

INFORMED DIVIDEND INVESTORS



January 2021



DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

Clarity. Simplicity. Devotion.

DAC Insights: Informed Dividend Investors

By Susie Wang, Chief Investment Officer, Dividend Assets Capital

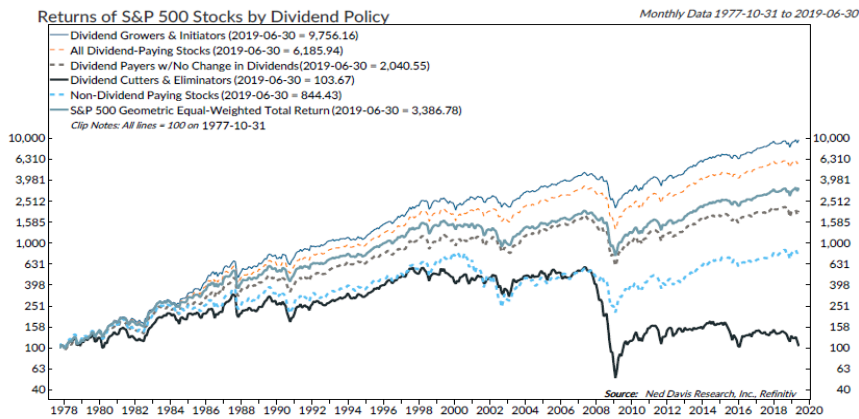
January 8, 2021

Did you Know?

- As of 01/06/21, 13,878 stocks were listed on the U.S Stock Exchanges and domiciled in the U.S.
- Among those stocks, only 1,387 or 10% are expected to pay dividends in the next 12 months.
- Among those expected to pay dividends, only 212 companies are projected to deliver dividend growth rates over the next three years at or higher than 10% a year, or fewer than 1.6% of the listed securities.
- Those 212 companies have an average market capitalization of \$24.8Bn and an estimated dividend yield of 2.11%.

Dividends are one of the best indicators of the future price performance of a stock

- According to Ned Davis Research's most recent update, over the last 42 years, "Dividend Growers and Initiators" have outperformed the Equal-Weighted S&P 500® Index on an annual basis by 280 Bps.
- We believe companies that declare dividends and increase those dividends consistently, year after year, tend to perform uncommonly well for reasons beyond dividends alone.

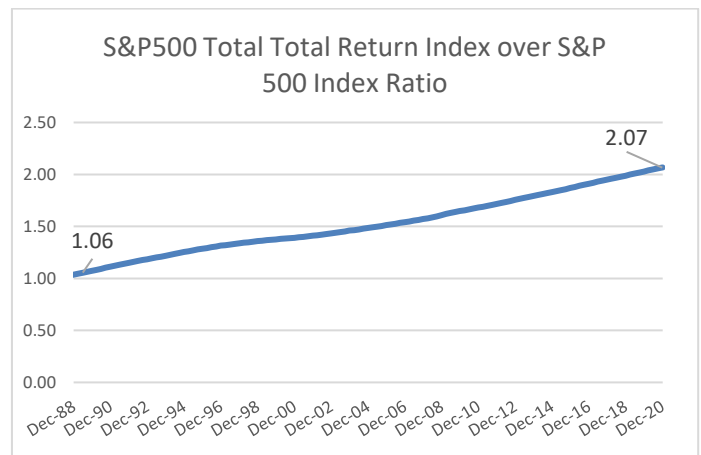
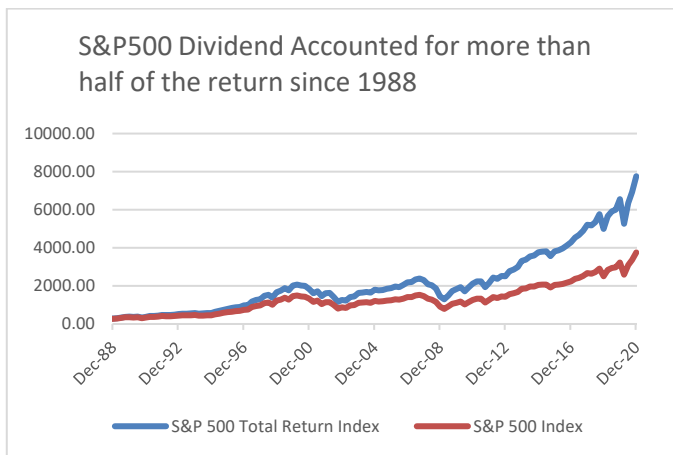


Portfolio Performance Statistics		
Analysis Dates: 1977-10-31 - 2019-06-30		
Portfolio	Gain/Annun %	Growth of \$100
Dividend Growers & Initiators	11.6	9756.2
All Dividend-Paying Stocks	10.4	6185.9
Dividend Payers w/No Change in Dividends	7.5	2040.5
Dividend Cutters & Eliminators	0.1	103.7
Non-Dividend Paying Stocks	5.3	844.4
S&P 500 Geometric Equal-Weighted Total Return	8.8	3386.8

Source: Ned Davis Research

Dividends count for a significant portion of an investor's total return – the power of compounding!

- The S&P 500® Total Return Index, which includes reinvested dividends, has beaten the S&P 500® Index by an average of 2.4% annually since 1989. To illustrate this point, see the S&P 500® Total Return Index ratio to the S&P 500® Index below. The ratio more than doubled from March 1988 through Tuesday (01/08/2021). In other words, dividends accounted for more than half of the S&P 500®'s Total Return in the period.

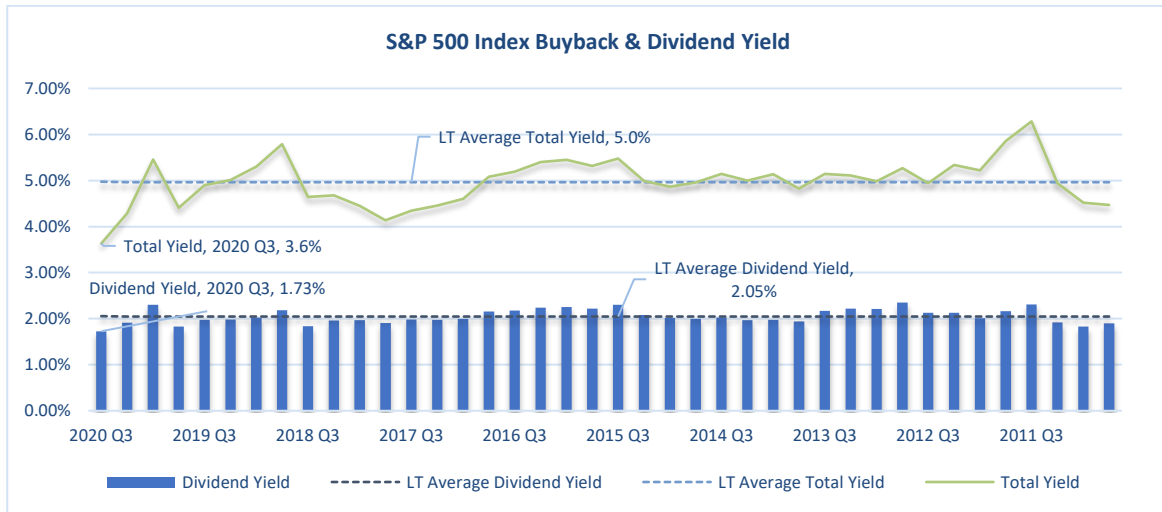


Source: Bloomberg, Dividend AssetsCapital

Market Tracker

Corporate actions that influence performance – Yield compression continues.

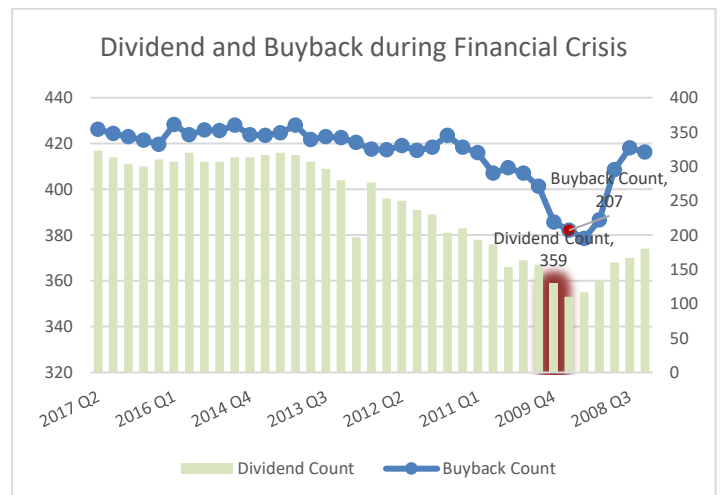
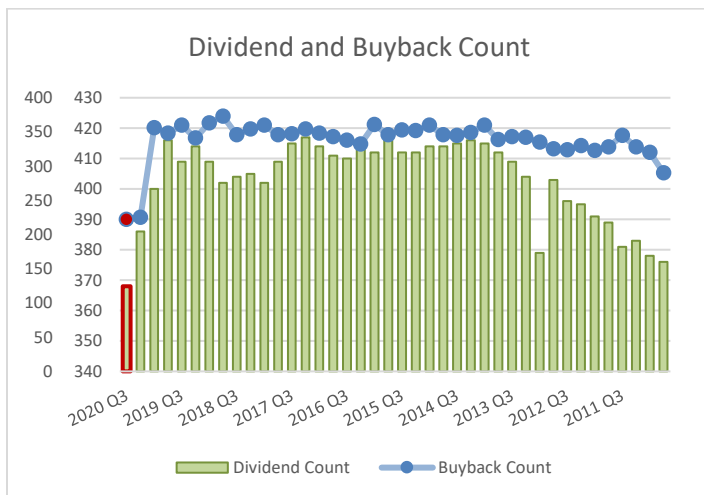
- Dividend payments and share buybacks both contribute to investor return. Based on Q3 2020 aggregate data, the S&P 500® Index's total yields, a combination of buyback and dividend yield, dropped further below the long-term average of 5% due to strong market appreciation. At the end of the quarter, the index's aggregate dividend yield was 1.73%, 32bps below the long-term average of 2.05%.



Source: Bloomberg, Dividend Assets Capital

Dividends and buybacks at the end of Q3 2020

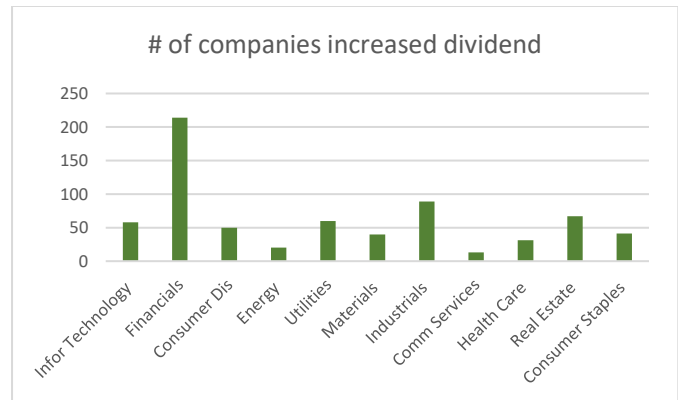
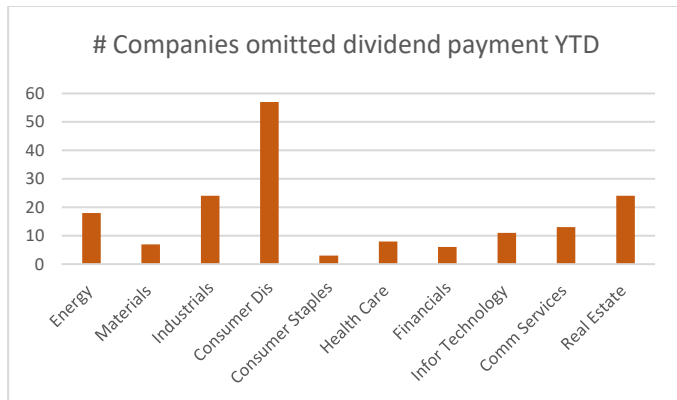
- Within the S&P 500®, 222 companies repurchased stocks, and 368 companies paid dividends, 138 and 41 companies fewer, respectively, compared to the same quarter a year ago. Both these corporate activities were also down from the previous quarter. We started to see a sharp decline in Q2 and continuation into Q3, given the massive disruption from COVID-19.
- Are we out of the woods yet? During the 2008/2009 Financial crisis, dividend and buyback activities bottomed in Q3 2009, 2 quarters after the market rally from the lows. If history holds, Q3 deterioration is within the historical norm, and we expect potential bottoming in Q4.



Source: Bloomberg, Dividend Assets Capital

Sector tracker

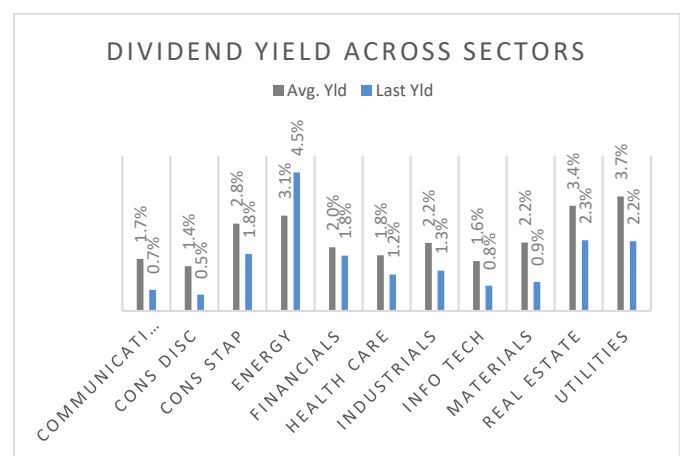
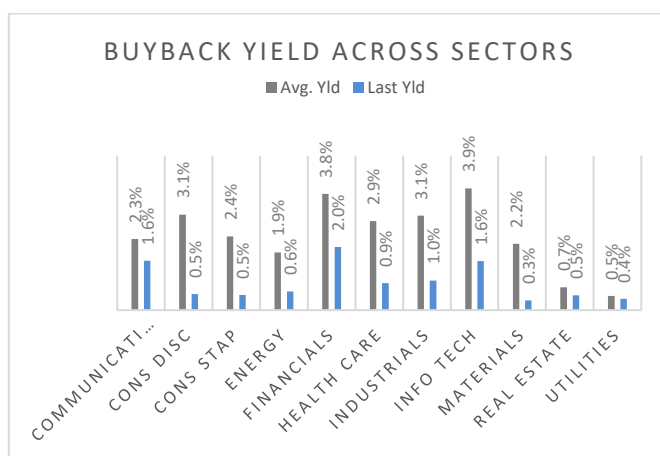
- At the end of Q4 2020, 171 companies (among S&P 500® Index and Russell 3000 Index) either omitted, discontinued, or deferred their dividend payment. We saw fewer companies eliminate their dividend payment than in the previous quarter. Some resumed the dividend as the economic conditions improved. Most of those companies that omitted their dividends were concentrated in the Consumer Discretionary Sector. On average, those companies' share prices declined 9.92% in 2020 compared to the broader Russell 3000 Index and S&P 500® Index return of 18.39% and 20.88%, respectively.
- On the other hand, 683 companies increased their dividend in the most recent quarter, fewer than the 736 companies in Q3 2020 due to continuing economic hardship. The Financial sector leads other sectors in dividend increases. On average, those shares outperformed the dividend eliminators by 15.7%.



Source: Bloomberg, Dividend Assets Capital, LLC

Where to find Yields with a reasonable valuation in a chronic low-interest-rate environment?

- Using the S&P 500® Index for demonstration purposes, at the end of Q4 2020, the average buyback yield and dividend yield across all sectors was 2.4%, while the 10-Year Treasury Yield remained historically low at 0.9132%.
- Financials had the highest absolute buyback yield at 2.0% among all sectors, while Energy had the highest absolute dividend yield of 4.5%.
- Unlike the previous quarter-end, no sector at the end of Q4 offers higher buyback yields than the historical average. In our Q3 *DAC Insights: Informed Dividend Investors* publication, we highlighted several sectors that offered higher buyback yields than the long-term averages. Sectors such as Financials, Energy, Industrials, Materials, and Real Estate to be specific. Since then, Financials, Energy, Industrial, Material rallied 27.8%, 23.2%, 15.7%, and 14.5%, respectively, the top four best performing GICS sectors within the S&P 500® Index. As a result, buyback yields compressed materially. Similarly, Energy is the only sector that still offers a higher dividend yield than the historical average. Consumer Discretionary, Consumer Staples, Financials, Industrials, and Real Estate no longer provide higher dividend yields than their long-term averages at the end of Q4 compare to Q3.



Source: Bloomberg, Dividend Assets Capital

Thank you for your interest in Dividend Assets Capital and the *DAC Insights: Informed Dividend Investors* publication. Please feel free to contact us with any questions or comments.

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The S&P 500 refers to the Standard and Poor's 500 Index which is a capitalization weighted index of 500 leading companies and covers approximately 80% of available market capitalization. Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. Individuals cannot invest directly in any Index.

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