

Stock Focus

Go For Blue-Chip Yield

By Andy Stone, Electronically reprinted from August 11, 2006

Money manager Dan Genter once raced 1000 cc motorcycles for fun and now pilots his own Citation 5 business jet. But Genter, head of Los Angeles' RNC Genter Capital Management, plays it safer when it comes to investment preferences. He likes large-cap companies offering healthy dividends.

"As market returns have slowed recently, dividends can account for as much as 25% of total return," says Genter, who manages \$2.3 billion of equity and fixed-income assets. "That's huge."

Also huge, with a \$117 billion market capitalization, is Genter favorite **AT&T** (nyse: T - news - people). Its shares now yield 4.4%, in the same ballpark as the 4.9% you'd collect on a ten-year Treasury.

Genter thinks AT&T will benefit from consolidation in the telecommunications industry, which will allow the company to gain further control of local data transmission, a primary growth driver given that traditional voice serv-

ice is in a long decline. He thinks AT&T will post earnings growth of 12% during 2007.

In sizing up a company, Genter says



he thinks like someone buying debt, not equity. That means favoring analysis of the balance sheet and statement of cash flows over the income statement.

Metrics are especially important to him: Earnings growth over the prior three years, which shows that management has been up to the job; earnings growth expected over the next 12 months; the price-to-earnings ratio and the price-to-earnings-growth ratio. PEG is the 12-month forward P/E divided by the median long-term growth estimate.

In terms of dividends, he weeds out companies with a payout ratio, or the cash dividend divided by earnings in the same reporting period, greater than 50%. He won't buy the stock of companies that have recently reduced their dividend, and sells when a payout cut occurs.

The accompanying table lists a few of Genter's high-yielding, blue-chip bets. From the group, check out **Bank of America** (nyse: BAC - news - people). The stock yields 4.3%, above a five-year average of 3.7%, and is priced at a modest 11 times the Wall Street consensus on earnings for the coming 12 months.

High-Yield Blue Chips

Company	Price	Five-Year Dividend Growth	Dividend Yield (%)	Next 12-Months Price-To-Earnings Ratio	Est. Earnings-Per-Share Growth Next 12-Months	Market Value (\$bil)
Altria Group (nyse: MO - news - people)	\$80.56	9%	4.0	15	5%	\$168.6
AT&T (nyse: T - news - people)	30.22	6	4.4	13	12	117.4
Bank of America (nyse: BAC - news - people)	51.52	13	4.3	11	11	233.2
Chevron (nyse: CVX - news - people)	67.35	6	3.1	8	14	148.0
Citigroup (nyse: C - news - people)	47.97	31	4.1	11	7	237.2
Dominion Resources (nyse: D - news - people)	79.12	1	3.5	14	26	27.9
General Electric (nyse: GE - news - people)	32.67	9	3.1	15	17	337.3

Price as of Aug. 10 Sources: FT Interactive Data, Reuters Fundamentals, Thomson One Analytics and FactSet Research Systems

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