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The High Income Factor

Unlocking Powerful Strategies to Achieve Superior Returns

Tom Hutchinson, Editor

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Three Dividend Investments to Help You Build Your Fortune

"Would you tell me, please, which way I ought to go from here?" (asked Alice).

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where —" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"— so long as I get *somewhere*," Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "if you only walk long enough."

— *Alice's Adventures in Wonderland*

Investors can empathize with Alice's predicament. We find ourselves in an environment that offers a more potent dose of uncertainty and confusion than usual. Key economic indicators we rely on for clues to the future direction of the stock and bond markets are giving out contradictory signals.

In this environment, I can't help thinking about an old friend of mine from my youth. This woman went on to become a famous actress and comedienne. Everybody knows people in life who go out and try to make it as actors or become famous, but how many actually make it happen? Somehow this woman pulled it off. She starred in movies, TV shows, had HBO specials and the like.

Friends and family members ask me how she did it. They'd ask if she was incredibly talented or if she knew somebody. The answer on both counts is no. She was disciplined and I'm sure there was some luck involved. But there was one main thing about her that sticks out in my mind as being more responsible for her success than any other.

Everything she did was geared toward the ultimate direction of becoming a famous actor. When she was in her early 20s, the complete focus of her life was going to comedy clubs every night and getting to know people in the business; she was single-mindedly obsessed with advancing in her profession. It didn't matter that things seemed gloomy. She wasn't bothered by the long odds of actually making it.

Her life in the near-term stunk. Her apartment was a disgrace. She took horrible job after horrible job to pay the rent. There was no boyfriend. But she was unusual for a woman of her age because she wasn't concerned with improving her situation in the short term. All that mattered was staying on the road that could lead to her ultimate destination.

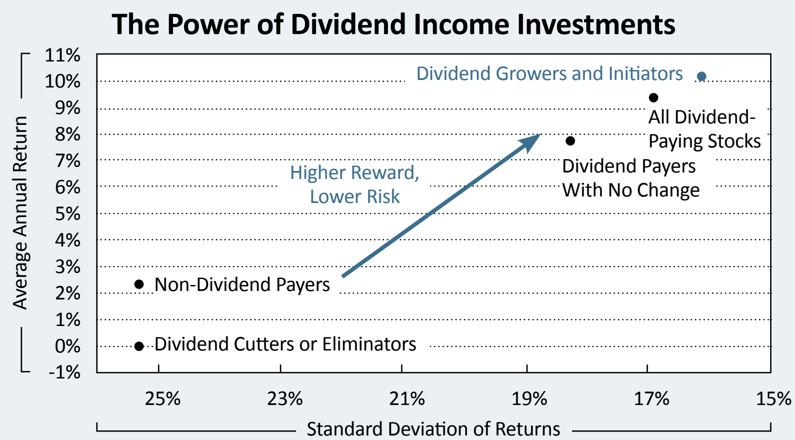
> "Confusing junctures in the market like the one we find ourselves at today are where many investors get knocked off course."

Without such a focus, she would never have made it. She was the antithesis of Alice in the example above.

The Road to Wealth

We can all draw a lesson from my old friend. That is, we always have to keep our eye on the ultimate prize and not get thrown off course by everyday life. If we want to build wealth over time,

Chart 1



Dividend payers have consistently outperformed non-dividend payers as well as the S&P 500 in bull markets, bear markets, and sideways markets.

SOURCE: Ned Davis Research

the next leg of the market in 2014 isn't our main concern. We should be positioning ourselves in a way that will accomplish our end over time.

Confusing junctures in the market like the one we find ourselves at today are where many investors get knocked off course, choosing the road to short-term safety and following the latest headlines. With that in mind, this is a particularly important time to renew our focus and make sure we take the road to our ultimate destination.

If we don't identify the correct road, it is unlikely we will get to our ultimate destination by accident. The focus of this month's issue is the road to building wealth over time.

There is a technique that has a proven track record of building wealth: dividend reinvestment. The great news is that the results from this very simple strategy are absolutely astonishing. And market timing has very little impact.

In this issue of High Income Factor, I will identify three investments that can potentially grow your wealth over time by amounts that don't even seem possible. But first, let's take a closer look at the timeless strategy I just mentioned.

The Proven Power of Dividends

Over the years, I've tried just about every investing technique and tracked every sort of market indicator. I've studies charts and monitored "convergence/divergence" lines (a technical trading signal), and I've compared price-to-earnings growth (PEG) ratios and studied market sector rotations. All these methods have some value and I continue to use them.

But not one of these methods tells the whole story. They are all just part of a puzzle. I've never been a fan of overemphasizing any one of these methods. I've always dismissed such over-reliance as gimmicky.

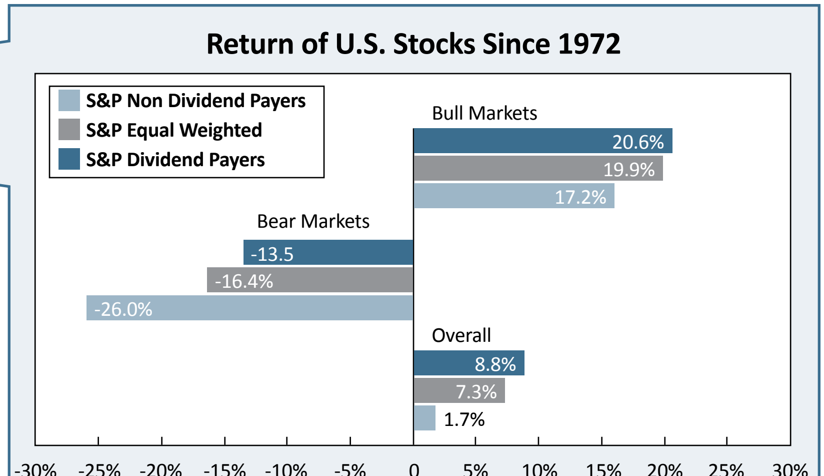
But there is one type of investing that I do put above all else — dividend investing. The incredible power of dividends to provide income and grow wealth over time made me a successful investor. It changed my life.

Whether you're new to investing or a savvy veteran, it is worth taking a look at the amazing track record of dividends.

Throughout stock market history, dividends have been a huge part of investing. But few realize that the performance of dividend-paying stocks has driven overall market performance.

In fact, between 1930 and 2013, dividends accounted for 42 percent of the stock market's return. But that's just the dividends themselves. Dividend-paying stocks have blown away the returns of non-dividend-paying stocks. Since 1973, dividend-paying stocks have provided an average annual return of more than 9 percent compared to just over 2 percent for non-dividend payers — more than four times the return.

Chart 2



This chart shows the return of U.S. stocks since 1972 in bull markets, of which there were 15 in that timeframe, and bear markets, of which there were 14. Non-dividend payers lose more than dividend stocks in bear markets, and make less when the bulls are running.

SOURCE: Ned Davis Research

The remarkable thing is that dividend stocks have not only delivered such superior returns but they have done so with significantly less risk. As Charts 1 and 2 illustrate, these dividend payers have provided significantly less variation in returns over the decades.

Why are dividend stocks so much better? There are really two basic reasons.

1. The money. As mentioned above, the dividends themselves have historically accounted for about 42 percent of the market returns. But that's just the average. Typically, in flat or down markets, the dividend payers' contribution to overall market returns is greater. Chart 3 illustrates the dividend contribution by decade.

Dividends play a key role in bear markets. For one thing, the payout offsets some of the downside. In addition, dividend payers are typically the bigger and more established companies, which can weather a downturn better than most others. Moreover, the payout and better performance of these companies often keep investors engaged through turbulent markets, which means they are well positioned to capture all the upside when markets recover.

2. The company: It's not just the payout. Dividends are actually a great indicator of the very best companies to own. Strong dividend payers are predominantly large and mature businesses with proven market niches and competitive advantages. Such characteristics enable them to generate consistent and predictable revenue streams from which they are able to make regular and often growing payouts. According to Nuveen, an investment management company, between 1972 and 2011, the average return on equity (a key measure of profitability) for dividend payers was 13.59 percent compared to just 1.91 percent for non-dividend payers.

Determining the Best Dividend Stocks

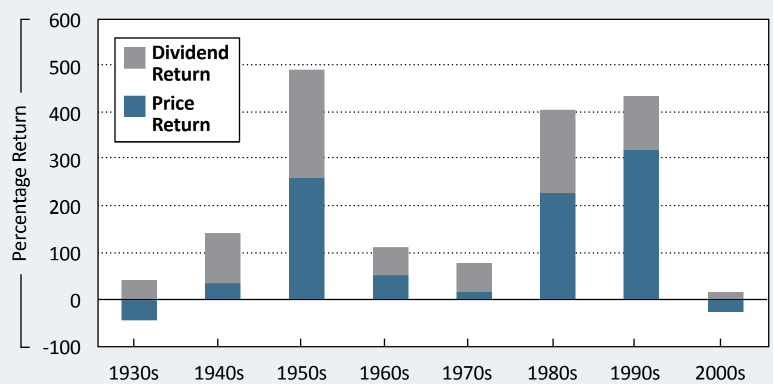
So far, we've lumped all dividend stocks together. But not all dividends are the same. There is a wide variance in the historical performance of different kinds of dividend-paying stocks. For example, high-yielding stocks have performed better than lower-yielding ones. (See Chart 4.)

But that said, any stock that pays a dividend isn't necessarily a good investment. There are some dogs out there. Take, for example, bank stocks before the financial crisis. Many of the big banks had been some of the best dividend payers on the market. But their poor investments caused the financial crisis, so they slashed their dividends, and prices plummeted.

While a high dividend yield can be eye-catching, it can also be deceiving. The yield may be high only because the stock price has fallen, reflecting poor fundamentals such as falling earnings, poor management, and high debt.

Chart 3

Dividend Contribution to Overall Market Returns



This chart shows the impact dividends had on overall stock market returns each decade since the 1930s. If you (intentionally or otherwise) avoided dividends, you would've missed out on much of the gains.

▸ About Tom Hutchinson

I've worked in finance my entire career, from the back office of a Wall Street firm to the floor of the New York Mercantile Exchange learning how markets work. Eventually, I became a financial adviser where I met with thousands of investors and managed the portfolios of hundreds over the course of about 15 years. I left my career as a financial adviser, writing for The Motley Fool as well as StreetAuthority LLC, researching companies, industries, and markets. In The High Income Factor, I can bring you the full benefit of my years of investing experience.

Choosing a stock starts with a thorough analysis of the individual company, its industry, and the outside environment. But, aside from the standard analysis undertaken when considering any stock (i.e., earning prospects, balance sheet, management, etc.) there are some other things to consider when analyzing a company's dividend.

- **Payout ratio:** The payout ratio represents the percentage of earnings paid out in dividends, calculated as earnings per share/dividends per share. This number tells us if the company's earnings can support the current dividend and if there is room for growth. However, payout ratios are relative. Certain industries, such as utilities and telecommunications, tend to pay out a higher percentage of earnings in dividends while other industries typically pay out a lower percentage. A payout ratio should be measured against the industry average, its historical average, and whether it has been rising or falling.

"There is a fantastic way to turbo-charge the returns of income stocks. It's called dividend reinvestment."

- **Earnings growth:** Earnings are the mother's milk of any stock. It's what fuels the dividend and the stock price. It's key that a company has exhibited a consistent track record of growing earnings. But even more importantly, there needs to be a strong reason to believe the company can continue to increase earnings in the future.

A company needs to have a strong niche in a business that can grow. Ideally, a business should be well positioned ahead of a powerful and undeniable trend like a technological innovation, the rising demand for healthcare, or the energy boom.

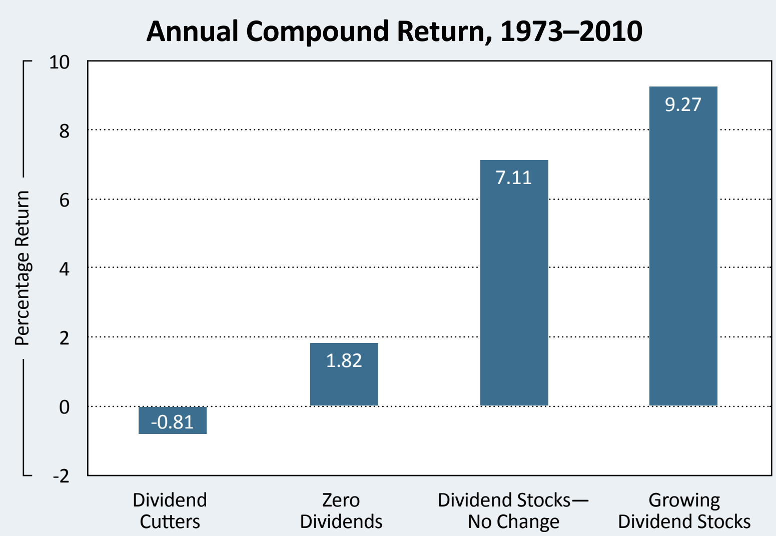
- **Dividend growth:** In the current environment, dividend growth is perhaps the most important attribute of a dividend stock. A growing payout offers the best defense against inflation and rising interest rates. Bonds get clobbered in such an environment because the fixed payout rate becomes worth less as competing investment payouts rise. But growing companies can counter that by offering payouts that increase along with interest rates.

As I mentioned above, stocks that pay growing dividends have outperformed stocks that haven't. Companies that have grown the dividend consistently not only exhibit consistent earnings growth but also reflect their management's commitment to the dividend.

The Dividend Turbo Charger

For investors seeking to grow wealth over time, there is a fantastic way to turbo-charge the returns of income stocks. It's called dividend reinvestment.

Chart 4



The evidence is clear: Companies that pay dividends return more to investors than those that don't on average. The key is sorting through the dividend payers to find the strongest, most reliable investments to own.

Reinvesting dividends has a compounding effect on an investment that can deliver jaw-dropping returns over time. Reinvested dividends buy more shares of stock. More shares of stock pay still more dividends. And if the dividends grow *and* the stock price appreciates, the returns can be astounding.

The following table is an illustration of the power of dividend reinvesting with dividend growers.

- Let's say you invest in 500 shares of a $40 stock, a $20,000 investment.
- Let's also assume the stock pays a yearly dividend of $2 per share when you buy it (a 5 percent yield) and over the next 10 years the dividend grows by an average of 5 percent per year.
- Let's also assume that the stock price

appreciates 5 percent per year.

Dividend Reinvestment Example

Initial Number of Shares: 500
Initial Price Per Share: $40
Annual Dividend: $2
Dividend Annual Growth Rate: 5%
Stock Price Annual Growth Rate: 5%
Number of Years: 10

RESULTS OF CALCULATION

	Without Dividend Reinvestment	With Dividend Reinvestment
Total Value	$45,784.68	$53,065.95
Number of Shares	500	814.45
Dividends Paid	$13,206.79	$16,936.22
Annualized Return	8.63%	10.25%

With dividends reinvested, your initial $20,000 would have grown to more than $53,000 without one more dollar ever being invested. That's an annualized return of 10.25 percent. To put that in perspective, it's like buying a house for $200,000 that is worth $530,000 10 years later.

In time, the advantage of reinvesting dividends would be even more pronounced. As you can see from the table above, the number of shares would be 814 if the dividends were reinvested compared to 500 without dividend reinvestment. In time, the extra shares will pay more dividends that'll buy even more stock, and any appreciation in the price will have a much more dramatic effect on the position.

While I have focused on wealth building, I should also point out that dividends also offer tremendous advantages to those seeking income. In the above example, not only would the stock have appreciated from $20,000 to $32,577.89, but you would have also received more than $13,000 in income. You would also be getting a 7.75 percent annual yield on your initial investment.

But that's just a theoretical example. Here's how a $20,000 investment made in some well-known stocks 10 years ago (June 3, 2004–June 3, 2014) would have grown with dividends reinvested:

Company	Price
Colgate-Palmolive (CL)	$58,751
Duke Energy (DUK)	$64,497
McDonald's (MCD)	$105,294
Altria (MO)	$120,968
AT&T (T)	$49,291
Dow Chemical (DOW)	$36,402

It's worth noting that these companies aren't particularly celebrated stellar performers like **Apple** (**AAPL**) or **Netflix** (**NFLX**), but rather they are blue-chip household names that you don't risk your shirt owning. They also have some other things in common: They have all consistently grown earnings and dividends, and they all have strong market shares in profitable niches.

Given that market timing is a worry for many, let's look at what would have happened to the same investments made in the same stocks seven years ago instead of 10. Seven years ago would have been June 2007, when stock prices were near the market highs on the cusp of the financial crisis. Let's see how these stocks would have fared with the same $20,000 starting investment:

Company	Price
Colgate-Palmolive (CL)	$49,732
Duke Energy (DUK)	$36,911
McDonald's (MCD)	$50,660
Altria (MO)	$56,701
AT&T (T)	$24,905
Dow Chemical (DOW)	$30,326

So if you purchased these dividend-growers at one of the absolute worst times to invest in the past century, you would still have done fine. In the above example, a $120,000 investment would have grown to $249,237 in seven years for a compound annual growth rate (CAGR) of 11 percent per year.

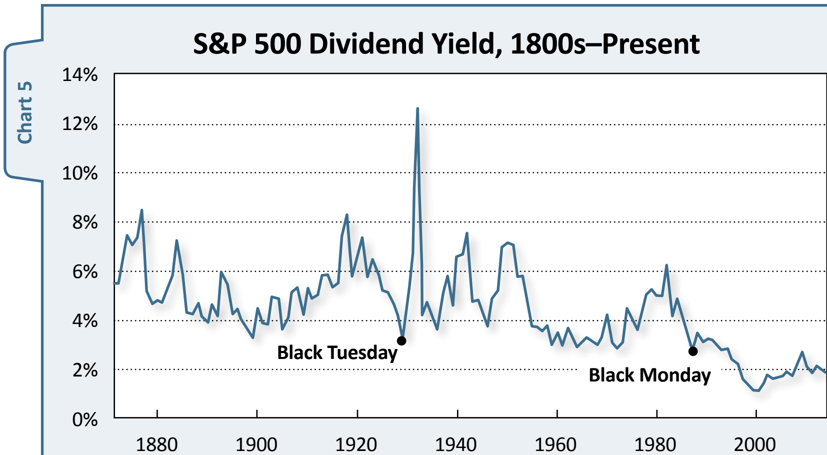
Over the longer term, investments in sound dividend-growing companies will likely pay off even if your timing is awful. If those are the results of investing on the eve of the worst U.S. economic disaster since the Great Depression, what is there to be afraid of now?

The New Emerging Dividend Age

In recent times, investors seem to have lost sight of the power of dividends. Throughout most of the decades of the 20th century, dividend payouts were high because investors demanded it. Dividends were actually the stated reason that most people invested in stocks. But in the go-go days of the '80s and '90s dividends lost their appeal as investors focused on capital appreciation and making the "big kill" in the booming bull market.

From 1880 through mid-2011, the average dividend yield on the S&P 500 amounted to 4.34 percent.

Over the past two decades, the stock market yield has fallen well below the historical averages. As you can see from Chart 5, dividends have fallen off a cliff since the early '80s. The market payout rate fell from 6 percent to below 2 percent today.



This chart shows the dividend yield of the S&P 500 over the past century-plus. We are near a low point (currently at 1.88 percent as of this writing), but there are signs things are changing for the better in this regard.

SOURCE: multpl.com

But things are changing. An increased investor demand for dividends combined with a greater capability of companies to pay higher dividends is creating a perfect storm.

Baby boomers are turning 65 at the rate of 10,000 per day and will continue to do so for the next 15 years. At the same time, these aging boomers can reasonably expect to live another 20 or 30 years. It will be crucial for them to generate an income from savings and grow wealth in order to provide for themselves for all those years.

But while the need to generate strong investment returns has never been greater, there are precious few ways to do it. Traditional safe-haven investments like certificates of deposit (CDs) and savings accounts are paying next to nothing, and bonds don't offer the safety they used to. Interest rates have almost nowhere to go but up, and rising rates cause bond prices to fall and the relative value of the interest they pay to diminish.

This leaves dividend-paying stocks as the best way to generate decent returns. And investors will likely continue to flock to these securities.

At the same time, corporations are in a perfect position to meet this growing demand. Corporate profits have been at all-time record highs and so is the amount of cash on hand at America's companies — almost $2 trillion, according to a recent Federal Reserve estimate. Thomson Reuters estimates that corporations on a global scale have nearly $7 trillion in cash.

Companies have been deploying cash in buybacks and dividends. In 2013, dividend payouts by S&P 500 stocks grew by double digits for the fourth consecutive year and payouts are forecast to grow by double digits in 2014 too. (See Chart 6.)

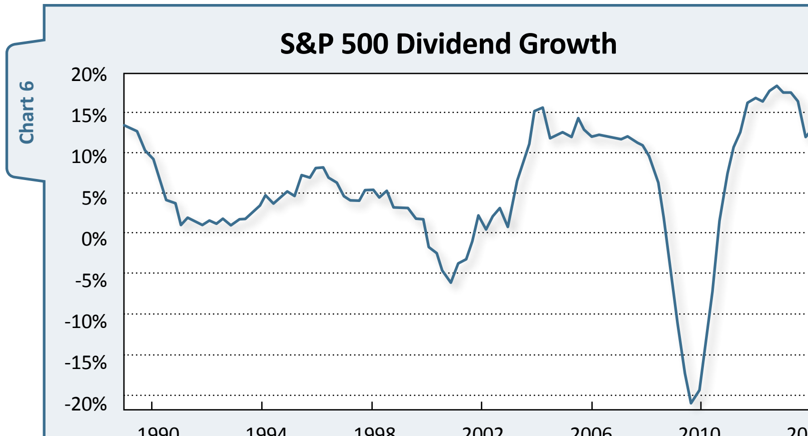
The current year-over-year dividend growth rate for the S&P 500 is 12.82 percent, well above the historical mean of 5.43 percent. But companies may only be getting warmed up. The current dividend payout ratio for the S&P is about 36 percent, well below the historical average of 52 percent. The ratio measures the percentage of profits paid out in dividends (dividends/net income) and is a great gauge of the ability of corporations to raise the dividend.

The demand for dividends is soaring, while the means to satisfy it has never been greater.

3 Wealth Builders for the Next 10 Years

Looking back is easy. Anybody can look at the past and say, "You should have done this or that." It's called "Monday morning quarterbacking." I know I'm guilty of this. Every Monday during football season, I marvel at my ability to correctly make crucial quarterback and coaching decisions for yesterday's game.

Too bad the football coaches don't have the luxury of hindsight. They have to make decisions



This chart shows the dividend growth of the S&P 500 since the late 1980s. After a huge dip following the 2008 financial crisis, investment income has bounced back rapidly to multi-decade highs.

SOURCE: multpl.com

on the field in real time without the benefit of seeing how these judgments play out. They rely on decades of coaching experience and on-field judgments garnered from a career in football. I don't have any of the experience and credentials that they do. That's why these guys are NFL football coaches and I'm just someone who lies around watching football every Sunday.

It would be nice to have the benefit of hindsight when it comes to investing too. Instead, I have to rely on evaluating history, company financials, and the U.S. and global economy, and make judgments about which investments are likely to prosper in the future. I'll share with you my core rationale in trying to find the best investments for the next 10 years, in terms of wealth building through dividend reinvestment.

First, I identify companies with a strong record of growing the dividend. As demonstrated above, such stocks tend to perform best over time. Second, I try to find companies that are a dominant force in their business niche and have a long track record of excellence and strong financials.

But those two criteria are somewhat backward looking. To try and get a handle on the future, I try to single out companies that are positioned to benefit from powerful trends that are likely to assert themselves going forward.

These trends are key. Predicting the future is a dicey business, but predicting trends is relatively easy. For example, no one can confidently predict what the weather will be like one month from today. But it's a safe bet that the trend will be warmer as we approach the summer months.

So that's how I identify specific investment prospects for wealth building through reinvesting dividends. The following trends make three current High Income Factor portfolio positions particularly well suited for a closer look.

Trend No. 1: The Increasing Proliferation of Technology

The Pick: Intel (INTC)

Intel is a multinational technology powerhouse with revenues of more than $50 billion per year. The company is by far the largest computer-chip maker in the world and commands an astounding 80 percent market share of microprocessors that go into desktop and notebook computers, as well as computer servers. These processors are at the cutting edge of computer technology and determine the power, speed, and function of a computer.

After having been the epitome of the fast-growing technology super company, Intel has fallen on tough times. The days of hyper-earnings growth and skyrocketing prices ended after the '90s. Since the bursting of the tech bubble, the stock has gone sideways. INTC has undergone a familiar morphing from high-growth superstar to a blue-chip Dow Jones company.

The market hasn't yet embraced the stock as a blue-chip darling. But that could be changing. The company's likely recovery from recent stumbles, along with its relatively high 3.2 percent yield, could ignite powerful investor interest in the years ahead. Here's a glimpse of where the company is now.

Intel generates most of its revenue selling its chips for personal computers (PCs), and growth in the PC market has fallen off a cliff. Meanwhile, growth in the tablet and smartphone markets has exploded, but Intel missed the boat on making chips for those devices. The company needs to turn things around by penetrating these new markets.

Revenue and profits have fallen since 2010, and the stock has become unloved and is selling at a low valuation — less than 15 times earnings, compared to more than 23 times earnings for the semiconductor industry and 18 times earnings for the overall market.

The problem with technology is that if a company misses a shift in the market, it pays a big price. But in Intel's case, I believe the recent problems are a temporary stumble, not a long-term shift. The company has a proven ability to rise to the occasion. It operates a massive and unmatched R&D budget and has a long track record of excellence.

The company has devoted a huge focus toward developing new chips for the tablet and smartphone market, and it is making good progress. Management recently announced that Intel's chips will be used in 130 tablet and smartphone models in 2014, up from 30 models in 2013. Meanwhile, the slippage in PC-market growth has abated. At the same time, PCs and tablets are becoming more alike.

Intel is currently unveiling technologies that will change the world. And those changes are right around the corner. For example, Intel's new Core M chip may revolutionize the tablet market. It provides yet unseen capabilities, enabling very lightweight tablets that generate more power than ever before. This chip will likely usher in the next generation of tablets.

As well, Intel's new Trail-T processor could revolutionize gaming. The chip is lighter and more powerful than anything that has preceded it. Taiwan-based ASUS, one of the world's premier consumer notebook vendors and gaming technology leaders, has adopted Intel's new chip. Intel has also developed a chip to be installed on shirts. This technology can enable athletes to track mileage and heart rate. The chip could also potentially be used to monitor blood pressure and other vital signs, with implications for the healthcare market.

Recent temporary stumbles by Intel leading to the subsequent cheap stock valuation provide an excellent opportunity to own a powerhouse in an industry that should grow at a strong pace in the years ahead. Intel also has a compelling dividend story. The current yield is a solid 3.2 percent but the payout is likely to grow. The company has about $20 billion in cash and short-term investment, as well as a low payout ratio.

Even during the recent bad patch, the company has consistently grown the dividend by an average of more than 10 percent per year over the past five years. The growth could be even better in the future as profits pick up. Indeed, Intel may already be turning the corner, as the stock is up 13 percent in the past three months.

Recommendation: If you haven't already, buy Intel (INTC) at or below $27 per share for the Wealth Builder Portfolio.

Trend No. 2: The Explosion in Size and Reach of the Global Middle Class

The Pick: Philip Morris International (PM)

Typically, stocks of companies in defensive industries pay high dividends. For example, utilities and telecommunications companies are some of the highest-yielding sectors of the market because they have predictable revenue streams that are ideal for paying out regular dividends.

But there is another defensive industry with predictable revenue streams that most people don't automatically associate with high dividends: tobacco. Selling an addictive product to vast numbers of people can generate huge profit margins and free cash flow, providing an ideal backdrop for regular dividend payouts. In fact, the average yield for the industry, according to Morningstar's tobacco group, is 4.2 percent.

The performance of stocks in this industry is stunning. Tobacco stocks as a group provided average annual returns of 20 percent over the past 15 years and 23 percent over the past 10 years. That compares to S&P 500 returns of just 4.46 percent and 7.8 percent for the same respective periods. To give you an idea of the power of such returns, consider that 23 percent per year returns would double the value of an investment about every 3.1 years. And those returns weren't from one individual stellar performer; that was the group average.

The high and rising dividends combined with consistent price appreciation can really drive high returns over time. In our earlier example of wealth building with dividend reinvestment, you can see that a $20,000 investment in Altria (MO), formerly Philip Morris, would have accumulated to $120,000 over the past 10 years. That's a heck of a return.

Philip Morris International is the former international division of Altria that was spun off in 2008. The new company only operates outside the United States, where there is more growth opportunity and less regulation.

The spinoff is currently the second-largest tobacco company in the world with sales in more than 180 countries. PM has seven of the world's 15 leading brands, including the iconic Marlboro brand, Parliament, Chesterfield, and others. The company has an estimated 16 percent share of the international cigarette market outside of the United States, or 28 percent excluding China (where China National Tobacco operates a monopoly).

PM operates the most profitable business in the tobacco industry, with consistently higher profit margins than any of its competitors. The company is also No. 1 in terms of brand loyalty and pricing power. These are not small things. Altria was able to grow earnings by an average of 7.4 percent per year over the past five years. This was despite the decline in U.S. cigarette volume purchases. The company was able to offset the shrinking volumes by raising prices.

But PM has more growth opportunities in emerging markets. Smoking rates tend to be higher in these markets, and PM has a strong presence. For example, it has a 31 percent share of the Indonesian market, a 45 percent share in Turkey, and it dominates the Philippines with a 90 percent share. The middle classes in these countries have exhibited a strong trend of trading up to premium brands like Marlboro.

And the growth of the middle classes in emerging markets is astounding. The CEO of **Coca-Cola** (**KO**) recently claimed that the market for his company's products is growing by the size of the population of Manhattan every single year (about 1.6 million), and that applies to other major brands — like the ones Philip Morris holds — as well.

Since the 2008 spinoff, PM has grown the dividend payout by an average of 19 percent per year. While the company is unlikely to continue to grow its payout that fast going forward, growth of over 10 percent is still reasonable.

The company's earnings and stock performance sputtered over the past couple of years, primarily because of regulatory issues, unfavorable currency moves, and a big slowdown in emerging market economies. But these are all short-term issues.

In the long run, it's all about the simple fact that the global middle-class population is exploding and demand for premium cigarette brands will surely follow.

Recent near-term angst has made the stock very reasonably priced. PM is selling at a lower valuation than the overall market and currently yields a highly attractive 4.2 percent. Now is a spectacular opportunity to jump in on the stock and reap the benefits of the long-term story.

Recommendation: If you haven't already, buy Philip Morris (PM) at or below $87 per share for the Wealth Builder Portfolio.

Trend No.3: The Aging of the Population

The Pick: Ventas (VTR)

The population is getting older at an unprecedented rate (see the May 2014 issue). As we have noted, baby boomers are turning 65 at an average rate of 10,000 per day and will continue to do so for the next 15 years. The fastest-growing segment of the population is 65 and older.

As of today, there are more than 100 million U.S. citizens over the age of 50, about one-third of the population. By 2030, it is estimated that the number of Americans over the age of 65 will hit 72 million, more than double the number in 2000.

Percentage of Population Over 65	
1930	5.4%
Today	13.7%
2030	19%

The fastest-growing segment of the over-65s is the group age 80 and over, with a growth rate twice that of the 65-and-over group, and almost four times that of the total population. In the United States, the 80-and-over group now represents 10 percent of the older population and will *more than triple* from 5.7 million in 2010 to more than 19 million by 2050.

Certain companies are well-positioned to benefit from this massive wave, especially healthcare companies.

Ventas Inc. (VTR) is one of the largest healthcare real estate investment trusts (REITs) on the market, with more than $2.8 billion in revenues for 2013 and a portfolio of about 1,500 healthcare properties in 47 states and Canada. The company buys senior-living homes, nursing care facilities, medical office buildings, and hospitals, and leases them to tenants.

As a REIT, the company pays no taxes at the corporate level provided 90 percent of profits are paid to shareholders in the form of dividends. Because money ordinarily lost to taxes is paid to shareholders, REITs are some of the highest income-paying securities on the market.

VTR currently pays a strong 4.5 percent yield but the dividend is likely to grow. Over the past 10 years, Ventas has grown its payout by an average of 10 percent per year. And the company's overall results have been stellar.

The company has grown funds from operations (FFO), a measure of adjusted net income, at a rate of 10 percent per year on average since 2000. As a result, VTR has returned shareholders better than 20 percent per year on average for the past 15 years, compared to an average annual return of just 4.46 percent for the S&P 500 over the same period.

The situation looks great going forward, too.

In order to accommodate massively increasing demand for these properties, Ventas has made $11 billion in acquisitions since 2010. So far, these acquisitions have accelerated profit growth. FFO has grown from $3 per share in 2010 to an estimated $4.30 this year. The company has demonstrated an ability to acquire properties that, despite the expense, add to the bottom line quickly.

Recommendation: If you haven't already, buy Ventas (VTR) at or below $65 per share for the Wealth Builder Portfolio.

Portfolio Update: SeaDrill Limited

Offshore deepwater drilling company and High Income Factor portfolio position **SeaDrill Limited** (**SDRL**) has been on the move lately. The stock had been under pressure but things seem to be turning around. Here's a review of the situation.

SeaDrill was launched last decade to capitalize on the boom in offshore oil and gas discoveries and the resulting increase in demand for deepwater drilling rigs. The company has the most modern fleet of any company in the business and currently operates 69 rigs. SeaDrill has been ultra-aggressive in borrowing money and cranking out new, modern rigs to take advantage of the boom. For example, the company has been building new rigs without even having a secured contract in place. The stock is also unusual among its peers in that it pays out most of its earnings in a very high dividend, currently 9.9 percent.

The formula has worked beautifully. As of today, SDRL has provided an average annual total return of over 30 percent per year for the past five years. But recently the stock has struggled.

The problem is that the drilling-rig market has softened. The once insatiable demand for deepwater drilling rigs has sputtered. A growing supply of rigs, along with a weak global economy and stagnant demand for oil, has caused rates for such rigs to pull back. Although the pullback in demand is likely temporary (2014 and 2015), it still presents a problem for SeaDrill.

SeaDrill has a large backlog of new builds, and many are coming to market in the next couple of years. The company will need to lease out these rigs in order to maintain earnings and the dividend. But with the soft market, many worried that the company might be unable to lease these rigs at prices that would allow it to continue to grow earnings. There was also concern that the company didn't have enough cash on hand to continue to pay the large dividend for the duration of the drilling-market slowdown.

As of late May, the stock price was about 30 percent below its September 2013 peak of $47.78 and down almost 14 percent for the year. But things have changed since then. In May, SeaDrill announced an "investment and co-operation" agreement with Russian oil giant Rosneft (OTC: RNFTF). The agreement will involve Rosneft purchasing a stake (an estimated 50 percent of SeaDrill's 70 percent share) in SeaDrill subsidiary North Atlantic Drilling (NADL). The agreement also involved Rosneft's leasing of nine rigs from NADL and a working partnership with SeaDrill that will inevitably result in the leasing of SeaDrill rigs to Rosneft.

The deal is huge for SeaDrill in two main ways. First, the company gets a large injection of cash, which will go a long way toward solving its temporary liquidity problems during the industry slowdown. Second, it gives SeaDrill a close relationship with a huge customer going forward.

On top of that news, SDRL soundly beat earnings estimates for the first quarter and blew away earnings results in last quarter (and the year-ago quarter) as newly commissioned rigs boosted profits. SeaDrill is partially sheltered from the industry slowdown because it offers the most modern rigs, which are more in demand.

The company also said that earnings would continue to improve for the rest of this year and "show meaningful improvement" in the second quarter. SeaDrill currently has its fleet 96 percent contracted for 2014 and 66 percent so far for 2015. Its management also raised the quarterly dividend by $0.02 to $1 per share and said it is "highly confident" that the dividend is sustainable in the years ahead.

These two news items are huge. The longer-term picture always looked good. It was this year and next that looked problematic. But recent news indicates that the company is in solid shape.

Meanwhile, recent concerns have made the stock cheap. SDRL is a "buy" anywhere at or under $36 per share. ■

The High Income Factor Portfolio

THE HIGH INCOME PORTFOLIO

Recommendation	Ticker	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield	Dividend Pay Date	Total Return
Navios Maritime Partners	NMM	01-Mar-12	$16.37	$18.75	$17.50	9.44%	10.81%	8/13/14	44.46%
SeaDrill	SDRL	01-Feb-12	$35.24	$38.25	$36.00	9.93%	10.78%	6/20/14	29.62%
Terra Nitrogen	TNH	01-Apr-12	$249.75	$139.59	HOLD	10.28%	5.75%	9/3/14	-26.65%
FLY Leasing Limited	FLY	27-Nov-12	$11.97	$14.25	$16.00	6.18%	7.35%	8/20/14	29.16%
Teekay LNG Partners LP	TGP	20-Dec-12	$38.30	$44.83	$42.00	6.02%	7.05%	8/12/14	28.96%
Prospect Capital	PSEC	26-Feb-13	$11.06	$9.82	$11.50	13.54%	12.03%	6/23/14	1.31%
Main Street Capital	MAIN	21-Aug-13	$29.21	$31.56	$32.00	6.27%	6.78%	6/19/14	14.22%

THE WEALTH BUILDER PORTFOLIO

Recommendation	Ticker	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield	Dividend Pay Date	Total Return
PepsiCo	PEP	01-Apr-12	$66.74	$88.42	$72.00	2.56%	3.39%	7/30/14	40.47%
Eli Lilly	LLY	01-Apr-12	$40.48	$59.75	$52.00	3.28%	4.84%	7/10/14	62.68%
Williams Partners	WPZ	01-May-12	$57.30	$52.79	$58.00	6.86%	6.32%	8/12/14	16.08%
Vodafone	VOD	27-Sep-12	$28.72	$34.93	$34.00	4.61%	5.61%	6/20/14	17.98%
Intel	INTC	27-Nov-12	$19.98	$28.24	$27.00	3.19%	4.50%	9/3/14	48.59%
Philip Morris	PM	04-Feb-13	$87.00	$88.39	$87.00	4.25%	4.32%	7/14/14	5.85%
Riocan REIT	REI-UN.TO	20-Mar-13	$26.97	$25.12	$29.00	5.59%	5.21%	6/13/14	11.69%
General Mills	GIS	19-Apr-13	$49.94	$55.16	$50.00	2.76%	3.04%	9/3/14	13.98%
Kinder Morgan Enrgy Ptnrs	KMP	22-May-13	$88.50	$79.00	$88.50	6.84%	6.10%	8/14/14	-5.95%
Brookfield Infrastr Ptnrs	BIP	03-Jun-13	$36.00	$41.62	$40.00	4.13%	4.78%	7/28/14	19.85%
Health Care REIT	HCN	15-Aug-13	$60.00	$62.87	$60.00	5.06%	5.30%	8/20/14	8.96%
BP plc	BP	22-Nov-13	$47.65	$50.95	HOLD	4.59%	4.91%	6/20/14	9.41%
Realty Income	O	18-Dec-13	$39.14	$43.25	$40.00	5.05%	5.58%	6/19/14	12.97%
HSBC Holdings	HSBC	27-Jan-14	$52.98	$52.47	$60.00	3.81%	3.78%	8/19/14	1.92%
Verizon	VZ	21-Feb-14	$47.27	$49.52	HOLD	4.28%	4.48%	8/5/14	5.87%
Northern Tier Energy	NTI	26-Mar-14	$26.00	$27.44	$26.00	5.98%	6.31%	8/28/14	8.54%
Ventas, Inc.	VTR	23-Apr-14	$64.42	$63.84	$65.00	4.54%	4.50%	8/29/14	0.20%
Magellan Midstream Ptnrs#	MMP	—	—	$83.29	$65.00	—	—	—	—
Deere & Company#	DE	—	—	$92.45	$80.00	—	—	—	—

INCOME STRATEGIES PORTFOLIO

Recommendation	Ticker	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield	Dividend Pay Date	Total Return
Blackrock Enhanced Cap Fund	CII	01-Jan-12	$12.50	$15.17	$13.00	7.91%	9.60%	6/30/14	43.49%
Barclays 7.75 Preferred	BCS-PC	27-Sep-12	$25.52	$25.59	Hold	7.97%	7.99%	7/16/14	14.75%
PowerShares Preferred	PGX	24-Oct-12	$14.84	$14.45	Hold	6.15%	5.98%	7/7/14	5.40%
Osterweis Strategic Income	OSTIX	25-Sep-13	$11.80	$12.09	$12.00	4.95%	5.07%	6/17/14	3.56%
PowerShares Sr Loan Portfolio	BKLN	25-Sep-13	$24.77	$24.91	$25.00	4.00%	4.02%	7/7/14	2.92%
SPDR Barclays ST HY Bond	SJNK	25-Feb-14	$31.03	$30.86	$32.00	4.94%	4.91%	6/12/14	0.74%

Notes on all portfolios: In order to receive the dividend payment, you will need to own the stock several weeks before the pay date. The "Total Return" column includes all reinvested dividends at concurrent recommended buy prices. Returns calculated based on a purchase of $1,000 of the security on the listed entry date and price. The "Effective Yield" column reflects the yield investors receive assuming they bought at the entry price and followed all subsequent recommendations. #Denotes recommendation not yet purchased. To see the chart of previous "sold" positions, subscribers can log onto www.highincomefactor.com (under the "Portfolio" tab). All chart data is as of close June 10, 2014.

Closing Thoughts →

The
High Income Factor

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Financial Publisher
AARON DEHOOG

Editorial Director/Financial Newsletters
JEFF YASTINE

Senior Financial Editor
TOM HUTCHINSON

Art/Production Director
PHIL ARON

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Closing Thoughts

It's so easy in life to get distracted and lose sight of the big picture. In times of uncertainty and confusion, a refocus on the main objective is just what the doctor ordered.

The most important consideration if you have money to invest for the longer term isn't what will happen in the third quarter or second half of 2014. The main thing is to position yourself in investments that can get you where you want to go. If you don't chart a course toward your desired destination, it is unlikely you will get there by accident.

The right dividend-paying companies can provide you with a regular income or grow your nest egg over time, regardless of whatever turn the market takes in the months ahead. The main thing is to put money to work in the right place when you have it. Market timing won't matter much over the long haul.

Intel (**INTC**), **Philip Morris International** (**PM**), and **Ventas** (**VTR**) are all established dividend-growers, dominant players in their market, and well positioned ahead of powerful trends that will shape the investment landscape going forward. They are excellent candidates to successfully build wealth over time.

Actions to Take Now

Action No. 1: If you haven't yet, watch for an opportunity to buy **Intel** (**INTC**) at or below $27, **Philip Morris** (**PM**) at or below $87, and **Ventas** (**VTR**) at or below $65. Also, keep an eye on **SeaDrill** (**SDRL**), grabbing it if it falls to $36 or below.

Action No. 2: Visit our website, www.highincomefactor.com, to find past monthly issues and weekly updates. (For password assistance, feel free to contact my customer service team at 800-485- 4350 or customerservice@newsmax.com.)

Sincerely,

Thomas Hutchinson

Tom Hutchinson

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