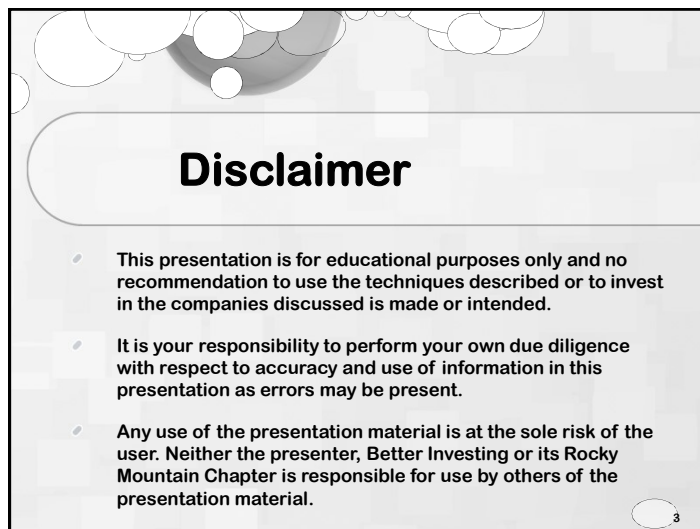


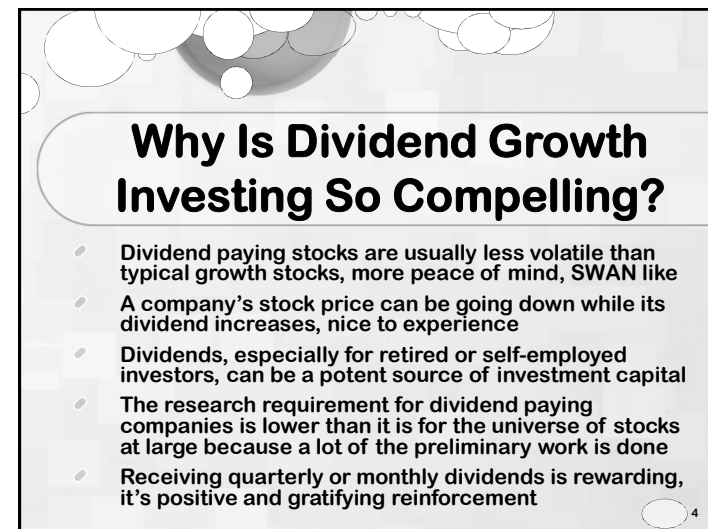
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Introduction To DGI

- Dividend paying stocks are sought by investors who are equally or more concerned with income than growth and who appreciate less volatility
- In fact, reduced capital growth below traditional targets has been deemed acceptable by investors who rely on dividends for income or are risk adverse
- A 2003 study concluded that dividends and growth are not mutually exclusive; in fact, there seems to be a positive synergy promoted for total return over time
- Safety of a dividend and its likelihood of continued growth are critical considerations
- Taxation of dividends is an important issue

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Introduction To DGI

- A consistent stream of meaningful dividends over time is a key consideration for DGI, giving dividend payers a more buoyant share price
- Continuing, meaningful increases in dividends over time is another key characteristic of a "good" dividend paying stock
- Don't confuse a stock that pays a dividend with a stock that pays a growing, meaningful dividend
- However, the availability of safe and competitive income producing alternatives (e.g. Bonds) can be considered in lieu of investing in dividend stocks

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DGI vs. Growth Investing

- Important to note that dividend growth rate as foundational DGI metric, it needs to be tracked
- Payout ratio is another key DGI metric that needs to be watched
- Note that these two key items are infrequently followed, if at all, in traditional growth investing

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Dividend Paying Stock Revelation

- In 2003, Arnott & Asness published "Surprise! Higher Dividends Equal Higher Earnings Growth" in Jan/Feb issue of Financial Analysts Journal
- Their conclusions went against prevailing academic teaching that low dividend paying stocks provided the greatest return potential
- Paper showed that "high" dividend payers are confident that a continuing flow of strong earnings will support higher payouts and they operated their businesses accordingly
- However, earnings retention by companies, a lack of dividends, and empire building led to divestitures and asset sales in order to correct management errors

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How To Participate In DGI Investing

- You can buy individual stocks that meet your criteria for DGI investing
 - Performance is likely better than with funds
 - Greater individual choices for holdings
 - Greater ability to acquire and distribute dividends
- You can buy mutual funds or ETFs that limit their included or targeted companies to entities that pay a pre-defined minimum dividend
 - Funds offer professional management
 - Consistent application of strategies and tactics

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Taxation of Dividends

- Dividends are distributions of money or stock paid by an entity from its retained earnings account to shareholders
- A shareholder may be an individual, a partnership, corporation, LLC, estate, trust or an association taxed as a corporation
- Dividends received as the beneficiary of an estate or trust are generally taxable income; note treatment for inherited IRAs or 401Ks may be different
- Ordinary cash dividends are the most common form of distribution received from a corporation

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Taxation of Dividends

- Pass thru situation, where dividends are not taxed to paying entity, results in a single tax on distributions; typically received from REITs and similarly qualified entities
- A "C" corporation's dividend is taxed twice, once to the entity, once to shareholder
- Starting in 2018, but ending in 2025, income earned through entities such as proprietorships, LLCs and partnerships may be entitled to a 20% deduction before being taxed (consult your tax professional)

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Taxation of Dividends

- Qualified dividends are ordinary dividends taxed at a 0%, 15% or 20% rate (which depends on your tax bracket) that must:
 - Have been paid by a US corporation or qualifying foreign entity
 - It is actually a dividend per the IRS (not merely called a dividend)
 - Meet holding period requirements – you must have held the stock for more than 60 days during the 121 day period that begins 60 days before the ex-dividend date
- Tax rate on non-qualified dividends is the same as your that of your regular income tax bracket; almost all dividend paying US companies pay out qualified dividends
- Dividends paid into sheltered accounts are not taxed until money is withdrawn and tax paid is usually at prevailing regular income tax bracket; good or bad?

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Dividend Payment Factors

- Dividends are distributed to shareholders of a publicly traded company at the discretion of its Board of Directors
- The Board, in considering a dividend, takes account of business activity, cash generation and needs of the business to determine if and when a dividend should be paid and its amount
- Historic payouts, dividend increases and strategies all play a role in dividend considerations

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Dividend Payment Factors

- Under the rules of accrual accounting, profit is the amount of revenue earned less the amount of expenses incurred and is booked to a company's retained earnings account
- Note that a company may have a positive retained earnings balance, but lack actual cash to pay a dividend (Lucent 1999)
- If the company has a positive retained earnings account balance, but lacks the cash to pay a dividend it can borrow the money, sell stock or other assets to raise cash, but that's the start of a slippery slope
- To help differentiate between booked profits and cash flows, an analyst or investor must refer to the Statement of Cash Flows

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Dividend Payment Factors

- Dividends are declared and paid equally to shareholders of the same class on a per share basis
- When a company pays a dividend, it reflects management's and the Board's belief that the dividend amount isn't needed for reinvestment in the company
- A proper understanding of the Statement of Cash Flows will definitely help an investor appreciate how payment of a dividend impacts the company now and in the future

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Important Dividend Dates

- Dividends are usually paid on a quarterly basis; there are some monthly and semi-annual payers as well
- There are four key dates in the dividend cycle:
 - Announcement date
 - Record date
 - Ex-dividend date
 - Payable date
- Dividends do not have to be paid in cash, but non-cash paying companies are of little interest to income based investors or most DGI investors

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Sample Dividend Announcement

- Here's a sample dividend announcement with key dates
 - "ST. LOUIS, February 7, 2012 -- The board of directors of Emerson (NYSE: EMR) today declared the regular quarterly cash dividend of forty cents (\$0.40) per share of common stock payable March 9, 2012, to stockholders of record February 17, 2012."
 - Announcement date: 2/7/2012
 - Record date: 2/17/2012
 - Ex-dividend date: ?
 - Payable date: 3/9/2012

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Ex-Dividend Date

- The ex-dividend date is determined by going back two trading days from the record date
 - In the case of EMR, setting the record date (a Friday) at 2/17/2012 made 2/15/2012, the preceding Wednesday (with no intervening holiday), the ex-dividend date
 - A buyer of EMR shares would have to buy no later than 2/14/2012 to get the dividend (remember safety margin)
 - A seller of EMR would have to sell on or after the ex-dividend date to still collect the dividend (safety margin)
 - EMR's share price will be reduced by the amount of the dividend on the ex-dividend date, usually noise unless a large special dividend is involved

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Dividend Dates Are Important!

- Dividend dates are critical for investors who hold or are looking to buy DGI stocks
- You don't want to sell too early, before the record date, and lose a dividend or buy too late, after the record date, and lose a dividend
- It is therefore important to keep track of key dividend dates including payment dates so you can implement your strategy for using dividends

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How To Handle Dividends

- If you're dependent on dividends for income, then spend the dividends as necessary
- To the extent you don't need dividend income, reinvest your dividends in the same or in different dividend paying stocks; could incur commissions
- You can also take advantage of a company or broker sponsored dividend reinvestment program; a problem for clubs
- Alternatively, you can collect dividends then spread the cash around to take advantage of more attractive opportunities
- You can also use a mixture of dividend reinvestment approaches

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Finding Acceptable Dividend Stocks

- There are a growing number of “lists” that specialize in dividend paying stocks spurred on by DGI’s growing popularity
- Many such lists are proprietary, although similar to other specialized lists of stocks, and require subscriptions
- Further, there is a fair amount of duplication in the many dividend stock lists due to the limited number of dividend paying stocks although inclusion criteria varies; both a blessing and a detriment
- It is important to understand the criteria used to establish DGI lists and track additions and deletions

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Best Known Stock Dividend Lists

- Dividend Aristocrats – proprietary, covers S&P 500 stocks which have increased dividends for at least 25 consecutive years,
- Dividend Champions – may or may not be S&P stocks, covers companies that have increased dividends for at least 25 or more years

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Best Known Stock Dividend Lists

- Dividend Contenders – list of stocks that have consecutively raised their dividends for the last 10 to 24 years
- Dividend Challengers – list of stocks that have consecutively raised their dividends for the last 5 to 9 years
- The Champions, Contenders and Challengers lists are free, now maintained and updated monthly by Justin Law; not the only lists of sound dividend stocks

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Using Stock Lists and Recommendations

- Stock screening can be helpful in identifying candidates to buy or sell, but an investor's work isn't done just because a screen produces results that meet or fail to meet DGI search parameters
- Although there is a reduced emphasis on growth potential vs. income for dividend stocks, quality and valuation are still important and yield is definitely not the only or primary criteria that should be used for selection purposes
- Definitely be wary of recommendations made by online analysts and writers; subject all recommendations to rigorous due diligence!
- Do your homework! Trust, but verify!

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Using Web Site Recommendations

- I am a big fan of some parts of the Seeking Alpha website
- They offer a free daily digest of dividend and income articles by many analysts/financial writers
- You can also sign up to follow and receive links to DGI articles by respected analyst/financial writers
- I also like specific portions of DailyTradeAlert.com

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The screenshot shows the Seeking Alpha website interface. At the top, there's a navigation bar with 'Seeking Alpha', 'Portfolio', 'People', 'News', and 'Analysis'. Below this, there's a 'TRENDING ARTICLES' section with headlines like 'The Best Dividend Stocks To Buy With Recession Risk This High' and 'The Cream Rises To The Top: Comparing Realty Income And One Liberty Property Trust'. There's also a 'TRENDING NEWS' section with headlines like 'Stocks rally at the open as U.S., China set trade meeting' and 'EASA running own tests to approve MAX rights'. A 'LATEST PORTFOLIO HEADLINES' section is also visible. On the right side, there's a 'Sponsored Financial Content' section with an advertisement for Vanguard. A box labeled 'Seeking Alpha Website' is overlaid on the right side of the screenshot.

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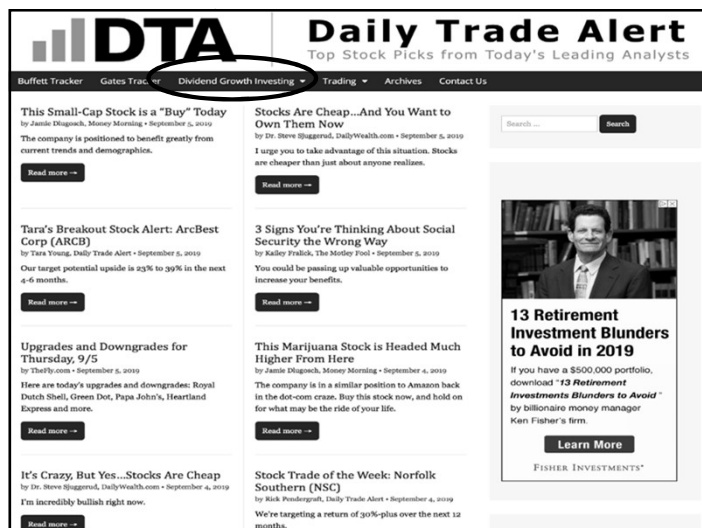
The screenshot shows a list of articles on the Seeking Alpha website. The first article is 'Retirement - Investing In Yourself' by Rida Morwa. The second article is 'How I Use The Dividend Discount Model To Make Smart Investing Decisions' by The Dividend Guy. The third article is 'No Worries: 8 REITs For The Next Recession' by Joe X. Below these, there's a section titled 'Dividend Investing Strategy' with an article 'Lanny's August Dividend Income Summary' by Dividend Diplomats. A featured article is highlighted with a box: 'This is the free daily email digest for Dividend & Income articles from Seeking Alpha, available by subscription'. The featured article is 'Top Cardiologist: This One Thing Will Properly Flush out Your Bowels' by Gundry MD. Below this, there's a section titled 'Dividend Ideas' with articles like 'Dollar General Is Showing Strength In The Face Of Tariffs' by Dividend Power, 'Wells Fargo Preferred Nears Magic Number' by Vlade Kershner, and 'Kronos Worldwide: A Look At Financials And Yield After H1 2019 Results' by Vasily.

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Seeking Alpha All Stars

- These are the Seeking Alpha analyst/writers I follow as determined by a trial and error period
- David Van Knapp
- Chuck Carnevale (FAST Graphs)
- Dividend Sensei
- Brad Thomas (REITs)
- Dividend Derek
- Poulton

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Dividend Stock Criteria

- I embrace some, but definitely not all of the content available at Daily Trade Alert
- Although its name implies this is a day trading oriented site, it is anything but
- Actually, the Daily Trade Alert site includes a valuable collection of DGI strategies, lessons, information and recommendations
- The remaining site info is not of DGI value

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Dividend Stock Criteria

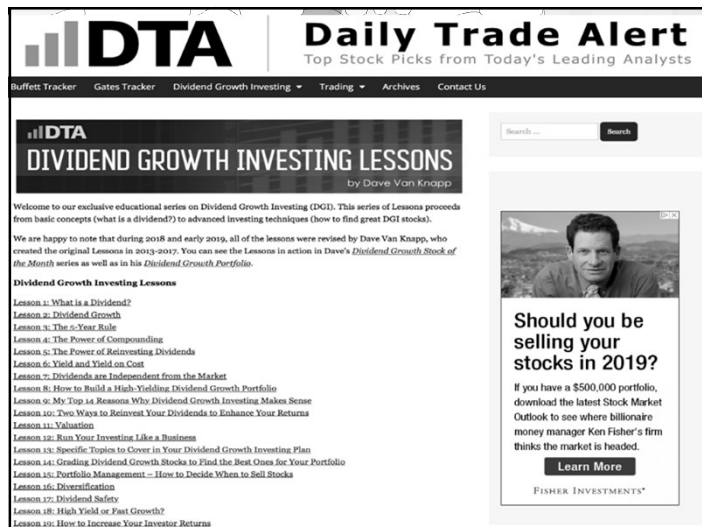
- Once at the DTA site, click on “Dividend Growth Investing” in the horizontal menu
- You will see 8 choices in the drop-down menu
- I consider these 5 menu choices to have meaningful DGI value
 - Undervalued Dividend Growth Stock of Week (Jason Fieber)
 - Dividend Growth Stock of Month (David Van Knapp)
 - David Van Knapp’s Portfolio
 - David Van Knapp’s Lessons (19)
 - List of Dividend Champions, Contenders and Challengers

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Dividend Stock Criteria

- The David Van Knapp set of 19 lessons is a free and invaluable insight into dividend growth investing
- If you decide to delve into DGI investing, this lesson set should be your starting point and then your trusted reference guide
- Read all of the lessons; they are well thought out
- You can try your own adjustments once these lessons are learned
- Be aware that Van Knapp’s Portfolio link is a living lab in which his lessons are applied; you get actual examples here to further explain the lessons

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DTA DIVIDEND GROWTH INVESTING LESSONS

by Dave Van Knapp

Welcome to our exclusive educational series on Dividend Growth Investing (DGI). This series of Lessons proceeds from basic concepts (what is a dividend?) to advanced investing techniques (how to find great DGI stocks).

We are happy to note that during 2018 and early 2019, all of the lessons were revised by Dave Van Knapp, who created the original Lessons in 2013-2017. You can see the Lessons in action in Dave's *Dividend Growth Stock of the Month* series as well as in his *Dividend Growth Portfolio*.

Dividend Growth Investing Lessons

- Lesson 1: What is a Dividend?
- Lesson 2: Dividend Growth
- Lesson 3: The 3-Year Rule
- Lesson 4: The Power of Compounding
- Lesson 5: The Power of Reinvesting Dividends
- Lesson 6: Yield and Yield on Cost
- Lesson 7: Dividends are Independent from the Market
- Lesson 8: How to Build a High-Yielding Dividend Growth Portfolio
- Lesson 9: My Top 14 Reasons Why Dividend Growth Investing Makes Sense
- Lesson 10: Two Ways to Reinvest Your Dividends to Enhance Your Returns
- Lesson 11: Valuation
- Lesson 12: Run Your Investing Like a Business
- Lesson 13: Specific Topics to Cover in Your Dividend Growth Investing Plan
- Lesson 14: Grading Dividend Growth Stocks to Find the Best Ones for Your Portfolio
- Lesson 15: Portfolio Management – How to Decide When to Sell Stocks
- Lesson 16: Diversification
- Lesson 17: Dividend Safety
- Lesson 18: High Yield or Fast Growth?
- Lesson 19: How to Increase Your Investor Returns

Should you be selling your stocks in 2019?

If you have a \$500,000 portfolio, download the latest Stock Market Outlook to see where billionaire money manager Ken Fisher's firm thinks the market is headed.

[Learn More](#)

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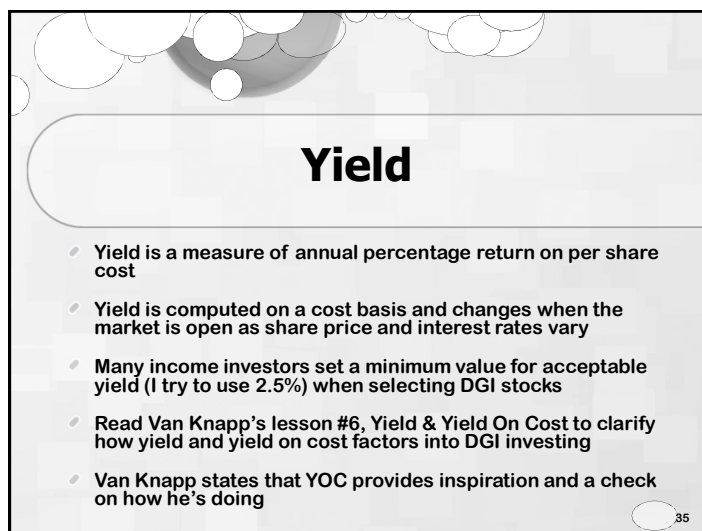
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Market Factors For DGI Stocks

- Dividends tend to support share price, especially from long time payers, but they won't save you from a loss if the key market factors or the herd work against you
- You should complete an SSG in order to determine what else about a company, besides its dividend, is good or potentially bad
- As an alternative, income investors, who consider investing in dividend paying stocks, continuously scan the market to determine the best, least riskiest sources of income

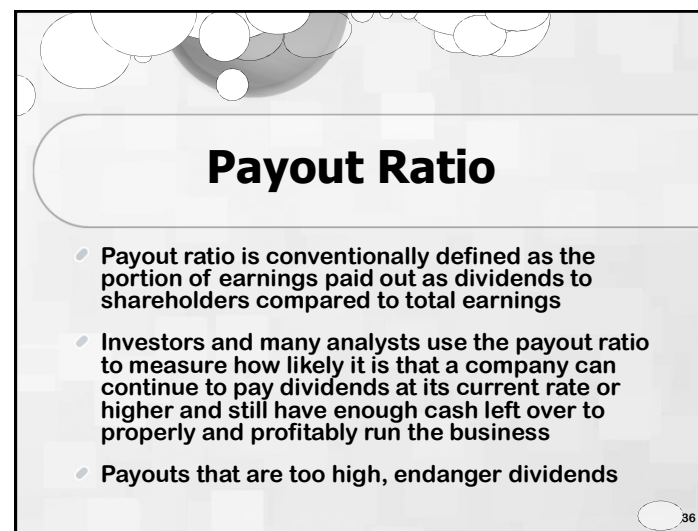
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Yield

- Yield is a measure of annual percentage return on per share cost
- Yield is computed on a cost basis and changes when the market is open as share price and interest rates vary
- Many income investors set a minimum value for acceptable yield (I try to use 2.5%) when selecting DGI stocks
- Read Van Knapp's lesson #6, Yield & Yield On Cost to clarify how yield and yield on cost factors into DGI investing
- Van Knapp states that YOC provides inspiration and a check on how he's doing

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Payout Ratio

- Payout ratio is conventionally defined as the portion of earnings paid out as dividends to shareholders compared to total earnings
- Investors and many analysts use the payout ratio to measure how likely it is that a company can continue to pay dividends at its current rate or higher and still have enough cash left over to properly and profitably run the business
- Payouts that are too high, endanger dividends

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Payout Ratio

- So what level of payout ratio is too high, what is an acceptable threshold value?
- General consensus is that the payout ratio sweet spot is 30% to 60% of earnings, some experts limit this to 50%, a few others allow more than 60%; wide range usually set by BoD strategy
- Some analysts base their maximum payout ratio limit on cash flow or free cash flow rather than earnings, but use similar payout ratio limits

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Where Can I Get Free Cash Flow Data?

- Free cash flow data can be obtained from
 - Standard Cash Flow Statement (SEC filing)
 - Financial websites
 - BI data
- Value Line data block shows earnings and cash flow, not free cash flow, and not payout ratio
- Morningstar data block shows free cash flow and earnings, but not payout ratio
- While Free Cash Flow data is available in data for Toolkit and the online SSGs, the payout ratio based on cash flow is not

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Why Is Cash Flow Based Payout Ratio Better?

- Since earnings in accrual accounting do not always represent cash, and dividends must be paid from cash, it's more reliable and safer to base the payout ratio on cash flow rather than EPS
- And keep in mind that free cash flow comprises the cash available to run the business, pay dividends, make share buy-backs, pay down debt and/or make acquisitions; BoD needs to balance dividend payout against business needs

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Free Cash Flow Based Payout Ratio

- Free cash flow payout ratio is annual dividend per share divided by the annual free cash flow per share
- Free cash flow per share data is now available in the current version of Toolkit and in Online SSGs
- Free cash flow plots are available in Toolkit and online SSGs
- Toolkit does not have a payout ratio plot
- Online SSGs have a payout ratio plot using an earnings based payout ratio, but a plot of a free cash based payout ratio is not available

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Dividend Growth Rate

- Dividend growth over time is the foundation of DGI; no meaningful dividend growth, move on
- Dividend growth rate is the annualized percentage that a dividend grows over a given time period
- A company history of meaningful dividend growth is highly valued by investors and usually indicates that the company has excellent management and desirable long term growth prospects

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Dividend Growth Rate

- If you look at the long term performance of stocks included in the Dividend Aristocrats (25+ years) list, you'll see how powerful and rewarding it can be to own stocks that have world class dividend growth rates
- Dividend growth rate is very important, but unfortunately, as presently adapted, the SSG doesn't properly account for a stock's dividend growth rate so you'll need to look elsewhere

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SSG - Section 3

CURRENT PRICE (P/E) 56.20 (18.7) 52-WEEK HIGH (P/E) 56.84 (18.9) 52-WEEK LOW (P/E) 46.29 (15.4)									
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield	
1 2007	59.5	48.7	2.31	25.8	21.1	1.270	55.0	2.6	
2 2008	61.1	45.8	3.03	20.2	15.1	1.405	46.4	3.1	
3 2009	57.4	41.4	3.69	15.6	11.2	1.560	42.3	3.8	
4 2010	56.8	44.6	2.96	19.2	15.1	1.720	58.1	3.9	
5 2011	56.8	45.1	3.01	18.7	15.0	1.880	62.5	4.2	
6 AVERAGE (10 Years)		39.9		24.7	18.2		57.6		
AVERAGE P/E RATIO	18.5		PROJECTED P/E RATIO		17.0		TTM EPS		3.0
CURRENT P/E RATIO	18.7		PEG RATIO		1.7		FTM EPS		3.30
RELATIVE VALUE	87.0		PROJ. RELATIVE VALUE		79.2		AVG TTM - FTM EPS		3.15

years used to compute % payout average

Dividend % payout average

Dividend % High Yield

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SSG – Section 5 for Dividends

5 TOTAL RETURN ANALYSIS

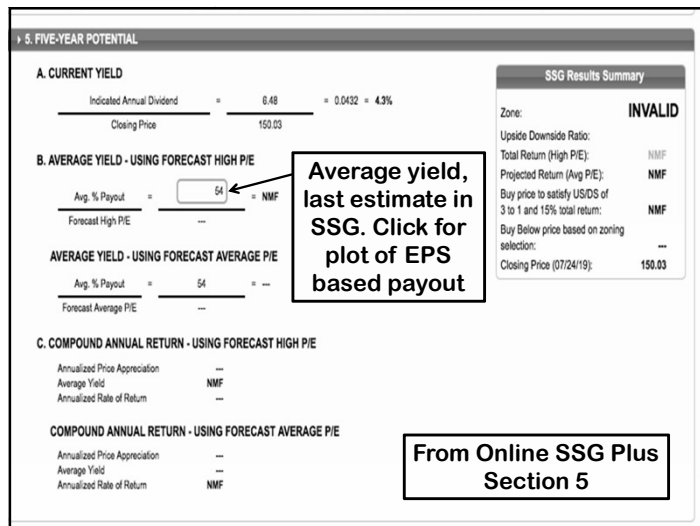
Average yield using forecast high PE

A CURRENT YIELD		Present Full Year's Dividend \$ 1.928 + Current Price of Stock \$ 56.200 = 3.44 % Present Yield or % Returned on Purchase Price	
B AVERAGE YIELD (10 YEARS) USING FORECAST HIGH P/E		Avg. % Payout 57.6 61.1 + Forecast High P/E 20.0 = Avg. Yield 3.1	
AVERAGE YIELD - USING FORECAST AVERAGE P/E		Avg. % Payout 57.6 61.1 + Forecast Avg P/E 17.5 = Avg. Yield 3.5	
C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E		Average Yield 3.1 % + Annual Appreciation 11.5 % = Compound Annual Total Return 14.6 %	
D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E		Average Yield 3.5 % + Annual Appreciation 8.6 % = Projected Average Total Return 12.1 %	

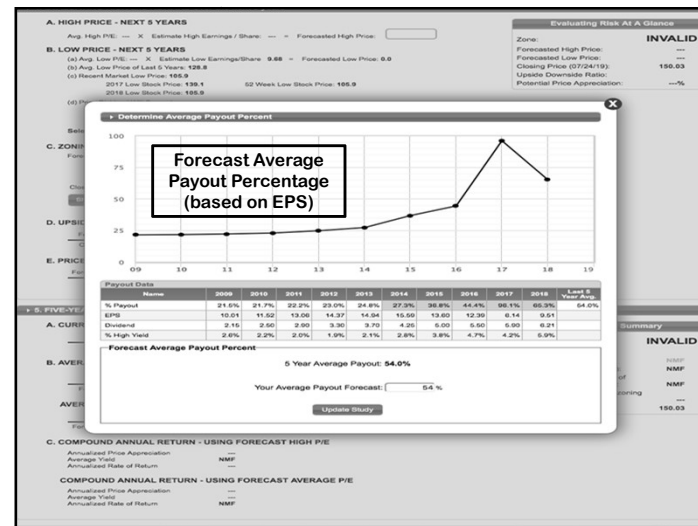
Average yield using forecast average PE

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DGI Portfolio Management

- As a DGI investor, you want to satisfy the twin goals of growing your portfolio and living off of or reinvesting your dividends
- That usually means building your portfolio of DGI stocks by buying appropriate stocks and applying the dividends as needed
- However, there are times when selling a DGI stock is warranted

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DGI Portfolio Management

- DGI selling rules, sell when:
 - A company cuts, freezes or suspends its dividend!
 - A company's share price becomes seriously overvalued
 - Company's dividend safety falls to an unsafe level (payout ratio gets too high)
 - Position size becomes too large for portfolio
 - Dividend growth rate drops to a tepid pace or flattens completely
 - See Van Knapp's lesson #15 for detailed explanations

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Summary

- Don't lower your quality standards to chase yields, it's dangerous, don't do it!
- Keep a watchful eye on valuations, when you buy and when they prompt you to sell
- Focus on entities with good dividend growth rates
- Make sure that payout ratio is prudent or better
- Reinvest dividends that you don't need to live on or reserve for emergencies; get that compounding effect

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Summary

- Diversify across multiple sectors and industries as much as possible; easier to do if you invest in funds
- Be aware of and coordinate stock purchase and sales around ex-dividend and record dates
- Keep a log showing when your dividends will be paid; you should already know their payment cycle
- Remember that not all dividend paying stocks are potential buys for that reason alone
- Be ruthless in applying your sell criteria

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- Income Investing Secrets: How To Receive Ever-Growing Dividend and Interest Checks, by Richard Stooker, CreateSpace Publishers, 2010
- Investing In Dividend Growth Stocks by Shane Forbes, NeoCadence Publications, Kindle, 2017
- Dividend Investing: Winning Tactics and Tips... by Adam Jones, Independently published, 2019
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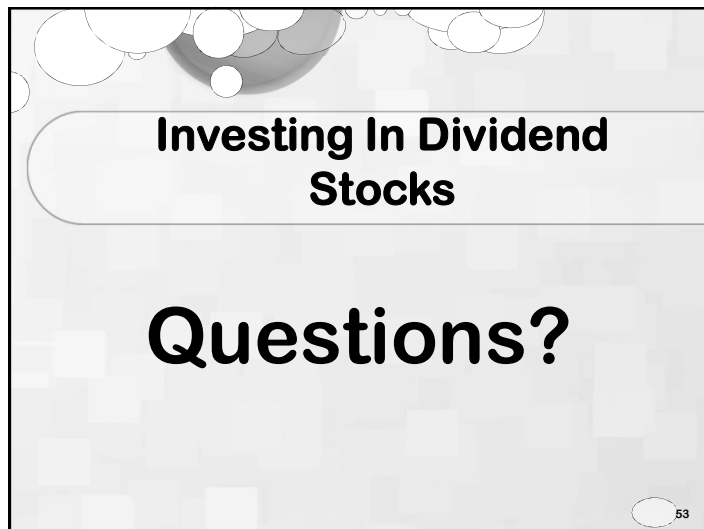


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- Morningstar Dividend Investor,
- AAIL Dividend Advisory Service, fair value for money
- Value Line Dividend Service, not as good as from other providers
- Drip Investor, not a 100% dividend service, but helpful with dividend reinvestment plans
- Dividends4Life, lower cost, helpful and effective dividend rating service (selections are cash flow based)

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