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The
High Income Factor

Unlocking Powerful Strategies to Achieve Superior Returns

Tom Hutchinson, Editor

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Addicted to a Safe and Steady Dividend Yield? This Is the Pick for You

I just had one of those Sundays when I pretty much watched football for the entire day. It was probably too much, because when I went to bed and closed my eyes I dreamed in HD.

But one particular thought kept passing through my mind — you have to be an unbelievably good player to be dominant in the NFL.

Think about it. To be good on a high school team requires that a player be one of the very best in his town. Then in college, you face a collection of the country's best high school players.

To even get a whiff of the pros, a player has to be among the very best in the college ranks, as measured against all the others. And that might only gain you entrance to the NFL.

The NFL is made up of the absolute elite players in the nation. Even those guys barely hanging on to a roster spot are incredibly gifted at their positions, having separated themselves from the pack in their on-field performance at the high school and college level.

To be a Pro Bowler in the NFL? A person essentially has to be superhuman.

The point is that every level has a higher bar. As a player advances, there is ever greater competition. It becomes more and more difficult to succeed.

The same is true of the stock market for 2015. The bar has moved higher. In past years, the economy could sort of slog along with mediocre performance and an accommodative Federal Reserve, and stocks did fine. But the "low bar" days are over.

The market has advanced to a whole new level. In 2014, much was demanded of the economy to continue to buoy stock prices. The economy has answered the call and replaced Fed stimulus with genuine performance. But now, still more will be expected.

The economy will have to continue to impress, without QE3. Earnings will have to grow at a good clip and business will have to thrive to drive stock prices higher from here. That's a tall order considering the state of the global economy. All around us things look bleak.

> "This company has been one of the best income investments the market has ever known."

While the U.S. economy feels strong now, it will have to remain solid without the Fed's help in the face of a languishing global economy and potentially escalating crises in Ukraine and the Middle East, as well as the Ebola threat.

I believe stocks will continue to have an upward bias in 2015, as money still won't have any place else to earn a decent return. However, the possibility that stocks get knocked around in the process is high. There is much out there to spook the market.

It's getting tougher. The market's upward bias presents opportunities. But at this more advanced stage, we must choose our investments carefully. And periodic weaknesses in stock prices will present us the chance to acquire them at

advantageous levels.

In this issue, I identify a company that has historically been one of the very best income investments the market has ever known. We can use the likely volatility in 2015 to target this superstar dividend payer at a great price.

But first we should take a closer look at the prospects going into 2015.

Global Angst

The global economy is sputtering. Recently, the International Monetary Fund lowered its global growth forecasts for 2014 to 3.3 percent from 3.7 percent, and for 2015 to 3.8 percent from 3.9 percent. It's not so much that the global economy is sinking but rather that it remains in a funk.

After growing at a better than 5 percent per year clip for much of the past decade, global GDP sank to 3.2 percent in 2012 and 2.9 percent in 2013. Instead of a temporary blip, this slower growth appears to be lingering. What's going on?

First there's Europe.

The European Union as a whole stumbled out of the financial crisis with tepid growth. That, combined with lingering financial problems from the 2008 meltdown, led to the European debt crisis in 2011 and 2012. The crisis thrust the region back into recession.

But 2014 was to be the year that the EU returned to positive economic expansion. Unfortunately, it appears that the issues with Russia and Ukraine put the kibosh on that. Russia's annexation of Crimea and subsequent foray into Ukraine prompted the West to impose economic sanctions. The economic drag of what is in effect a trade war with Russia, combined with the uncertainty created, is a blow that the frail European economies can ill afford.

The economies of France and Italy are contracting and Germany, the EU's growth engine, isn't faring much better. In fact, terrible manufacturing and growth data out of Germany helped ignite the market sell-off in October.

Then there's China and emerging markets.

In the third quarter, Chinese GDP growth slowed to 7.3 percent. On the surface, that seems like a fantastic number. After all, the U.S. probably is growing at about 3 percent, and we're thrilled. So what's the problem?

The problem is that China has become the growth engine of the world and after expanding GDP at double digits for decades, 7.3 percent is a sizable reduction. It's also the lowest level of growth since the financial crisis.

So many countries have become dependent on insatiable growth from China that the slowdown is dragging them down with it. Brazil and Chile are selling much less iron ore and copper to China. Australia is selling less raw materials, and demand in China for South Korea's electronics exports is hurting, as is demand for luxury goods from Europe. As a result, economies of these nations also are struggling.

Momentum isn't looking good either. Reported factory activity data from China last month reflects a five-month low. In fact, manufacturing data throughout the continent of Asia has been falling. The Japanese economy posted a negative 7.1 percent GDP contraction in the second quarter. The Bank of Japan has just instituted a massive stimulus program to reinvigorate the economy.

The World's Shining Star

Against that backdrop, the pressure has been put on the U.S. markets to be a port in the storm. In last year's 2014 outlook, I mentioned that there would be high expectations for our market and the economy. As the Federal Reserve withdrew its stimulus program, the economy would have to fly on its own. The economy delivered.

After a weak first quarter due to cold weather, the economy has been strong. GDP growth in the second and third quarters has averaged 4 percent. The economy has been its most robust since the financial crisis.

But that's in the rearview mirror. How does it look from here?

There are several important indicators that suggest the economy will continue its momentum well into next year.

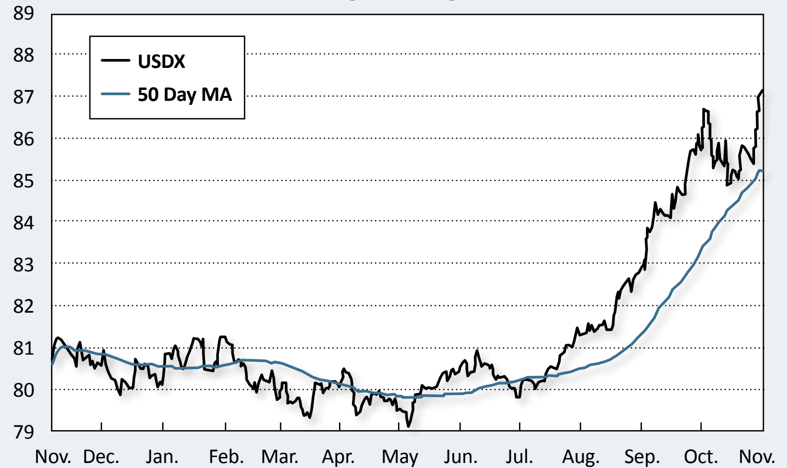
- **Consumer confidence**

The University of Michigan's Consumer Sentiment Index for October was the highest in seven years, since before the financial crisis in 2008. This is a big deal because U.S. GDP is 70 percent consumption.

There are a few powerful forces driving

consumers. Higher employment is probably the most important. Granted, the labor market is far from perfect. There is still a high level of long-term unemployment and the labor participation rate is at the lowest point in many decades. But the employment situation is significantly better than it has been since the recession, and working people have more money and consume more.

Another powerful driver is gas prices. Oil prices plunged more than 25 percent between the summer and the end of October. As a result, prices of gasoline have fallen below $3 per gallon in most parts of the country and may have further to fall. Lower gas prices are like a tax cut to consumers. It puts extra money in their pockets.



The U.S. Dollar Index, a measure of the value of the greenback versus a basket of major currencies, has spiked about 8 percent higher since the summer to a four-year high. The strong dollar hurts exports because it makes U.S. goods more expensive overseas.

SOURCE: INO.com

- **Manufacturing activity**

A key barometer for business activity, the Chicago Manufacturing Index, exploded to new recent highs in October, rising from 60.5 in September to 66.2 in October. A reading below 50 indicates contraction. The median forecast of economists surveyed by Bloomberg was 60.

- **Small business borrowing**

Small business borrowing, as measured by the Thomson Reuters/PayNet Small Business Lending Index, soared to the highest level in 7 1/2 years in October. The increased demand for funds suggests expansion in the small business arena, which is the largest single employer in the country. The index is considered to be indicative of business activity two to four months ahead.

- **Auto sales**

Auto sales are a great way to get the pulse of the consumer. They are considered to be an early snapshot of the direction of consumer spending. In October, vehicle sales in the U.S. shot up to the highest level in a decade. It was the best performance since October 2004.

I don't want to paint too rosy a picture. The economy is still a far cry from the 4 percent and 5 percent GDP growth of the 1980s and 1990s. And it's needed years of artificial stimulus from the Fed to get to this level.

But the recovery is exhibiting the strongest sustained growth since the recession. The stronger level of growth is what was needed to get off the Fed stimulus and continue to buoy stock prices. And the above indicators are not those of an economy running out of steam.

So, the U.S. is doing great while the rest of the world burns. The situation raises the question, "How long until the rest of the world pulls us down with it?"

The struggling world economy is a drag on the U.S. to be sure. The slow global economy

▶ About Tom Hutchinson

I've worked in finance my entire career, from the back office of a Wall Street firm to the floor of the New York Mercantile Exchange learning how markets work. Eventually, I became a financial adviser where I met with thousands of investors and managed the portfolios of hundreds over the course of about 15 years. I left my career as a financial adviser, writing for The Motley Fool as well as StreetAuthority LLC, researching companies, industries, and markets. In The High Income Factor, I can bring you the full benefit of my years of investing experience.

crimps demand for our exports. But it's a one-two punch. Because of the relative strength of the U.S. economy as well as the fact that the central bank is withdrawing money-printing stimulus, the U.S. dollar is surging. (See Chart 1.)

The strong dollar does hurt exports because it makes U.S. goods more expensive overseas. The strength is likely to last, too, because much of the rest of the world is going in the other direction. Central bank easing in the form of bond buying and lowering interest rates has the effect of weakening a currency.

While the U.S. is ending its monetary easing, the Bank of Japan just initiated a massive program, and the European Central Bank is widely expected to employ aggressive easing in the near future.

U.S. exports were weaker than expected in the third quarter and, as a result, third quarter GDP of 3.5 percent is likely to be revised downward, to about 3.2 percent. It's also worth pointing out that roughly 50 percent of earnings for S&P 500 companies are derived overseas.

But there are some offsetting benefits. The global funk and the stronger dollar have led to lower commodity prices almost across the board. Plus, the lower interest rates prompted by slow growth and central bank easing have put downward pressure on interest rates. Lower borrowing costs and cheaper prices are reducing costs for businesses and consumers alike. This should help buoy consumer spending and profits.

What It Means for the Market in 2015

The cynics are very suspicious of the current bull market. It has been one the longest running ever, since 2009, and has delivered among the best returns of any bull market in the last century, about 190 percent.

Yet the economic backdrop is a far cry from that of the prior bull markets in the '80s and '90s. How can a bull market rivaling ones in genuine economic boom times be justified in this economy? After all, this has been the weakest recovery of the 11 since World War II, so far producing a little more than half the GDP growth of the average recovery.

The answer, some say, is all the Fed's money printing and artificial stimulus. Since the financial crisis, the Federal Reserve has reacted with unprecedented expansionist monetary policies to prop up the economy. It did so by printing about $4.5 trillion in new money and keeping interest rates at near zero for longer than at any other period in history. (See the July 2013 issue for a more in-depth explanation.)

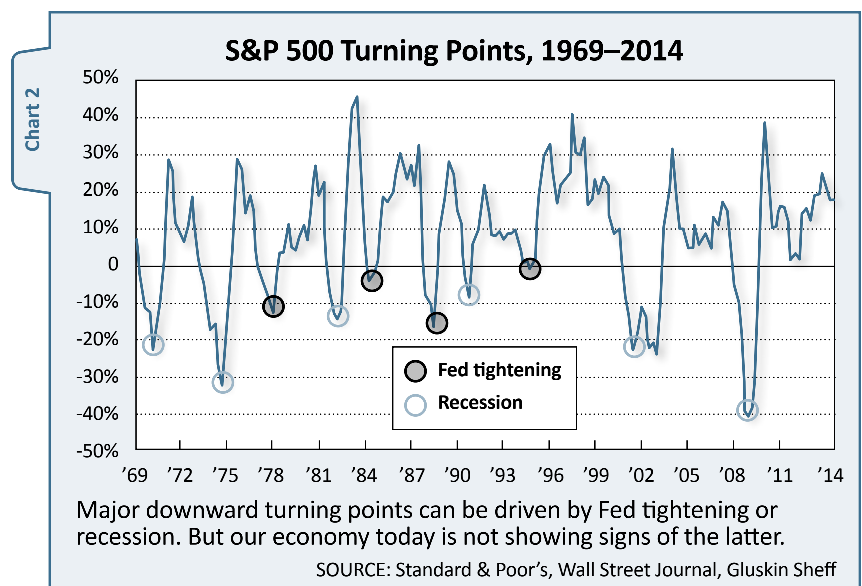
It is only by such financial gamesmanship and manipulation (according to the cynics) that stocks have risen so artificially high. Fraudulently elevating stock prices with smoke and mirrors rather than genuine economic performance can't last. There will be a day of reckoning and the whole sour scheme will come crashing down. This bull market is quite long in the tooth already. It's a game of musical chairs. And the music has been playing for a long time.

I take issue with this view.

To be sure, the Fed stimulus has helped prop up the economy. The market also has needed it to get where it is. But the above argument fails to take a huge factor into account — corporate profits.

This has been a lousy recovery on Main Street. But for big corporations, it's been terrific. Corporate profits are at all-time record highs. Seldom in history have large companies been so consistently profitable.

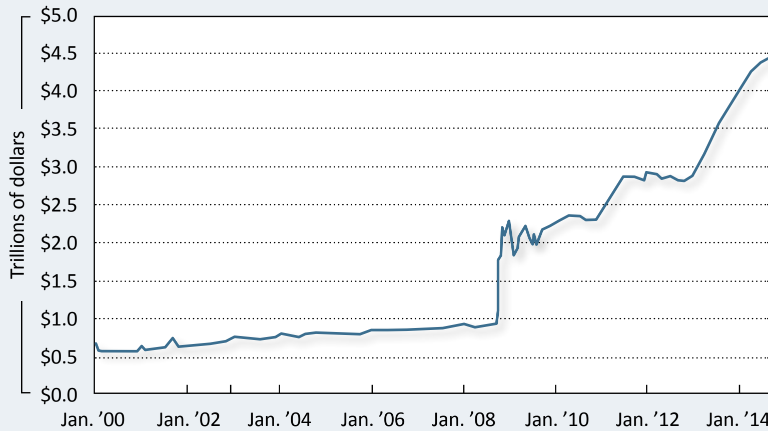
Make no mistake about it. Stock prices are ultimately justified by earnings. And earnings



Major downward turning points can be driven by Fed tightening or recession. But our economy today is not showing signs of the latter.

SOURCE: Standard & Poor's, Wall Street Journal, Gluskin Sheff

Chart 3



The Fed may have stopped buying bonds, but it still holds $4.5 trillion of bond purchases on its books.

SOURCE: Federal Reserve

have been there. So far in the third quarter reports, earnings for the S&P 500 have grown by about 10 percent from last year's quarter. That's solid performance. Because of the economic indicators we just talked about, earnings should continue to deliver in the foreseeable future.

The S&P 500 is currently selling at about 19 times earnings. That's not cheap. But it isn't overly expensive either, especially considering the lack of investment alternatives with a decent return. Moreover, the recent surge in company earnings should knock that number lower in the future (assuming prices don't run up too high).

Will the Bull Market Last?

Historically, bull markets don't simply get too tired and die of exhaustion. Since 1969, negative year over year returns have been caused either by recession or by Fed tightening. (See Chart 2.)

- **Recession**

Aside from some terrible external shock to the economy, which is always a built-in risk to any market, recessions don't just pop up suddenly. They come from a consistent deterioration in economic activity culminating in contraction. This economy is going the other way. We are a long way from recession at this point. It seems extremely unlikely in 2015.

- **Fed tightening**

This risk is real. Bear in mind, the Fed may have ended its $85 billion per month bond-buying program (QE3) but it is still providing stimulus. The roughly $4.5 trillion in bond purchases that the Fed has made over the years may have ceased, but the central bank still is holding all those bonds on its balance sheet.

The Fed is now the largest holder of U.S. debt, and keeping all those bonds off the market limits supply, adding to demand and competition for new bonds. (See Chart 3.) Also, the discount rate (the benchmark for short-term lending rates) is still near zero.

But change is in the air. Earlier this year the Fed hinted at beginning to raise the discount rate, perhaps by the middle of 2015. While the Fed has voiced no intention to sell bonds in its portfolio, some anticipate that it will cease to replace maturing bonds when it starts raising rates.

The discount rate has not been raised since 2006. Not stimulating anymore is one thing, but pulling back stimulus is quite another. No one really knows how the market will react.

But there are a couple of reasons that I believe the Fed tightening won't pose a problem in 2015. First, deflationary pressures in the world economy are holding prices down and there is less reason to fear inflation by keeping rates lower for longer. In addition, interest rates for high-quality bonds overseas are at rock bottom levels, further eliminating the need to raise U.S. rates. In fact, many analysts now are forecasting no rate hike until the end of 2015, if at all next year.

Second, the Fed will likely only raise rates if the economy is strong. The benefits of a strong economy will likely offset negative fallout from a

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rate hike, especially considering rates will still be at very low levels even after an increase. The discount rate is 0.25 percent; in the middle of last decade it was about 6 percent. A preliminary rate hike could jack it up to 1.25 percent or 1.50 percent, hardly enough to fix the low returns and create a viable alternative to investing in stocks.

At some point I believe the Fed's tightening will cause problems, perhaps big problems. As time goes on the bank will have to continue raising rates into a maturing bull market and things could get dicey, but not in 2015.

Slightly Higher, With Blips

I believe the market still will trend higher through 2015 primarily because the economy should be solid and money will still have no place else to go to earn a decent return. But I'm not expecting exciting S&P 500 returns for the year.

The economy will be hard pressed to create an earnings environment to justify much higher stock prices from here. I also can see the market having a somewhat wild trip to those lackluster returns. The risk of international events impacting the market is greater than it has been.

The crisis in Ukraine as well as the problems with ISIS in the Middle East could easily escalate and spook the markets, and perhaps make the global economy worse. In a world that seems increasingly unstable, we could see other trouble spots develop. And it's usually the thing you don't see coming that causes the most distress. After all, who worried about ISIS or Ebola a year ago?

In order to get similar returns as in the past, we are going to have to tread smartly. And getting good stocks at advantageous prices can't be done by buying at any old time. We have to take advantage of the dips that are likely to occur throughout 2015.

One of the Greatest Investments in History

I'll tell you why I like the cigarette business. It costs a penny to make. Sell it for a dollar. It's addictive. And there's a fantastic brand loyalty.

— Warren Buffett

As you can imagine, considering I'm the founding editor of this newsletter, I'm a passionate believer in dividend stocks. Not only because they tend to be paid by more reliable and established companies with proven cash flow, but because they also can pay you an income and build your wealth. (See the July 2014 issue for a discussion of the wealth-building power of dividends.)

In his 2005 book, *The Future for Investors: Why the Tried and the True Triumphs Over the Bold and the New,* Wharton School financial scholar Jeremy Siegel provides evidence of why dividend stocks are the best wealth builders over time.

The basic premise is that stocks of companies that return excess capital to shareholders in the form of dividends and stock buybacks outperform companies that retain excess capital in order to fund future growth.

As evidence he cites tobacco giant Philip Morris (now Altria) as the most successful investment in the large-cap universe from 1957 to 2003. So successful has been the company's formula of returning reliable and growing revenue to shareholders through dividends, that an investment of $1,000 in the stock over that period would have earned an average annual return of 19.75 percent with reinvested dividends. In other words, that $1,000 would have grown into $4,626,402.

PICK AT A GLANCE

ALTRIA GROUP (MO)

SECURITY TYPE: Common Stock
INDUSTRY: Tobacco
PRICE: $49.28 (as of Nov. 11, 2014)
52-WEEK RANGE: $33.80–$50.09
YIELD: 4.20%
PROFILE: Altria, with its dominant Marlboro brand, is the number one cigarette company in the United States.

POSITIVES

- The addictive nature of its products generates a high level of dependable cash flow and dividends.
- Altria has been able to more than offset the shrinkage in the cigarette market.
- The track record of performance is unsurpassed by any other large-cap income stock.

RISKS

- Increased taxes and regulation are an omnipresent risk for earnings.
- The U.S. cigarette industry is in a state of long-term decline.

Altria Group (**MO**) is the largest U.S. domestic cigarette maker and one of the largest in the world. The company is the domestic part of the old Philip Morris that spun off the international division in the form of **Philip Morris International** (**PM**) in 2008. Altria now operates primarily in the U.S.

The company is now an array of different businesses that include the following:

- **Philip Morris USA**

This is the U.S.-based cigarette business, which is by far the biggest in the country with about a 50 percent market share. Brands include the iconic Marlboro, L&M, Parliament, and Virginia Slims.

- **U.S. Smokeless Tobacco Company**

This part is international and is the world's leading producer of moist smokeless tobacco with the flagship brands Copenhagen and Skoal. It also is the fastest-growing U.S. tobacco segment.

- **John Middleton's Black & Mild**

This is one of the best-selling machine-made cigar brands in the U.S.

- **Chateau Ste. Michelle Wine**

Ste. Michelle produces and markets premium wines sold under various labels, including Chateau Ste. Michelle, Columbia Crest, 14 Hands, and Stag's Leap Wine Cellars.

- **Nu Mark**

The e-vapor smokeless tobacco Mark Ten brand is the third largest in the U.S.

Now, Altria may seem diversified, but it is still primarily a U.S. cigarette company. The smokable products segment (cigarettes and the cigar brand) accounted for 90 percent of net revenues in the first nine months of 2014. The overwhelming majority of those revenues were generated by the Marlboro brand alone.

In fact, you could accurately think of this company as Marlboro with a few side businesses. This brand achieves industry dominance that is rarely duplicated. How dominant is Marlboro in the U.S. cigarette industry? Marlboro has a 43.8 percent market share of the U.S. retail cigarette market. The next 10 largest brands combined have a 42.5 percent market share.

But aren't cigarettes a dying business?

In fact, the U.S. cigarette market is shrinking at a rate of about 3 percent to 4 percent per year, and has been shrinking for some time. Why is MO a good investment if it operates in a receding market?

The answer is that through Marlboro's growing market share and pricing power, as well as the growing revenue of the ancillary businesses, Altria has been able to more than offset the shrinkage and should be able to continue to do so for the foreseeable future.

Let's take a look under the hood.

The company has been able to grow earnings in the smokable segment by a compound annual growth rate (CAGR) of 4.2 percent from 2008 through 2013. The rate has accelerated to 4.9 percent in 2014 versus 2013.

Overall earnings per share from 2008 through 2013 grew at 7.9 percent. Altria has reaffirmed 2014 full-year EPS guidance of 7 percent to 9 percent growth over last year.

Altria has been able to maintain such earnings consistency because it owns the best of the best of a highly addictive product that has a very low volatility of demand. Such predictable earnings make this stock an absolute cash machine.

A Consistent and Growing Dividend

The quarterly dividend was raised 8.3 percent to $0.51 per share. The current dividend is on track to pay $2.08 per share on an annual basis, translating to a solid yield of 4.2 percent. But that doesn't reflect the true magnificence.

The strong profit margins and high level of free cash flow it generates enables the company to pass about 80 percent of earnings out in dividends. As a result, Altria has been able to grow dividends per share at a CAGR of 8.4 percent between 2008 and 2013. The annual dividend increased 62.5 percent from $1.28 in 2008 to $2.08 now.

The Total Return

The cash/dividend machine qualities of the stock have made it a stunning performer. MO has provided mind-boggling average annual returns of 17.48 percent for the past 15 years and over 25 percent per year for the past five years.

Indeed, Altria has significantly outperformed the S&P 500 in every broadly measured period over the past 15 years and has outperformed Morningstar's Tobacco sector in every period over the past five years.

Total Return % (as of Oct. 30, 2014)	YTD	1-Yr.	3-Yr.	5-Yr.	10-Yr.	15-Yr.
MO	**27.59**	**33.46**	**24.30**	**25.28**	**18.49**	**17.48**
Tobacco	13.76	13.52	15.55	20.83	19.96	21.48
S&P 500 TR USD	9.70	15.47	18.32	16.42	8.08	4.53

But 25 percent or 33 percent average annual returns may seem like abstract numbers. Let's take a look at what these returns really look like.

Let's say you invested $10,000 in MO five years ago (from the end of Oct. 2009 to the end of Oct. 2014) and took the dividends as income. You would have received $4,638 in income over the period (552.18 shares x $8.40), almost half of your initial investment. Moreover, your stock position now would be worth $26,692.

If you invested $10,000 five years ago, reinvested the dividends and never added another dime to the position, the value would have grown to $34,978 in just five years. That's a 250 percent return just since the end of 2009.

A look at the five-year stock price (Chart 4) shows remarkably consistent performance. In fact, over the past 10 years the stock only posted negative performance in one, the financial crisis year of 2008. Over the nine positive years, MO only returned less than 20 percent in two years.

Of course, the past five years have been good for the market. There is certainly no guarantee that MO will perform as well going forward. But even if the total return is just half of what it has been, it will still make a great income investment.

A rough patch in the market could present a fantastic opportunity to pick one of the best income investments of all time at a cheap price. The stock doesn't stumble very often. But if it does, we will scoop up MO if it falls under $44.

▶ **Conclusion: Altria (MO) has proven over many years to be one of the most reliable income generators and total-return stocks on the market. Picking up this powerful dividend payer is likely to serve income investors very well over the long term. Put Altria (MO) on your watch list, or put in a limit order with your broker, to purchase it if it falls to $44 per share or less. Once purchased, it will go in the Wealth Builder Portfolio.**

Best Buys of the Month

These stocks are the answer to the question I often get from newer subscribers: If I were looking at the High Income Factor Portfolio for the first time, which securities would I choose to buy right now?

DECEMBER BEST BUYS			
Security	Price*	52-Week Range	Yield
Northern Tier Energy LP (NTI)	$26.80	$20.51–$29.60	6.12%
Main Street Capital (MAIN)	$32.18	$26.42–$35.72	5.97%

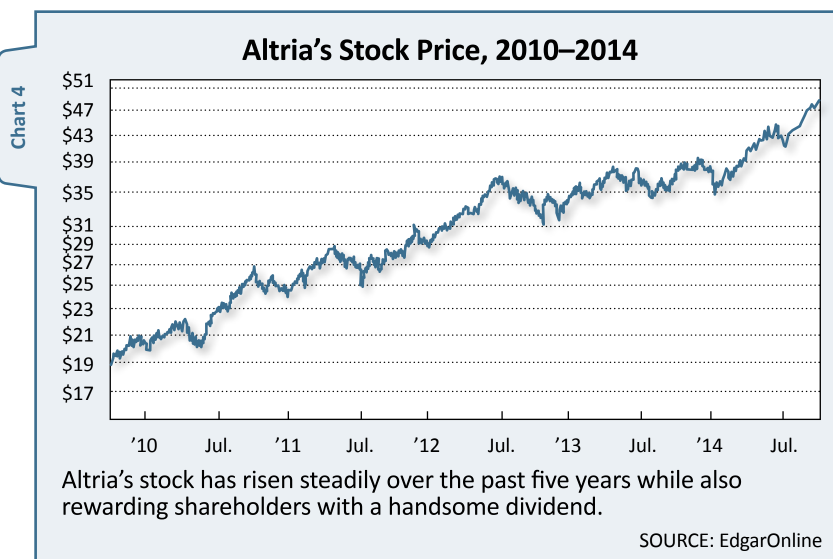
* As of Nov. 11, 2014

Northern Tier Energy (NTI)

Energy stocks have been clobbered as crude oil prices have fallen 30 percent since the summer. But some players in the energy space are not hurt by lower crude prices and actually stand to benefit. Refiners use crude oil as an input. It's a cost. Lower crude prices make lower costs.

Of course, the prices of refined products (that refiners sell) do go down as well, but refiners make money on margins and volume. All other things being equal, lower prices across the board aren't necessarily bad for margins and often can increase them. Lower-priced gas in an accelerating economy also boosts volume sales.

In the third quarter, NTI reported earnings of $1.04 per share versus $0.30 a year ago and adjusted EBITDA of $122.8 million versus $51.5 million a year ago. It posted its highest ever quarterly refining volumes as well as record high margins. It also announced a $1 third quarter dividend, the highest in a year. The refining business should



Altria's stock has risen steadily over the past five years while also rewarding shareholders with a handsome dividend.

SOURCE: EdgarOnline

continue to do well in 2015, making this stock a best buy at or under $28 per share.

Main Street Capital (MAIN)

Main Street Capital is selling at a good price with a high yield ahead of good times in the quarters ahead. As a business development company (BDC) in the business of making high-interest loans and taking equity stakes in growing small companies, MAIN is in a good position to benefit from the solid economy.

The company yields a solid 5.9 percent but also declared a supplemental dividend of $0.275 per share payable in December. This is in addition to the regular monthly dividend of $0.17 per share.

The regular stream of special cash dividends we've seen recently is generated from cash in excess of the distribution, which speaks volumes for Main Street Capital's ability to continue to generate the current dividend. It's a buy at or under $32 per share.

Portfolio Update

Why We Sold HSBC Holdings PLC (HSBC)

On Nov. 5, I recommended via email that we exit London-based international bank **HSBC Holdings PLC** (**HSBC**) from the Wealth Builder Portfolio.

We added it to the portfolio on Jan. 27 of this year at $52.98. With dividends and the impact of the slight price decline since entry, our total return was minus 1.68 percent.

If you haven't already done so, sell it at market price upon receipt of this newsletter.

Some background: Established in 1865 to facilitate trade between China and Europe, HSBC Holdings PLC has grown into the second-largest bank in the world (by total assets) and the number one global trade finance bank in the world.

The bank has a massive and incredibly well-established footprint in the fast-growing Asian economies, where it derives about three quarters of its profits. HSBC also has a strong presence in its home country, the U.K., as well as the U.S., and has growing exposure in Latin American markets.

Letting go of this one hurt. The business model provides a great blend of Western stability and Eastern growth, and over the long term this stock should be a solid winner. It also is one of the highest-yielding big banks out there with a 4 percent yield.

The problem right now is the bank's exposure to Asia, where about 75 percent of its earnings are generated. In the third quarter, pretax earnings from the region were down 3 percent from last year's quarter. But things could get worse.

Asian economies are struggling right now. Chinese GDP growth has slipped to a post-financial crisis low at 7.3 percent, and the Japanese economy is reeling.

In addition, the U.S. withdrawal of stimulus has the effect of cash rushing out of many Asian economies, and countries with a deficit in balance of accounts are experiencing inflation and rising interest rates. There is some political instability in Hong Kong as well.

Things may be challenging in Asia right now, but this dynamic region is still the growth engine of the world and will surely come back, probably in the not-too-distant future. I'm a longer-term oriented investor who doesn't like to overreact to short-term headwinds.

But there's more bad news.

The European banks are getting absolutely killed with regulatory charges. The emergency fix period that followed the financial crisis has ended. Now comes the era of lawsuits and increased regulations as a hangover from the crisis. In the third quarter alone, HSBC paid about $1.8 billion in legal and regulatory charges. Here's a look at some of those charges:

Charges Against HSBC	$
FCA investigation into foreign exchange currency manipulation	$378 million
U.K. customer redress programs	$701 million
Settlement with U.S. Federal Housing Finance Authority	$550 million

In the quarter, these charges caused operating expenses to rise 15 percent from the year-ago period. HSBC wasn't alone. Deutsche Bank, Barclays, and Royal Bank of Scotland also took significant charges in the quarter. And this is likely a portent of things to come.

HSBC's chief executive told investors that fines and customer redresses "will be with us for some time." Aside from the charges, the bank is undergoing considerable expenses to deal with the new regulation. About one-tenth of the company is

now dedicated to compliance.

All that said, the bank has undergone a successful restructuring and is focusing on its core profitable businesses.

Third quarter revenues were up a solid 15 percent over the year-ago period and earnings per share were 6 percent higher. The bank also is selling at a discount to its peers.

But it's hard to see how the stock can perform well over the next year or so in the face of all those headwinds.

Aside from the likelihood of near-term underperformance, something else prompted the sell alert — the stock can't take any more bad news. I'm much more comfortable in stocks that have an ability to absorb a blow. I don't see HSBC as one of those stocks right now. I may revisit this stock in the future. But for now the risk/reward balance has been tipped to the negative.

Why We Bought Deere & Co. (DE)

On Oct. 7 shares of farm equipment maker **Deere & Co.** (**DE**) reached the target buy price of $80 and we added the stock to the Wealth Builder Portfolio at that price. The stock currently pays $2.40 per share in annual dividends and yields 3 percent at that buy price.

We originally highlighted it back in July 2012. As the price was somewhat high, I targeted a price below the market. It took more than two years, but by targeting a price below the market and being patient, we were able to pick up DE on the cheap in the October sell-off.

Deere is the world's number one supplier of agriculture and forestry equipment. The company has a world-famous brand that has been around since 1837, with the highest resale value in the industry. I'm sure you're all familiar with the company's trademark green tractors, combines, lawn mowers, and construction equipment.

Roughly 80 percent of revenues are generated from farm equipment and the other 20 percent is from consumer, construction, and forestry. A little more than 50 percent of sales are in the U.S., with the rest overseas. About 20 percent of sales come from Europe, and the company has a strong and growing presence in emerging markets, most notably Brazil, Russia, India, and China.

The longer-term trend is good. Rising world populations and increasingly Westernized appetites in fast-growing emerging markets have greatly increased the world's demand for food. The World Bank is projecting that overall worldwide demand for food will increase by nearly 50 percent from current levels by 2030 and double by 2050.

Rising food demand will require quality farm equipment. At the same time, fresh water and arable land are becoming scarcer, and higher crop yields will be required from existing farmland, necessitating advanced farm equipment.

But the stock has been weak recently. Obviously the global economy is struggling, and the strong dollar is hurting exports and foreign revenues. For the first nine months of the year, Deere reported that worldwide net sales and revenues fell 4 percent from a year ago and forecasts a 6 percent decrease for 2014. DE was less affected than most of the farm equipment industry because of its diversified business in the consumer and forestry division (with higher revenues for the year).

The selling pressure in October was caused when agricultural equipment maker **AGCO Corporation** (**AGCO**) slashed third quarter (from $0.81 per share to $0.60 to $0.65) and full year guidance citing "weak demand across all regions." The whole agricultural equipment sector took a pounding.

The near-term headwinds have made Deere cheap. Shares are currently selling at 9.5 times earnings compared to its five-year average of 15.7. And over that five-year period, DE provided an average annual return of about 16 percent. The stock also is selling well below the industry average P/E of 13.1 while it has by far the highest profit margins of any of its peers, with a ROE (return on equity) of 32.8 percent.

The stock already has moved up to $88 per share (as of this writing). But I'm still going to leave the target buy price at $80 or less because more market volatility could easily present another opportunity to get it cheap.

A basic staple of successful investing is to buy good companies cheap. Deere is a blue-chip world-class company with a very promising future. Over time, the winds of global economic growth momentum will change. But the human race's need for more food will not. ■

The High Income Factor Portfolio

THE HIGH INCOME PORTFOLIO

Recommendation	Ticker	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield	Dividend Pay Date	Total Return
Navios Maritime Partners	NMM	01-Mar-12	$16.37	$13.50	$17.50	13.11%	10.81%	11/13/14	9.77%
Terra Nitrogen	TNH	01-Apr-12	$249.75	$141.00	HOLD	10.18%	5.75%	12/3/14	-24.45%
FLY Leasing Limited	FLY	27-Nov-12	$11.97	$12.40	$14.00	8.06%	8.35%	11/20/14	16.61%
Teekay LNG Partners LP	TGP	20-Dec-12	$38.30	$37.97	$42.00	7.29%	7.23%	12/12/14	12.89%
Prospect Capital	PSEC	26-Feb-13	$11.06	$9.60	$11.50	13.88%	12.04%	11/28/14	4.54%
Main Street Capital	MAIN	21-Aug-13	$29.21	$32.18	$32.00	5.97%	6.57%	11/17/14	20.56%
LinnCo	LNCO	27-Oct-14	$23.25	$20.92	$25.00	13.88%	12.49%	11/17/14	-8.98%

THE WEALTH BUILDER PORTFOLIO

Recommendation	Ticker	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield	Dividend Pay Date	Total Return
PepsiCo	PEP	01-Apr-12	$66.74	$96.70	$72.00	2.71%	3.93%	1/30/15	54.76%
Eli Lilly	LLY	01-Apr-12	$40.48	$67.85	$52.00	2.89%	4.84%	1/9/15	85.75%
Williams Partners	WPZ	01-May-12	$57.30	$51.69	$58.00	7.18%	6.47%	11/12/14	19.20%
Vodafone	VOD	27-Sep-12	$28.72	$34.80	$34.00	4.63%	5.61%	11/24/14	21.18%
Intel	INTC	27-Nov-12	$19.98	$33.31	$27.00	2.70%	4.50%	12/3/14	77.67%
Philip Morris	PM	04-Feb-13	$87.00	$88.09	$87.00	4.54%	4.60%	1/17/15	7.87%
Riocan REIT	REI-UN.TO	20-Mar-13	$26.97	$23.22	$29.00	6.10%	5.25%	11/17/14	9.26%
General Mills	GIS	19-Apr-13	$49.94	$50.97	$50.00	3.22%	3.28%	12/3/14	6.18%
Kinder Morgan Energy Ptnrs	KMP	22-May-13	$88.50	$94.33	$95.00	5.94%	6.33%	11/14/14	15.26%
Brookfield Infrastr Ptnrs	BIP	03-Jun-13	$36.00	$41.10	$42.00	4.67%	5.33%	1/28/15	19.72%
Health Care REIT	HCN	15-Aug-13	$60.00	$70.84	$60.00	4.49%	5.30%	11/20/14	25.72%
Realty Income	O	18-Dec-13	$39.14	$46.83	$40.00	4.69%	5.61%	11/21/14	25.47%
Verizon	VZ	21-Feb-14	$47.27	$50.61	HOLD	4.19%	4.48%	2/3/15	9.42%
Northern Tier Energy	NTI	26-Mar-14	$26.00	$26.80	$28.00	6.12%	6.31%	11/28/14	9.33%
Ventas, Inc.	VTR	23-Apr-14	$64.42	$68.52	$65.00	4.23%	4.50%	12/1/14	8.84%
Textainer	TGH	25-Sep-14	$33.04	$35.70	$40.00	5.27%	5.69%	11/28/14	8.05%
Deere & Company	DE	07-Oct-14	$80.00	$88.45	$80.00	2.71%	3.00%	2/3/15	10.55%
Magellan Midstream Ptnrs#	MMP	—	—	$83.80	$65.00	3.00%	—	—	—
BUY Altria#	MO	—	—	$49.28	$44.00	4.20%	—	—	—

INCOME STRATEGIES PORTFOLIO

Recommendation	Ticker	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield	Dividend Pay Date	Total Return
Blackrock Enhanced Cap Fund	CII	01-Jan-12	$12.50	$14.87	$13.00	8.07%	9.60%	11/28/14	47.59%
Barclays 7.75 Preferred	BCS-PC	27-Sep-12	$25.52	$25.97	Hold	7.86%	7.99%	1/16/15	18.63%
PowerShares Preferred	PGX	24-Oct-12	$14.84	$14.68	Hold	5.89%	5.82%	12/10/14	9.81%
Osterweis Strat Inc	OSTIX	25-Sep-13	$11.80	$11.78	$12.00	5.08%	5.07%	12/19/14	0.82%
PowerShares Sr Loan Port	BKLN	25-Sep-13	$24.77	$24.37	$25.00	4.38%	4.31%	12/10/14	2.41%
SPDR BarCap ST HY Bnd	SJNK	25-Feb-14	$31.03	$29.84	$32.00	5.19%	4.99%	11/17/14	-1.37%
People's United Financial	PBCT	25-Aug-14	$14.90	$14.85	$15.00	4.44%	4.43%	11/17/14	0.79%
Duke Energy#	DUK	—	—	$82.66	$69.00	3.90%	—	—	—

Notes on all portfolios: In order to receive the dividend payment, you will need to own the stock several weeks before the pay date. The "Total Return" column includes all reinvested dividends at concurrent recommended buy prices. Returns calculated based on a purchase of $1,000 of the security on the listed entry date and price. The "Effective Yield" column reflects the yield investors receive assuming they bought at the entry price and followed all subsequent recommendations. #Denotes recommendation not yet purchased. To see the chart of previous "sold" positions, subscribers can log onto www.highincomefactor.com (under the "Portfolio" tab). All chart data is as of close November 11, 2014.

Closing Thoughts →

The
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Closing Thoughts

The bull market is long in the tooth, and the easy money to be made from its rise is for the most part gone. There still is opportunity, but in 2015 we will need to up our game to duplicate recent success. We still can have star performance, but we need a strategic game plan to succeed in a tougher environment.

Despite that, as I explained in this issue, there are good reasons to believe the bull market will persist in the year ahead . . . but with a caveat. The big returns of recent years are unlikely to continue at the same torrid pace. There is also a high probability that things will get choppy at times over the course of the year — that is, volatility will become a factor, making investing a little scary during downswings.

A good solution to ride out that volatility is to target a legendary income stock that is pricey right now, but might very well come within our reach in a market sell-off. That's what we're doing in targeting **Altria** (**MO**); it's out of reach as we go to press, but as we saw recently with **Deere & Co.** (**DE**), it will likely come back to us at some point, allowing us to get in at an advantageous price level. In dividend investing, as you know, patience pays off.

Actions to Take Now

Action No. 1: Put **Altria** (**MO**) on your watch list, or put in a limit order with your broker, to purchase it if it falls to $44 per share or less. Once purchased, it will go in the Wealth Builder Portfolio.

Action No. 2: If you haven't yet, sell **HSBC Holdings PLC** (**HSBC**) at market price upon receipt of this alert. This sell was originally issued via email on Nov. 5.

Action No. 3: If you don't own them yet (or want to add more shares to your holdings), consider my "best buys" of the month: **Northern Tier Energy** (**NTI**) at or below $28 per share and **Main Street Capital** (**MAIN**) at or below $32 per share.

Sincerely,

Tom Hutchinson

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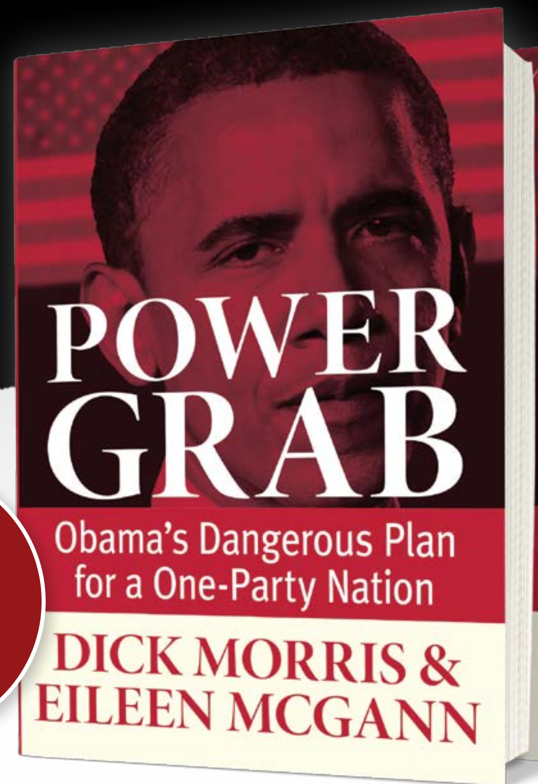
#1 BEST-SELLER

Does Barack Obama Have a Secret Plan to Change America?



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Dick Morris says he does — a stealth plan he has already been implementing right under everyone's noses that will put the Republican Party out of business as a major political force.

Morris, a former presidential adviser and strategist, argues in his just-released book **Power Grab: *Obama's Dangerous Plan for a One-Party Nation*** that America truly is at a crossroads.

We can choose the path of the Founding Fathers and keep a strong constitutional government that thrives on our bipartisan spirit, or opt for President Barack Obama's dream: a nation ruled by one political party with a far-left agenda.

Everything that we as American citizens once took for granted, from our civil liberties to our system of checks and balances, is now systematically being put into question by Barack Obama and his radical plan.

With co-author **Eileen McGann**, **Morris** has written the most penetrating exposé of the Obama agenda, one that blows the lid off Obama's secret strategy to downgrade and destroy the Republican Party as a great rival to the Democratic Party.

Dick Morris' Power Grab is newly released and retails for $30 with shipping. But you can get this book for only $9.95 with this special offer.

Many have complained of Obama's executive actions and abuses of power. But Morris goes beyond that to make a convincing case that Obama's overarching strategy is one that ultimately grabs power from our traditional and bipartisan institutions in favor of a single party: his Democratic Party.

In essence, Obama wants to remake America along the lines of a modern banana republic, an old-style Mexico where one party ruled by fiat.

According to Morris and McGann, Obama has instituted his plan by:

- Pushing radical immigration plans that will tip the delicate political balance in favor of the Democrats in crucial states and in national elections
- **Implementing the biggest power grab of all, ObamaCare — the law that means anything supporters say it does**
- Using this new "health" law to help create a permanent

Dick Morris is well-known for his probing, hard-hitting commentary in media outlets such as **Newsmax** and the Fox News Channel. *Time* magazine has dubbed him "the most influential private citizen in America." A prominent Republican strategist, he was the architect of Bill Clinton's comeback landslide in 1996 and political victories for 30 senators and governors. Internationally, he has piloted the successful campaigns of presidents or prime ministers on five continents. With his wife, **Eileen McGann, Morris** has written 14 books, including 10 *New York Times* best-sellers. Morris and McGann write for DickMorris.com and *The Hill* newspaper.

(Continued on next page)

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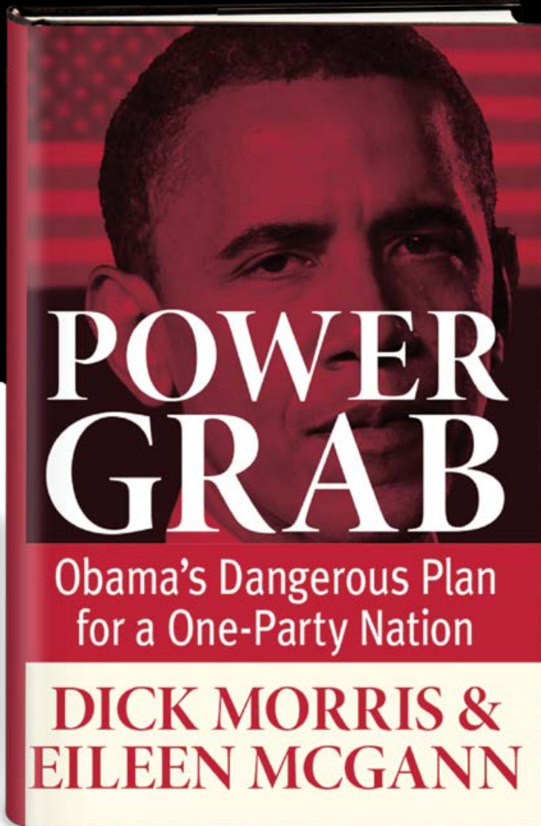

(Continued from other side)

government recipient class that will vote Democratic . . . time and again

- **Gaining federal control over state-run education systems using the Common Core curriculum**
- Asserting more control over private business by granting the EPA global governance in the name of climate change, affecting every aspect of our lives
- **Blocking energy independence, thereby slowing economic growth and breeding more dependency**
- Gutting welfare reform and keeping millions on the dole
- **Turning over regulation of the Internet to the United Nations**

The authors write: "Obama is a left-wing president who is desperately determined to impose his radical agenda to transform our democratic government and free market economy into his socialist-style ideal before leaving office in 2016. He's a president who is obsessively fixated on keeping the left in permanent power by turning our two-party system into a one-party monopoly."

He is close to achieving his goal, Morris claims.

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