Income Investment Report

HIGHLIGHTS: Monday, April 4 2016

American Express is one of the oldest charge cards in the world with origins dating back to 1850. Many individuals were introduced to the company through the creation of a travelers cheque which enjoyed the distinct advantage of acceptance almost anywhere in the world and in just about every currency. As a teenager it was my first introduction to the company as they were unlikely to issue a charge card to an aspiring college student with little income. The charge card, not a credit card, grew to become a symbol of success and travel to where today it transacts 24% of all charges worldwide. It has been titled one of the "Most Valuable Brands in the World and who can forget, "Don't Leave Home Without It".

The company has experienced some disappointments of recent with COSTCO switching to JPMorgan/VISA and Starwood in the process of being acquired by Marriott. The combined events took away almost 12% of total company charges, 10% to COSTCO and 2% to Starwood. The loss to JPMorgan/VISA was over a richer offer from VISA beating AMEX's rewards offer by 1% overall. What appears to be a loss for AMEX now may also be a financial challenge for VISA going forward once rewards are paid. Starwood is a potential loss due to merger.

We believe AMEX may have taken the hit for these losses and now ready for rejoining the industry growth as a result of improving global economic conditions. In the chart below we have compared AMEX (blue) with both VISA (magenta) and MasterCard (green). The drop in AMEX from the start of 2015 of over 40% can clearly be explained as a reaction from COSTCO. At 10% of total charge revenue this is a logical reaction, but slightly overdone. It has placed the company's stock at an undervalued position and the stock should rejoin the industry expectation of 4% growth, or better. We believe the company is well managed and has a good track record of cash flow management from operations. It has been categorized a BUY and might be a good consideration at this time.

Dividend yield is good at 1.90% and valuation is at 73.1% FV. Trading currently at $61.10. Overvaluation will not occur until $108/share. The stock carries a Market rating with a B+ merger activity score placing it within the range of a possibility, but not at the highest level which would carry a rating of A or A+.