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The main theme of this newsletter is “Shareholder Value”. There are four main ways that a business can increase shareholder value: Invest in the existing business, Acquire other businesses, Pay dividends, and Repurchase shares. We already know about the power of dividends. You already own one or more of the World Dividend Dominator Growers (WDDG’s). These are companies that have increased their dividend every year for at least the past 10 years; companies such as Beckton Dickinson, Coca Cola, Intel, McDonald’s, Microsoft, and Sysco.*

I have fallen in love with companies that repurchase existing shares of common stock. When a company buys back its own shares, those shares cease to exist, thereby resulting in a smaller number of existing shares. Here is how that works: Let’s say that you own ABC company and it is trading at \$25 /share. If there are 1 million shares outstanding, the market cap of ABC company is \$25 million (\$25/share multiplied by 1 million shares). Also, let’s say that the earnings per share (EPS) for ABC are \$2.50/share, therefore ABC is trading at 10 times earnings. If ABC company repurchases 20% of its outstanding shares, there are now just 800,000 shares outstanding. Assuming nothing else has changed, the market cap is still \$25 million. The earnings per share hasn’t changed either, but with 20% fewer shares to distribute the earnings to, the EPS jumped to \$3.125/share which translates to a higher dividend paid to the remaining shareholders. This is how the WDDG’s listed in the first paragraph continue to relentlessly raise their dividends year after year after year, and one of the reasons why we love those companies. The other way thing that happened in our example, again assuming all other things equal, is that the share price of ABC just increased up to \$31.25/share (market cap of \$25 million divided by now just 800,000 shares).**

In addition to owning one or more of the WDDG’s named in the first paragraph, you also own one or more of the following: Cambria Shareholder Yield (SYLD), Cambria Foreign Shareholder (FYLD), and Powershares Dynamic Buyback Achievers. These are Exchange Traded Funds (ETF’s) which hold a basket of companies that buy back shares.

As always, if you have any questions or concerns, please give me a call. I look forward to our next meeting.

* The current dividend is not guaranteed and is subject to change. The company may choose to eliminate dividends at any time. Past performance is not a guarantee of future investment results.

** The 12% Letter. January, 2014

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