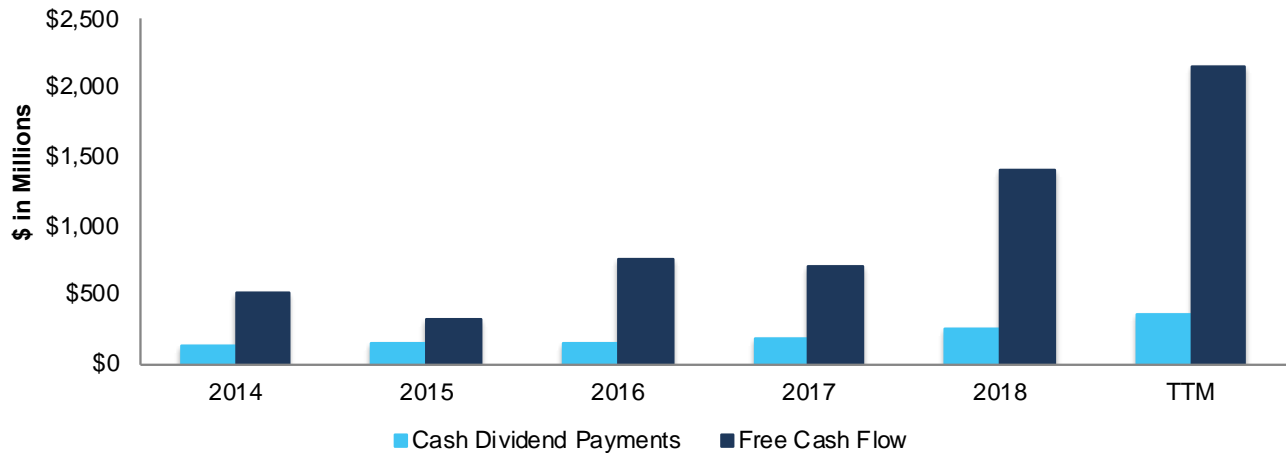


CMA's Free Cash Flow Supports Dividend Payments

Since 2014, CMA has increased its annualized dividend from \$0.79/share to \$2.61/share TTM, or 27% compounded annually. This dividend payment has been supported by CMA's strong [free cash flow](#). Since 2014, CMA has generated \$3.7 billion (41% of market cap) in FCF while paying \$879 million in dividends.

Figure 2: CMA's FCF vs. Dividends Since 2014

FCF Covers Dividend Payments



Sources: New Constructs, LLC and company filings

Companies with strong free cash flow provide higher quality dividend yields because we know the firm has the cash to support its dividend. On the flip side, dividends from companies with low or negative free cash flow cannot be trusted as much because the company may not be able to sustain paying dividends.

CMA's Current Valuation Provides Upside

At its current price of \$60/share, CMA has a price-to-economic book value ([PEBV](#)) ratio of 0.6. This ratio means the market expects CMA's NOPAT to permanently decline by 40%. This expectation seems pessimistic given that CMA has grown NOPAT by 11% compounded annually over the past decade and 3% compounded annually over the past two decades.

If CMA can maintain TTM NOPAT margins (32%) and grow NOPAT by just 2% compounded annually for the next decade, the stock is worth \$109/share today – an 81% upside. [See the math behind this dynamic DCF scenario.](#)

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#). Below are specifics on the adjustments we make based on Robo-Analyst findings in Comerica's 2018 10-K:

Income Statement: we made \$223 million of adjustments with a net effect of removing \$69 million in [non-operating income](#) (2% of revenue). See all adjustments made to CMA's income statement [here](#).

Balance Sheet: we made \$3.3 billion of adjustments to calculate invested capital with a net increase of \$2.1 billion. The most notable adjustment was \$776 million (10% of reported net assets) related to [goodwill](#). See all adjustments to CMA's balance sheet [here](#).

Valuation: we made \$710 million of adjustments with a net effect of increasing shareholder value by \$2 million. The largest adjustment to shareholder value was \$356 million in [overfunded pensions](#). This adjustment represents 4% of CMA's market value. See all adjustments to CMA's valuation [here](#).

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.

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New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

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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