



Featured Stock in July's Safest Dividend Yields Model Portfolio

Four new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on July 21, 2022.

Recap from June's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+4.4%) outperformed the S&P 500 (+3.8%) by 0.6% from June 23, 2022 through July 19, 2022. On a total return basis, the Model Portfolio (+4.8%) outperformed the S&P 500 (+3.8%) by 1.0% over the same time. The best performing large cap stock was up 12% and the best performing small cap stock was up 14%. Overall, nine out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from June 23, 2022 through July 19, 2022.

Buy the Safest Dividend Yields Model Portfolio

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)¹ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

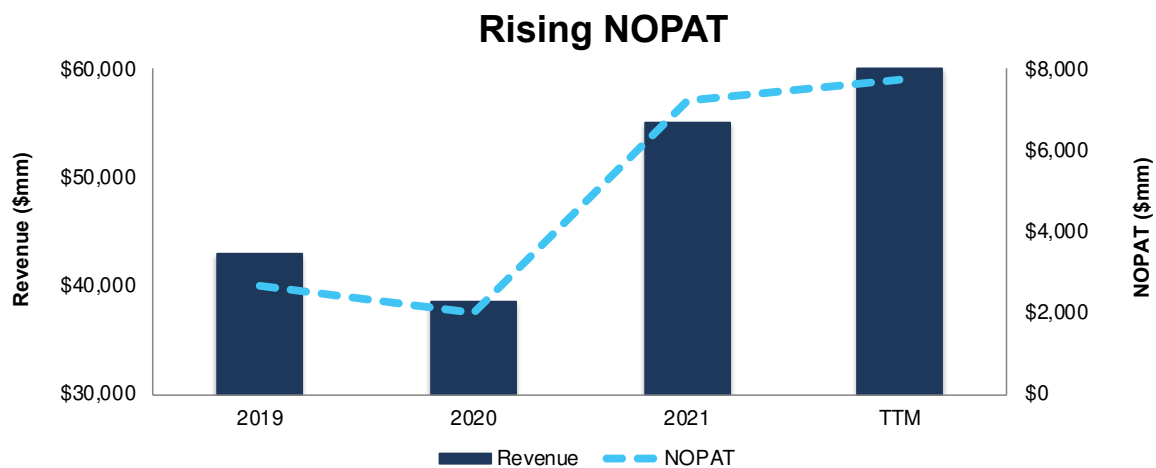
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong free cash flow ([FCF](#)) provide higher quality and safer dividend yields because 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 July: Dow Inc (DOW: \$52/share)

Dow Inc (DOW) is the featured stock in July's Safest Dividend Yields Model Portfolio.

Since its [spin-off](#) from Dupont De Nemours Inc. (DD) in 2019, Dow has grown revenue by 13% compounded annually and net operating profit after-tax ([NOPAT](#)) by 65% compounded annually. Dow's NOPAT margin rose from 6% in 2019 to 13% over the trailing twelve months (TTM), while [invested capital turns](#) improved from 0.7 to 1.1 over the same time. Rising NOPAT margins and invested capital turns drive the company's return on invested capital ([ROIC](#)) from 4% in 2019 to 14% TTM.

Figure 1: Dow's Revenue and NOPAT Since 2019



Sources: New Constructs, LLC and company filings

¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

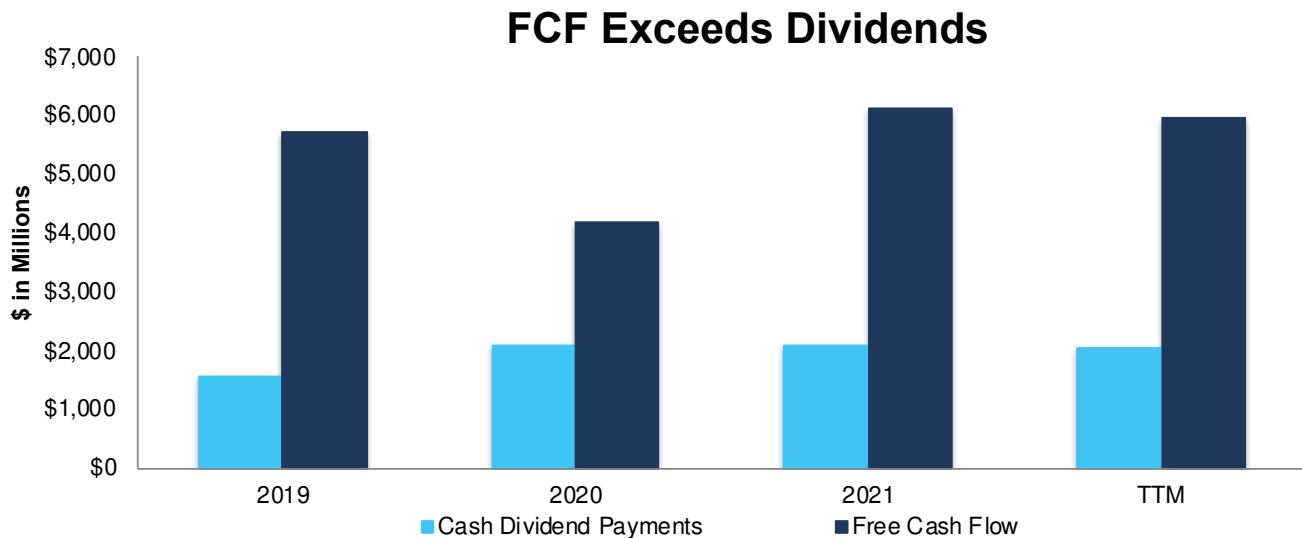


Free Cash Flow Supports Regular Dividend Payments

Dow has increased its regular dividend from \$2.10/share in 2019 to \$2.80/share in 2021. The current quarterly dividend, when annualized, provides a 5.5% dividend yield.

Dow’s free cash flow (FCF) comfortably exceeds its regular dividend payments. From 2019 to 2021, Dow generated \$16.0 billion (43% of current market cap) in FCF while paying \$5.7 billion in dividends. Over the TTM, Dow has generated \$6 billion in FCF and paid \$2 billion in dividends. See Figure 2.

Figure 2: Dow’s FCF vs. Regular Dividends Since 2019



Sources: New Constructs, LLC and company filings

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

DOW Is Undervalued

At its current price of \$52/share, DOW has a price-to-economic book value (PEBV) ratio of 0.3. This ratio means the market expects Dow’s NOPAT to permanently decline by 70%. This expectation seems overly pessimistic given that Dow grew NOPAT by 65% compounded annually since 2019.

Even if Dow’s NOPAT margin falls to 9% (vs. 13% over the TTM) and the company’s NOPAT falls 5% compounded annually over the next decade, the stock would be worth \$75+/share today – a 44% upside. [See the math behind this reverse DCF scenario.](#) Should the company’s NOPAT not fall at such a steep rate, or even grow from current levels, the stock has even more upside.

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

Below are specifics on the adjustments we make based on Robo-Analyst findings in Dow’s 10-K and 10-Qs:

Income Statement: we made \$3.1 billion in adjustments with a net effect of removing \$930 million in [non-operating expenses](#) (2% of revenue). Clients can see all adjustments made to Dow’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$16.6 billion in adjustments to calculate invested capital with a net increase of \$11.3 billion. The most notable adjustment was \$9.0 billion (18% of reported net assets) in [other comprehensive income](#). See all adjustments made to Dow’s balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$24.1 billion in adjustments with a net effect of decreasing shareholder value by \$19.8 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$6.1 billion in [underfunded pensions](#). This adjustment represents 16% of Dow’s market value. See all adjustments to Dow’s valuation on the GAAP Reconciliation tab on the Ratings page on our website.



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Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini 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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