User Guide
How to Get The Most Out of Your Subscription
Thank You!

For subscribing to Cabot Dividend Investor and welcome!

Dear Investor,

Thank you for joining Cabot Dividend Investor, and welcome. I hope your membership helps you achieve your investing goals and makes you feel more confident and secure about your retirement.

This guide will help you get the most out of your Cabot Dividend Investor membership and make your investing decisions easier and more profitable. It will also explain much of the shorthand we use in Cabot Dividend Investor and explain our ratings and how power our recommendations. I recommend you read it in full before you begin following our advice. If you still have any questions at the end, feel free to email me at tom@cabotwealth.com. I’m always happy to help.

Cabot Dividend Investor is designed to help any investor who wants to generate some income from their investments, whether they need maximum yield now, or are anticipating their needs decades down the road. I hope it helps you.

Sincerely,

Tom Hutchinson

Chief Analyst, Cabot Dividend Investor
What’s in this guide...

Here’s What You Get
– All the benefits Of Your *Cabot Dividend Investor* Subscription

Our Investment Strategies
– How We’ll Make You Money

Glossary
– Key Terms and Lingo

About the Expert
– Who is Tom Hutchinson?
Your Subscription to *Cabot Dividend Investor* Includes:

**Monthly Issues**
Your issue is emailed to you the second Wednesday.

**Weekly Updates**
On all other Wednesdays, you’ll get updates on all our stocks and other issues affecting the portfolio.

**Special Stock Alerts**
You’ll also receive Special Bulletins via email when market conditions warrant—so that you know exactly what action to take in your portfolio.

**Special Reports**
Our catalog of Special Reports provides further analysis that lets you dive deeper into the details of stock investing.

**Direct Contact**
Whenever you have an investment-related question, you can email me directly at Tom@CabotWealth.com. You can also call our Cabot Investor Services desk at 800-326-8826 anytime during business hours to speak with someone about your subscription. Or you can email our subscription support staff at Support@CabotWealth.com.

**24/7 Archives**
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Make sure to visit the *Cabot Dividend Investor* hub and bookmark the page!
While generating current income is obviously the defining goal of income investing, you most likely have other goals for your portfolio as well.

Many investors’ first or second priority is capital preservation, or safety. When we surveyed a large group of income investors in 2013, 49% ranked Safety (protection of capital) as their number one priority, above Income and Growth (capital appreciation).

You may also be pursuing capital appreciation, or growth. This can be achieved through a combination of buying stocks that you think will go up and reinvesting dividends to increase your principal.

Lastly, in addition to current income, you should also decide how much emphasis you want to put on future income. What yield would you like your portfolio to be generating in five or 10 years?

Knowing what your priorities are is the first step to creating an income portfolio that works for you. I can’t tell you what they are; you have to figure it out for yourself.

Some of the answers will be defined by your gut feeling: how do you feel when you have to sell a position for a 10% loss? What about 20%?

Other answers will be defined by your circumstances: How old are you? How many other sources of income do you have or expect to have when you retire? What are your living expenses like? Do you expect them to increase or decrease in the future?

I want you to consider the answers to these questions, and any other circumstances, needs, or preferences that might affect your priorities.

These might change over time. If you’re not retired yet, you’re probably going to rank future income above current income now, but you might switch them once you are retired.

Preservation of capital may also become more or less important to you as you age. Once you’ve thought about your priorities, you can start crafting a portfolio that meets your goals.

If future income is important to you, either because you’re anticipating retirement or simply because you expect your demands on your investment income to be higher in the future, then you should focus on securing a growing income stream now, by buying investments with excellent dividend growth potential.

If you’re very risk averse and have every penny of your savings earmarked for a future expense, your first priority will be preserving the capital you have by buying very safe income investments. You may be able to become more aggressive once you’ve grown your nest egg a bit.

If you’re already a ways into your retirement, your top priority might be current income. If that’s the case, there’s nothing wrong with stretching for some yield now, when you can use it.
And if your top priority right now is growth, you’re probably only planning on investing part of your portfolio in income-generating investments and want to focus on dividend payers that also have growth potential and reinvest some of your dividends.

Most likely, you’re in some mix of these scenarios, and you want to create a portfolio with a little of each ability.

When you’re constructing a portfolio, you’ll want to think about both dividend safety and dividend growth, and our portfolios certainly factor these in.

**How is Dividend Safety Calculated?**
Assessing dividend safety is a matter of attempting to quantify how likely a company is to maintain its current payout.

When we’re assessing dividend safety, this advisory looks at a company’s dividend history and factors that could affect the company’s ability to continue paying its dividend.

Dividend history is important for several reasons. A long history of paying dividends shows that management prioritizes rewarding shareholders, and that dividend payments are part of the company’s culture. A consistent history of paying dividends shows that the company’s business model can sustainably support regular dividend payments during a variety of economic conditions. In addition, no dividend cuts or skipped dividends shows both that the company’s business is stable and that management is realistic when declaring dividends: the company doesn’t stretch to pay dividends it can’t afford. IRIS (our Individualized Retirement Income System) gives high marks to companies that have been paying regular dividends for many years without skipping dividends or reducing their dividend amount.

This advisory also takes a company’s payout ratio into account. The payout ratio is the percentage of earnings paid out as dividends, calculated by dividing the stock’s dividend per share by EPS (earnings per share). A low payout ratio is good: it shows that the company’s dividend payments are well covered by its earnings, so they’re not in danger. In addition, it means the company is holding plenty of cash back to reinvest in the business, ensuring the security of future dividend payments. On the flip side, a high payout ratio can be a red flag that a company is having a hard time affording its dividend payments, especially if the payout ratio is historically high for that company. Companies that pay out a large percentage of their cash also have less cash to reinvest in growing their business. We begin penalizing companies once payout ratios approach 50%.

Some companies can maintain higher payout ratios than others, so we also consider the company’s historical payout ratios and the trend of the company’s payout ratio. Lastly, some types of businesses, like MLPs and REITs, will always have very high payout ratios (often over 100%) and need to be evaluated differently.

**What about Dividend Growth?**
Our assessment of dividend growth reflects the probability that an investment’s distribution will grow significantly. This will be influenced by the company’s ability to increase its payout, as well as management’s dedication to higher dividends. To measure these, we consider several factors:

The best indicator that a company prioritizes dividend growth is a recent history of dividend increases. On this metric, IRIS grants the highest marks to companies that have paid higher dividends every year for many consecutive years. Some companies in our database have increased their dividend every year.
for decades. Others have only begun to prioritize dividend growth in the last few years, or have had to start rebuilding their dividends after cutting or suspending them in 2008. A company that has increased its dividends every year for at least the past three years makes it into the top quartile of stocks under this ranking.

We also consider how fast a company’s dividends are growing. The dividend growth rate measures how much a company has increased its dividend each year. We usually consider five- and 10-year dividend growth rates when evaluating companies. Holding stocks that consistently increase their dividends by a significant amount is the best way to secure a growing stream of income. A five-year dividend growth rate of at least 10% will earn a stock a place in the second quartile of our dividend growth rankings.

Lastly, we look at several metrics that shed some light on a company’s ability to increase its dividend amount. Companies should have consistent and growing EPS, cash flow and operating income, which directly translate into a company’s ability to pay higher dividends. We also consider EPS estimates. We want to see future EPS estimates that are higher than current EPS, ideally by a double-digit percentage.

All together, these factors paint a picture of a company’s ability and inclination to raise its dividend in the future.

The Three Tiers

The Cabot Dividend Investor portfolio is divided into three tiers: Safe Income, Dividend Growth and High Yield. Though the tiers are not necessarily mutually exclusive (some investments could qualify for multiple tiers) we assign each holding to a tier to indicate which income investing goal it best meets.
The Safe Income Tier
For the Safe Income tier, we choose holdings that are low-risk, low-volatility and generate very reliable income. In addition to common stocks, the Safe Income tier may include preferred stocks, CEFs and ETFs.

The investments in the Safe Income tier will usually be held for years, through most market conditions.

Dividend Growth Tier
Investments in the Dividend Growth tier are chosen for their increasing payouts and are ideal for investors who want to build a robust future income stream. These investments rank highly on our Dividend Growth Rating.

The Dividend Growth tier holds a wide variety of investments, with a wide range of current yields, volatility and risk levels, price appreciation potential and other factors. So you may find that while not all of the investments in the Dividend Growth tier are right for you, some fit your goals perfectly.

High Yield Tier
The holdings here are selected primarily for their high current yields and are most appropriate for investors whose top priority is current income. When fishing in the high yield pool, you will always have to sacrifice some security, growth potential or simplicity for the big payout. However, we scour the high yield universe for the investments with the best combination of dividend safety, dividend growth potential, low price risk and capital appreciation potential. Not all of our High Yield recommendations will have all of the above, but we’ll be sure to present the risks of each clearly, so you can choose which are right for your portfolio.

HOLD and SELL Ratings

A BUY rating may be changed to a HOLD rating for a variety of reasons. The investment may no longer be at a desirable buy point, because it is overextended, overvalued, in a downtrend or for another reason. We may also place an investment on HOLD because it has become less compelling than our other holdings, and we think new money should be directed into stronger recommendations. We may also place a holding on HOLD if we’re concerned about it and considering changing the rating to SELL soon.

We will SELL holdings when their trading price or other data indicate that their safety, quality, dividend growth potential or other factors have deteriorated to the point that they are no longer worth holding for the income they are generating. Ratings may be changed to SELL in monthly issues, weekly updates or special email bulletins. The sale will be recorded at the average price the next trading day.

How Many Stocks Should I Buy?
When full, our Total Portfolio will hold 20 to 25 stocks, equally weighted: 20 Safe Income holdings, 10 to 15 Dividend Growth holdings and five to 10 High Yield Holdings.

Most investors will not choose to hold all 35 to 45 stocks. Depending on your goals, you may want to buy only those holdings with the lowest risk, or the highest potential for dividend growth, or the highest yields, or a combination of attributes.

We don’t think there’s any magic number of stocks that guarantees you the best performance, but here are some guidelines:
Buy enough to make a difference. We think you can invest with almost any amount of money, but if you’re starting small, don’t start so small that your position is negligible. If you’re only generating $10 a year in income, that’s not going to make much of a difference to your bottom line. Likewise, if your total portfolio is $2 million, a $1,000 position is not going to be able to substantially affect your returns, even if it’s your best performer. Buy position sizes that can make a difference.

Keep it manageable. Some investors are comfortable tracking 80 different investments, others get overwhelmed by more than 10. Regardless of your portfolio size, make sure to keep it manageable. If you have more money to invest but don’t have the bandwidth to manage another position, just add to one of your existing positions. If you find yourself with too many positions, sell the smallest and weakest, and concentrate your funds—and power—in the best names.

Diversify. Make sure you’re holding a wide enough variety of names that a single market shock won’t devastate your portfolio. This ranges from the simple—don’t hold all energy stocks—to the more nuanced: if all your investments are highly leveraged companies, they’ll all be affected by the same interest rate news.

Two Allocation Examples: Conservative and Aggressive

We’ve also created two hypothetical portfolio allocations that some investors may want to copy. Our conservative allocation is focused on minimizing risk while generating income. The aggressive allocation is willing to take on higher risk in exchange for higher current income and better dividend growth potential. Each investment is given equal weight.

A metaphor may help you understand how these examples relate to our total portfolio. If our complete portfolio represents the full menu of options, these can be thought of “prix fixe” menus. You may choose to follow one of the prix fixe options, or you may want to simply order what strikes your fancy from the “à la carte” menu. Neither is the superior way to use Cabot Dividend Investor. Just be sure to keep your priorities—safety, dividend growth and current income—in mind when you make your selections.

Getting Started

You’re ready to start buying! But where should you start?

A good place to find your first few buys is the “What To Do Now” section on the first page of each issue. It includes the names of some BUY-rated investments that I think are at particularly good entry points right now. I might choose a stock for the section because it’s in a nice uptrend, tracing out a regular correction or simply undervalued.

Each issue also includes a more in-depth write up on one stock that’s a particularly good buy that month, or is being added to the portfolio that month. This is the Featured Buy of the Month on page 1. Buying that stock each month can also be a good way to start following our portfolio if you want to take things a little slower.

Also look at our Portfolio Overview, which is a table of all our current portfolio holdings with key information about each one. The last column in this table shows our current opinion on each: BUY, HOLD or SELL.
Anything rated BUY can be bought today, and those opinions are good until we change them, which can happen in a weekly update, special bulletin or another issue. We don’t give buy ranges or maximum buy prices, but do encourage you to “Buy Smart.” Don’t place market orders outside of trading hours. Always use limit orders when buying a big position or a thinly traded issue. And try to buy on pullbacks when appropriate, like after a stock has made a fast advance.

Also, don’t buy everything on the same day. Having identical entry points for all your holdings incurs a lot of time risk. Try and make your entry points as diverse as you would make any other aspect of your portfolio. Commit your funds slowly. Maybe buy your favorite couple of ideas the day you get your first issue, and then set limit orders for a few others that might execute over the next few weeks or so.

Another thing you’ll want to consider before buying are ex-dividend dates. Each monthly issue includes a two-month dividend calendar after the portfolio updates; it shows all our portfolio companies’ ex-dividend dates and dividend payment dates that fall in the next two months. The ex-dividend dates are in red, and the dividend payments dates are in green. If you’re thinking of buying one of our recommendations, check here first to see if you can get in on the next dividend or if you’ve recently missed the ex-dividend date.

Q: What’s the difference between an ex-dividend date and a dividend payment date?

A: There are actually three important dates in a company’s dividend payment schedule. The Dividend Payment Date is the day the dividend will actually be paid and show up in your brokerage account. The Record Date is a day, usually about four weeks before, when the company pulls the list of current shareholders who are eligible to receive that dividend, called “shareholders of record.” The Ex-Dividend Date is the day, usually two days before the record date, by which you would need to buy the shares in order to be counted as a shareholder of record.

Ex-Dividend dates are shown in red on our Dividend Calendar. If you’re thinking about buying a new position and want to collect its next dividend, make sure you buy before that red date. Dividend payment dates are shown in green, so holders will know when they’re getting their dividend checks.

Q: A lot of these dates say “est.” next to them. What does that mean?

A: That means the company hasn’t yet officially announced its next ex-dividend date or dividend payment date, so we’ve estimated it. Our estimates are based on the company’s dividend payment history. Some companies are more consistent than others, so these dates may change. When dividends are declared (officially announced, usually three to four weeks before the ex-dividend date) we’ll update the calendar as soon as we can.

Getting the Most out of Cabot Dividend Investor

Your Cabot Dividend Investor membership includes monthly issues, weekly email updates, special bulletins when appropriate, and direct access to me with any questions.
Here’s a brief tour of a typical Cabot Dividend Investor issue:

1. This spot on the front page is where you’ll find the “What To Do Now” section in every issue. Here I’ll tell you about any recent ratings changes, and also suggest a few BUY-rated holdings that are at particularly good entry points.

2. This is the Featured Buy of the Month. It’s a longer profile on a BUY-rated investment that is being added to the portfolio or is simply a particularly good buy that month.

3. The Portfolio Overview table is on page three. This table tells you our current opinion on every stock in our portfolio, and lots of other information about them (like their current yield, and when we added them to the portfolio.)

4. After the Portfolio Overview come the Portfolio Updates. These are organized by tier (and then alphabetically) and include our current opinion on each stock and important dividend information, and any news that’s occurred since the last update.

5. Near the end of the issue you’ll find the Dividend Calendar. Use the dividend calendar to decide when to buy a stock or see when you’ll be receiving your dividend checks.

6. We end each issue with an Educational Section. This article explains important income investing concepts, like how dividend reinvestment affects your yield on cost, how to evaluate BDCs, or the tax consequences of holding MLPs.

You’ll also receive weekly email updates from us every Wednesday (except the Wednesday the issue is published), with updates on any portfolio stocks that have news since the last update. We may also send out special bulletins when appropriate.

Current issues, past issues, special bulletins, updates and educational resources are always available on cabotwealth.com, and if you still have questions, you can email me any time at tom@cabotwealth.com and I’ll get back to you as soon as possible.

That’s it, so good luck, and have fun!
Glossary

Stock investing jargon and terminology can sometimes sound like a foreign language. Here are a few terms that are commonly used in the investment methods discussed in Cabot Top Ten Trader.

**Average Up**
Buying more of your best stocks, also called averaging up or pyramiding, is something most great investors through the years have practiced. However, like any tool, it can also be dangerous if misused.

**Bear Market**
A bear market is defined as one in which each successive decline carries the market to new lows. Falling prices and growing pessimism characterize a bear market.

**Benjamin Graham**
Benjamin Graham (1894–1976) was an American economist and investor. He was born in London, graduated from Columbia University at the age of 20, and became Warren Buffett’s teacher in 1950. Graham is the author of *The Intelligent Investor*, a seminal book on value investing that Warren Buffett called “by far the best book on investing ever written.” Buffett was just one of Graham’s disciples. Graham also taught or influenced Mario Gabelli, John Neff, Michael Price and John Bogle.

**Bond Ladder**
Bond ladders are a way of creating your own adjustable-rate income stream, by buying a series of bonds or bond funds with staggered maturity dates. Then, as each security matures, you reinvest the proceeds in a new security at the top of ladder, which becomes your new longest-dated security. If interest rates are rising, the new investments will have higher coupon rates than the investments rolling off the bottom of the ladder, and your yield will gradually rise.

**Bull Market**
A bull market is defined as one in which each successive advance of the primary trend peaks higher than the one preceding it. A bull market is characterized by rising prices and growing optimism.

**Call Options**
Call options give the buyer the right to buy 100 shares at a fixed price (strike price) before a specified date (expiration date). Likewise, the seller (writer) of a call option is obligated to sell the stock at the strike price if the option is exercised.

**Dividend**
A dividend is a bonus. An extra. It’s a portion of earnings that the company pays to investors on a quarterly or yearly basis.
Dividend Reinvestment Plans
Dividend reinvestment plans, otherwise known as “DRIPs”, are a way for income investors to build long-lasting wealth. Offered by some dividend stocks, dividend reinvestment plans allow you to have your quarterly dividend payments allocated toward buying more shares (or fractions of shares) of that stock instead of being paid directly to you in the form of a check. Thus, the amount of shares you own in a given stock automatically expands every quarter when you enroll in a DRIP, so long as that company keeps paying a dividend.

Double Bottom Chart
A chart pattern used in technical stock analysis to describe the fall in price of a stock or index, followed by a rebound, then another drop to a level that’s roughly similar to the original drop, and finally another rebound. Consequently, the double bottom chart pattern resembles the letter “W”. This “W” pattern forms when prices register two distinct lows on a chart. However, the definition of a true double bottom is only achieved when prices rise above the high end of the point that formed the secondary low.

Emerging Markets
Emerging markets are economies whose gross domestic product (GDP) is growing at a much faster rate than more developed markets such as the U.S., Germany and Japan. Consequently, the stocks in those countries often grow at a faster clip than the average stock in a more mature market.

ETFs
An exchange-traded fund--or ETF, for short--is an investment fund that trades on a public stock exchange just like a stock. But unlike individual stocks, ETFs hold dozens and even hundreds of stocks, commodities or bonds, so you get the safety of diversification. In that way, they’re like mutual funds.

Growth Investing
Growth Investing involves a greater degree of volatility than dividend investing or even value investing. But it also has the potential for much bigger rewards. Growth investing involves investing in fast-growing companies that are typically less established than blue-chip companies such as General Electric (GE), Caterpillar (CAT) and Exxon (XOM). Those global behemoths were once growth stocks themselves, but their period of rapid growth is behind them. The best growth stocks are smaller companies whose best is ahead of them.

Income Investing
Income investors buy an investment, and that investment continues to reward them with cash just for that one-time purchase. Of course, there’s a little more to it than that, but the general idea is that income investors are devoted to finding top-quality investments that generate steady and secure cash flow with minimal risk.

Micro Cap Stocks
Micro cap stocks are publicly traded companies with market capitalizations of less than $300 million but greater than $50 million. Like small cap stocks, micro cap stocks have the potential to net very high returns, but because of their even smaller size, micro caps carry even greater risk than small caps.
Mid Cap Stocks
Mid cap stocks are middle-sized publicly traded companies: larger than small cap stocks but smaller than large cap stocks. Mid cap stocks have a market capitalization between $2 billion and $10 billion. Mid caps aren’t as risky as small cap stocks, but aren’t as “safe” as large cap stocks. However, the advantage they have over many of the biggest large caps stocks is that their greatest period of growth is often ahead of them.

Net Current Asset Value
One of Benjamin Graham’s earliest analyses, created and tested 75 years ago, is the Net Current Asset Value (NCAV) approach. The objective of the NCAV formula is to find the minimum value a company would fetch if it was liquidated. The formula is:

Net Current Asset Value (NCAV) = cash and short-term investments + (0.75 * accounts receivable) + (0.5 * inventory) – total liabilities – preferred stock

Small Cap Stocks
Investing in small cap stocks is a good way to earn huge returns. The smaller companies often have the most potential for growth. They also carry plenty of risk for investors. Anytime you buy shares of a small, little-known company, there are a bevy of unknowns. Some small cap stocks are clinical-stage biotechs whose drugs have yet to be approved for commercial use. Others are chipmakers or cloud-computing companies that have plenty of promise but have been simply misunderstood by the market.

Trading Volume
Trading volume reflects the overall activity of the market, indicating the sheer amount of buying and selling of securities. Next to price, it is one of the most closely watched indicators.
About the Expert

Tom Hutchinson is the Chief Analyst of *Cabot Dividend Investor*, *Cabot Income Advisor* and *Cabot Retirement Club*. He is a Wall Street veteran with extensive experience in multiple areas within the financial world. His experience includes specialized work in mortgage banking, commodity trading and as a financial advisor at several of the nation’s largest investment banks.

For more than a decade Tom created and actively managed investment portfolios for private investors, corporate clients, pension plans and 401Ks. He has a long track record of successfully building wealth as well as providing a high income while maintaining and growing principal. With *Cabot Dividend Investor*, Tom combines a scientific, quantitative approach to stock analysis with the practical, personal and honest advice that have characterized Cabot’s services since 1970.

About Cabot Wealth Network

Cabot Wealth Network, established in 1970, is a trusted independent source of advice for individuals striving to take control of their investments and find the best stocks. Its 20 investment advisory services and annual Summit event deliver high-quality advice to more than 200,000 individual investors and investment professionals in 141 countries. Headquartered in historic Salem, Mass., in a converted 1934 public library Cabot Wealth employees take great pride in providing intelligent investment advice and timely, personal service without the hype and fabricated claims. Cabot is a member of the American Association of Individual Investors, Better Business Bureau, Specialized Information Publishers Association, and the Salem Chamber of Commerce.