

Valuing Stocks Based on Their Dividend



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The subject of valuing stocks by their dividend is discussed in the June *AAI Journal*, which was posted to our website yesterday. Specifically, *Computerized Investing* editor Jaclyn McClellan takes an **in-depth look at Geraldine Weiss' approach**. I'm going to extend the conversation by discussing Weiss' and other dividend valuation strategies.

Weiss used a relative valuation approach. Using 10 years of dividend data—20 years when possible—she plotted a stock's yields to identify its dividend cycle. Doing so alerted her to when yields were high on a historical basis (implying a low valuation) and when yields were low on a historical basis (implying a high valuation). She determined when to buy and sell based on this information. Specifically, she targeted stocks trading within 10% of their historical high yields and sold stocks trading within 10% of their historical low yields.



Those of you who incorporate technical analysis will be familiar with this type of strategy. It is akin to using a stock's price range or channel. For both relative yield and technical analysis strategies, decisions about the attractiveness of the stock are based on how investors have historically reacted to the stock's price and valuation movement.

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- **Calculating Intrinsic Value with the Dividend Growth Model** - Specific instructions to how to use the dividend discount model to calculate a stock's value.
- **Weiss Blue Chip Dividend Yield Screen** - This AAll stock screen identifies stocks based on Geraldine Weiss' approach.

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Highlights from the *AAll Journal*

- **Uses and Misuses of Ben Graham-Style Investing** - How to properly use and how to avoid making common mistakes with Ben Graham's deep value approach.
- **Graham Stocks With a Low Price Relative to Net Current Assets** - 25 companies with cheap valuations that past the latest First Cut.

AAll Sentiment Survey

Bullish sentiment rebounded strongly from last week's extraordinarily low reading, but still remains well below its historical average. At the same time, neutral sentiment remains at an unusually high level despite falling significantly this week. **More about this week's results.**

AAll Asset Allocation Survey

Allocations to fixed income (bonds and bond funds) increased for the ninth time in the past 10 months. The rise occurred as equity allocations among surveyed AAll members declined after setting a new 2016 high in April. **More about the latest results.**

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The Week Ahead

Only three members of the S&P 500 will report earnings: Brown-Forman Corporation (**BF.B**) on Wednesday and both J.M. Smucker Co. (**SJM**) and H&R Block (**HRB**) on Thursday.

The week's first economic report will be revised first-quarter productivity, which will be released on Tuesday. Wednesday will feature the Labor Department's Job Openings and Labor Turnover Survey (JOLTS) for April. The University of Michigan's preliminary June consumer sentiment survey will be released on Friday.

Just two Federal Reserve officials will make public appearances: Boston president Eric Rosengren and Federal Reserve Chair Janet Yellen on Monday.

The Treasury Department will auction \$24 billion of three-year notes on Tuesday, \$20 billion of 10-year notes on Wednesday, and \$12 billion of 30-year bonds on Thursday.

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