



A Dividend Focus

The last quarter of 2009 is flying by with lightning speed and we can still hear the sounds of the many winded investors who held on during the crazy roller coaster ride known as the US stock market over the last two years. After being down in excess of 30% in 2008, markets roared back to life in 2009. At the time of writing, the year-to-date returns on the S&P 500 and the Dow Jones Industrial Average were a healthy 18% and 13% respectively. However, amidst this impressive recovery, bearish sentiments of severe overbought conditions continue to persist in the market. In addition, US interest rates are at record lows; this means that yields on fixed income assets are depressed and any upside may be limited.

In the face of this uncertainty, investors may want to consider dedicating a portion of their portfolio to a strategy of Dividend Investing. Dividend Investing is simply an approach to investing that focuses on selecting stocks with relatively higher dividend yields. In other words, investors would be temporarily shifting focus to the more reliable dividend income aspect of their stock portfolio. A high dividend stock or ETF gives you both a return on dividends received (which may exceed the current yield on Government-issued bonds) and the potential to benefit from price appreciation. This may be one way of hedging against another possible round of market volatility while earning a return which exceeds average fixed income yields.

If you are an investor with a "current income generation" focus, then this strategy may not be for you. High-dividend yielding stocks are often viewed as a boring pick. They offer low price volatility and charges a premium price compared to penny stocks. The truth of the matter is you won't get rich overnight with these stocks as investors must have a long-term focus with this investment style. Most earnings are expected to grow between 10 per cent and 15 per cent annually over the next five to ten years, thus over time, you can expect their share prices to move up at roughly the same rate. By combining the expected price appreciation (though not guaranteed) with two to five per cent dividend yields, you can expect annual returns between 12 to 20 per cent or, on average, 16 per cent.

Since dividend yields move inversely to price movements, you may be wondering if high dividend stocks make sense given the run-up in share prices off the March 2009 lows. On 01st October 2009, Standard & Poor's said that just 191 of 7,000 companies reporting dividends raised payouts in the third quarter. That marks the worst quarter in history for dividend hikes. The good news is that dividend payouts may have hit bottom.

As the US economy begins its recovery and earnings growth gains traction, dividend payouts should follow suit. Especially valuable would be those dividend stocks that not only pay reliable dividends, but also raise them regularly i.e. keep the ratio of earnings to dividends constant. Therefore we recommend an approach of researching companies that will continue to pay and increase dividends as opposed to stocks with already unsustainable payouts (based on cash flow projections) and attempting to buy these stocks on the pullbacks. You should focus mostly on the sweet spot of dividend investing, where

yields are currently somewhere between 3% and 5% and dividend/earnings growth is in the upper single or even double digits.

Some examples of viable candidates are:

- Alpine Global Dynamic Dividend Fund (AGD) is a non leveraged closed end global equity fund. The Fund's primary objective is high current dividend income. The fund will normally invest at least 80% of its assets in the equity securities of domestic and foreign companies that pay dividends.
- Kinder Morgan Energy Partners, L.P. (KMP) owns and manages energy transportation and storage assets in North America. This dividend-achiever has rewarded unit holders with regular distribution increases for 13 consecutive years.
- Consolidated Edison, Inc., (ED) through its subsidiaries, provides electric, gas, and steam utility services in the United States. This Dividend Aristocrat has raised dividends for 35 successive years.
- Altria Group, Inc., (MO) through its subsidiaries, engages in the manufacture and sale of cigarettes and other tobacco products in the United States. Before spinning off Kraft (KFT) and Philip Morris International (PM), Altria had an uninterrupted streak of 41 consecutive annual dividend increases.

For those who prefer ETFs to individual stock positions, Wisdom Tree Large Cap Dividend (DLN), iShares Dow Jones Select Dividend Index (DVY) and Vanguard High Dividend Yield Index (VYM) are some options to consider. The dividend yields given are dependent on the exact dividend rate and the price paid for the ETF. Since the price varies daily and the dividend can change as well, the yields, therefore, are going to vary over time.

Closer to home, the dividend yield on locally-listed stock, West Indian Tobacco Company (WITCO) is approximately 8%. This represents a significant yield advantage over bonds which are yielding anywhere between 1.59% for 90-day T-bills and 6.23% for a ten-year TT Dollar Government-issued bond.

As a final note, it is important to keep in mind that while investing in the short run is mostly affected by emotions such as fear and greed, long-term dividend investing is all about evaluating secular business trends and then positioning your portfolios accordingly. It is important to view stocks as the ownership portions of these businesses, and thus concentrate on selecting only those which you believe will have solid fundamentals into the future.

Table 1: Regional Market Performance (as at 29 October 2009)

| Index | Closing Value | Weekly Change (%) | Monthly Change (%) | YTD Change (%) | 1 Year Change (%) |
|----------------|---------------|-------------------|--------------------|----------------|-------------------|
| TTSE Composite | 787.87 | 0.63 | 0.10 | -6.53 | -15.91 |
| All Trinidad | 1,117.40 | 0.75 | 1.20 | -3.23 | -12.10 |
| JSE Index | 80,532.24 | 0.50 | 1.19 | 0.47 | -14.23 |
| JSE Select | 1,790.88 | 1.21 | 1.77 | -9.77 | -26.77 |
| All Jamaica | 65,390.04 | 1.33 | 1.46 | -11.63 | -27.58 |
| BSE Composite | 817.65 | -0.49 | -1.58 | -11.11 | -18.34 |

Table 2: International Market Performance (as at 29 October 2009)

| Index | Closing Value | Weekly Change (%) | Monthly Change (%) | YTD Change (%) | 1 Year Change (%) |
|----------------------|---------------|-------------------|--------------------|----------------|-------------------|
| S&P 500 | 1,066.11 | -2.45 | 0.52 | 18.03 | 14.62 |
| Nasdaq Composite | 2,097.55 | -3.13 | -1.25 | 33.01 | 26.57 |
| Dow Jones Industrial | 9,962.58 | -1.18 | 2.26 | 13.52 | 10.81 |
| German Dax | 5,587.45 | -3.04 | -2.21 | 16.16 | 16.19 |
| FTSE 100 | 5,137.72 | -1.34 | -0.43 | 15.87 | 21.10 |
| Nikkei 225 | 9,891.10 | -3.66 | -2.07 | 13.08 | 20.45 |
| Hang Seng | 21,264.99 | -4.26 | 1.20 | 47.80 | 67.41 |
| DJ Eurostoxx | 2,824.78 | -2.67 | -2.34 | 15.23 | 12.31 |

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