Taking Stock: 10 high-quality issues for the long run

by Malcolm_Berko

Dear Mr. Berko: You discussed three quality stocks (Bank of America, DuPont and GE) with 3 percent yields and safe long-term growth for a reader who wanted high quality and income. I already own two of them but wouldn't touch Bank of America because its customer service stinks and they encourage illegal immigration. The reader wanted to change his approach to the market and own high-quality stocks. Well, I want to do the same, too, but I need at least a 4 percent yield on my money. Please recommend seven to 10 high-quality stocks that have good potential growth in sales and earnings, good potential growth in its dividend pay out and good potential for long-term growth in the value of the stock.

A.T.

Elgin, Ill.

Dear A.T.: You're right as cotton candy and candied apples. Bank of America's customer service really "sphinx" and its move to give credit cards to illegals who don't have Social Security numbers has angered rednecks, blue bloods and a large swath of working, middle-class Americans. But what really bothered me was a paltry $26 million Securities Exchange Commission fine (it should have been umpteen times larger) for issuing false research reports. So I sent Chief Executive Officer Ken Lewis a letter via UPS to question him about those charges (he won't take my phone calls) and it came back "refused delivery." Oh, well!

UST Inc. (UST-$54.02) owns 76 percent of the moist smokeless tobacco market with popular names like Skoal, Copenhagen and Red Seal. UST also owns and sells fine wines such as Chateau Ste, Villa Mt. Eden and Coon Creek. UST has dependable but modest long-term revenue and earnings growth. The $2.40 dividend yields 4.44 percent and should grow between 3 percent and 5 percent annually.

A.J. Gallagher & Co. (AJG-$27.56) is a $1.5 billion revenue company that provides insurance brokerage, risk management and employee benefit services to commercial, industrial, governmental and institutional organizations. This highly regarded company has a superb history of consecutive growth in revenues, earnings and dividends. The current $1.24 dividend has increased yearly since 1991, yields 4.40 percent and should improve by 3 percent each year.

Pfizer (PFE-$27) with $48 billion in drug revenues is one of the largest pill-pushers in the world. Its $1.16 dividend yields 4.5 percent, has been increased every year since 1981 and by 2008/9 should begin to grow at a 4 percent to 6 percent rate for the foreseeable future. Earnings should improve modestly as PFE launches several new drugs.

AT&T Inc. (T-$39.04) has $63 billion in revenues and since its merger with SBC Communications, margins have widened, operational improvements at Cingular (wireless) are adding new subscribers, synergies related to the merger are evident and market penetration is improving. Look for annual earnings growth to be about 4 percent. The current $1.42 dividend yields 3.6 percent and should grow very modestly over the next few years.

BB&T Corp. (BBT-$41.024) is a bank holding company with $144 billion in assets and 1,150 branches in the Southeast. Revenues, earnings and dividends have increased every year since BBT came public and the bank's outstanding management certainly intends to continue this record. The current $1.68 dividend yields 4 percent and could probably grow between 5 percent and 8 percent annually.

Enterprise Products Partners (EPD-$32.19) with $14 billion in 2006 revenues is one of the leading integrated providers of natural gas and natural gas liquids processing, fractionation, transportation and storage services. I expect revenues, earnings and dividends to increase nicely over the next few years. The $1.87 dividend yields 6 percent (a good portion is not taxable) and should grow 5 percent to 8 percent each year.

Kinder Morgan Energy Partners (KMP-$55.11) is the nation's largest pipeline master limited partnership with 27,000 miles of line and 145 terminals. Management recently set a long-term goal of at least 8 percent annual growth for earnings most of which will derive from its important natural gas distribution business. The current $3.32 dividend (a good portion of which is not taxable) yields 6 percent and should increase some between 5 percent and 8 percent each year.

Wachovia Corp. (WB-$55) is a large, bank holding company, with more than 3,500 branches and since late 2004 management has smoothly integrated four complimentary acquisitions. The bank should provide shareholders with steady revenue and earnings growth for the next four to five years. Its $2.24 dividend yields 4.1 percent and should grow between 4 percent and 6 percent in the coming years.

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