INVESTOR REPORT

5 BEST DIVIDEND STOCKS

to Buy in a Volatile Market

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5 Best Dividend Stocks to Buy in a Volatile Market

These dividend-payers offer predictable income, capital appreciation potential, and a buffer against market volatility.

Ever since "Black Monday" on August 24, when global markets crashed in the wake of bad news from China, investors have been forced to cope with wild volatility.

If *you're* concerned about market volatility, you certainly can't be blamed. But letting fear drive you out of the market would be a big mistake. There's a way to make steady and reliable income, even in a turbulent market: dividend-paying stocks.

Here, we've pinpointed five time-tested dividend payers that also offer long-term capital appreciation, giving you the best of both worlds.

Why are these dividend payers a great bet now? Because as a general rule, a company that's paying a dividend is generating a healthy amount of free cash flow. Free cash flow represents the cash a business generates after making investments to maintain or expand its asset base.

Think of free cash flow as the lifeblood of a company. It enables a company to develop opportunities that boost shareholder value. Without cash, it's difficult to make acquisitions, invest in growth, reduce debt … and, of course, pay dividends. And it's strong balance sheets like these that give companies the extra wherewithal they need to withstand the market's ups and downs.

During today's extraordinary volatility, the following dividend payers should not only survive but thrive, too. These high-paying dividend

stocks also operate in segments that are currently unloved, making them value plays to boot.

Chevron Corp. (NYSE:CVX) Dividend Yield: 5.51%

The low and volatile price of oil is hammering oil company earnings, but one company – "Super Oil" **Chevron Corp.** – is proving its mettle as the best of the majors.

Chevron's dividend yield of 5.51% is not only hefty, but also sustainable. That's because of the company's enormous cash hoard, which in turn is the result of diversification that's unrivaled in the energy patch.

Chevron's productive capacity is not only diversified, but also *vast.*

The company currently produces about 724 million barrels of oil equivalent per day (mboe/d) from its North American assets; 695 mboe/d from Asia-Pacific; 612 mboe/d from Africa and Latin America; and 579 mboe/d from Europe and Eurasia.

This giant energy producer also boasts a mix of assets, including liquefied natural gas (LNG), deepwater fields spread around the world, shale plays in North America, and downstream activities such as refining and retailing.

Despite temporary economic cycles, oil remains the world's most important commodity and that won't change in the foreseeable future.

In a recent sign that oil's slump is temporary, strains have appeared in the OPEC cartel, as members publicly signal their intention to break through Saudi-imposed quotas.

Population growth and an ascendant middle class in China and other emerging markets are inexorable trends that will buoy energy demand – and Chevron – over the long haul.

But while the oil markets churn, Chevron is busy building its business. The California-based company is emphasizing surer overseas projects

and curtailing riskier ones to streamline overhead and reduce debt. The company is keeping its powder dry, to focus on better opportunities when oil turns the corner, and to maintain its juicy dividend.

No other oil major manages as thorough a mix of resources, which translates into superb cash flow.

Chevron's balance sheet shows nearly $13 billion in cash. Meanwhile, Chevron's management has taken advantage of oil's prolonged slump to slash debt and shed non-performing assets. The company now boasts a very low debt-to-equity ratio of 20, compared to 36 for the major integrated oil and gas industry.

These rock-solid fundamentals not only fuel the stock's hefty dividend, but also safeguard the company against any sudden economic downturn.

Investors can take comfort in knowing that Chevron enjoys a long track record of stability during tough times. The company has been paying dividends since 1970 and raised them for 27 consecutive years. Even during the nadir of the financial crisis in 2008, the company hiked its dividend and generated $10 billion in profit.

And the stock is a screaming bargain right now, with a trailing 12-month price-to-earnings (P/E) ratio of 12.6, compared to 23.2 for its industry.

This well-managed, farsighted and diversified oil behemoth is a safe play on future growth. It's also a steady source of income *now*, providing you with certainty in an uncertain time.

Alexandria Real Estate Equities Inc. (NYSE:ARE) Dividend Yield: 3.36%

The numbers are in, and there's no question about it: America is in the midst of a massive tech boom. In the second quarter of 2015, more than $9.3 billion in venture capital was pumped into Silicon Valley, as opposed to $2.3 billion for all of 2014.

There's a way to play this explosive growth without risking money on uncertain start-ups: through **Alexandria Real Estate Equities Inc.**, a real estate investment trust (REIT) headquartered in Pasadena, California that specializes in high-tech start ups.

This REIT's management had the foresight to place their company in the pole position for today's high-tech growth. ARE is a life science real estate company specializing in providing not just real estate but also technical infrastructure and campus development services to universities, pharmaceutical and biotech companies, venture capital firms, and even some government agencies.

This REIT has already developed campuses for Eli Lilly, Novartis, Pfizer, and Amgen, to name only a few.

Many believe REITs can't perform well when interest rates rise, but this is no ordinary REIT.

ARE has grown in tandem with Silicon Valley. Even better, it has routinely announced dividend increases every year since it was founded in 1994, reflecting the fact that REITs must give 90% of profits back to shareholders in the form of dividends.

It's easy to see why a company that provides ground support for fast-growing companies will prosper alongside them as they expand. But what most people don't realize is that ARE isn't just beneficial to thriving start-ups and well-established companies looking to expand their presences. It's irreplaceable.

That's because ARE campuses are strategically located at the focal point between cities that are hotbeds for recruiting talent, urban infrastructure supporting high-tech development, and academic and medical institutions. That makes ARE an "incubator" for innovation.

ARE stands out for three key reasons:

- First, it's a great way to get exposure to two of the brightest spots in the U.S. economy: high tech and big pharma. All through the backdoor, so to speak.

- Second, the company has "first mover advantage" in almost every market it serves. That means it has deep knowledge and experience in building specialized facilities. This translates into trust from new companies looking to set up (or expand) operations in the key markets in which ARE operates. Case in point: a recent ARE client is Illumina (NasdaqGS:ILMN), a genetic-testing equipment maker that's now leading in the race toward genetic analysis for personalized medicine.
- Third, the innovation markets where the company has a presence are experiencing constrained supply, which translates into high occupancy and increasing rental rates. In fact, demand in life sciences and tech sectors are the highest in the 20-year history of the company, according to CEO and founder Joel Marcus.

To meet that demand, ARE currently has a $1 billion pipeline of projects underway (85% of which are already leased or in negotiation) and another $1 billion worth of projects in the pipeline for the rest of 2015 and beyond. That amounts to $2 billion worth of new projects and future cash flow, which should sustain the stock's sizeable dividend over the long haul.

Arrow Financial Corp. (NASDAQ:AROW) Dividend Yield: 3.66%

Only the strongest banks survived the financial meltdown and Great Recession of 2008-09, and those that did emerged in slimmer, stronger shape.

Now, with balance sheets repaired and overall economic growth accelerating, bank stocks are once again throwing off solid returns. If you're looking for dependable income in a perilous market, you've found it in **Arrow Financial Corp.,** a small bank holding company focused on traditional commercial and consumer financial operations in upstate New York.

Arrow boasts a remarkably consistent record of dividend growth, with annual increases every year since 1997 and no cuts in its history. If this

bank could weather the global financial crisis, it can certainly withstand today's turmoil and any market corrections that might be in the offing.

Arrow's utility-like approach to banking is reflected in its strong asset quality and capital ratios. As opposed to many of the banking sector's giants that were over-leveraged leading up to the 2008 crash, Arrow Financial has consistently pursued conservative financial and lending policies. The company avoided the tsunami of bad debt and defaulting collateralized sub-prime mortgage securities that overwhelmed the industry during the Great Recession, and it's now in superb shape to capitalize on banking's resurgence.

Arrow's unwavering emphasis on high-quality credit is holding it in good stead for long-term growth, as the U.S. economic recovery gains traction. An improving housing market is fueling demand for Arrow's consumer real estate financing, and loans and deposits are expanding in its commercial segment. What's more, the company has no exposure to volatile short-term funding costs.

The upshot: Arrow's high dividend is sustainable, even if market volatility persists.

BHP Billiton Ltd. (NYSE:BHP)
Dividend Yield: 7.28%

Investors have written off commodities in recent months, but this makes no sense whatsoever.

Real assets have always been a store of value, because the world has to have them to build anything. Mineral real assets like iron fueled the industrial revolution, and sure enough they'll continue to be in demand as more and more countries develop their economies. Production-based commodities should never be written off, especially not now.

GDP continues to rise at significant levels in still-modernizing countries like China, India, and even regions like Eastern Europe. In particular, a lot of hay has been made over China's slowdown to "only" 6-7% growth, a rate Western economies would envy. This means there's still plenty of upside.

That's because global population growth continues, with births outpacing deaths by more than 44 million so far in 2015 alone, according to Worldometers. In particular, urban growth is expanding at a rate that's faster than rural growth, which is plateauing. That means more steel and other products are going to be needed to build increasingly concentrated buildings that house tens of millions more people.

China's steel stock is roughly half its United States equivalent. If you've never heard the term, steel stock is what you call the amount of steel in a country, and includes everything from buildings to machines, cars, bridges, and more.

The UN and IMF suggest that urbanization is around 90% in developed countries, yet only 54% in China. That data point alone tells the story of an emerging, gargantuan economy that's starved for steel and other commodities. It's clear that China is going to need plenty of steel for years to come.

The company to play this boom is based in Australia, not China.

BHP Billiton Ltd. is a multinational metals, mining, and petroleum company headquartered in Melbourne.

Global demand for iron ore and other essential materials is poised to post better growth through the end of the decade, especially from China and India. That bodes well for low-cost producers with entrenched customers in Asia, such as BHP.

As commodities prices seesaw with volatility, BHP is pursuing efficiencies that will drive future growth. The company has more than doubled production since 2007, thanks to an emphasis on productivity at the lowest possible cost.

This year management hiked its productivity target by $500 million to $4 billion in annualized cost efficiencies. BHP expects to reach this ambitious goal by the end of fiscal year 2017.

BHP already enjoys a strong balance sheet and cost profile. With a market cap of $90 billion, the company now enjoys $17.8 billion in operating cash flows from its portfolio of high-producing, low-cost mines.

BHP is almost exclusively focused on its large iron ore, copper, coal, petroleum, and potash businesses, after spinning off non-core assets such as flagging coal operations.

Specifically, BHP has sloughed off low-performing operations worth billions of dollars, including facilities in the U.S., Australia, Canada, South Africa, and the U.K. That gives it the ability to play a much longer-term game when competitors are preoccupied with survival.

BHP's tight style of management is one reason the company was one of the very few resource producers to boost dividends during the crisis of 2008-09. If the company's resilience during this dark period is any indication, BHP will emerge from today's materials sector slump stronger than ever at the expense of weaker rivals.

BHP's valuation is low and shares should rally as construction in North America continues to accelerate. What really shines through, though, is the company's extremely attractive 6.89% yield.

With a robust balance sheet, low debt, and ready access to capital, this leading miner enjoys plenty of options for withstanding any future resource slumps.

Enbridge Energy Partners LP (NYSE:EEP) Dividend yield: 8.2%

You can earn fat yields and even lower your tax burden by investing in Master Limited Partnerships, or MLPs for short.

Tax savings and tax deferrals are major aspects of MLPs' attractiveness. MLPs were all the rage until the slump in oil prices. Now, investors are painting the entire MLP segment with the same broad brush and shunning them – which is shortsighted, because energy prices will inevitably rebound and lift select MLPs.

Our favorite high-yielding MLP now is **Enbridge Energy Partners LP**.

Enbridge is a "best-of-breed" MLP that throws off plenty of reliable income right now. This MLP's high yield dividends have increased

every year since 2006, and one-year returns of 40.93% make it a strong candidate for ongoing income and long-term appreciation.

For the most part, MLPs are involved in the business of connecting energy-producing fields with refineries, distribution, and retail sales centers.

In practice, that typically means companies engaged in the extraction, storage, and transportation of energy commodities such as oil, natural gas, and coal, although MLPs do crop up in other industries, such as shipping.

You see, just like REITs, MLPs are pass-through entities that transfer profits and losses to individual unit holders. But because of depreciation allowances, the IRS considers 80 to 90% of the distribution you receive a *return of capital*. So you don't pay taxes immediately on that portion of the distribution.

In other words, 80 to 90% of the distribution you receive is tax-deferred. The remaining 10 to 20% is taxed as regular income. You're not taxed on the return of capital until you sell the units. What's more, those payments are used to reduce your cost based on the MLP. But, despite popular belief, most MLPs have limited exposure to commodity prices. That's because most MLPs own midstream energy assets like feeder pipelines and storage and transport facilities.

It's a great business model because MLPs don't actually take ownership of the commodities. They transport, store, and process them. Doing so, they simply act as gatekeepers, extracting a heavy toll every time a transaction takes place. So when oil or gas is moved from Point A to Point B, MLP pipeline owners get paid.

Or when oil moves through the system and has to be stored. In fact, almost any time anything happens in the energy sector, MLPs investors get paid, whether the price of oil, natural gas, coal, or other commodities goes up or down.

It all adds up to healthy profits that, by law, are passed onto investors. And unlike ordinary stocks, MLPs offer a significant tax shield for investors.

While many other energy companies have seen share prices plunge along with the price of oil, Enbridge has held up much better. The company is also planning to restructure and shift some of its most lucrative pipeline assets from its Canadian management company, Enbridge Energy Management, to its U.S. MLP.

Enbridge Energy Partners has about $1 billion worth of expansion projects slated to come onstream this year. And thanks to its operations in western Canada and the North Dakota Bakken formation, the company is the largest pipeline transporter of oil production from those two regions, accounting for approximately 17% of total U.S. oil imports.

The MLP's natural gas business is equally strong, delivering approximately 2.2 billion cubic feet of natural gas daily in the U.S. mid-continent and Gulf Coast regions.

If you're looking for a growth company that's resilient in tough times, confers major tax advantages, and shares profits with shareholders by growing dividends, Enbridge fits the bill.

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16 W. Madison Street, Baltimore, MD 21201
Phone: 888.384.8339 or 443.353.4519

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