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Buying Into Dividend Heavyweights

If you look at value stocks that are historically known for their lucrative dividend yield and proclivity to increase the amount paid out through over time, then a number of relatively certain conclusions can be made. Through these conclusions a simple, yet powerful buying and selling strategy can be devised. Thus, making your investing more mechanical in nature and less whimsical (usually a good thing).

Let’s start by gaining a point of reference. Altria (MO), which is the American company of Phillip Morris is a classic “dividend aristocrat” value stock. It’s a company with a stable business model, little competition and operates in an environment that isn’t fueled by fast growth. As a result, MO’s stock has some certainty. First, we know that the company is not going to double or triple in value in the next month or even year. The company will maintain its value because it’s business is established and stable, but it’s not reasonable to think that its sales are going to dramatically change from one period to another.

Secondly, because it has such stability in its business, the company is sheltered from steep sell-offs in the market. If you were to look at the tumultuous period in the market in late 2008 and 2009, you will notice that MO’s price drop compared to the S&P 500 was less. The stock also has a beta of .41, which indicates that the historic volatility is less than half of what has been experienced in the market.

Given the conditions outlined above, a very advantageous situation presents itself. Stocks that fit this mold can be monitored for sell-offs, which typically become pure buying opportunities. The fact that they harbor such stability opens up a window for an investor to take advantage of future stock price appreciation and higher dividend yields based on the purchase price.

Being that these stocks are more range bound, the 52-week high and low prices are often good indicators of where you should start in looking for an entry point. If nothing is radically changing at the company, then its market momentum that’s carrying the stock price.

Looking for an 80% sell-off from a 52 week high is a good point in which to start considering a price to begin a position. When considering this drop, make sure to note whether the 52 week high was more of an anomaly than a continuation of a trend. By this I mean you may want to revise the 52 week high price, if the stock escalated in value for a brief moment, but really never held the price over a period of a day or two.

TheMarketCapitalist.com Portfolio Selection

Company	Ticker	Buy Date	Buy Price	Last Price	Performance	Dividend %	Buy Target
SeaDrill Limited	SDRL	9/7/2011	30.25	36.99	22.28%	8.10%	Up to 38
Weatherford International Ltd.	WFT	9/7/2011	16.31	10.86	-33.42%	0.00%	Up to 26
American Tower Corp.	AMT	9/7/2011	53.75	74.98	39.50%	0.00%	Up to 68
PowerShares Water Resources	PHO	9/7/2011	16.42	20.23	23.20%	0.64%	Up to 22
Cisco Systems, Inc.	CSCO	9/7/2011	15.42	19.48	26.33%	1.20%	Up to 21
Deere & Company	DE	9/7/2011	78.97	84.73	7.29%	1.90%	Up to 92
Chesapeak Granite Walsh Trust	CHKR	2/3/2011	25.19	17.10	-32.12%	9.30%	Up to 26

Start Thinking: Making Money Off Pot-Heads

If the legalization of marijuana takes hold in the U.S., then don't forget that it's an investment opportunity. Forget the social ramifications for a moment and think about getting ahead off of those that are destined to dope-up.

If the thought of investing in something that you don't agree with or that puts you off rubs you the wrong way, I'll tell you my own take. I have invested multiple times in Altria (MO) over the years…You'd probably know it better by the name of Phillip Morris. The company makes cigarettes galore. I don't smoke, I don't like the smell of smoke and I think it's a horrible idea to smoke. Yet, I don't get all that bothered by investing in the company. I suppose I don't see it as something that's morally abhorrent. Just something that's not the best idea.

I don't think marijuana should be legalized, but if it is, I promise you my stance will not hold me back from positioning myself to make money from companies in the industry.

The potential for legalization of marijuana is a classic event driven investment strategy. Though we don't know if it will happen, politically throughout a handful of states in the last election, you can see some shift in where the general public stands on the issue. If momentum continues to build, then a change in federal law might stand a chance. Since federal law trumps the states, this is where the change really matters.

I'm not providing any stock recommendations, but I will say that it's important to keep such event driven investment ideas at the forefront of your mind. If such events occur, the anticipation factor will lead to a lot of movement within companies providing such products. I can see this being a classic bubble in the making; wild speculation, overvaluation and then a significant correction.

In short, marijuana as an emerging trend for investing might sound really strange (to me it does), yet it might be a reality in the next decade or less. Stay alert and be watchful. Getting in early on an emerging trend spells investing success.

Personal Finance: Indications and Perceptions of Wealth

If you think that the type of house one lives in or car one drives is a good indicator of their financial wealth, then you likely have an underdeveloped understanding of personal finance matters. Your ability to perceive wealth matters to your future because if your perception is not congruent with reality, then the likelihood you will stumble down a flawed financial path will be greater that it otherwise would be.

Why aren't homes and cars good indicators of wealth? To answer this question, you must understand the nature of a house (primary residence) or car. Housing and cars serve a basic need in life; shelter and transportation. To get through life and succeed, all of us need both, but the threshold is pretty low. For example, an old car that has a bad paint job and a number of dents is a good source of transportation, if it doesn't mechanically fail. Most people don't opt for this baseline level of automobile transportation. The point is that after a certain minimum is reached, housing and cars become more of a luxury than a utility.

Luxury items are a liability, while utility items are an asset. Living in a 4,000 square foot home and owing a Mercedes are big liabilities. These items become even bigger liabilities when they are financed through debt. Debt must be serviced regularly, which normally means monthly payments. Monthly payments reduce ones disposable income available, which translates into fewer choices when either buying goods/services and/or investing.

Cars depreciate over time, especially when new, and need routine maintenance, gas to run and insurance coverage. Historically homes do not depreciate in value, but do require routine maintenance, and also require insurance. These facts are not items that lead to greater wealth, but a deterioration of wealth.

Ultimately, what people are aiming to gauge through the car one drives or house one lives in is the standard of living a person can secure given their current free cash flow. The more relevant question in terms of gauging wealth via an automobile and/or house is how much of their monthly free cash flow is committed to serving debt and other regular maintenance on a car or house.

What lies beneath the surface is hard to see and know. This is the problem when gauging wealth based on an automobile and house. Both do not generate wealth, though both are looked at in terms of a measure of wealth. Understanding this connection can go a long ways in terms of clarifying your personal finance thought process.