US based bond-like stocks

The springtime pullback in the S&P500 left some of the most storied American companies trading at the lowest price-earnings ratios in a generation. Because “safety” is the favorite flavor of 2010, we’ve set out to find bond-like stocks. Big, stable, dividend paying adaptive corporations that can survive in most monetary and fiscal settings.

We selected the equities of US-headquartered corporations with

- a market capitalization of more than US $5 billion,
- a return on equity greater than 15%,
- a dividend yield greater than 2%,
- a price to earnings ratio of less than 15,
- a debt-to-assets ratio of less than 35%,
- and part of the most recent Fortune 500 list.

What Does *Market Capitalization* Mean?
The total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determining a company's size, as opposed to sales or total asset figures.

What Does *Return On Equity - ROE* Mean?
The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income / Shareholder's Equity

Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares. The ROE is useful for comparing the profitability of a company to that of other firms in the same industry.

What Does *Dividend Yield* Mean?
A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows:

Dividend Yield = Annual Dividends per Share / Price per Share

Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position - in other words, how much "bang for your buck" you are getting from dividends. Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable dividend yields. To better explain the concept, refer to this dividend yield example: If two companies both pay annual dividends of $1 per share, but ABC company's stock is trading at $20 while XYZ company's stock is trading at $40, then ABC has a dividend yield of 5% while XYZ is only yielding 2.5%. Thus, assuming all other factors are equivalent, an investor looking to supplement his or her income would likely prefer ABC's stock over that of XYZ.

What Does *Price-Earnings Ratio - P/E Ratio* Mean?
A valuation ratio of a company's current share price compared to its per-share earnings. Calculated as:

Price per Earnings Ratio = Market Value per Share / Earnings per Share (EPS)

For example, if a company is currently trading at $43 a share and earnings over the last 12 months were $1.95 per share, the P/E ratio for the stock would be 22.05 ($43/$1.95). In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio doesn't tell us the whole story by itself. It's usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E. It would not be useful for investors using the P/E ratio as a basis for their investment to compare the P/E of a technology company (high P/E) to a utility company (low P/E) as each industry has much different growth prospects. The P/E is sometimes referred to as the "multiple", because it shows how much investors are willing to pay per dollar of earnings. If a company were currently trading at a multiple (P/E) of 20, the interpretation is that an investor is willing to pay $20 for $1 of current earnings.

What Does *Debt To Assets Ratio* Mean?
A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Calculated by adding short-term and long-term debt and then dividing by the company's total assets:

Total Debt to Total Assets = (Short Term Debt + Long Term Debt) / Total Assets

This is a very broad ratio as it includes short- and long-term debt as well as all types of both tangible and intangible assets.

What Does *Fortune 500* Mean?
An annual list of the 500 largest companies in the United States. The list is compiled using the most recent figures for revenue.

US based bond-like stocks

Early June research produced 31 names:

Company	Industry (as per Fortune)	Market Cap $ bl	ROE %	Dividend Yield %	P/E x	Debt / Assets %	Fortune 500, per 2009 revenues
Wal-Mart	General Merchandisers	189	22.8	3.8	13.5	26.9	1
Exxon Mobil Corp	Petroleum Refining	284	19.2	2.5	13.5	3.9	2
Johnson & Jonhson	Pharmaceuticals	162	27.5	3.0	12.6	13	33
United Tech Corp	Aerospace and Defense	61	22.2	2.2	13.9	20.5	37
Lockheed Martin	Aerospace and Defense	29	84.9	2.8	9.6	13.9	44
Kraft Foods	Food Consumer Products	50	15.0	3.8	14	32.4	53
Intel Corp	Semiconductors and Other Electronic Components	118	15.1	2.6	14	4.3	61
General Dynamics	Aerospace and Defense	25	20.8	2.0	10.7	12.4	69
Honeywell Inter.	Aerospace and Defense	32	26.1	2.7	12.7	21	74
Abbot Labs	Pharmaceuticals	72	27.4	3.1	12.2	32.5	80
Merck & Co	Pharmaceuticals	104	30.4	4.1	10	17.3	85
E.I. duPont de Nemours	Chemicals	31	32.4	4.4	13.4	29	86
Raytheon Co.	Aerospace and Defense	20	20.0	2.3	10.3	9.8	95
3M Co.	Miscellaneous	55	30.9	2.5	14.6	20.6	106
Eli Lilly & Co	Pharmaceuticals	38	46.9	5.4	7.3	24.6	112
Bristol-Myers Squibb	Pharmaceuticals	39	75.0	4.7	10.9	20.5	114
Kimberley-Clark	Household and Personal Products	25	41.5	3.9	12.4	28.4	126
Aflac	Insurance: Life, Health (stock)	20	22.0	2.1	8.4	3	130
Exelon Corp	Utilities: Gas and Electric	25	21.6	4.8	9.7	25.4	134
Altria Group	Tobacco	42	97.4	6.6	11.3	32	137
Constellation Energy Group	Energy	7	79.9	2.7	9.3	19.4	149
Chubb Corp	Insurance: Property and Casualty (stock)	16	15.6	2.7	8.5	7.8	176
ConAgra Foods	Food Consumer Products	11	16.1	3.2	14	29.7	178
Sara Lee Corp	Food Consumer Products	10	15.6	3.2	11.9	30.3	180
Public Service Entreprise Group	Utilities: Gas and Electric	16	18.8	4.5	9.9	28.4	186
Reynols American	Tobacco	15	16.8	6.5	7.9	24.1	272
Air Products & Chemicals	Chemicals	14	17.4	2.5	14.7	33	273
Campbell Soup Co.	Food Consumer Products	12	71.9	2.9	14.7	25.8	299
Darden Restaurants	Food Services	6	24.8	2.3	14.4	32.3	311
McGraw-Hill Cos	Publishing, Printing	9	49.2	2.6	11.1	19	363
Mattel	Miscellaneous	8	26.0	3.3	13.4	16.7	387

US based bond-like stocks

Over thirty companies from 16 industries. Diversification increases safety we say, so we reduced the list to 16 companies by picking the best company per industry. We used four variables equality weighted: ROE, Dividend Yield, P/E, and Debt/Assets. The study produced the following names:

Lockheed Martin	Aerospace and Defense
E.I. duPont de Nemours	Chemicals
Constellation Energy Group	Energy
ConAgra Foods	Food Consumer Products
Darden Restaurants	Food Services
Wal-Mart	General Merchandisers
Kimberley-Clark	Household and Personal Products
Aflac	Insurance: Life, Health (stock)
Chubb Corp	Insurance: Property and Casualty (stock)
Mattel	Miscellaneous
Exxon Mobil Corp	Petroleum Refining
Johnson & Jonhson	Pharmaceuticals
McGraw-Hill Cos	Publishing, Printing
Intel Corp	Semiconductors and Other Electronic Components
Altria Group	Tobacco
Exelon Corp	Utilities: Gas and Electric

We will feel comfortable investing our money in any of the above companies.

Take for instance Johnson & Johnson. It has been around since 1887. The company grew up in the monetary turmoil of the 1890's. It survived the dollar devaluation of 1933-34 and every subsequent monetary system, including the interwar gold-exchange standard and the postwar Bretton Woods regime. On form, it will also survive the pure paper dollar. J&J operates in 60 countries (half of its sales come from abroad) and employs 115,000 people. In 2009, sales totaled $62 billion, of which the consumer segment (Listerine, Tylenol, etc.) contributed 25%, pharmaceuticals (Remicade, Procrit, etc.) accounted for 36%, and medical devices and diagnostics (artificial hips, surgical products, etc.) chipped in 38%. Since 1980, revenues have grown by 9.2% per annum; profit margins by 3.1% per annum; and dividends by 13.7% per annum. Since 1980, J&J has traded at an average price-earnings multiple of 20.8 times. It is currently below 13. Is one of the four triple-A-rated industrial companies left in the United States. We have styled J&J a "bond-like" equity.

Another "bond-like" equity is Kimberley-Clark. KMB is a midget in market cap compared to J&J ($25 billion vs. $162), but a fellow greybeard in longevity. Incorporated in 1928, KMB makes diapers, tissue, wipes, feminine-care products, surgical gowns, exam gloves, face masks and infection-control products, to name a few. One of its brands, Kleenex, is a proper noun. Like J&J and our top16 list, Kimberly-Clark does business the world over. KMB changes hands at 13 times estimate net income, down from an average P/E ratio of 17 in the past decade.

We recommend the traditional *Dollar Cost Averaging* approach, and no overlapping with present sector allocations and investments. Safety first, we say.

By Afonso Vieira, **Total Wealth Management**. afonso.vieira@t-wm.com