



## Blue Chip Dividend Stocks – Investment Checklist

Reviewing the following checklist can help you avoid blue chip dividend stocks that carry higher amounts of business risk. While it's far from exhaustive, it hits on many critical issues that can be quickly researched using [our Stock Analyzer tool](#).

### Item 1: Has the company's rise to success been driven more by luck or skill?

Some companies found themselves in the right place at the right time. Think about the housing market boom or the commodities market fueled by China's debt-fueled infrastructure binge. Sometimes the best-performing, most consistent dividend growth stocks are tied to a long-tailed cycle that is about to end – either from demand reaching a peak or new supply entering the market (e.g. changing consumer preferences, new competition, technological change, etc.). What macro factors is the stock sensitive to? Have those factors been benefiting from unsustainable sources of demand or unreasonably constrained supply? Most things in life are cyclical – understand what cycles might be driving your stocks and where they are in their lifecycle. On the flip side, investing in long-tailed themes that are closer to their beginning than their end can be a great investment strategy.

### Item 2: Do recent business trends raise any red flags about how the world is changing?

As they say, the “proof is in the pudding.” A company's financial results offer a glimpse into how the changing world is impacting its ability to survive and grow. If sales have started declining or profitability has stalled, you need to determine if the factors causing those results are temporary or the start of a long-tailed headwind. If it's the latter, remember how difficult it is and how long it takes for large blue chip dividend stocks to shift their mix into profitable areas of growth. There might be an even better entry point six months down the road.



### Item 3: Does the company generate reliable free cash flow?

The best blue chip dividend stocks will generate free cash flow year in, year out. Cash is money in the bank and allows the company to create value in many different ways – reinvestment into new products (increases durability), dividend increases, debt reductions, share repurchases, and acquisitions. Without free cash flow, companies have fewer resources at their disposal to continuously reinvent themselves and can also be more dependent on access to credit markets. Both of these factors can significantly shorten a company's lifespan.

### Item 4: Is the company's balance sheet healthy enough to survive the next storm?

Surprises happen. That is one reason why investing is so hard. If a negative shock occurs and a business is saddled with heavy amounts of debt, limited cash reserves, and declining cash flow, the value of your investment can plummet. The dividend could also come under pressure, depending on the severity of the struggle.

### Item 5: How large is the market?

The bigger the market, the more opportunity blue chip dividend stocks have to continue growing. Think about how fast end markets are growing (e.g. about in line with GDP), what secular themes support long-term growth (e.g. rising consumer wealth in emerging markets), the reasonable paths a company has to expand into adjacent markets (e.g. Coca-Cola using its distribution network to launch healthier beverages), and the ease at which new competition could enter or change the market's dynamics (e.g. imports from new China, technology advancements, etc.).

### Item 6: How has the payout ratio trended over time?

A company can grow its dividend using different means – free cash flow growth, raising debt, or issuing shares of stock. The only sustainable form of dividend growth is free cash flow growth. The payout ratio measures how much cash flow or earnings a company's dividend is consuming. We prefer to see dividend growth in excess of the rate of inflation (3%+ per year) and stable payout ratios, meaning the dividend is growing in line with cash flow growth. For cyclical companies, we like payout ratios below 50% (and healthy balance sheets). For more stable businesses, payout ratios less than 70% are desirable to us. **Lower payout ratios provide more cushion for the dividend and opportunity for growth, even if earnings growth temporarily slows.**

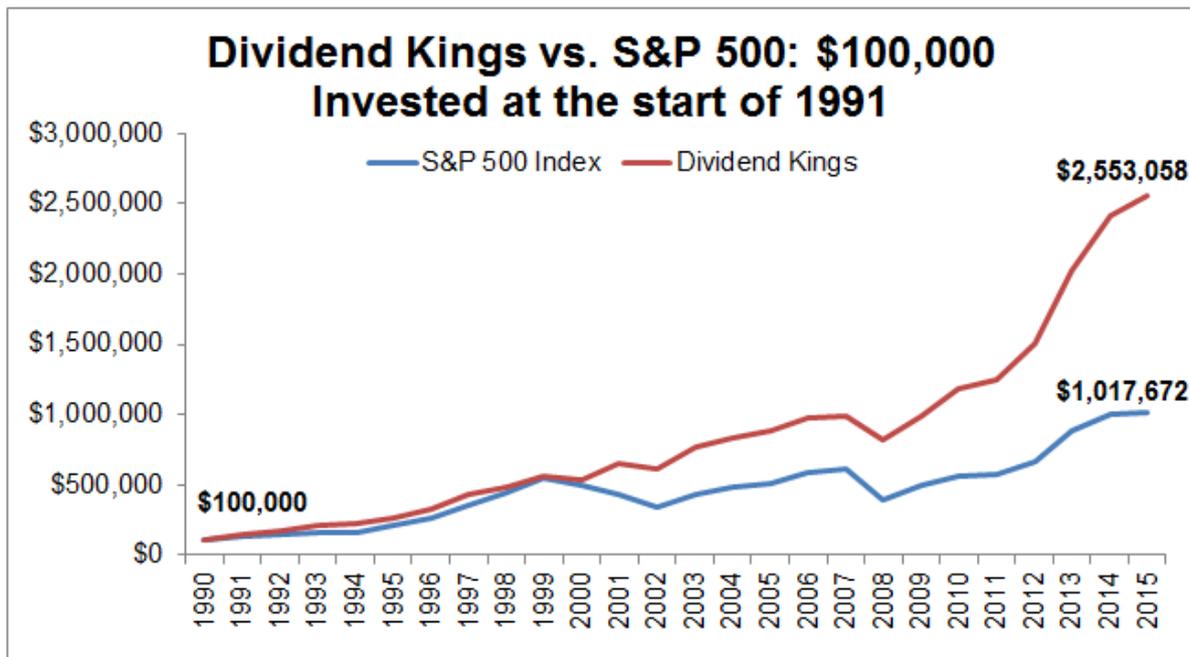


## The Best Blue Chip Dividend Stocks

Applying our checklist from above and screening through the various lists of dividend growth streaks, we created the following list of blue chip dividend stocks that look interesting for further research. These businesses generate consistent free cash flow, maintain conservative balance sheets, have exhibited stable payout ratios, operate in large markets, and appear to play in industries with slower rates of change.

## Conclusion

Blue chip dividend stocks can be great investments, especially for investors [living off dividends in retirement](#). However, purchasing stocks simply because they are a dividend aristocrat or part of the Dow Jones is an unnecessarily risky activity. Data shows that the average lifespan of an S&P 500 company has dropped from 61 years in 1958 to less than 20 years more recently. Companies that were once dominant giants are more vulnerable to change than ever before. Run each of your ideas through our blue chip checklist and conduct additional research to give yourself the best chance of investing in dividend stocks that will not only survive the next storm but emerge with higher dividend payments and more cash flow coming in the door.



Source: <http://www.simplysafedividends.com/dividend-kings-list/>



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**NB : Never overpay for a stock, buy it when it's not overvalued with a margin of safety!**

## Idea Generation – Safe Dividend Stocks

The 30 dividend stocks on this list are characterized by low price volatility, dividend yields in excess of 3%, and very strong dividend Safety Scores. These companies are good bets to continue delivering predictable income with less price volatility. We calculate how safe a dividend payment is by analyzing balance sheets, profitability trends, payout ratios, industry cyclicality, earnings growth, and more. You can learn more about our scoring system on page 26. Use our Stock Analyzer tool to learn more about each business by [clicking here](#).

Ticker	Name	TTM P/E Ratio	Dividend Yield	Safety Score	Growth Score	Price Volatility	EPS Payout Ratio	FCF Payout Ratio
AEP	American Electric Power Company, Inc.	16.0	3.7%	93	13	Very Low	60%	611%
ALE	Allete, Inc.	16.8	4.0%	68	20	Low	67%	-159%
AVA	Avista Corporation	18.9	4.0%	86	19	Very Low	74%	-85%
CNL	Cleco Corporation	21.6	3.0%	74	53	Very Low	65%	44%
D	Dominion Resources, Inc.	24.0	3.7%	80	10	Very Low	87%	-127%
DLR	Digital Realty Trust, Inc.	32.2	5.2%	83	80	Very Low	57%	57%
ED	Consolidated Edison Inc	17.8	3.9%	97	10	Very Low	69%	387%
ERIE	Erie Indemnity Company	26.0	3.3%	96	83	Low	85%	18%
ES	Eversource Energy	17.5	3.3%	100	40	Very Low	57%	-1989%
GIS	General Mills, Inc.	26.6	3.1%	99	70	Very Low	81%	54%
HCP	HCP, Inc.	46.6	6.1%	69	26	Very Low	122%	115%
JNJ	Johnson & Johnson	16.4	3.2%	92	66	Low	51%	44%
KMB	Kimberly-Clark Corporation	63.4	3.2%	99	23	Very Low	202%	103%
KO	Coca-Cola Company (The)	23.3	3.3%	92	63	Very Low	75%	64%
LNT	Alliant Energy Corporation	17.2	3.8%	94	24	Very Low	64%	1415%
MAA	Mid-America Apartment Communities, Inc.	20.6	3.8%	71	71	Very Low	39%	77%
MCD	McDonald's Corporation	22.9	3.5%	98	39	Very Low	79%	76%
MO	Altria Group	21.0	4.2%	93	46	Very Low	82%	85%
NEE	NextEra Energy, Inc.	14.9	3.2%	100	50	Very Low	46%	-88%
NNN	National Retail Properties	28.3	4.8%	73	20	Very Low	75%	-67%
NWE	NorthWestern Corporation	16.0	3.6%	100	23	Very Low	55%	396%
O	Realty Income Corporation	43.1	4.8%	72	25	Very Low	80%	-85%
OGE	OGE Energy Corporation	14.5	4.0%	88	25	Low	53%	57%
PG	Procter & Gamble Company (The)	29.5	3.7%	99	38	Low	107%	49%
POR	Portland General Electric Company	17.8	3.2%	97	14	Very Low	56%	-26%
PPL	PPL Corporation	20.4	4.6%	97	8	Very Low	93%	-104%
PSA	Public Storage	36.9	3.2%	79	65	Low	75%	75%
SKT	Tanger Factory Outlet Centers, Inc.	31.7	3.5%	77	46	Very Low	50%	349%
SO	Southern Company (The)	18.9	4.9%	96	6	Very Low	90%	-2669%
VZ	Verizon Communications Inc.	18.8	5.2%	97	28	Very Low	95%	49%

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