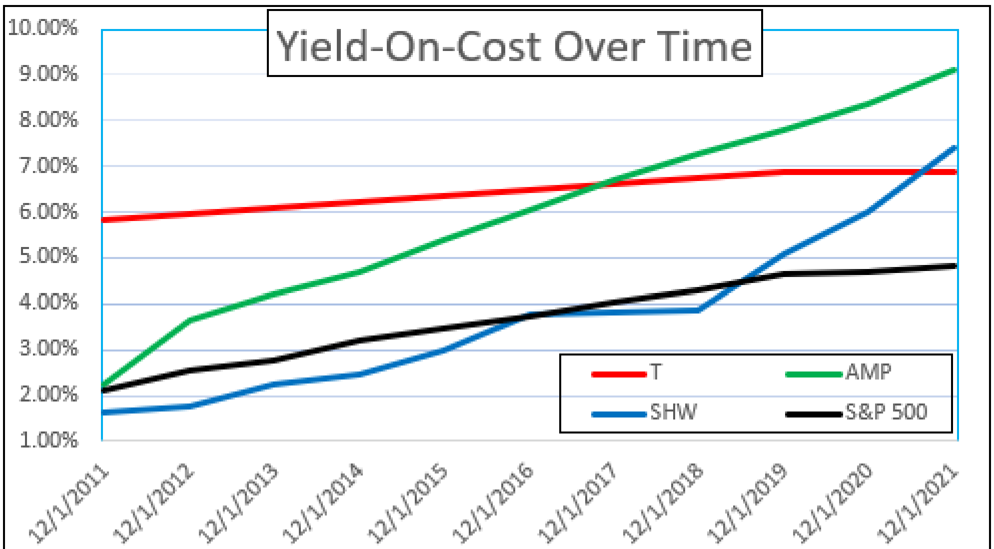
DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

DAC Insights: Yield-On-Cost and Dividend Growth

When discussing dividend investing with clients, one of the questions we invariably receive is… "What is the yield?" The "Yield" (an investment's income ÷ its current price) is simply a reflection of the investment's income at that moment in time. We believe investors would, and really should, want to know what that income could potentially be in the future.

That is why we encourage investors to be familiar with and pay more attention to an investment's ***Yield-On-Cost*** ("YOC"). YOC is an investment's current income ÷ the original investment (cost basis). **Yield-On-Cost can provide insight into the potential future income on an investment today** when the reinvestment of income, especially growing dividends, are given time to appreciate. Here are a few examples:



Source: Bloomberg; DAC Research

This chart illustrates the annual YOC for AT&T (T), Ameriprise (AMP), Sherwin Williams (SHW) and the S&P 500® Index over the last 10 years. AMP and SHW have had significant increases in YOC because of aggressive dividend growth policies, going from a 1.6% initial yield to a 7.4% YOC and 2.2% initial yield to a 9.1% YOC, respectively. While AT&T started the last decade with an impressive initial yield of 5.8%, much higher than AMP and SHW, its dividend growth was not nearly as significant. Therefore, T's YOC was only about 6.8% at the end of 2021.

We believe when dividends are paid consistently, at an ever-increasing rate over the long term, this is likely to exert positive movement on the price of a stock. This can be seen in the price movements of these 3 stocks as well. From 12/30/11 – 12/31/21, the prices of AMP and SHW appreciated over 600% and 1,100% respectively. In this same time frame, the price of AT&T dropped over 15%.

Investors ask about yield because they often think it's better to buy a high-yield vs. low-yield dividend investment. We can also look to Yield-On-Cost to dispel this notion. Consider a hypothetical case… Mary & Robin each invest $100k in a dividend strategy for 20 years.

Mary believes it's best to find a portfolio with a high-yield, let's say a 3.0% current yield, because it will have a higher amount of income each year that she can utilize and/or reinvest. She is not as concerned about income growth. Robin, on the other hand, believes in the power of long-term compound growth and is willing to receive lower income initially, let's say a 1.5% current yield, in return for high-income-growth. Here is a summary of the impact these yield decisions could have on their portfolio income:

	Initial Investment	Initial Yield[1]	1st-Year Income	Ending Value[2]	20th-Year Income	Yield-On-Cost
Mary	$100,000	3.0%	$3,000	$180,611	$5,261	5.26%
Robin	$100,000	1.5%	$1,500	$185,912	$9,174	9.17%

[1] Assumptions: Mary's initial yield remains at 3.0% annually. Robin's initial yield of 1.5% subsequently increases at a 10% compound annual growth rate.
[2] Portfolio value assumes no growth of principal, just reinvestment of income.

It may surprise you to learn, while Robin's yield (income) at the beginning of the investment period was half of Mary's, her portfolio income grew to create a YOC nearly 75% higher than Mary's after 20 years. An investment not growing its income over the long-term, is not an ideal solution for an investor seeking solid future cash-flow that will stay ahead of inflation.

Whether it's growth vs. value or high- vs. low-yield, the concern for long term investors should not be the current dividend yield, but the potential future yield on an investment today. We believe Yield-On-Cost can be a more impactful way to demonstrate that potential. Subsequently, companies that are generating sustainable cash-flow and returning a portion of it to their shareholders, in the form of increasing dividends, make very attractive, long-term investments to fulfill these investor needs.

Dividend Assts Capital, LLC is an independent, employee owned wealth advisor specializing in high quality companies with a history of consistently increasing dividends. Built on a pioneering legacy, our goal is straightforward; achieve our clients desired outcomes through investments that provide sustainable and rising income with long-term capital appreciation. We partner with successful families, advisors and institutions delivering tailored services that adhere to fiduciary principles to provide…

Clarity: A transparent and understandable approach to portfolio management.	**Simplicity**: We believe dividends are the best indicator of the future price performance of a stock.	**Devotion**: We build confidence through a disciplined process and strong devotion to our investment philosophy and clients.

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