



Ticker: VZ

Major Stock Index: Dow Jones 30

Stock Picking Philosophy

With its cost- and tax-efficient investment approach Herges Capital invests in individual stocks from the U.S. and abroad. Subsequently avoiding fee-intensive mutual funds and even low-cost Exchange Traded Funds (ETFs). Unlike with funds dividends are received immediately and continuously. Also ethical investment considerations can be expressed and realized.

The quantitative stock selection process aims for firms whose earnings are less likely to surprise negatively. The expectation being that over the long term a diversified portfolio of those carefully-selected picks yields a higher return than the general stock market.

Verizon (ticker **VZ**) is such top candidate in Herges Capital's selection process.

THIS IS NOT A STOCK PURCHASE OR SELL RECOMMENDATION.

INSTEAD THIS PIECE EXPLAINS HERGES CAPITAL'S STOCK SELECTION PHILOSOPHY GIVEN A CONCRETE EXAMPLE. IT IS MEANT TO FURTHER FAMILIARIZE HERGES CAPITAL CLIENTS WITH THE REASONING AND FINANCIAL DATA BEHIND A POSSIBLE SINGLE STOCK INVESTMENT. HERGES CAPITAL AND ITS CLIENTS MAY OR MAY NOT HAVE A POSITION IN THIS PARTICULAR NAME AT ANY GIVEN TIME.

About Verizon

Verizon is one of the world's leading providers of communication, information and entertainment products and services. Verizon runs three business segments: **Wireless**, **Wireline** and **Media**. Wireless being the firm's stronghold providing the largest revenue. But strongly growing is media: Verizon acquired AOL and Yahoo to form its media division Oath. A streaming TV service is planned.

The stock is categorized in the **COMMUNICATION SERVICES** sector which includes as prominent names as Alphabet (parent to Google), Facebook, Disney and Netflix. However, main competitors in the 'Diversified Telecommunication Services' industry are AT&T (ticker **T**) and to a certain extent the Canadian BCE (ticker **BCE**).

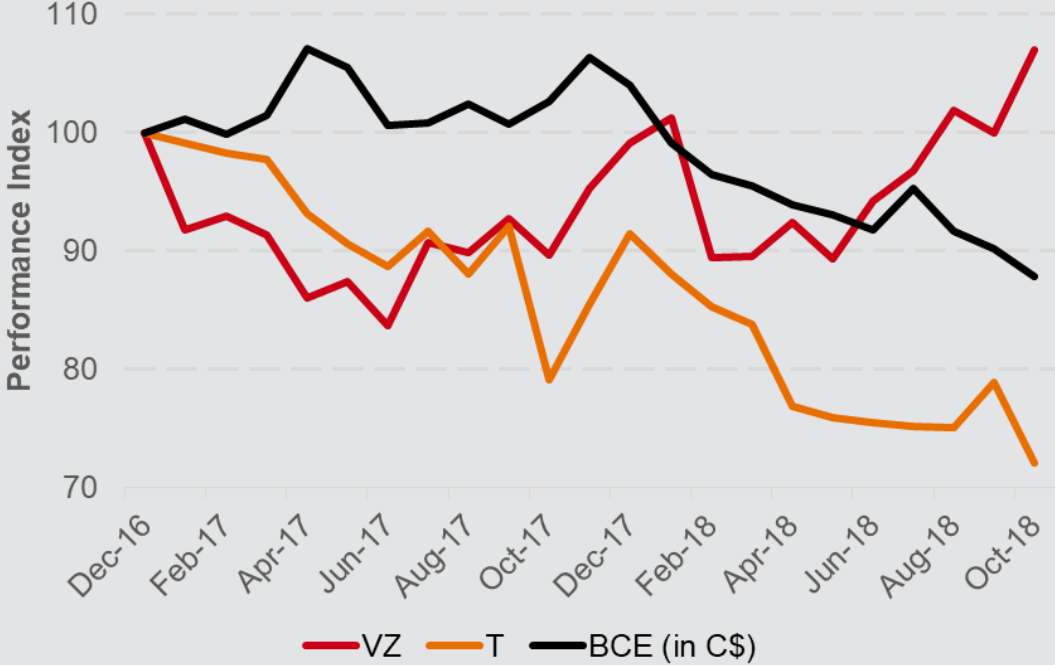


Chart 1: Verizon stock price recently out-performed its peers. Monthly data since Dec 2016. Source: investing.com

Verizon’s stock price massively out-performed AT&T’s in 2017 and even more so in 2018.

Stable Earnings

One of the most influential factors in Herges Capital’s stock selection process is past earnings per share. Stable historical earnings reduce the risk of negative surprises in the future.

As can be seen in chart 2, all telecommunication services providers suffered weaker earnings periods. And while earnings per share cannot be compared directly between stocks of different prices, Verizon’s earnings are more resilient than its competitors’. Providing higher upward potential and positive momentum.

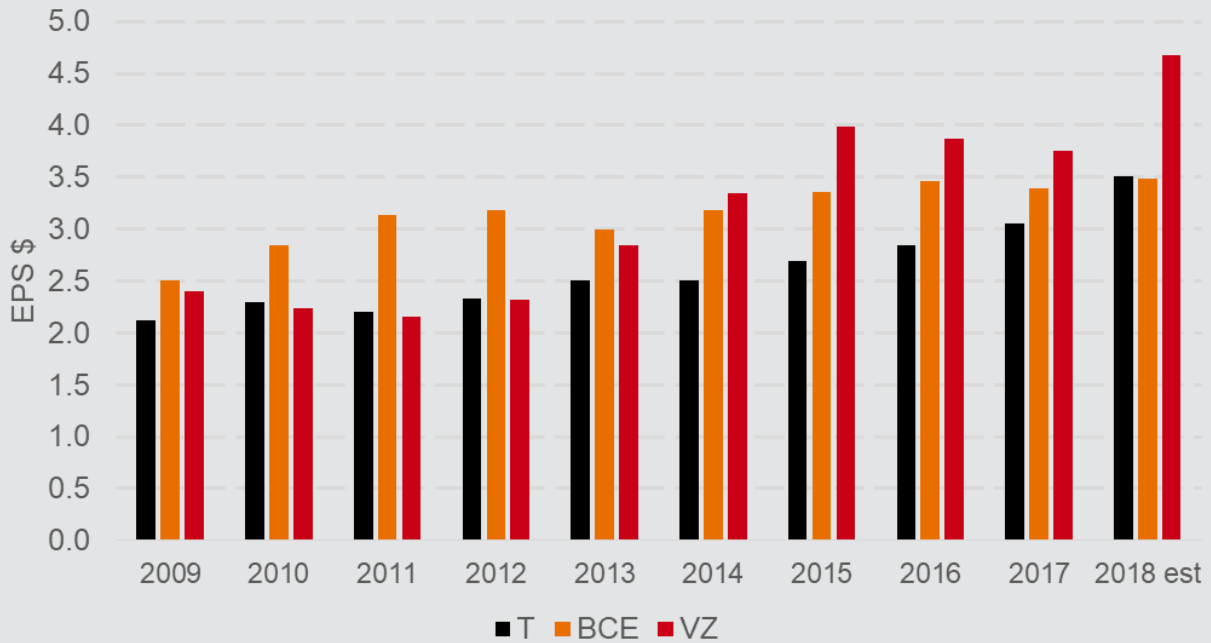


Chart 2: Historical Adjusted Earnings per Share (EPS)

Source: fidelity.com

Dividends

Verizon's current **dividend yield is 4.0%**. That may sound high but is below the industry's 5.1% average and clearly less than AT&T's 6.6%. Verizon increased its direct payouts by 2%-3% every year the past years.

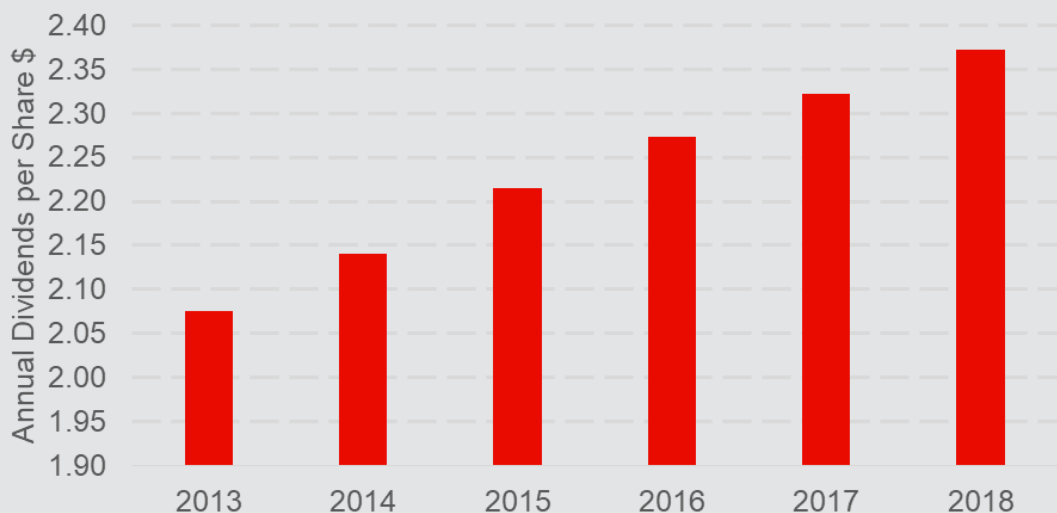


Chart 3: Historical Verizon's regular dividends per share

Source: fidelity.com

Dividend paying ability plays no role in Herges Capital's stock selection process. Dividends are only as safe as consistent earnings back them. So the primary selection criterion is earnings and not the derivative dividends.

Investors in need of cash distributions can always partially sell existing positions. The advantage being that they are able to do so at their own frequency and amount. In addition, investors holding multiple positions could choose sell candidates in a tax-efficient way. In contrast, dividend payouts typically necessitate the need to re-invest in order to reduce the cash drag.

Size, Index Membership and Ownership

By market cap Verizon is larger than AT&T (\$249bn over \$220bn).

Verizon became a true global blue chip in April 2004 when it replaced its competitor AT&T in the highly prestigious **Dow Jones Industrial Average** index. AT&T had been part of it since the Great Depression. AT&T is still in the S&P 500 stock index.

As it is typical for larger cap stocks, Blackrock and the Vanguard Group are main shareholders owning more than 14% of Verizon's outstanding shares.

History

The Bell System was a conglomerate of various AT&T-controlled companies providing telephone services to Northern America from 1877 to 1984, often as a monopoly. As a result of an antitrust lawsuit initiated by the U.S. Department of Justice aiming to surge competition, and at AT&T's proposal, the Bell System got split in 1984 into 7 independent so-called 'Baby-Bells' plus AT&T itself.

One of those 'Baby-Bells' companies was **Bell Atlantic**. Bell Atlantic acquired its fellow 'Baby-Bell' NYNEX in 1996 and merged on June 30, 2000 with GTE to form Verizon. The name is a blend of veritas (latin: truth) and horizon.

With a higher market cap the 'baby' has out-grown its former birth-giver AT&T.

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HERGES
CAPITAL MANAGEMENT

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