

DOW THEORY FORECASTS®

Vol. 71, No. 14, April 6, 2015

Stock Market Trends & Securities Reports Since 1946

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Blue chips? Only in name

Every month, ICLUBCentral, a provider of accounting solutions for investment clubs and individual investors, lists the 40 stocks most widely held by investment clubs. More than 100,000 investors use the company's software, so the list represents a reasonable proxy for the most popular holdings of individual investors. The top 10 holdings in ICLUBCentral's latest report are listed in the table on page 2.

Many of these stocks are big, well-known "blue chips." Yet only one of the 10 stocks — **Apple** (\$124; AAPL) — is recommended by the *Forecasts*. And among ICLUB's list of the top 40 holdings, only six — Apple, **CVS Health** (\$102; CVS), **Google** (\$549; GOOGL), **Gilead Sciences** (\$98; GILD), **Schlumberger** (\$84; SLB), and **Wells Fargo** (\$54; WFC) — are rated Buy or Long-Term Buy.

Our lack of interest in some of the the most popular stocks inspires questions from subscribers:

Q Why does the *Forecasts* hate popular, blue-chip stocks?

A We don't hate blue-chip stocks. We do have reasons

Continued on page 2

Income, quality rarely mix

Stock investors looking for income have it pretty tough.

Sure, you can get high yields — if you stick to a few industries or settle for stocks with questionable fundamentals. Or you can focus on the fundamentally strong, only to learn that few of these stocks offer generous yields.

The table below illustrates the difficulty in finding balance. The two sectors with the highest average yield (utilities and telecom) rank no higher than ninth out of the 10 sectors in three-year dividend growth and fifth out of 10 in Quadrix® Overall score. In contrast, the two sectors with the highest Overall scores (consumer discretionary and industrials) rank

no higher than seventh in yield. These numbers provide yet another reason why investors — even those seeking income — should judge each stock on its own merits. Don't just collect utilities because they pay high yields or ignore industrials because they don't.

Only the financial sector ranks in the top half in all three statistics, and you shouldn't sacrifice diversification to fill your portfolio with financials.

So, what is an income investor to do?

Narrow your focus and seek the best of both worlds. The charts on page 4 reflect the results of our three-part screen. We broke the S&P 1500

Continued on page 4

TOUGH TO FIND INCOME, FUNDAMENTALS TOGETHER

The two S&P 1500 Index sectors with the highest average yields tend to have lower dividend growth and Quadrix Overall scores, while the top Overall scorers don't offer much yield. Only one sector — financials — ranks among the top half based on yield, dividend growth, and Overall score.

S&P 1500 Sector (Number Of Companies)	Dividend — Yield —		3-Year Annual. — Div. Growth —		Quadrix — Overall —	
	Average	Rank	Average	Rank	Average	Rank
Consumer Discretionary (237)	1.2%	8	11%	7	64	1
Consumer Staples (70)	1.8	5	9	8	50	9
Energy (100)	2.2	4	11	6	56	6
Financials (297)	2.7	3	18	2	62	3
Health Care (157)	0.6	10	13	3	56	7
Industrials (219)	1.3	7	12	5	62	2
Technology (244)	0.8	9	18	1	59	4
Materials (101)	1.8	6	12	4	54	8
Telecom (15)	3.6	1	-3	10	47	10
Utilities (60)	3.5	2	5	9	56	5
S&P 1500 (1,500)	1.6		13		59	

Note: Quadrix scores are percentile ranks, with 100 the best.

Blue chips? Only in name

Continued from page 1

for excluding many stocks investors perceive as blue chips, most importantly poor scores in our Quadrix® stock-rating system. With few exceptions, the 10 popular stocks in the table at right earn middling Overall scores. The *Forecasts* uses a disciplined, consistent methodology for selecting stocks, with the Overall score a key component. We focus on stocks scoring at least 80 Overall, and preferably above 90. A stock earning a 50 is unlikely to be selected as a Buy or Long-Term Buy, no matter how many individuals consider it a blue chip.

Another reason for exclusion is lack of catalysts. Catalysts can be new products, management changes, financial engineering (big dividend boosts or stock buybacks), or simply the potential to outperform Wall Street's profit expectations. Because so many analysts and investors follow blue chips, they may have limited ability to surprise.

Q Do you avoid blue chips because they are already popular?

A Many widely owned stocks face headwinds. In simplest terms, if a lot of people already love a stock, fewer are left to buy it and push the price higher. However, there are ex-

The Dow Theory is a method of interpreting and classifying general market trends and does not directly encompass the selection or rating of individual stocks or the duration of market movements. Dow Theory Forecasts endeavors to supply its subscribers with sound opinions and advice based on its analysis of public information from sources believed to be reliable. The opinions and advice of Dow Theory Forecasts are not based on the individual investment objectives of subscribers. It should not be assumed that present or future recommendations will be profitable or will equal past performance.

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MOST WIDELY HELD STOCKS IN INVESTMENT CLUBS

Company (Price; Ticker)	Popularity	Div.	Yield	Quadrix Scores				
				Momen- tum	Value	Quality	Earns. Ests.	Overall
Apple (\$124; AAPL)	1	\$1.88	1.5%	94	70	98	98	99
General Electric (\$25; GE)	2	0.92	3.7	48	73	51	66	63
Johnson & John. (\$99; JNJ)	3	2.80	2.8	38	53	68	33	48
Ford Motor (\$16; F)	4	0.60	3.8	32	88	54	19	62
Microsoft (\$41; MSFT)	5	1.24	3.0	26	70	82	13	54
PepsiCo (\$95; PEP)	6	2.62	2.8	36	45	70	18	40
Disney (\$105; DIS)	7	1.15	1.1	74	37	91	68	79
Exxon Mobil (\$84; XOM)	8	2.76	3.3	18	72	73	68	61
Procter & Gamble (\$82; PG)	9	2.57	3.1	20	45	56	17	28
Qualcomm (\$69; QCOM)	10	1.68	2.4	63	83	95	88	96

Note: Quadrix scores are percentile ranks, with 100 the best.

Source: ICLUBCentral.

ceptions, Apple chief among them. We see plenty of upside locked up in its solid operating momentum, cash-heavy financial position, and potential catalysts in the form of new products and oversized dividend increases and stock buybacks.

Q Several of these consensus blue chips have underperformed in recent years. Should I sell them?

A If you seek to maximize expected returns over the next 12 months, the *Forecasts* recommends you stick to our Buy-rated stocks. If we don't rate your blue chip a Buy, don't hesitate to sell it and buy our recommendations.

The *Forecasts* selects Buy-rated stocks based on their return potential over the next 12 months. That doesn't mean we automatically sell after holding for 12 months — we have had some stocks on our Buy List for years. For Long-Term Buys, we consider total-return potential over the next

24 to 48 months.

Q If I've held my blue chip for 20 years and have big embedded capital gains, should I sell anyway?

A Because we can't know the tax situations of all our subscribers, the *Forecasts* recommends stocks solely on their investment merit. Obviously, taxes matter, but far too often taxes drive investment decisions to the detriment of investors.

Of course, not all blue chip companies with Overall scores below 80 are bad stocks. Hundreds of the more than 5,000 U.S.-traded stocks represent worthwhile investments. But the *Forecasts* doesn't simply seek worthwhile stocks.

Instead we seek those 25 to 40 stocks that provide the best opportunities. Investors have a finite amount of money to invest. Tie funds up in blue chips that used to perform well but no longer look good, and you may weaken your portfolio.

capitalized securities are made available to subscribers. A small-capitalized security is defined as meeting one of the following criteria: 1) a market capitalization of less than \$300 million or 2) a three-month average daily trading volume of less than 200,000 shares, and a market capitalization of less than \$1 billion.

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Dow Theory Forecasts (ISSN 0300-7324 USPS 997-000) published weekly by Horizon Publishing Company, 7412 Calumet Ave, Hammond, Indiana 46324-2692. Subscription Rate \$289 a year. Back issues are available

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MARKET COMMENTARY

Earnings worries weigh

Because this year's new highs in the Dow Industrials have not been confirmed by new highs in the Dow Transports, we view the Jan. 30 closing lows of 17,164.95 in the Industrials and 8,649.32 in the Transports as actionable bear-market points. While the Industrials are about 3% above their Jan. 30 close, the Transports are within 0.5%.

If both averages close below those points, we'd view that as confirmation that the primary trend has shifted to the bearish camp under the Dow Theory — and as a reason to reduce our exposure to equities.

While our asset allocation also depends on the opportunities in individual stocks, a bear-market signal is likely to mean a drop in our stock-market exposure to 75% or lower. For now, we intend to watch the averages as we keep about 85% of our buy lists in stocks.

Heading into earnings season, pessimism is running high regarding near-term corporate profits and U.S. economic growth. For the S&P 500 Index, consensus estimates now project a 4.6% year-to-year decline in first-quarter earnings per share, down from the 4.2% increase that was expected on Dec. 31, according to FactSet. Not since early 2009 have estimates been cut so much during a quarter.

All 10 sectors of the index have seen downward profit revisions. But much of the pain has been concentrated in the energy sector, which is projected to report a 64% year-to-year decline. Excluding the energy sector, earnings for the S&P 500 Index are projected to be up 3.4%.

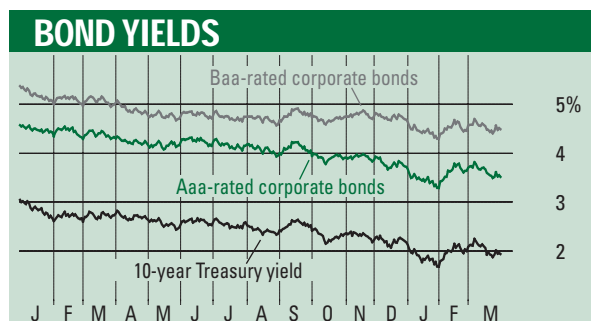
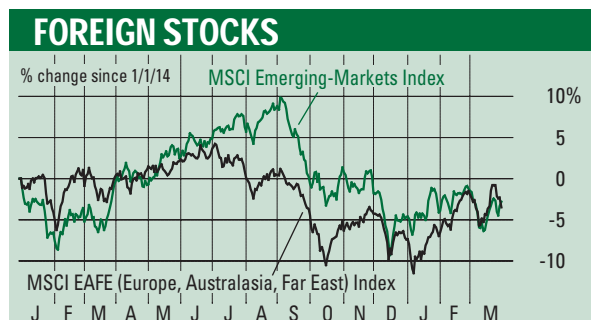
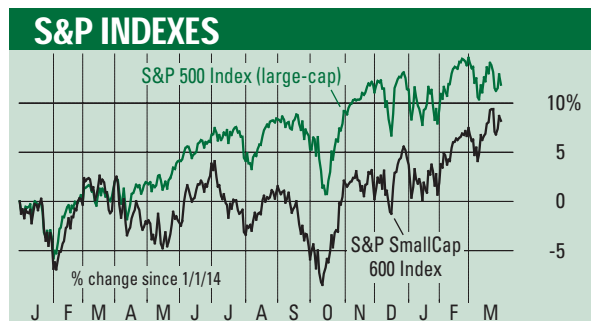
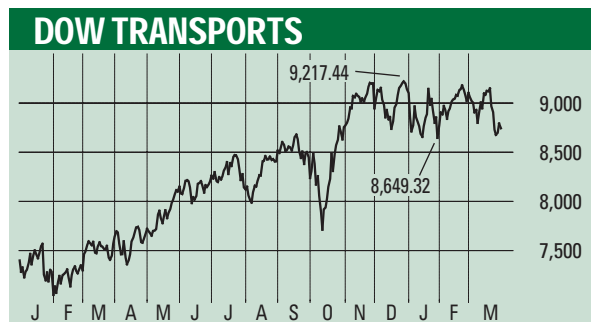
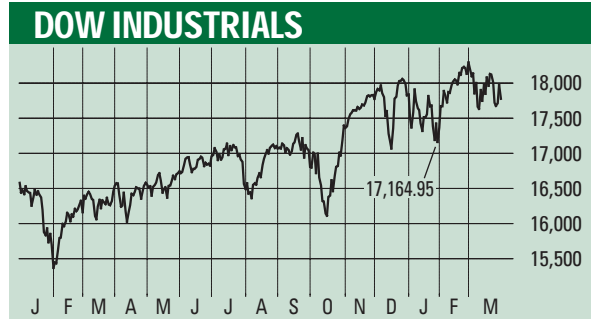
A sharp jump in the dollar has also weighed on profit expectations, especially at the big multinational companies heavily weighted in the S&P 500. For our entire Quadrix® universe of U.S.-traded stocks, the median company is expected to report a 6% increase in per-share profits in its next quarterly report.

To be sure, profit expectations have also been hurt by weaker-than-expected readings on the economy. The Citigroup Economic Surprise Index, a rolling measure of positive and negative surprises relative to consensus estimates, is at its lowest level in more than three years.

Conclusion

Since 2003, stocks have tended to perform well in the six months following low readings in the Economic Surprise Index. Similarly, stocks have tended to rally in earnings seasons that followed widespread downward revisions.

With both the Industrials and Transports within striking distance of bear-market points, whether that pattern repeats will be crucial. For new buying, **Ameriprise Financial** (\$130; AMP) and **Lear** (\$112; LEA) represent top picks.



Charts by MetaStock ©

Income, quality rarely mix

Continued from page 1

into 62 industry groups (ignoring the four groups with fewer than four stocks), then sifted them according to the following criteria:

- ▶ Average yields of at least 1%. Forty-three groups made the cut.
- ▶ Average three-year annualized dividend growth of at least 10%. That criteria knocked out 19 of the 43 high-yield groups, leaving 24.
- ▶ Average Quadrix Overall scores of at least 60. Only 13 of the previous 24 groups made the cut.

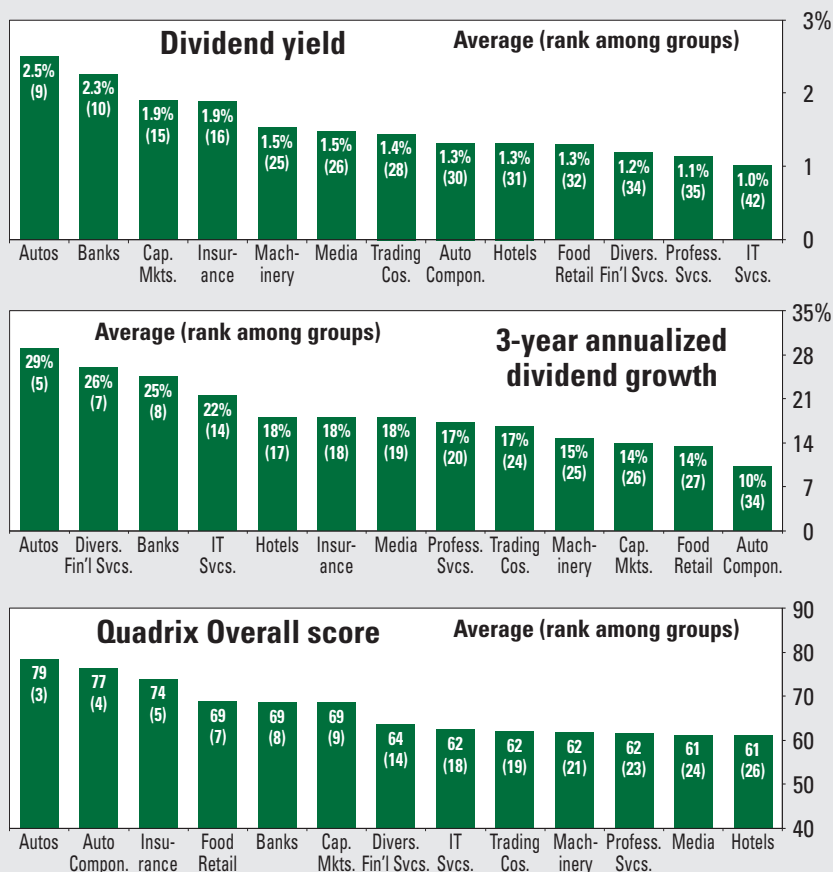
The 13 groups that satisfied all three screens seem like fine places to start looking for high-quality stocks with decent yields and the wherewithal to keep the payout growing over time. Check out the table on page 5 for a list of recommended stocks in those groups. Four are reviewed below:

➤ Cable giant **Comcast** (\$57; CMCSa) initiated its dividend in 2008. But what the dividend lacks in longevity, it makes up in growth. In the wake of an 11% hike in February, the payout has risen at an annualized rate of 23% over the last seven years and 35% over the last three.

Despite talk of cord-cutting, Comcast has enjoyed excellent operating momentum. In 2014, Comcast grew operating cash flow 7% and per-share profits 19%. Credit the growth to a combination of slower-than-expected erosion of video subscribers (a net loss of 194,000 last year), and aggressive gains in voice (470,000) and internet (1.28 million) customers.

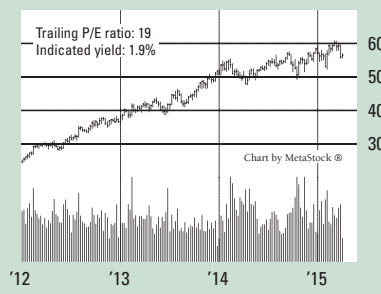
Comcast has absorbed plenty of bad news in recent weeks. Federal regulators have once again delayed their review of the company's proposed acquisition of Time Warner Cable (\$152; TWC); **Apple** (\$124; AAPL) plans to launch a cheap TV bundle; and the Obama administration seeks to step up regulation of the internet.

GROUPS THAT HAVE IT ALL



Shown above are the 13 industry groups with average dividend yields of at least 1%, three-year annualized dividend growth of at least 10%, and Quadrix Overall scores of at least 60.

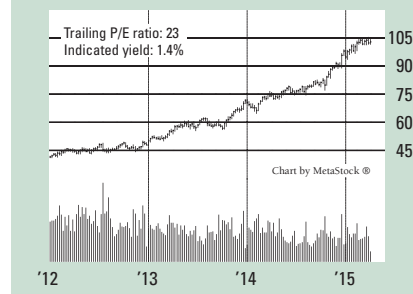
COMCAST



However, the profit consensus for this year has fallen to 1% growth, which seems overly pessimistic. *Comcast is a Buy and a Long-Term Buy.*

➤ Drugstore chain and pharmacy-benefit manager **CVS Health** (\$102; CVS) has boosted its dividend at an annualized rate of 27% over the last 10 years. Fewer than 4% of S&P

CVS HEALTH

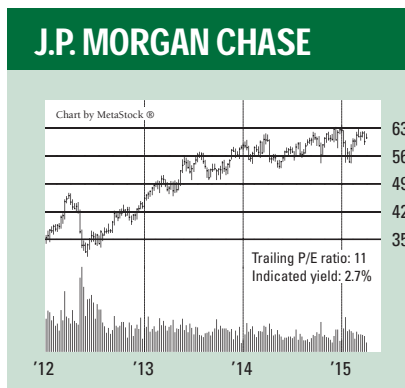


1500 stocks can top that growth. Despite the more than tenfold gain in the payout for the decade, CVS' estimated dividend of \$1.40 per share accounts for less than one-third of trailing 12-month earnings.

Both of the company's core businesses tend to be consistent and fairly insensitive to the economy. The con-

sensus projects sales growth of nearly 8% and per-share-profit growth of roughly 14% this year and next year, with potential upside to those targets. Managed-care giant **UnitedHealth** (\$117; *UNH*), which also operates a PBM, agreed late last month to buy Catamaran (\$59; *CTRX*). The deal should boost UnitedHealth's negotiating power with drugmakers, which is bad news for a pharmaceutical industry increasingly dependent on high-priced specialty drugs. CVS, the second-largest PBM in the country, stands to benefit from any loss of influence for drugmakers. *CVS, yielding 1.4%, is a Buy and a Long-Term Buy.*

Like other big U.S. banks, **J.P. Morgan Chase** (\$60; *JPM*) is trying to make up for lost time. Its dividend has increased at an annualized rate of 17% over the last three years, but just 2% over the last decade. That disparity reflects an 87% dividend cut in 2009. Since early 2011, J.P. Morgan has raised its quarterly payout four times, including a boost to a record-high \$0.40 per share last year. While the company hasn't made the hike official, it plans to boost the payment 10% to \$0.44 per share starting in July. The dividend payout ratio stands at 29% of earnings,

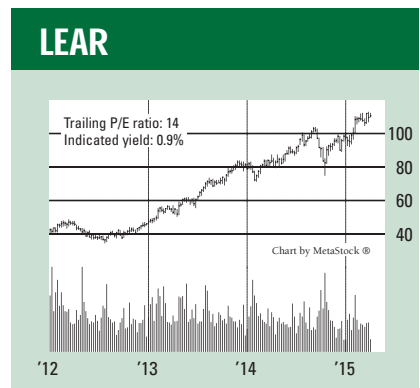


and J.P. Morgan hopes to reach 50% if regulators allow.

J.P. Morgan Chase shares trade at 11 times trailing earnings, 41% below the bank group average and 12% below the average for the company's subindustry, diversified banks. The

consensus projects per-share-profit growth of 9% this year and 12% next year. Given the company's estimate that profits would rise by \$2.9 billion (\$0.50 per share) for each percentage-point rise in interest rates, estimates could prove conservative. *J.P. Morgan, yielding 2.7%, is a Long-Term Buy.*

Automobile-components stocks average Quadrix Overall scores of 77, fourth-best among the 62 industry groups. But even within that high-scoring collection of stocks, **Lear**



(\$112; *LEA*) stands out. Its 99 Overall score is tops in the group, while its annualized dividend growth of 21% over the last three years and 10% over the last 10 are among the highest. Lear's dividend yield of 0.9% isn't especially impressive, but the estimated year-ahead payout equals just 12% of trailing 12-month earnings, leaving plenty of flexibility for continued hikes.

Over the last year, Lear grew sales 9%, operating cash flow 13%, and per-share profits 67%. Despite that superior growth — not to mention the high Overall score and robust dividend expansion — Lear trades at 12 times projected 2015 earnings, 29% below the industry average. The stock's Value score of 87 is well above the industry average of 68. Analysts project Lear's per-share profits will rise 20% to \$2.20 in the March quarter. *Lear is a Focus List Buy and a Long-Term Buy.*

INCOME SPOTLIGHT

QUALITY STOCKS IN INDUSTRIES WITH INCOME APPEAL

We recommend 11 dividend-paying stocks from among the 13 groups that satisfied our three-part screen on page 4.

Company (Price; Ticker)	Dividend Yield	Dividend Growth		Payout Ratio	P/E Ratio			Quadrix Overall Score	Sector	Industry
		3 Year	10 Year		Trailing 12 Months	Vs. 5-Yr. Avg.	Versus Industry Average			
Ameriprise (\$130; AMP)	2.32 1.8%	27%	18%	27%	15	1.16	0.86	98	Financials	Capital mkt.
Comcast (\$57; CMCSa)	1.10 1.9	35	NM	38	19	1.12	1.02	91	Discretion.	Media
CVS Health (\$102; CVS)	1.40 1.4	29	27	31	23	1.38	1.05	76	Staples	Food/drug ret.
J.P. Morgan (\$60; JPM)	1.60 2.7	17	2	29	11	1.09	0.67	75	Financials	Banks
Kroger (\$77; KR)	0.74 1.0	17	NM	21	22	1.62	1.01	92	Staples	Food/drug ret.
Lear (\$112; LEA)	1.00 0.9	21	10	12	14	1.38	0.78	99	Discretion.	Auto compon.
Lincoln National (\$57; LNC)	0.80 1.4	36	-5	13	9	1.01	0.69	99	Financials	Insurance
Magna Int'l (\$53; MGA)	0.88 ^e 1.7 ^e	17	9	19	11	0.80	0.64	93	Discretion.	Auto compon.
Travelers (\$107; TRV)	2.20 2.1	10	10	21	10	0.93	0.74	98	Financials	Insurance
U.S. Bancorp (\$43; USB)	1.02 2.3	27	1	33	14	1.02	0.87	83	Financials	Banks
Wells Fargo (\$54; WFC)	1.50 2.8	19	5	37	13	1.15	0.83	75	Financials	Banks

Note: Quadrix scores are percentile ranks, with 100 the best. NM Not meaningful because company didn't pay dividends 10 years ago. ^e Estimated.

Health-care update

■ **Mylan** (\$58; MYL) announced a public offering of 35 million shares, or nearly one-third of **Abbott Laboratories'** (\$46; ABT) \$6.5 billion stake in the company. The underwriters have the option to purchase an additional 5.2 million shares. Mylan issued 110 million shares to Abbott in February to complete its acquisition of Abbott's branded-generics and specialty units for developed markets outside of the U.S. Abbott has said from the start that it intends to divest its 22% interest in Mylan fairly quickly.

In other news, Mylan rival Teva Pharmaceutical Industries (\$63; TEVA) agreed to pay about \$3.5 billion in cash to acquire Auspex Pharmaceuticals (\$100; ASPX). The deal represents a 42% premium to Auspex's stock price prior to the announcement. Teva had avoided mak-

RANK CHANGES

No changes were made this week in *Dow Theory Forecasts*.

* * * * *

Check for rank changes and market updates on our twice-weekly hotlines, updated Wednesdays after the market's close and Fridays around noon Central time. Go to **www.DowTheory.com** or call (800) 931-2295. **For April, the passcode for the telephone hotline is 444.**

ing big deals in the past few years, but CEO Erez Vigodman, who took the helm last year, said in February that the drug giant would pursue either a major acquisition or several smaller ones. Those comments have led to speculation that Mylan, with a stock-market value of about \$23 billion, could become a takeover target. Analysts say Teva still enjoys the financial flexibility to make a larger deal down

the road and would consider a hostile takeover. *Mylan is a Buy and a Long-Term Buy. Abbott is rated B (average).*

■ **Gilead Sciences** (\$98; GILD) won regulatory approval to sell hepatitis C drug Sovaldi in Japan. Japanese approval for Gilead's other hepatitis C treatment, Harvoni, is expected in the second half of the year. *Gilead is a Long-Term Buy.*

Corporate roundup

◆ **Comcast** (\$57; CMCSa) said it now expects to complete its pending \$45 billion acquisition of Time Warner Cable (\$152; TWC) in the middle of the year. The delay stems from the Federal Communications Commission's decision last month to pause its review of the deal. Comcast had previously told investors the deal would be done in the March quarter. In other news, Comcast formed a new company that will invest up to \$4.1 billion in growth businesses around the world. *Comcast is a Buy and a Long-Term Buy.*

Semiconductor stocks hit speed bump

Semiconductor stocks have been one of the better-performing S&P 1500 industries this year, with stocks averaging total returns of 12%. But the group has been hit hard in the past couple weeks, amid warnings issued by **Intel** (\$31; INTC) and **SanDisk** (\$65; SNDK). Taiwan Semiconductor Manufacturing (\$23; TSM) also reported a recent slowdown.

Shares of **Nvidia** (\$21; NVDA) and **Micron Technology** (\$27; MU) have slumped at least 2% in the past two weeks. The sell-off has extended to equipment maker **Lam Research** (\$70; LRCX), hurt by fears that key customer Samsung Electronics has postponed orders.

Skyworks Solutions (\$97; SWKS) is a notable exception, with its shares flat over the last couple weeks, possibly supported by anticipation surrounding the April debuts of the Apple Watch and Samsung

Galaxy S6 smartphone. The stock may also have gotten a lift from joining the S&P 500 Index on March 11.

Micron shook off some of the gloom by posting results that exceeded modest expectations. Micron earned \$0.81 per share in the February quarter excluding special items, down 5% but above the consensus estimate of \$0.73. Sales crept 1% higher to \$4.17 billion, also ahead of analysts' expectations. Cash from operations fell 10% to \$1.25 billion. Operating profit margins slipped as Micron said prices lagged November-quarter levels. Management's May-quarter sales guidance fell short of the consensus.

Intel has reportedly entered talks to acquire **Altera** (\$42; ALTR), a maker of programmable semiconductors that had a market value of \$10.4 billion before news of a potential takeover surfaced. The deal could help jump-

start Intel's growth — earnings per share are projected to fall 7% this year on flat revenue — and reduce the company's reliance on personal computers, which account for about 60% of sales. Altera has a large presence in the telecommunications, military, and aerospace end markets.

A deal could fuel further consolidation in an industry that has already gotten off to a busy start on the acquisition front. The global volume of announced mergers and acquisitions for the semiconductor industry had topped \$21 billion through late March, according to Dealogic, up 122% from a year ago and the most since at least 1995. *Both Lam and Nvidia remain Focus List Buys and Long-Term Buys. Micron and Skyworks are Buys and Long-Term Buys. Intel is rated A (above average). Altera and SanDisk are rated B (average).*

◆ **Magna International** (\$53; MGA) is reportedly discussing the sale of its car-interior business to Grupo Antolin of Spain. The business produces annual revenue of about \$3 billion, or 8% of Magna's total sales. *Magna is a Focus List Buy and a Long-Term Buy.*

◆ Eurasia Drilling extended its deadline to sell a 46% percent stake in itself to **Schlumberger** (\$84; SLB) for \$1.7 billion. Russian regulators continue to deliberate over approving the deal, originally expected to close by the end of March. Eurasia Drilling owns Russia's largest fleet of land-drilling rigs. Separately, Schlumberger agreed to pay a \$233 million penalty — less than 5% of 2014 free cash flow — and plead guilty to violating U.S. sanctions in Iran and Sudan. The investigation spanned six years, and Schlumberger has wound down operations in both countries over the past two years. *Schlumberger is a Long-Term Buy.*

◆ The chairman of the U.S. Senate's antitrust panel seeks more information on the Federal Trade Commission's probe into **Google** (\$549; GOOGL). Last month the FTC inadvertently released a 2012 staff report that had recommended filing an antitrust lawsuit against Google. The FTC ended its probe in early 2013, with Google voluntarily agreeing to change its practices. *Google is a Buy and a Long-Term Buy.*

Banks gear up for earnings

The S&P 500 Index's financial stocks have averaged a total return of 0.4% so far this year, lagging the average of 2.0% for the broader Index. But financial stocks have gained momentum heading into earnings season, posting the second-highest return among the 10 sectors in the past month.

The sector's share-price momentum coincides with a much-needed dose of good news for banks. Trading volumes turned sharply higher in the March quarter, while demand for home loans has also been unex-

BUYS AND LONG-TERM BUYS

The Buy List represents our top choices for 12-month gains. Focus List stocks, listed in **bold**, represent the best picks among that group. Long-Term Buys are our top choices for 24- to 48-month gains.

If you want your equity portfolio to track the Buy List or Long-Term Buy List, purchase each of the stocks below in the proportion suggested by the target weight. To represent the cash portion of your equity portfolio, hold 15.2% (Buy List) or 15.4% (Long-Term Buy List) in the **Vanguard Short-Term Corporate Bond** (\$80; VCSH) exchange-traded fund.

If you are copying the Focus List, hold a 15.2% fund position and put the rest into equal-dollar positions in the Focus List stocks.

Company (Price; Ticker)	- Target Weight -		Market		Div. Yield	Div. Payout Ratio	Quadrix Overall Score	52-Wk. Price Range
	Buy List	LT Buy List	Value (Bil.)	Div.				
ADT (\$42; ADT)	3.0%	2.2%	\$7.3	\$0.84	2.0%	40%	96	\$42 - \$29
Aetna (\$107; AET)	3.7	2.9	37.9	1.00	0.9	15	86	110 - 67
Affiliated Managers (\$214; AMG)		2.2	12.5	0.00	0.0	0	97	221 - 174
Alaska Air (\$64; ALK)	3.7	2.9	8.6	0.80	1.3	19	97	71 - 41
Ameriprise Financial (\$130; AMP)	3.7	2.9	24.9	2.32	1.8	27	98	138 - 101
• Apple (\$124; AAPL)	3.7	2.9	730.8	1.88	1.5	25	99	134 - 73
• CDW (\$37; CDW)	3.0	2.2	6.4	0.27	0.7	11	98	38 - 27
• Comcast (\$57; CMCSa)	3.0	2.2	147.8	1.10	1.9	38	91	60 - 47
• Corning (\$22; GLW)	3.7	2.9	31.2	0.48	2.2	31	89	25 - 17
CVS Health (\$102; CVS)	3.0	2.2	117.8	1.40	1.4	31	76	105 - 72
• F5 Networks (\$114; FFIV)	3.0	2.2	8.4	0.00	0.0	0	84	136 - 99
Foot Locker (\$63; FL)	3.7	2.9	9.0	1.00	1.6	28	93	64 - 44
• Gilead Sciences (\$98; GILD)		2.2	156.1	0.00	0.0	0	98	117 - 64
• Google (\$549; GOOGL)	3.0	2.2	374.0	0.00	0.0	0	63	609 - 491
J.P. Morgan Chase (\$60; JPM)		2.2	225.7	1.60	2.7	29	75	63 - 53
Jones Lang LaSalle (\$171; JLL)	3.7	2.9	7.8	0.50	0.3	6	94	171 - 113
Kroger (\$77; KR)	3.7	2.9	37.8	0.74	1.0	21	92	78 - 43
• Lam Research (\$70; LRCX)	3.7	2.9	12.4	0.72	1.0	15	96	86 - 51
Lear (\$112; LEA)	3.7	2.9	9.1	1.00	0.9	12	99	113 - 75
Lincoln National (\$57; LNC)		2.2	15.0	0.80	1.4	13	99	61 - 45
Macy's (\$65; M)		2.2	23.0	1.25	1.9	28	88	68 - 55
Magna Int'l (\$53; MGA)	3.7	2.9	22.1	0.88 ^e	1.7 ^e	19	93	57 - 41
• Micron Technology (\$27; MU)	3.0	2.2	32.4	0.00	0.0	0	94	37 - 21
• Mylan (\$58; MYL)	3.0	2.2	23.2	0.00	0.0	0	83	66 - 45
• Nvidia (\$21; NVDA)	3.7	2.9	11.7	0.34	1.6	24	96	24 - 17
Schlumberger (\$84; SLB)		2.2	109.0	2.00	2.4	36	62	119 - 76
• Shire (\$233; SHPG)	3.7	2.9	45.9	0.69 ^e	0.3 ^e	7	92	265 - 142
• Skyworks Solutions (\$97; SWKS)	3.0	2.2	18.8	0.52	0.5	14	93	103 - 34
Southwest Airlines (\$43; LUV)		2.2	29.8	0.24	0.6	12	96	47 - 22
Travelers (\$107; TRV)	3.0	2.2	35.5	2.20	2.1	21	98	110 - 84
U.S. Bancorp (\$43; USB)		2.2	78.1	1.02	2.3	33	83	46 - 38
Union Pacific (\$107; UNP)	3.0	2.2	95.5	2.20	2.0	38	82	125 - 90
United Rentals (\$91; URI)	3.7	2.9	9.4	0.00	0.0	0	87	120 - 81
Wells Fargo (\$54; WFC)		2.2	284.8	1.50	2.8	37	75	56 - 46

• Nasdaq Stock Exchange. Notes: Quadrix scores are percentile ranks, with 100 the best.
^e Dividend and yield estimated.

pectedly strong in 2015. The average company in the financial sector is projected to grow per-share profits 11% in the first quarter, tops among all sectors.

Over the past 60 days, analyst estimates for full-year 2015 have held mostly firm at **U.S. Bancorp** (\$43; USB), expected to report 6%

higher per-share profits, and **Wells Fargo** (\$54; WFC), expected to grow 1%. Profit estimates rose slightly for **J.P. Morgan Chase** (\$60; JPM) and project 9% growth. Both J.P. Morgan and Wells Fargo will report results on April 14, followed by U.S. Bancorp on April 15. *All three banks are rated Long-Term Buy.*



ANALYSTS' CHOICE

Recent Price	Dividend	Yield	P/E Ratio	Shares (Millions)	Long-Term Debt as % of Capital	52-Week Price Range
\$42	\$0.84	2.0%	20	175	63%	\$42.08 - \$28.85

ADT looks like a safe pick

ADT (\$42; ADT) is the leading player in a market with a long runway for future growth. The company provides electronic-security services to 6.7 million homes (about 90% of recurring monthly revenue) and small businesses (9%) in the U.S. and Canada. Its security and automation services detect intrusions, smoke, carbon monoxide, flooding, and medical emergencies. Tyco International (\$43; TYC) acquired ADT in 1997, then spun it off in September 2012.

All but 8% of revenue is recurring, giving management high visibility regarding its stable, if unspectacular, growth. Sales have risen in each of the past 13 quarters, including 6% in the December quarter, the strongest growth so far in ADT's second act as a publicly traded company.

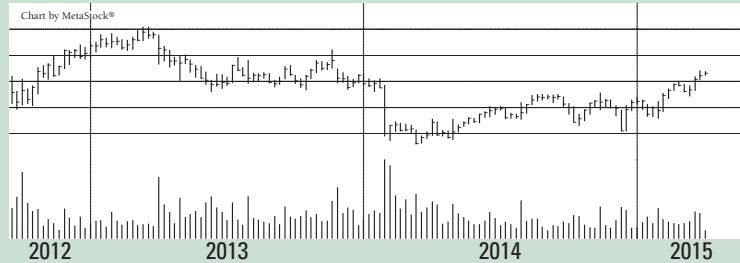
The Quadrix® Overall rank of 96 is supported by four category scores above 80. ADT, yielding 2.0%, is a Buy and a Long-Term Buy.

Business breakdown

ADT claims a leading 25% share of the highly fragmented and lightly penetrated market for home security and automation. Its five largest rivals combine for only 15% of the residential market, projected to grow 4% to 5% this year. ADT could face more competition if **Comcast** (\$57; CMCSa) and **AT&T** (\$33; T) expand further into home security. However, the market has plenty of space to accommodate several big players. Just 19% of U.S. homes have security systems, compared to 75% with high-definition TV and 83% with internet.

About 71% of ADT's new residential customers are signing up for Pulse, a remote monitoring and automation

ADT



Quarter	Per-Share Earnings*	Sales Change	Quarterly Price Range	P/E Ratio Range
Dec '14	\$0.51 vs \$0.43	6%	\$37.79 - \$30.45	19 - 15
Sep '14	0.55 vs 0.46	4	37.50 - 32.74	19 - 17
Jun '14	0.55 vs 0.53	2	35.19 - 28.85	18 - 15
Mar '14	0.49 vs 0.41	2	40.60 - 27.93	22 - 15

Year (Sep.)	Sales (Bil.)	Per-Share Earnings*	Per-Share Dividend	52-Week Price Range	P/E Ratio Range
2014	\$3.41	\$2.02	\$0.80	\$46.05 - \$27.93	23 - 14
2013	3.31	1.84	0.50	50.37 - 35.38	27 - 19
2012	3.23	1.74	0.13	41.00 - 34.68	24 - 20
2011	3.11	1.66	NM	NM	NM

* Earnings exclude special items. † Quadrix scores are percentile ranks. NM Not meaningful because stock wasn't publicly traded until late 2012.

Quadrix Scores †
Overall
96
Momentum
82
Value
81
Quality
58
Fin'l Strength
69
Earnings Ests.
92
Performance
90

system launched in 2010. ADT Pulse taps into the smart-everything craze and provides additional services that increase average revenue per user.

The housing market shows signs of heating up. In February, an index of pending sales for previously owned U.S. homes rose to its highest level since June 2013. New-home sales jumped 8% in February to reach their highest level since 2008. Strong home sales didn't always help ADT in the past, because the company struggled to retain customers who moved. But ADT Pulse has deepened customer relationships and reduced attrition caused by relocation.

ADT also controls the largest slice — 13% — of the \$2.4 billion small-business market, expected to grow 3% to 4% in 2015. ADT may exceed that

growth rate, considering the October expiration of a noncompete agreement with Tyco that now allows ADT to pursue larger business accounts.

Conclusion

ADT expects recurring revenue to rise 5% to 6% in fiscal 2015 ending September. The consensus estimate targets per-share-profit growth of 2% in the March quarter and 4% in fiscal 2015, targets that seem unduly low.

The company raised its dividend 5% in January. ADT also repurchased enough shares to reduce its stock count by 12% in 2014. At 20 times trailing earnings, the stock trades slightly below its 30-month average. ADT trades at just 12 times free cash flow, a 64% discount to the median industrial stock.

An annual report for The ADT Corp. is available at 1501 Yamato Road, Boca Raton, FL 33431; (561) 988-3600; www.adt.com.

For six pages of statistical reports on ADT, visit www.DowTheory.com/Go/Page8.

DOW THEORY FORECASTS®

Stock Market Trends & Securities Reports Since 1946

April 6, 2015

Quarterly Index for January 5, 2015, through March 30, 2015

A Supplement to *Dow Theory Forecasts*

NOTE — Each listing in this index is identified by the volume number, issue number, and page number of its appearance in the *Forecasts*. For example, the reference 71-6: 8 translates into volume 71, issue 6, page 8. Back issues are available for \$10 each by writing us at 7412 Calumet Ave., Hammond, IN 46324, or free to our subscribers on our Web site at www.DowTheory.com.

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