

## **Baby Boomer Portfolio Recommendation – Johnson & Johnson (JNJ)**

This will be our sixth Baby Boomer Portfolio recommendation.

We are recommending Johnson & Johnson, symbol JNJ, in this Special Report.

JNJ is a large international diversified health care company. They have over 250 operating companies.

The company has three basic business segments:

| <b><u>Segment</u></b>                       | <b><u>% of 2007 Sales</u></b> |
|---|-------------------------------|
| Pharmaceuticals                             | 41%                           |
| Medical Devices &<br>Diagnostics            | 37%                           |
| Consumer Health &<br>Personal Care Products | 35%                           |

### **Valuations**

The average one year target for JNJ is approximately \$73.50.

Yahoo, consensus (12 analysts) - \$74.56

S & P, independent and conservative- \$76

Argus, independent moderate - \$75

BlueHawk, independent and conservative - \$68.3

The First Call consensus forecast for 2009 earnings is \$4.72, about a 5% increase over 2008. The next few years' earnings are expected to grow closer to 10%.

If the stock can maintain its current 16.5 P/E on next year's earnings, the price could gravitate to around \$78 (\$4.72 2009 Est. times 16.5 P/E).

That would be about appreciation of about 13%. The dividend is around 2.7%, plus option writing could give us close to a potential 20% return over the next 12 to 36 months.

Below are more fundamental metrics for JNJ:

Market Capitalization - \$190.56 Billion

Revenue - \$63.57 Billion

Operating Margin – 25.45%

Because dividends are important for the Boomer Portfolio and retirees, here is an historical look at JNJ's dividends:

|                        | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | AVG. |
|------------------------|------|------|------|------|------|------|------|------|------|------|------|
| <b>JNJ Div.</b>        | 1.62 | 1.46 | 1.28 | 1.1  | 0.93 | 0.8  | 0.7  | 0.62 | 0.55 | 0.49 |      |
| <b>Payout Ratio</b>    | 45%  | 39%  | 37%  | 39%  | 39%  | 37%  | 38%  | 36%  | 37%  | 43%  |      |
| <b>Dividend Growth</b> |      | 11%  | 14%  | 16%  | 18%  | 16%  | 14%  | 13%  | 13%  | 12%  | 14%  |

For the last ten years' dividends have increased and have averaged a 14% growth rate.

### **Catalysts**

- JNJ is considered a safe have company stock, because of its status and the demand for many of its products are inelastic.

The chart below shows how normally conservative stocks such as JNJ hold up better than most stocks in a difficult market.

- Another attractive aspect of the company is their aggressive funding of research and development, a source for growth and high margins.

- The company has been implementing a cost savings program.

- The company has been on a stock buy back program and has about another \$3 billion to buy

- The company has always been involved in strategic acquisitions for future growth. Sometimes these acquisitions can be a negative in the short-term.

- JNJ has been and will probably continue to benefit from the global growth story.

### **Risks**

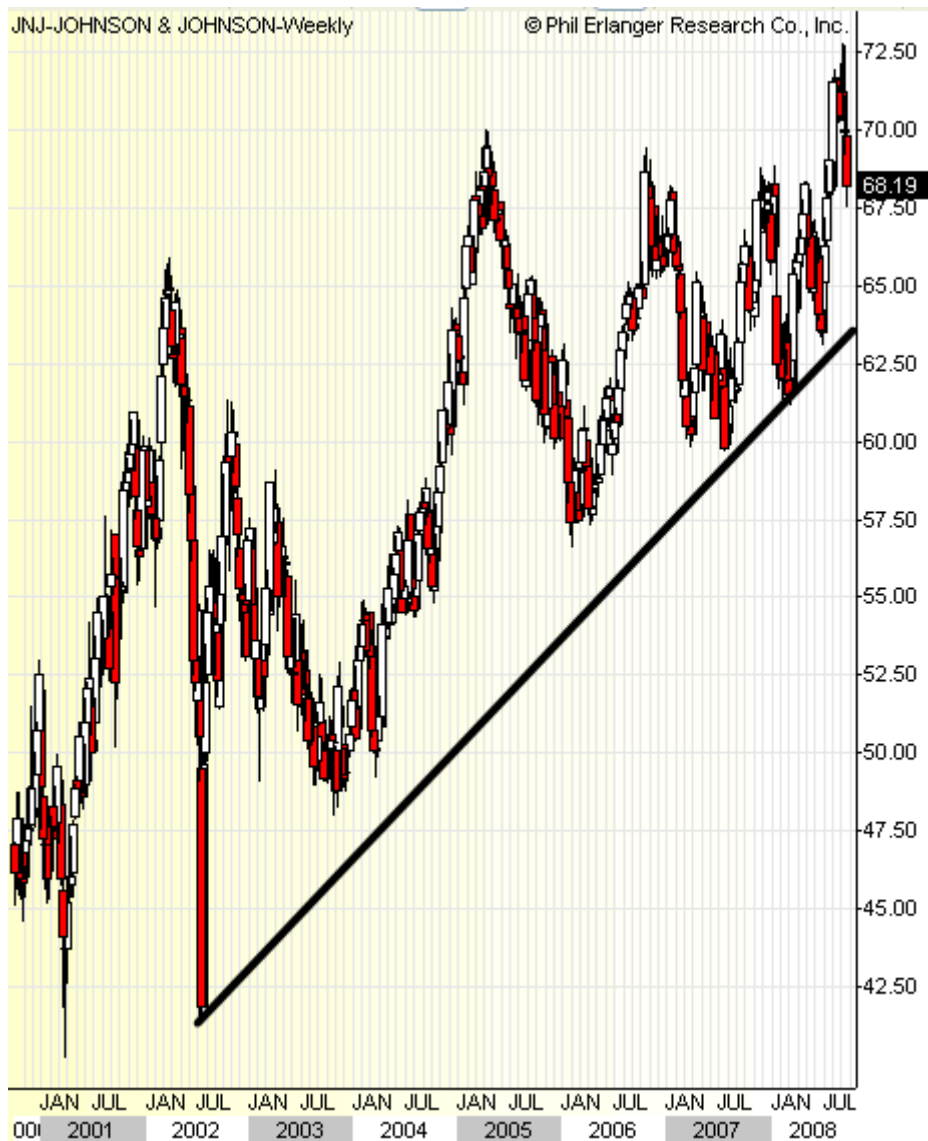
- As mentioned above, some acquisitions of JNJ cause short-term sell offs.

- JNJ has benefited from the falling dollar, now that tail wind may become a headwind as the dollar has stopped falling and has strengthened lately.

- Margin erosion from generic erosion from their drug product line
- Potential pipeline failures or shortfalls
- Growth problems in device product line

### Technicals

Below is a long-term chart of JNJ:



JNJ is not a great growth stock, but a good conservative stock that has performed well in this difficult market. This core, conservative, stable company does belong in most baby boomer portfolios.

Because the upside potential is limited, the entry price becomes more important for our total return.

Below is a short-term chart of JNJ:



The chart illustrates panic in the markets. Panic can create opportunities.

As we explain Special Report 6, prices need to base. We will start positioning ourselves in this stock and buy during this basing period.

### **Recommendation**

JNJ is around \$60.50. Buy 100 shares at the market.

We also recommend selling short one contract of the Nov. 55 put, symbol JNJWK.

The option is selling for about \$1.35. If the option is put to us, our cost basis will be approximately \$53.65. If stock does not trade below \$55 at the time of expiration we will keep the \$165 premium.

