

# **Verity Dividend Builder Separate Account**

**280 South Mangum Street, 550 Diamond View II  
Durham, North Carolina 27701**



## Key Features

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**Concept** – Dividend growth investing is an investment in corporate earnings growth, good management, strong cash flow and a corporate commitment to returning capital to shareholders.

**Goals** – Our primary goal is to build a large, reliable and growing stream of dividends. Growth of capital is our secondary objective.

**Quality** – Most companies in the portfolio should have these characteristics:

1. A long and well established record of earnings and dividend growth.
2. An identifiable long-term competitive advantage, a/k/a an “economic moat.”

**Value** – Companies are purchased at close to “fair value” or cheaper. We don’t mind paying a fair price for a great company.

**Tax-efficiency** – We work to maximize qualified dividends and long-term capital gains and to minimize taxes.

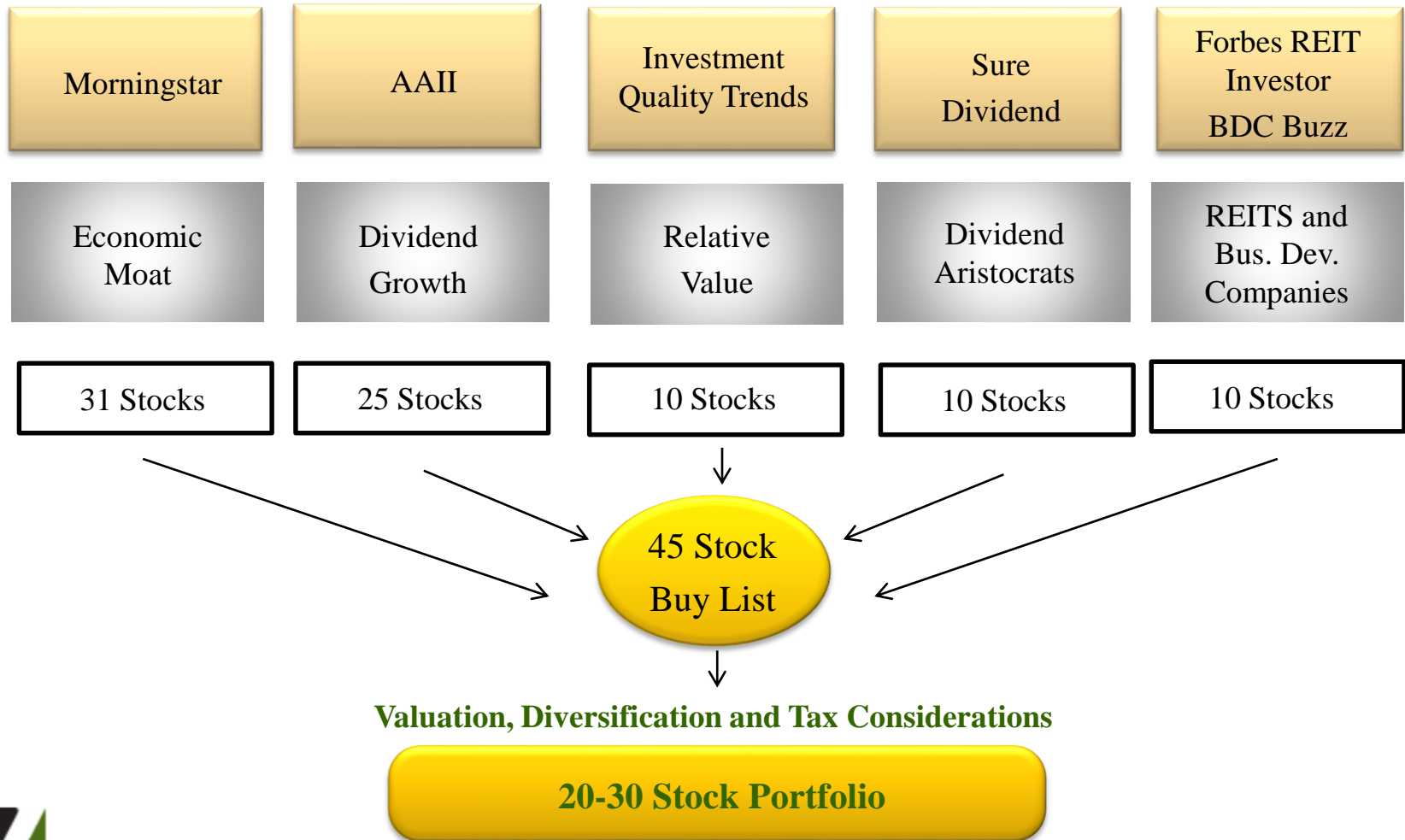
**Risk** – Dividend growth investing replaces “sequence risk” with “business risk.”



## Portfolio example – Seeking to generate *large, reliable and growing dividends*.

Ticker	Name	July 20 Price	Div%	Shares	Investment	2016 Est.	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.	Sector	P/FV	FV Est.	
						Dividend	Dividend	Dividend	Dividend	Dividend	Dividend				
Defensive															
TGT	Target Corporation	\$74.47	3.2%	290	\$21,595	\$621	\$673	\$708	\$751	\$841	\$922	Consumer Defensive	1%	\$74	
KO	Coca-Cola Company	\$45.50	3.1%	470	\$21,385	\$658	\$696	\$743	\$785	\$823	\$865	Consumer Defensive	3%	\$44	
PG	Procter & Gamble Company	\$85.34	3.1%	250	\$21,335	\$665	\$683	\$738	\$765	\$808	\$853	Consumer Defensive	-5%	\$90	
ABBV	AbbVie Inc.	\$63.48	3.6%	340	\$21,583	\$775	\$850	\$918	\$1,013	\$1,149	\$1,302	Healthcare	-13%	\$73	
APU	AmeriGas Partners L.P.	\$48.38	7.8%	440	\$21,286	\$1,646	\$1,681	\$1,712	\$1,738	\$1,786	\$1,835	Utilities	1%	\$48	
D	Dominion Resources Inc.	\$77.28	3.6%	280	\$21,638	\$784	\$843	\$910	\$969	\$1,025	\$1,084	Utilities	2%	\$76	
DUK	Duke Energy Corporation	\$84.98	4.0%	250	\$21,245	\$848	\$885	\$915	\$948	\$988	\$1,030	Utilities	4%	\$82	
Sensitive															
CMI	Cummins Inc.	\$117.67	3.5%	180	\$21,181	\$702	\$702	\$702	\$790	\$889	\$999	Industrials	0%	\$118	
FAST	Fastenal Company	\$42.58	2.8%	510	\$21,713	\$612	\$648	\$673	\$709	\$847	\$1,010	Industrials	1%	\$42	
UPS	United Parcel Service Inc.	\$110.56	2.8%	190	\$21,006	\$593	\$631	\$688	\$760	\$760	\$922	Industrials	9%	\$101	
EMR	Emerson Electric Company	\$56.26	3.4%	380	\$21,379	\$722	\$745	\$760	\$745	\$821	\$901	Industrials	-9%	\$62	
GE	General Electric Company	\$32.78	2.8%	660	\$21,635	\$614	\$634	\$673	\$706	\$785	\$865	Industrials	9%	\$30	
QCOM	QUALCOMM Incorporated	\$55.55	3.8%	390	\$21,663	\$772	\$792	\$761	\$956	\$1,073	\$1,201	Technology	-18%	\$68	
IBM	International Business Machines	\$161.60	3.5%	130	\$21,008	\$683	\$715	\$787	\$832	\$854	\$878	Technology	11%	\$145	
SEP	Spectra Energy Partners LP	\$48.16	5.5%	450	\$21,672	\$1,206	\$1,296	\$1,386	\$1,481	\$1,584	\$1,701	Energy	-7%	\$52	
EPD	Enterprise Products Partners	\$29.51	5.4%	730	\$21,542	\$1,175	\$1,234	\$1,299	\$1,358	\$1,431	\$1,511	Energy	-8%	\$32	
MMP	Magellan Midstream Partners L.P.	\$73.99	4.4%	290	\$21,457	\$960	\$1,041	\$1,131	\$1,235	\$1,346	\$1,467	Energy	-3%	\$76	
Cyclical															
CMP	Compass Minerals Intl Inc	\$72.80	3.8%	290	\$21,112	\$806	\$853	\$925	\$989	\$1,059	\$1,134	Basic Materials	-18%	\$89	
MAIN	Main Street Capital Corporation	\$33.14	6.7%	650	\$21,541	\$1,404	\$1,417	\$1,463	\$1,502	\$1,547	\$1,593	Financial Services	0%	\$33	
IVZ	Invesco Ltd Common	\$28.02	4.0%	770	\$21,575	\$862	\$924	\$993	\$1,086	\$1,209	\$1,340	Financial Services	-18%	\$34	
WFC	Wells Fargo & Company	\$48.65	3.2%	440	\$21,406	\$669	\$695	\$752	\$801	\$849	\$906	Financial Services	-20%	\$61	
STAG	Stag Industrial Inc.	\$24.80	5.6%	870	\$21,576	\$1,209	\$1,253	\$1,314	\$1,418	\$1,488	\$1,557	Real Estate	13%	\$22	
HCN	Welltower Inc.	\$77.52	4.4%	280	\$21,706	\$963	\$1,000	\$1,042	\$1,103	\$1,154	\$1,201	Real Estate	3%	\$75	
Money Market					\$6,761										
<b>Total Investment: \$500,000</b>															
						<b>Projected Annual Dividend Income:</b>	<b>\$19,948</b>	<b>\$20,887</b>	<b>\$21,991</b>	<b>\$23,438</b>	<b>\$25,113</b>	<b>\$27,075</b>			
						<b>Yield on Cost:</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>4.7%</b>	<b>5.0%</b>	<b>5.4%</b>			

# Investment Process: Finding stocks with large, reliable and growing dividends



## Investment Process: Unsorted buy list highlighting our two key value metrics.

Ticker	Name	Current Price	Div%	Current Dividend	2021 Est. YOC	2016 Est. Dividend	2017 Est. Dividend	2018 Est. Dividend	2019 Est. Dividend	2020 Est. Dividend	2021 Est. Dividend	FV Est.	P/FV	Analyst
AAPL	Apple Inc.	\$99.96	2.3%	\$2.28	3.3%	\$2.18	\$2.38	\$2.63	\$2.73	\$3.00	\$3.30	\$133	-25%	AAll
ABBV	AbbVie Inc. Common Stock	\$63.41	3.6%	\$2.28	6.0%	\$2.28	\$2.50	\$2.70	\$2.98	\$3.38	\$3.83	\$73	-13%	SD
AEP	American Electric Power Company	\$69.35	3.2%	\$2.24	4.0%	\$2.27	\$2.39	\$2.49	\$2.54	\$2.65	\$2.77	\$61	14%	MD*
APU	AmeriGas Partners L.P. Common	\$48.48	7.8%	\$3.76	8.6%	\$3.74	\$3.82	\$3.89	\$3.95	\$4.06	\$4.17	\$48	1%	MD*
CAT	Caterpillar Inc. Common Stock	\$79.69	3.9%	\$3.08	4.7%	\$3.08	\$3.08	\$3.08	\$3.08	\$3.41	\$3.78	\$68	17%	AAll
CMI	Cummins Inc. Common Stock	\$117.56	3.5%	\$4.10	4.7%	\$3.90	\$3.90	\$3.90	\$4.39	\$4.94	\$5.55	\$118	0%	SD
CMP	Compass Minerals Intl Inc Commo	\$72.72	3.8%	\$2.78	5.4%	\$2.78	\$2.94	\$3.19	\$3.41	\$3.65	\$3.91	\$89	-18%	MD/MS
D	Dominion Resources Inc. Common	\$77.30	3.6%	\$2.80	5.0%	\$2.80	\$3.01	\$3.25	\$3.46	\$3.66	\$3.87	\$76	2%	MD
DUK	Duke Energy Corporation (Holdin	\$84.92	4.0%	\$3.42	4.9%	\$3.39	\$3.54	\$3.66	\$3.79	\$3.95	\$4.12	\$82	4%	MD
EMR	Emerson Electric Company Common	\$56.18	3.4%	\$1.90	4.2%	\$1.90	\$1.96	\$2.00	\$1.96	\$2.16	\$2.37	\$62	-9%	MD/AAll
EPD	Enterprise Products Partners L.	\$29.54	5.4%	\$1.60	7.0%	\$1.61	\$1.69	\$1.78	\$1.86	\$1.96	\$2.07	\$32	-8%	MD/MS
FAST	Fastenal Company	\$42.55	2.8%	\$1.20	4.7%	\$1.20	\$1.27	\$1.32	\$1.39	\$1.66	\$1.98	\$42	1%	MD
GE	General Electric Company Common	\$32.78	2.8%	\$0.92	4.0%	\$0.93	\$0.96	\$1.02	\$1.07	\$1.19	\$1.31	\$30	9%	MD*
GIS	General Mills Inc. Common Stoc	\$71.70	2.7%	\$1.92	3.8%	\$1.78	\$1.90	\$2.04	\$2.22	\$2.53	\$2.74	\$57	26%	MD*
GPC	Genuine Parts Company Common St	\$100.01	2.6%	\$2.63	3.5%	\$2.63	\$2.75	\$3.05	\$3.20	\$3.37	\$3.54	\$86	16%	MS
GWV	W.W. Grainger Inc. Common Stoc	\$217.05	2.2%	\$4.88	3.2%	\$4.90	\$5.20	\$6.02	\$5.71	\$6.28	\$6.91	\$230	-6%	MS/SD
HCN	Welltower Inc. Common Stock	\$77.61	4.4%	\$3.44	5.5%	\$3.44	\$3.57	\$3.72	\$3.94	\$4.12	\$4.29	\$75	3%	MD*
IBM	International Business Machines	\$161.36	3.5%	\$5.60	4.2%	\$5.25	\$5.50	\$6.05	\$6.40	\$6.57	\$6.75	\$145	11%	AAll
IVZ	Invesco Ltd Common Stock	\$28.01	4.0%	\$1.12	6.2%	\$1.12	\$1.20	\$1.29	\$1.41	\$1.57	\$1.74	\$34	-18%	AAll
JNJ	Johnson & Johnson Common Stock	\$125.14	2.6%	\$3.20	3.1%	\$3.11	\$3.26	\$3.48	\$3.50	\$3.70	\$3.91	\$109	15%	MD*/MS
KO	Coca-Cola Company (The) Common	\$45.51	3.1%	\$1.40	4.0%	\$1.40	\$1.48	\$1.58	\$1.67	\$1.75	\$1.84	\$44	3%	MD*/MS
MAIN	Main Street Capital Corporation	\$33.14	6.5%	\$2.16	7.4%	\$2.16	\$2.18	\$2.25	\$2.31	\$2.38	\$2.45	\$33	0%	BDC Buzz
MMP	Magellan Midstream Partners L.P	\$74.02	4.3%	\$3.21	6.8%	\$3.31	\$3.59	\$3.90	\$4.26	\$4.64	\$5.06	\$76	-3%	MD*/MS
MO	Altria Group Inc.	\$69.01	3.3%	\$2.26	5.0%	\$2.37	\$2.58	\$2.77	\$2.95	\$3.19	\$3.45	\$59	17%	MD*
MSFT	Microsoft Corporation	\$55.91	2.6%	\$1.44	3.5%	\$1.44	\$1.57	\$1.72	\$1.60	\$1.78	\$1.97	\$61	-8%	AAll
O	Realty Income Corporation Commo	\$69.80	3.4%	\$2.39	4.2%	\$2.40	\$2.48	\$2.59	\$2.70	\$2.81	\$2.93	\$51	37%	MD*
PAYX	Paychex Inc.	\$60.51	3.0%	\$1.84	4.2%	\$1.64	\$1.80	\$1.94	\$2.12	\$2.33	\$2.57	\$48	26%	MD*
PG	Procter & Gamble Company (The)	\$85.32	3.1%	\$2.68	4.0%	\$2.66	\$2.73	\$2.95	\$3.06	\$3.23	\$3.41	\$90	-5%	MD*/AAll
PM	Philip Morris International Inc	\$99.65	4.1%	\$4.08	5.2%	\$4.16	\$4.30	\$4.40	\$4.44	\$4.78	\$5.14	\$95	5%	MD*/MS
QCOM	QUALCOMM Incorporated	\$55.82	3.8%	\$2.12	5.5%	\$1.98	\$2.03	\$1.95	\$2.45	\$2.75	\$3.08	\$68	-18%	AAll
SE	Spectra Energy Corp Common Stoc	\$36.90	4.4%	\$1.62	6.3%	\$1.62	\$1.76	\$1.90	\$2.04	\$2.17	\$2.32	\$33	12%	MD
SEP	Spectra Energy Partners LP Com	\$48.12	5.4%	\$2.60	7.9%	\$2.68	\$2.88	\$3.08	\$3.29	\$3.52	\$3.78	\$52	-7%	MD*
SO	Southern Company (The) Common S	\$53.33	4.2%	\$2.24	5.0%	\$2.22	\$2.29	\$2.38	\$2.46	\$2.57	\$2.69	\$48	11%	MD
STAG	Stag Industrial Inc. Common St	\$24.84	5.6%	\$1.39	7.2%	\$1.39	\$1.44	\$1.51	\$1.63	\$1.71	\$1.79	\$22	13%	BT
T	AT&T Inc.	\$42.71	4.5%	\$1.92	5.4%	\$1.93	\$1.97	\$2.01	\$2.05	\$2.17	\$2.29	\$33	29%	AAll
TGT	Target Corporation Common Stock	\$74.48	3.2%	\$2.40	4.3%	\$2.14	\$2.32	\$2.44	\$2.59	\$2.90	\$3.18	\$74	1%	AAll
UPS	United Parcel Service Inc. Com	\$110.59	2.8%	\$3.12	4.4%	\$3.12	\$3.32	\$3.62	\$4.00	\$4.00	\$4.85	\$101	9%	MD*
VTR	Ventas Inc. Common Stock	\$73.08	4.0%	\$2.92	5.0%	\$2.92	\$3.10	\$3.26	\$3.42	\$3.53	\$3.65	\$64	14%	MD/MS
VZ	Verizon Communications Inc. Com	\$55.62	4.1%	\$2.26	4.9%	\$2.28	\$2.34	\$2.41	\$2.46	\$2.58	\$2.71	\$50	11%	MD
WFC	Wells Fargo & Company Common St	\$48.61	3.2%	\$1.55	4.2%	\$1.52	\$1.58	\$1.71	\$1.82	\$1.93	\$2.06	\$61	-20%	MD*/AAll/MS

# Investment Process: Sorted Buy list

Ticker	Name	Current Price	Div%	Current Dividend	E2021 YOC	2016 Est. Dividend	2017 Est. Dividend	2018 Est. Dividend	2019 Est. Dividend	2020 Est. Dividend	2021 Est. Dividend	FV Est.	P/FV	Analyst
<b>Defensive</b>														
APU	AmeriGas Partners L.P. Common	\$48.35	7.8%	\$3.76	8.6%	\$3.74	\$3.82	\$3.89	\$3.95	\$4.06	\$4.17	48	1%	MD*
ABBV	AbbVie Inc. Common Stock	\$63.51	3.6%	\$2.28	6.0%	\$2.28	\$2.50	\$2.70	\$2.98	\$3.38	\$3.83	73	-13%	SD
D	Dominion Resources Inc. Common	\$77.33	3.6%	\$2.80	5.0%	\$2.80	\$3.01	\$3.25	\$3.46	\$3.66	\$3.87	76	2%	MD
DUK	Duke Energy Corporation (Holdin	\$84.96	4.0%	\$3.42	4.8%	\$3.39	\$3.54	\$3.66	\$3.79	\$3.95	\$4.12	82	4%	MD
TGT	Target Corporation Common Stock	\$74.48	3.2%	\$2.40	4.3%	\$2.14	\$2.32	\$2.44	\$2.59	\$2.90	\$3.18	74	1%	AAll
KO	Coca-Cola Company (The) Common	\$45.44	3.1%	\$1.40	4.0%	\$1.40	\$1.48	\$1.58	\$1.67	\$1.75	\$1.84	44	3%	MD*/MS
PG	Procter & Gamble Company (The)	\$85.20	3.1%	\$2.68	4.0%	\$2.66	\$2.73	\$2.95	\$3.06	\$3.23	\$3.41	90	-5%	MD*/AAll
<b>Sensitive</b>														
SEP	Spectra Energy Partners LP Com	\$48.10	5.4%	\$2.60	7.9%	\$2.68	\$2.88	\$3.08	\$3.29	\$3.52	\$3.78	52	-8%	MD*
EPD	Enterprise Products Partners L.	\$29.51	5.4%	\$1.60	7.0%	\$1.61	\$1.69	\$1.78	\$1.86	\$1.96	\$2.07	32	-8%	MD/MS
MMP	Magellan Midstream Partners L.P	\$73.84	4.3%	\$3.21	6.9%	\$3.31	\$3.59	\$3.90	\$4.26	\$4.64	\$5.06	76	-3%	MD*/MS
QCOM	QUALCOMM Incorporated	\$55.35	3.8%	\$2.12	5.6%	\$1.98	\$2.03	\$1.95	\$2.45	\$2.75	\$3.08	68	-19%	AAll
CMI	Cummins Inc. Common Stock	\$118.01	3.5%	\$4.10	4.7%	\$3.90	\$3.90	\$3.90	\$4.39	\$4.94	\$5.55	118	0%	SD
FAST	Fastenal Company	\$42.62	2.8%	\$1.20	4.6%	\$1.20	\$1.27	\$1.32	\$1.39	\$1.66	\$1.98	42	1%	MD
UPS	United Parcel Service Inc. Com	\$110.48	2.8%	\$3.12	4.4%	\$3.12	\$3.32	\$3.62	\$4.00	\$4.00	\$4.85	101	9%	MD*
EMR	Emerson Electric Company Common	\$56.38	3.4%	\$1.90	4.2%	\$1.90	\$1.96	\$2.00	\$1.96	\$2.16	\$2.37	62	-9%	MD/AAll
IBM	International Business Machines	\$161.40	3.5%	\$5.60	4.2%	\$5.25	\$5.50	\$6.05	\$6.40	\$6.57	\$6.75	145	11%	AAll
GE	General Electric Company Common	\$32.78	2.8%	\$0.92	4.0%	\$0.93	\$0.96	\$1.02	\$1.07	\$1.19	\$1.31	30	9%	MD*
<b>Cyclical</b>														
MAIN	Main Street Capital Corporation	\$33.16	6.5%	\$2.16	7.4%	\$2.16	\$2.18	\$2.25	\$2.31	\$2.38	\$2.45	33	0%	BDC Buzz
STAG	Stag Industrial Inc. Common St	\$24.79	5.6%	\$1.39	7.2%	\$1.39	\$1.44	\$1.51	\$1.63	\$1.71	\$1.79	22	13%	BT
IVZ	Invesco Ltd Common Stock	\$28.00	4.0%	\$1.12	6.2%	\$1.12	\$1.20	\$1.29	\$1.41	\$1.57	\$1.74	34	-18%	AAll
HCN	Welltower Inc. Common Stock	\$77.42	4.4%	\$3.44	5.5%	\$3.44	\$3.57	\$3.72	\$3.94	\$4.12	\$4.29	75	3%	MD*
CMP	Compass Minerals Intl Inc Commo	\$72.97	3.8%	\$2.78	5.4%	\$2.78	\$2.94	\$3.19	\$3.41	\$3.65	\$3.91	89	-18%	MD/MS
WFC	Wells Fargo & Company Common St	\$48.53	3.2%	\$1.55	4.2%	\$1.52	\$1.58	\$1.71	\$1.82	\$1.93	\$2.06	61	-20%	MD*/AAll/MS

1. Sort by fair value (FV Est.) to eliminate over-valued stocks.
2. Sort by super-sector to diversify.
3. Rank by yield on cost (YOC) to exclude the lowest yielding stocks



# Investment Process: Portfolio example

## Typical portfolio metrics:

Average current dividend yield: 4.0%

Average projected yield on cost in 5 years: 5.4%

Average estimated price/value: -3%

Companies with an economic moat as a percent of the portfolio: 87%

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MAIN	Main Street Capital Corporation	\$33.14	6.5%	650	\$21,541	\$1,404	\$1,417	\$1,463	\$1,502	\$1,547	\$1,593	Financial Services	0%	\$33	
IVZ	Invesco Ltd Common	\$28.02	4.0%	770	\$21,575	\$862	\$924	\$993	\$1,086	\$1,209	\$1,340	Financial Services	-18%	\$34	
WFC	Wells Fargo & Company	\$48.65	3.2%	440	\$21,406	\$669	\$695	\$752	\$801	\$849	\$906	Financial Services	-20%	\$61	
STAG	Stag Industrial Inc.	\$24.80	5.6%	870	\$21,576	\$1,209	\$1,253	\$1,314	\$1,418	\$1,488	\$1,557	Real Estate	13%	\$22	
HCN	Welltower Inc.	\$77.52	4.4%	280	\$21,706	\$963	\$1,000	\$1,042	\$1,103	\$1,154	\$1,201	Real Estate	3%	\$75	
Money Market					\$6,761										
<b>Total Investment: \$500,000</b>															
<b>Projected Annual Dividend Income:</b>						<b>\$19,948</b>	<b>\$20,887</b>	<b>\$21,991</b>	<b>\$23,438</b>	<b>\$25,113</b>	<b>\$27,075</b>				
<b>Yield on Cost:</b>						<b>4.0%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>4.7%</b>	<b>5.0%</b>	<b>5.4%</b>				

Projected Yield on Cost is calculated using consensus 5-year earnings estimates. Fair value estimates and moat ratings are from Morningstar.com or Verity Asset Management.

## Sell Discipline – Seeking Qualified Dividends and Long-term Gains

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***Our favorite holding period is forever – except when we believe future dividend growth is at risk.*** For example:

1. When a company's Board of Directors says that future dividends will not be raised for an indefinite period. *Intel's Board of Directors In 2014.*
2. When an analyst sells a stock. *Chevron in 2016, Rogers Communications and National Grid in 2015, and GlaxoSmithKline in 2014.*
3. When we lose confidence in a company's ability to grow its dividends or hold its value. *Tupperware in 2014.*
4. When a stock becomes overvalued by approximately 20% or more. If the stock is performing well, we generally sell only half while continuing to monitor. (*General Mills and Realty Income in 2016*)
  - Outright sale
  - Sell covered calls (under consideration)
5. When year-end tax swaps are indicated. (Will typically hold an appropriate ETF in place of the security for at least 31 days.)





## Terms and concepts:

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**Yield on cost:** This is one of the two key measures of value utilized in the strategy. Its purpose is to help maximize current and future dividends.

The calculation is the projected dividend in a future year as a percent of the money invested today. Future dividends are based entirely on analysts' five-year consensus growth rates, which are compiled by a research service. Yield on cost is a forward-looking calculation, whereas the current dividend yield is based on the present and recent past.

The strategy uses the projected dividend in five years as a percent of today's value to calculate yield on cost. We believe that taking five year dividend growth into account helps avoid stocks that analysts believe are more likely to be slow growers.

**Price to Fair Value:** This is one of the two key measures of value in the strategy. Its purpose is to help avoid buying and holding over-valued stocks.

The calculation divides the current price of a stock by that stock's estimated fair value. Fair value can be somewhat subjective, because it is forward looking and based on a company's estimated future cash flows. We primarily rely on the fair value estimates published by Morningstar ([www.morningstar.com](http://www.morningstar.com)). If a Morningstar fair value estimate is not available, we estimate fair value ourselves.

**Sequence risk:** It is not just long-term average returns that impact financial wealth, but the timing of those returns also matters, especially in retirement. When retirees begin withdrawing money from their investments, the returns during the first few years can have a major impact on their wealth if they withdraw from both principal and income. If initial losses occur, retirees may risk jeopardizing their future income. The Verity Income Builder Strategy seeks to minimize sequence risk by investing primarily for current income and future income growth so investors are not typically subject to withdrawing principal from this strategy.



## Terms and concepts:

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**Economic Moat:** This term refers to analysts' assessment of a company's competitive standing. Moats are described as "strong," "weak," or "none." We rely on Morningstar for their moat ratings, which are based on five identifiable characteristics defined as: network effects, intangible assets, cost advantages, customer switching costs, and efficient scale. We believe companies with an economic moat are more likely to earn higher returns on capital than their no-moat counterparts over long time horizons.

**Separate Account:** We use this term to refer to a portfolio that is managed individually, rather than one that is managed using a model that may be applied to multiple accounts. For this strategy, the advantage of a separate account is the opportunity to manage your portfolio tax efficiently. Tax management may include relatively low stock turnover in a portfolio, timing sales for lower long-term capital gains rates and using techniques designed to minimize annual net realized gains.

**Projected dividend growth rates:** We do not make dividend growth rate projections based on our internal analysis. We rely on the consensus estimate of professional securities analysts. These estimates are publicly available and they change as analysts revise their 5-year earnings growth estimates. This approach assumes that dividends will grow at the same rate as projected earnings.

From 1969 through 2015, the growth in dividends for the S&P 500 Index averaged 5.9% annually.<sup>1</sup> However, there is no assurance that dividend growth projections will be achieved.

<sup>1</sup> Source: Thornburg Investment Management 2016, "The Case for a High and Growing Dividend Stock Strategy in Retirement Portfolios," updated from *Investments & Wealth Monitor* November/December 2008 issue.



# Portfolio Manager Profile and Important Disclosures

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## Meet Your Portfolio Manager

Malcolm Trevillian, CFA has managed portfolios for a variety of clients with care and thoughtful oversight since 1986. He specializes in helping retirees maximize current and future income from their investment portfolios.

Malcolm joined Verity in 2008. He serves on the firm's Investment Committee. Malcolm holds two professional designations: Chartered Financial Analyst and Chartered Market Technician. He is a past Governor of the Chartered Financial Analyst Institute.

Malcolm designed the Verity Income Builder Strategy from his experience as a portfolio manager in the Trust division of a major southeastern bank during the 1980s and '90s.



## Important Disclosures

Illustrations representing dividend forecasts for individual stocks are forward-looking statements based upon an outside source using consensus data. Verity Asset Management believes these forecasts are reasonable, but they are not a guarantee of future performance. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward looking statements.

The investment process illustrated is representative of some of the steps in the actual process, but is not intended to demonstrate the entire screening process, components of which may be proprietary.

Portfolios of common stocks are subject to market risk. Diversification does not assure a profit or protect against loss in a declining market. All investing involves risk of loss. Portfolio values will fluctuate with changing market conditions, and there is no guarantee that strategies that have been successful in the past will be similarly successful in the future. This material contains forward looking statements. There is no guarantee that these outcomes will be achieved.

Verity Asset Management, LLC ("Verity") is an SEC registered investment adviser with its principal place of business in the State of North Carolina. Any references to the terms "registered investment adviser" or "registered," do not imply that Verity Asset Management or any person associated with Verity Asset Management have achieved a certain level of skill or training.

This document contains summary information only. Before investing, see Verity's Form ADV Part 2 for additional description and fees.