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FISHER INVESTMENTS

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Five U.S. dividend stock picks that may surprise you

By JOHN HEINZL

Some of veteran manager John Stephenson's favourites have a decidedly contrarian flavour

John Heinzl is the dividend investor for Globe Investor's Strategy Lab[1]. *Follow his contributions* here[2]. *You can see his model portfolio here*[3].

In last week's Yield Hog column,[4] fund manager John Stephenson discussed some of his top Canadian dividend stock picks.

Mr. Stephenson is even more bullish on the U.S. market, and today he'll share some of his favourite dividend stock ideas from south of the border.

With the U.S. unemployment rate falling and the housing market recovering, "things are looking quite a bit better in the U.S.," says the former lead manager of the First Asset Canadian Dividend Opportunity Fund, who recently launched his own firm, Stephenson & Co. Capital Management.

Even though the U.S. bull market is more than five years old, he's still finding attractive values. Some of his picks (all of which he owns personally) have a definite contrarian flavour. Remember to do your own research before investing in any security, even if it's recommended by a professional portfolio manager.

Target[5]

Yield: 3.5 per cent *

Target's woes are well known. In May, the retailer's chief executive officer stepped down, five months after a cyber attack led to the theft of tens of millions of credit and debit card numbers. Two weeks later, the head of its troubled Canadian operations left. "It's been awful. That's the truth of it," Mr. Stephenson says. But Target's wounds have been self-inflicted and the company is addressing its problems under new management, he says. In the meantime, the stock is cheap – it trades at about 13.8 times next year's estimated earnings – and the company has continued to raise its dividend annually, with more increases likely, he says.

JPMorgan Chase[6]

Yield: 2.7 per cent

JPMorgan is "probably the best franchise in banking," yet it trades at less than 10 times estimated 2015 earnings – a steep discount to the historical average multiple of about 16, Mr. Stephenson says. The company has been putting the subprime mortgage crisis behind it – last November it agreed to pay $13-billion in cash and consumer loan modifications to resolve government lawsuits – and is now positioned to grow and return more cash to shareholders.

It has a diverse revenue stream, anchored by a strong consumer banking division, and while the yield isn't huge, the dividend has been growing at a healthy clip.

Blackstone Group LP[7]

Yield: 6.2 per cent

A global investment firm, Blackstone Group's interests include private equity, real estate and hedge funds. One of its specialties is leveraged buyouts – acquiring companies, restructuring their operations and taking them public. "They raised a lot of money and were very successful at the bottom of the cycle in '08 and '09 and now they're harvesting it," Mr. Stephenson says. The shares trade at an attractive multiple of about 10 times estimated 2014 earnings and the yield is appealing, although distributions are volatile. Keep in mind: Blackstone is a U.S.-based master limited partnership, which means the tax treatment of the distributions isn't as straightforward as with regular U.S. dividends.

Pfizer[8]

Yield: 3.4 per cent

Patent expirations for Pfizer products, including the blockbuster cholesterol drug Lipitor, have hurt the company's revenue, but concerns about the "patent cliff" are already baked into the stock price. "There's not a tremendous amount of growth, admittedly, but it's a very solid yield play with reasonable upside," Mr. Stephenson says. And, at about 13.5 times estimated 2015 earnings, "it's cheap." He expects Pfizer's dividend will grow in line with its earnings, and the company has the demographic wind at its back given that older consumers tend to consume more medications.

Best Buy[9]

Yield: 2.5 per cent

Shares of electronics retailer Best Buy got crushed in 2011 and 2012, hammered by competition from Amazon.com and others, but the shares rebounded strongly last year thanks to an aggressive downsizing and cost-cutting program. The company has been fighting back by empowering sales associates to match competitor prices on the spot and by investing in its own e-commerce site. Underlining management's confidence, the company in June hiked its dividend by 12 per cent. "With things turning around in the U.S. this is one that isn't going away," Mr. Stephenson says. At 12 times next year's earnings, the stock attractive, he says.

** All yields are annualized and based on the most recent quarterly distribution.*

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