

A Moneynews.com Special Report

The World's Greatest Dividend Stock

by Bill Spetrino

My name is Bill Spetrino, but I often am called “Hundred Dollar Bill,” after Ben Franklin, one of my idols.

I was born to a family of ordinary means. My dad was not a congressman like Warren Buffett’s dad was. And no one on my family tree possessed any unique financial planning ability other than hard work and thrift.

I live in a suburb outside of Cleveland and, unlike some people, I never enjoyed manual labor or, frankly, working for others.

I always wanted to do my own thing. So I graduated from John Carroll University in University Heights, Ohio, with a degree in accounting. A brief stint at Citigroup taught me one valuable lesson: I did not want to be part of corporate America.

So I became a part-time instructor at a community college, where I worked for a decade while I started a business buying and selling sports memorabilia, life insurance, vitamins, and golf balls.

The first six years were really hard, because all the money we made went toward making extra payments on our condo and to cover our living expenses.

Many friends and family members ridiculed our thrifty lifestyle, but we were mortgage free within eight years.

Then, in 1990, my focus switched from buying and selling sports memorabilia to providing corporate entertainment services, and my wife and I soon were able to start saving money to build our financial future, starting with just \$9,000 of working capital we had at the time.

Today, we have more than \$1 million. And, quite literally, the money I make in dividend payments alone easily covers my family’s living expenses.

When the market dropped by 50 percent last year, I wasn’t even fazed. Instead, I got back in with a vengeance, helping readers of *The Dividend Machine* bank impressive gains on very solid, dividend-backed companies.

But today I want to show you the belle of the ball, so to speak. What I’m talking about is owning the best company in America — **Altria** (NYSE:MO).

Many intelligent people have told me it is involved

in a no-growth, declining-volume industry. Yet they ignore this company’s massive free cash flow and its high return on equity.

Let’s look at reality: It costs about 2 cents to make a pack of cigarettes, and the product is sold for about \$5 — to addicts. In addition, state and federal governments raise large sums of money by taxing this product.

Apple would kill for those profit margins on any of its products. Altria is one of the only companies in the world that is able to enjoy this degree of profitability.

Wouldn’t you like to own a company with an affordable product, high margins, and 50 percent market share in an industry where advertising is banned?

The Secret That Makes Altria the Most Profitable Stock You Can Own Today

Wharton professor Jeremy Siegel reports that 97 percent of the gain of the Dow Jones Industrial Average since 1900 came from reinvested dividends.

That means just 3 percent was caused by capital gains!

So why is it that so many stock-market gamblers keep chasing capital gains? Because that is what’s sexy.

Oftentimes, what is sexy isn’t what’s smart.

What’s smart is to go where the gains are. And the gains overwhelmingly come from reinvested dividends.

In building your own Dividend Machine, I will show you how to combine two powerful forces: compound interest and the power of reinvested dividends. In 1994, I rolled over an individual retirement account into Altria and have since reinvested the dividends.

My personal Dividend Machine in 2008 paid me more than 56 percent of the initial investment from 1994. My portfolio has grown by more than 761 percent in that time span, greater than 15 percent compounded annually.

On one stock: Altria.

A fluke? Let’s introduce some more facts for you to digest. In 2007, Siegel revealed that Federal Reserve chief Ben Bernanke had his entire portfolio in one single stock: Altria.

Now Bernanke, who also is a respected economist, has not amassed the investment record of Warren Buffett, but let's examine some facts that Bernanke must have considered.

From 1925 to 2007, Altria's average annual returns (when considering reinvested dividends) exceeded 17 percent a year, versus 10 percent for the market, surpassing all other stocks, according to Siegel's study.

Since 1957, when Siegel's study of the S&P 500's highest-yielding stocks began considering reinvested dividends, one stock has reigned supreme: Altria.

Let's get some perspective on that. In 1957, \$10,000 invested in the S&P 500 composite, with dividends reinvested, would have returned \$1.4 million, about 10.9 percent compounded annually.

The same \$10,000 invested in Altria, with dividends reinvested, returned more than \$46.2 million! Is this a significant difference to you? It is to me.

Now for some more recent circumstances. Let's track how Altria has responded in this decade, when the stock dropped 20 percent and the dividend yield was at least 7 percent. Altria started this decade on Jan. 1, 2000, at \$23.56 (before all the spin-offs that took place with Kraft and Phillip Morris International).

The first 20 percent drop was in February 2000 at \$18.84. Nine months later, at the end of November, the stock was \$38.19 per share. That was a gain of \$19.35 per share plus a \$1.10 per share of dividends for a total gain of 108.55 percent! Very impressive for only nine months.

In January 2003, Altria reached a high of \$42.09. In March of 2003, the stock price was \$33.67. Altria stock had a 7.8 percent dividend yield at that price, which fits our parameters. At the end of December of 2003, the price was \$54.42 per share with a dividend earned of \$1.96 per share.

The \$22.71 total gain in dividend and appreciation per share would give you a 67.45 percent gain in just nine months! The rest of this decade, the dividend yield was nowhere near 7 percent.

I personally started buying Altria in 2000 at \$24 per share and the stock promptly dropped almost 25 percent in less than two months. Thankfully, rather than act like a normal stock investor and bailing out, I had the sense (and the fortitude) to continue to accumulate more at prices as low as \$18.75 per share. The stock was over \$38 per share eight months later.

Altria: High Risk, or High Reward?

So, why do critics say that Altria is not a good stock to own?

The first reasonable question they ask is: What happens if smoking is made illegal?

Here are the facts: The United States is almost \$15 trillion in debt and appears ready to run trillion-dollar deficits for the next decade.

Almost every state government is broke despite the billions of dollars raised in state tobacco taxes.

It is estimated that the personal income tax would have to be almost doubled to make up the shortfall in taxes generated by tobacco — federal excise taxes, payroll taxes, and federal income taxes.

The politicians in Washington would not be re-elected if that happened.

Another reason is that increased state and federal excise taxes won't cause demand to fall. The fact is, Canadian smokers pay more than \$12 a pack for Marlboros that cost \$5 here. So we have pricing power. As you might guess, folks in Canada drive to the Indian reservations in western New York and bring cigarettes back for their Canadian friends. Last year, despite lower volume, revenues increased because pricing



Bill Spetrino is a professional investor who has earned millions for him and his investors solely through strategic investing. A trained accountant, he graduated from John Carroll University in Ohio and spent a decade teaching. A life-long entrepreneur as well, Spetrino set out to understand and codify a simple dividend investing strat-

egy for life, an idea that eventually led to the creation of The Dividend Machine. He wrote it all down in his book, *Consume, Consume, and Consume More*, about how to pick the kinds of dividend stocks Warren Buffett or the late Sir John Templeton would recommend, long-term cash generators with handsome appreciation. His dividend picks now generate all of his family's living expenses and more, and they keep on growing! He consults with a worldwide base of clients on investing and tax planning from his home in Ohio.

The Dividend Machine

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power gave Altria room to grow market share.

The percentage of the population that smokes has declined from almost 50 percent in 1920 to about 18 percent in 2008, where it has stayed steady in the past few years. However, the population, thanks to all the illegal immigrants and the large number of births out of wedlock, has continued to increase in the United States.

Another reason critics don't like Altria is the notion that lawsuits will bankrupt the industry. Yet consider this fact: Any tobacco judgments that are won in a state are deducted from the amount each state gets from the national settlement, which is separate from the state's own tax.

For example, if Illinois gets \$7 million in 2008, but a smoker wins a \$5 million lawsuit, then Illinois will not get the \$7 million it expects in 2008. The state will get only \$2 million, per the settlement. Do you really think a state appellate judge will rule for a smoker who wins a large judgment when he knows the money is coming from a state that probably is bankrupt or close to it? Unlikely.

The last reason is that the dividend is somehow "not safe" because the payout ratio is 77 percent, which seems high. On the surface, that sounds legitimate. However, Altria has more than a 50 percent market share and is growing its market share annually. The product, unlike most, is not capital intensive and costs pennies to produce. Advertising is illegal, so a competitor trying to gain market share does not have many options.

In short, Altria is a recession-proof business and sells an easily affordable product with predictable income. Stock buybacks will be suspended this year, which should limit growth to three percent to six percent annually but will help the company resume double-digit annual earnings-per-share growth from 2010 on.

Now there's going to be some people that listen to what I say and think to themselves "I can do better." Time and time again I've watched people stumble in the foolish chase of capital gains and high yields.

What Altria gives you is a way out from all of that. By acquiring shares today you can feel comfortable knowing that your dividends are being paid by one of the world's most profitable companies. This company is so stable that it makes IBM look risky. As an investor, you really can't ask for much more than what Altria can give you — a 17 percent average return.

Sincerely,



Bill Spetrino