Featured Stock in May's Safest Dividend Yields Model Portfolio

Nine new stocks make our Safest Dividend Yields Model Portfolio this month, which was made available to members on May 20, 2021.

Recap from April's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+4.6%) outperformed the S&P 500 (-0.1%) by 4.7% from April 22, 2021, through May 18, 2021. On a total return basis, the Model Portfolio (+4.8%) outperformed the S&P 500 (-0.1%) by 4.9% over the same time. The best performing large cap stock was up 20% and the best performing small cap stock was up 8%. Overall, 14 out of the 18 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from April 22, 2021, through May 18, 2021.

More reliable & proprietary fundamental data, proven in The Journal of Financial Economics, drives our research. Our proprietary Robo-Analyst technology[1] scales our forensic accounting expertise (featured in Barron's) across thousands of stocks[2] to produce an unrivaled database of fundamental data.

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 May: Artisan Partners Asset Management (APAM: $51/share)

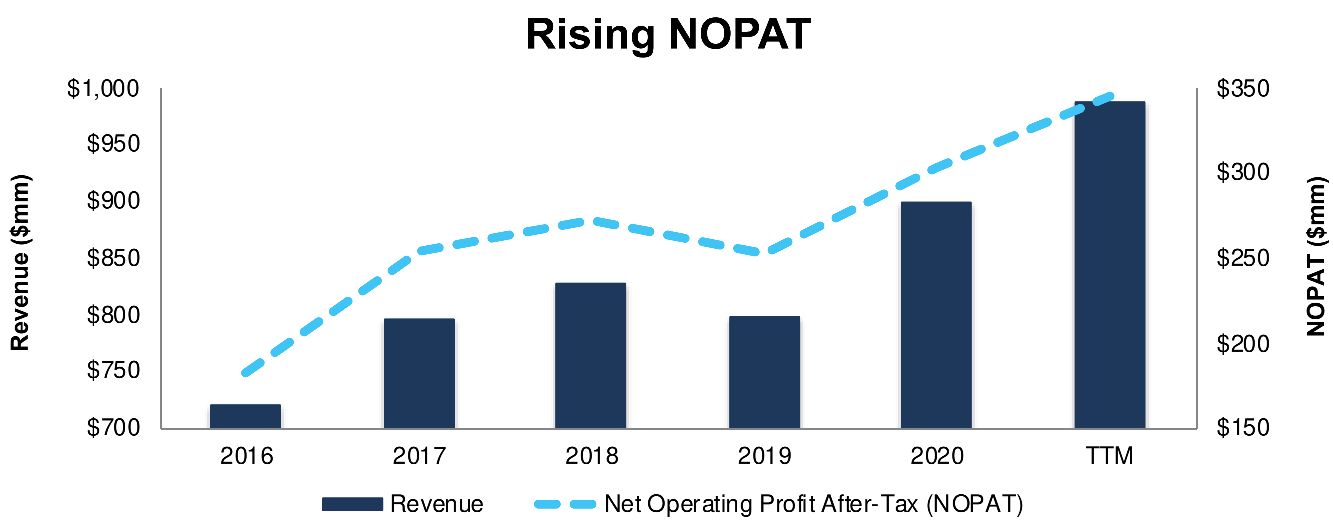
Artisan Partners Asset Management (APAM) is the featured stock in May's Safest Dividend Yields Model Portfolio.

Artisan Partners has grown revenue by 6% compounded annually and net operating profit after-tax (NOPAT) by 14% compounded annually over the past four years. Artisan Partners' NOPAT margin increased from 25% in 2016 to 35% over the trailing-twelve-months (TTM) while its return on invested capital (ROIC) fell from 169% to 121% over the same time.

The firm's economic earnings, or the true cash flows of the business, nearly doubled from $175 million in 2016 to $328 million over the TTM.

[1] Harvard Business School features our research automation technology in the case Disrupting Fundamental Analysis with Robo-Analysts.
[2] See how our models overcome flaws in Bloomberg and Capital IQ's (SPGI) analytics in the detailed appendix of this paper.

Figure 1: Artisan Partners' Revenue & NOPAT Since 2016



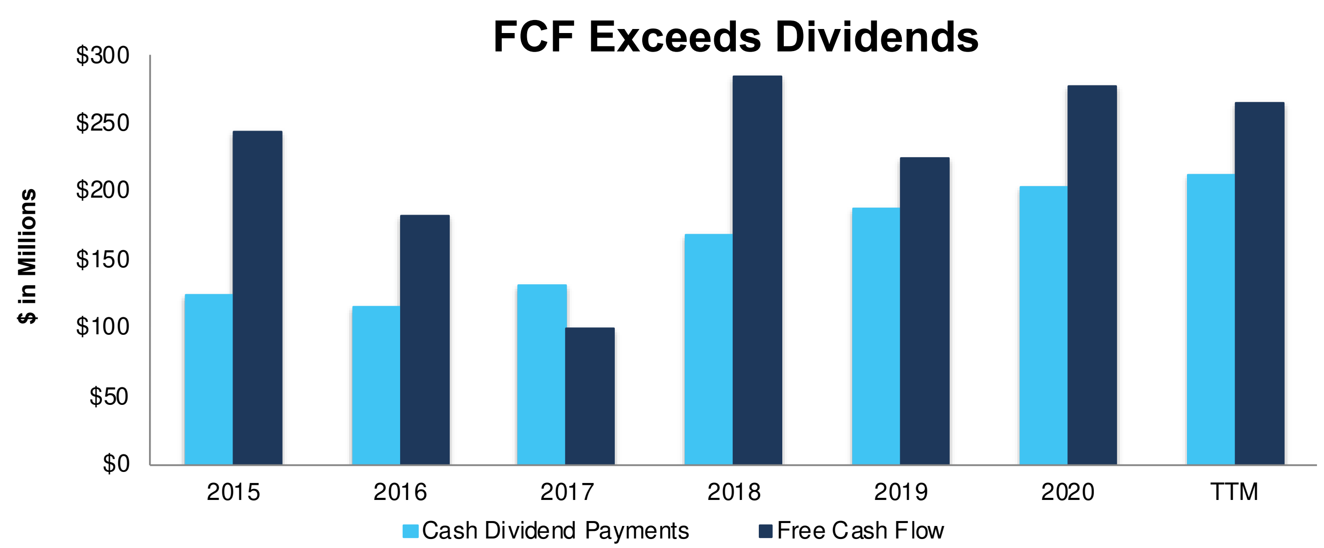
Sources: New Constructs, LLC and company filings

Cash Flow Supports Dividend Payments

Artisan Partners has paid a dividend each year since 2013, and its dividend in 2020 equaled $3.39/share. The current quarterly dividend, when annualized provides a 6.9% dividend yield.

Since 2015, Artisan Partners' cumulative FCF easily covers its annual dividend payments. Over the past six years, Artisan Partners generated $1.3 billion (32% of current market cap) in FCF while paying $929 million in dividends, per Figure 2.

Figure 2: Artisan Partners' FCF vs. Dividends Since 2015



Sources: New Constructs, LLC and company filings

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

APAM Is Undervalued

At its current price of $51/share, APAM has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects Artisan Partners' NOPAT to permanently decline by 20%. This expectation seems overly pessimistic given that Artisan Partners has grown NOPAT by 14% compounded annually over the past four years and from -$258 million in 2013 (earliest year of our model) to $346 million over the TTM.

Even if Artisan Partners' NOPAT margin falls to 24% (vs 35% TTM) and the firm grows NOPAT by just 2% compounded annually over the next decade, the stock is worth $66/share today – a 29% upside. See the math behind this reverse DCF scenario.

Critical Details Found in Financial Filings by Our Robo-Analyst Technology

Fact: we provide superior fundamental data and earnings models – unrivaled in the world.
Proof: Core Earnings: New Data & Evidence, forthcoming in The Journal of Financial Economics.

Below are specifics on the adjustments we make based on Robo-Analyst findings in Artisan Partners' 10-K and 10-Qs:

Income Statement: we made $168 million in adjustments with a net effect of removing $114 million in non-operating expenses (13% of revenue). See all adjustments made to Artisan Partners' income statement here.

Balance Sheet: we made $681 million in adjustments to calculate invested capital with a net decrease of $673 million. The most notable adjustment was $482 million (49% of reported net assets) in deferred tax assets. See all adjustments to Artisan Partners' balance sheet here.

Valuation: we made $707 million in adjustments with a net effect of decreasing shareholder value by $185 million. Apart from total debt, one of the most notable adjustments to shareholder value was $261 million in excess cash. This adjustment represents 6% of Artisan Partners' market value. See all adjustments to Artisan Partners' valuation here.

This article originally published on May 26, 2021.

Disclosure: David Trainer, Kyle Guske II, Alex Sword, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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