Dividend growth strategy

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Dividend growth strategy

- We are strong believers in the **power of dividends** to enhance total return from stock investments.
- Our dividend growth strategy is designed to achieve above-average dividend yield, with a secondary objective of capital appreciation and total return.
- In selecting stocks for this strategy, we focus on **well-established companies which, in our opinion, have relatively low business risk**, highly visible cash flows, a track record of consistent dividend payments, and superior dividend growth potential.
- **Dividends are generally less variable and more predictable than earnings.** Dividend policy is set by the managers and board of directors based on the financial ability and health of the company.
- We believe the majority of large U.S. corporations are now on solid financial footing with record amounts of cash on their balance sheets. We expect U.S. corporations will increasingly allocate cash flow to dividends.
- Dividend investing is likely to garner more respect and is a **time-tested leadership strategy**; a dividend-growth strategy has outperformed a market index in every decade over the past 80 years with the exception of the 1990s. **A dividend-based approach has proven even more important through difficult market environments**, such as those experienced during the 1930s and the 1970s. (RBC Capital Markets, "RBC Investment Strategy Weekly: Dividends – 'Boring' Can Be A Beautiful Thing", June 9, 2010).
- **Methodology: buy discipline considerations**
  - Dividend yield greater than 3%
  - History of paying and raising dividends
  - Balance sheet strength and industry average or lower payout ratios
  - Above-average consensus estimates for dividend growth
  - Above-average consensus estimates for earnings growth
  - Above-average consensus recommendations from fundamental research analysts
  - Hold approximately 20 stocks diversified by industry and sector
- **Methodology: sell discipline considerations**
  - Dividend cut or large reduction in expected dividend growth
  - If dividend has not been raised by 5th quarter, then stock will be considered for sale
  - If dividend yield drops below 2.5%, then stock will be considered for sale
  - Negative company announcement, or merger that will negatively affect dividend policy
  - Desire to emphasize or de-emphasize an industry or sector
  - Emergence of a more compelling investment opportunity
- We actively manage the strategy on a discretionary and fiduciary basis in a fee-based account.

