

THE / BAHNSEN GROUP

# DIVIDEND GROWTH INVEST- ING

The Bahnsen Group's enduring investment strategy takes the long view for wealth management that's focused, wise, and sustainable.

### PRICE APPRECIATION + INCOME = TOTAL RETURN

**Total Return (the real return on your investment) is made up of stock price appreciation PLUS income generated during the period a stock is held.**

The "income" part of the equation can be overlooked by investors when the focus is only on stock price. Yet income from dividends becomes increasingly powerful as an investment's time horizon stretches out. The Bahnsen Group believes that compounding dividend income is the mechanism that can maximize long-term Total Returns.

---

#### **Compounded investment income is a time-tested approach to building wealth.**

Over the past 85 years, through December 31, 2014, High-Yield Dividend Stocks have outperformed the broad markets (S&P 500 Index) 72% of the time over rolling 5-year periods, 76% over rolling 7-year periods, and 88% over rolling 10-year periods.<sup>2</sup>

#### **Dividends are positive.**

In an age of investment information overload, getting paid consistently in cash can be welcome confirmation.

The Bahnsen Group began managing client assets based on the foundational idea that investors should focus on owning essential service companies with strong free cash flows, and the willingness to share those cash flows with shareholders in the form of a dividend. These virtues combined create one of the most prudent approaches to long-term investing.

#### **Growth of Income.**

Dividend increases are often a positive signal from management about the future prospects of a company. Rising income can also pull up a company's stock price over the long-term.

#### **The Bahnsen Group's Investment Philosophy.**

High-Quality Stocks

+

High Dividend Yield

+

High Growth of Yield

=

Potential for High  
Total Return

---

2.Source: Kenneth French (Fama/French), Morningstar Direct, Miller/Howard Research & Analysis. Miller/Howard defines "High-Yield Dividend Stocks" as comprising deciles 7 to 9 from the data set created by Eugene Fama and Kenneth French, called "Portfolios Formed on Dividend Yield," in which all NYSE, AMEX, and NASDAQ stocks with Market Equity for June of year t, and at least 7 monthly returns, were separated into deciles based on dividend yield (decile 10 being the highest yielding). The file was created by CMPT\_DP\_RETs using the CRSP database. D/P (in percent) was computed with breakpoints at the end of each June. Miller/Howard utilizes the value-weighted returns for this study. Period discussed is from January 1, 1930 to December 31, 2014 (see chart on page 4).

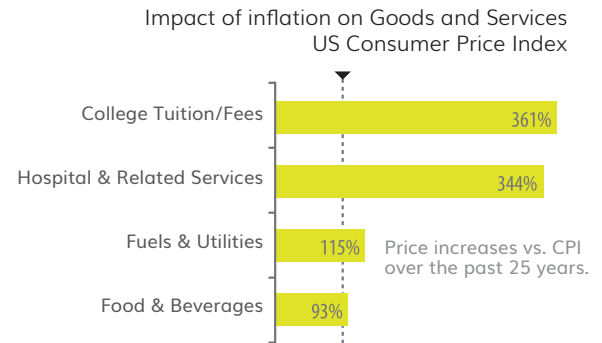
## MEETING INCOME NEEDS (THAT INCREASE OVER TIME)

For investors with income needs, the biggest danger in today's environment of low income is the temptation to spend from "total return" rather than from actual income, followed by the attendant risk of negative compounding.

Meeting an investor's income needs (or liabilities) is a growing cause of concern since attractive sources of income remain difficult to find. As investors near retirement age, the question often turns from "How much money did I save?" to "Will my investment generate enough income?"

Characteristics commonly used to evaluate investment products, such as sector, market capitalization, or style box category, become less important than the investment's ability to produce quality income and to grow that income consistently over time.

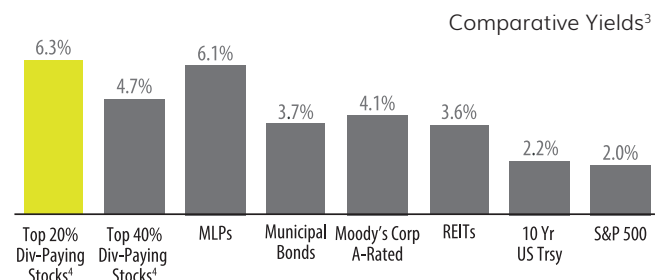
Source: US Bureau of Labor Statistics; All Urban Consumers; US City Average; Seasonally Adjusted. Data shown 1989–2014.



## Dividend equities remain a competitive income source.

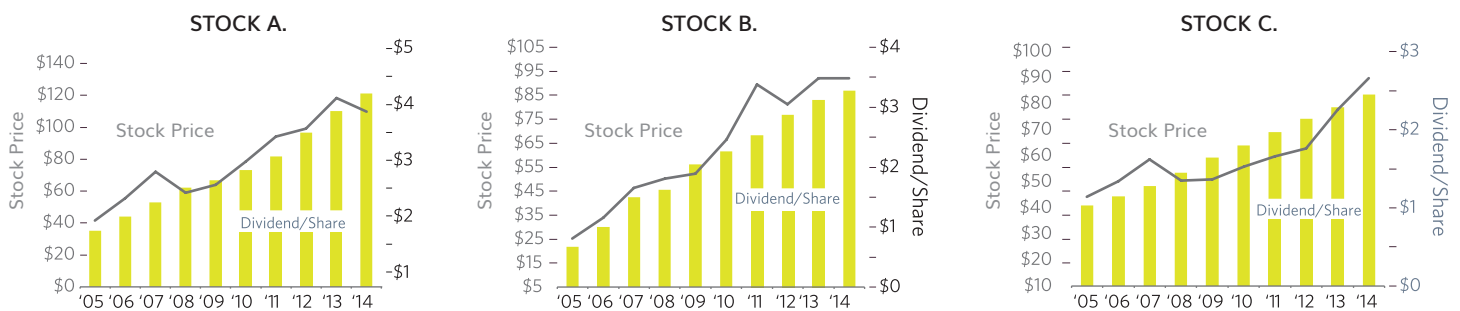
Dividend equities from a mix of market sectors can provide dividend income competitive with traditional sources of income.

Source: Bloomberg, Miller/Howard Research & Analysis.



## Rising Income Can Also Support Stock Prices.<sup>4</sup>

Dividend income has the benefit of potentially growing over time. Unlike income from bonds, dividends can grow to meet inflation-adjusted income needs. The value of an asset should be a multiple of the income it produces. Higher income should lead to higher valuations.



Source: Bloomberg, Miller/Howard Research & Analysis.

3. Data as of December 31, 2014. Dividend-paying stock methodology: Begin with top 3,000 companies (US Exchanges) with \$1 billion market cap or greater from Bloomberg (Common Stock, Limited Partnership, REIT, Royalty Trust, NY Registered Shares, ADR, GDR, Unit). Remove nondividend payers resulting in 1,383 companies. Create deciles by dividend yield (approximately 139 companies per decile). MLP Yield source, Alerian MLP Index; REIT yield source, FTSE NAREIT All Eq Reits; Municipal Bond yield source, Board of Governors of the Federal Reserve System-Selected Interest Rates (Daily) H.15-State & Local Bonds.

4. Source: Bloomberg and MHI Research & Analysis. Data shown December 31, 2005 through December 31, 2014. Methodology in selecting 3 stocks shown: Ranking of stocks based on inclusion in both the Dividend Achievers and Dividend Aristocrats indexes and ranked by 5-year historical dividend growth. Limiting the selection to one stock per industry, the top 3 ranked stocks were selected.

Common stocks do not ensure dividend payments. Dividends are paid only when declared by an issuer's board of directors and the amount of any dividend may vary over time. Dividend yield is one component of performance and should not be the only consideration for investment. Past performance is no guarantee of future results. There is no guarantee that a company will continue to pay a dividend. The data presented does not take into account any fees or expenses associated with an actual investment. If these costs had been taken into consideration, results would have been lower. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your investment. Actual performance may be higher or lower than the performance data shown. It is not possible to directly invest in an index.

# DIVIDEND EQUITIES - PERFORMANCE WITH HISTORICALLY LOWER VOLATILITY

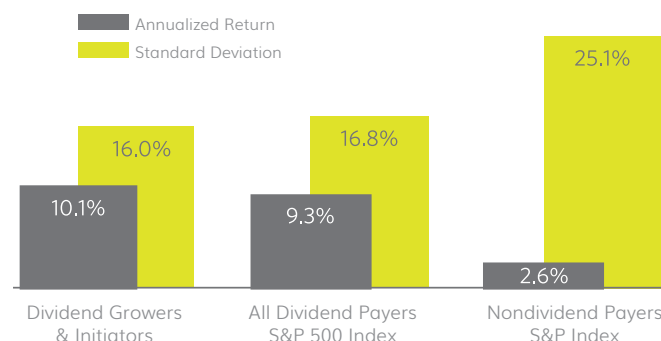
## Dividend payers and growers have historically had higher annualized returns and lower volatility than non-dividend payers.

Dividends historically have been a major source of stock market returns over the long term. By focusing on companies with a consistent track record of increasing their dividends, investors have an opportunity to generate risk-adjusted performance.

Standard deviation is a measurement of volatility. The higher the standard deviation, the higher the possible risk of an investment based on its past performance.

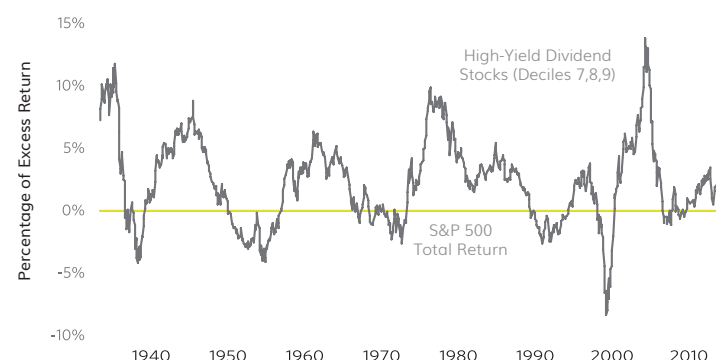
Standard deviation has historically been lower for companies that pay and grow their dividends.

Annualized Risk/Return<sup>5</sup>  
January 31, 1972–December 31, 2014



Source: Ned Davis Research.

## 5-Year Rolling Excess Returns High-Yield Dividend Stocks vs. the S&P 500 Index<sup>6</sup> Rolling Time Periods: 1930–2014



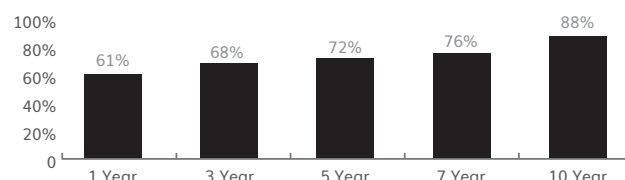
## Companies that pay dividends on a regular basis allow investors to reinvest that income to buy more shares.

The positive effects of compounding can be seen in the rolling excess returns of High-Yield Dividend Stocks vs. the S&P 500 Index. High-Yield Dividend Stocks have historically outperformed the S&P 500 Index over most rolling time periods.

Source: Morningstar Direct, Bloomberg, Kenneth French (Fama/French), Miller/Howard Research & Analysis.

## The percentage of time that High-Yield Dividend Stocks have outperformed the S&P 500 Index increases as the time horizon lengthens.

### Percentage of Time High-Yield Dividend Stocks Outperformed the S&P 500 Index Rolling Time Periods: 1930–2016



Source: Kenneth French (Fama/French), Morningstar Direct, Miller/Howard Research & Analysis.

5. Data shown from January 31, 1972 to December 31, 2014. Dividend Growers and Initiators shown are those that increased their dividend anytime in the last 12 months in the period ended December 31, 2014. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy occurs.

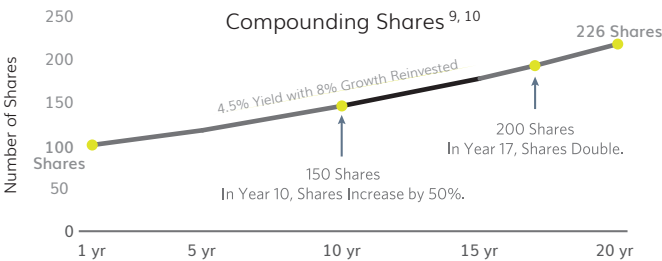
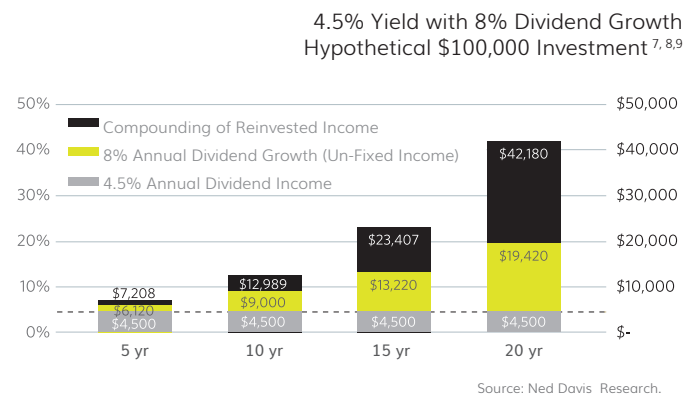
6. Source: Kenneth French (Fama/French), Morningstar Direct, Miller/Howard Research & Analysis. Miller/Howard defines "High-Yield Dividend Stocks" as comprising deciles 7 to 9 from the data set created by Eugene Fama and Kenneth French, called "Portfolios Formed on Dividend Yield," in which all NYSE, AMEX, and NASDAQ stocks with Market Equity for June of year t, and at least 7 monthly returns, were separated into deciles based on dividend yield (decile 10 being the highest yielding). The file was created by CMPT\_DP\_RETs using the CRSP database. D/P (in percent) was computed with breakpoints at the end of each June. Period discussed is from January 1, 1930 to December 31, 2014. Miller/Howard utilizes the value-weighted returns for this study. Common stocks do not ensure dividend payments. Dividends are paid only when declared by an issuer's board of directors and the amount of any dividend may vary over time. Dividend yield is one component of performance and should not be the only consideration for investment. Past performance is no guarantee of future results. There is no guarantee that a company will continue to pay a dividend. The data presented does not take into account any fees or expenses associated with an actual investment. If these costs had been taken into consideration, results would have been lower. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your investment. Actual performance may be higher or lower than the performance data shown. It is not possible to directly invest in an index.

# UNLOCK THE POWER OF COMPOUNDING AND RISING INCOME

## Rising dividends coupled with the reinvestment of dividends can be powerful.

The positive impact of compounded investment income is widely accepted by investors. Combine compounded income with UN-FIXED income—income that grows consistently over time—from a basket of high-quality companies and you have the building blocks for a durable, sound investment philosophy.

The chart on the right illustrates the power of income growth and compounded income over the course of 20 years.<sup>8,9</sup> The bottom of each bar represents the annual income received at 4.5% dividend yield. The middle of each bar shows the impact of income growing at an 8% annual rate. The top of the bar (blue) shows the compounding impact of reinvested income.



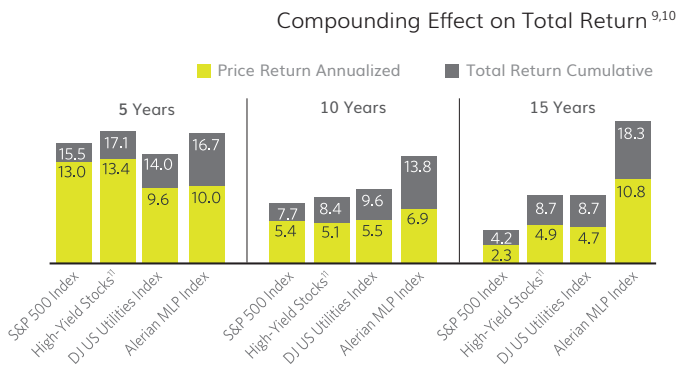
## Dividend yield reinvested can result in compounding of shares.

This chart shows the accumulation of shares using the scenario from the chart above (4.5% yield with 8% annual growth, and all income reinvested).

## The power of compounding in the real world.

Historically, traditional income-focused equity investments have been one of the highest yielding sectors and one of the most consistent dividend growers.

The Dow Jones Utilities Index, for instance, has grown its dividend in 60 of the 70 years from 1945–2015.



7. Methodology: Assumes an initial investment of \$100,000 (with no fluctuation in price of the underlying stocks) yielding 4.5% generates \$4,500 in income annually. By increasing the dividend by 8% annually over 20 years the yield on the original investment is 19.4%, offering a total return of \$19,420. When dividends are reinvested with an 8% annual yield over 20 years, the yield on the original investment grows to 42.2%, offering a total return of \$42,180. The results and projections noted are based on the assumptions and are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. There can be no assurance that the projected or simulated results will be achieved or sustained. Actual results will vary, and such results may be better or worse than the simulated scenarios. Investors should be aware this demonstrates hypothetical dividend growth. Since dividends cannot be negative, there can be no losses. However, income could be less than projected and there is the potential for loss (or gain) on the initial investment.

8. Illustration shown is hypothetical and does not take into account any fees, expenses, or taxes associated with an actual investment. If these costs had been taken into consideration, results would have been lower. The data is not intended to represent past, or be indicative of future, investment performance. Calculations, such as the one used to produce this hypothetical result are provided for educational purposes only and are educational in nature, not individualized, and not intended to serve as the primary or sole basis for investment or tax-planning decisions.

9. Above hypotheticals assume no income is withdrawn from the hypothetical accounts.

10. Source: Kenneth French (Fama/French), Morningstar Direct, Miller/Howard Research & Analysis. Miller/Howard defines "High-Yield Dividend Stocks" as comprising deciles 7 to 9 from the dataset created by Eugene Fama and Kenneth French, called "Portfolios Formed on Dividend Yield," in which all NYSE, AMEX, and NASDAQ stocks with Market Equity for June of year t, and at least 7 monthly returns, were separated into deciles based on dividend yield (decile 10 being the highest yielding). The file was created by CMPT\_DP\_RETs using the CRSP database. D/P (in percent) was computed with breakpoints at the end of each June. Miller/Howard utilizes the value-weighted returns for this study. Data as of December 31, 2014. Common stocks do not ensure dividend payments. Dividends are paid only when declared by an issuer's board of directors and the amount of any dividend may vary over time. Dividend yield is one component of performance and should not be the only consideration for investment. Past performance is no guarantee of future results. There is no guarantee that a company will continue to pay a dividend. The data presented does not take into account any fees or expenses associated with an actual investment. If these costs had been taken into consideration, results would have been lower. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your investment. Actual performance may be higher or lower than the performance data shown. It is not possible to directly invest in an index.

## Investment Products are Not FDIC Insured | May Lose Value | Are Not Bank Guaranteed

Past performance is no guarantee of future results. There is no guarantee that a company will continue to pay a dividend

All investments carry a certain degree of risk, including the possible loss of principal. Dividend yield is one component of performance and should not be the only consideration for investment. It is not possible to directly invest in an index.

### DEFINITIONS

**The Alerian MLP Index** is a composite of 50 energy Master Limited Partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ).

**Moody's Municipal Bond Yield Averages AA 10 Year** are derived from pricing data on un-enhanced, newly issued, general obligation bonds. Each observation is an unweighted average, with the composite average representing the unweighted average of the corresponding 20-year observations. Index is quoted in a yield-to-maturity and these municipal bonds are tax-free.

**Moody's Bond Indices Corporate BAA Yield Averages** are derived from pricing data on a regularly replenished population of nearly 100 seasoned corporate bonds in the US market, each with current outstanding debt over \$100 million. The bonds have maturities as close as possible to 30 years; they are dropped from the list if their remaining life falls below 20 years, if they are susceptible to redemption, or if their ratings change. All yields are yield-to-maturity calculated on a semi-annual basis. Each observation is an unweighted average, with Average Corporate yields representing the unweighted average of the corresponding Average Industrial and Average Public Utility observations.

**10-Year and 30-Year Treasury Bond Yields** are yield-to-maturity and pretax. Indexes have increased in precision as of 5/20/2008 to four decimal places. The rates comprise Generic

United States on-the-run government bill/note/bond indices.

**REIT** dividend yields are for all common stocks traded on the NYSE, AMEX, and NASDAQ with the REITs GICS classification (provided by NAREIT).

**S&P 500 Index** contains approximately 500 industrial, transportation, and financial companies of the US markets (mostly NYSE issues). The index generally has represented about 75% of NYSE market capitalization and 30% of NYSE issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

**Dow Jones Utilities Average** is a price-weighted average of the 15 utility companies that are listed on the NYSE and are involved in the production of electrical energy.

**Standard Deviation** measures the dispersal or uncertainty in a random variable (in this case, investment returns). It measures the degree of variation of returns around the mean (average) return. The higher the volatility of the investment returns, the higher the standard deviation will be. For this reason, standard deviation is often used as a measure of investment risk.

The Bahnsen Group is a team of investment professionals registered with HighTower Securities, LLC, member FINRA, MSRB and SIPC & HighTower Advisors, LLC a registered investment advisor with the SEC. All securities are offered through HighTower Securities, LLC and advisory services are offered through HighTower Advisors, LLC. This is not an offer to buy or sell securities. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. Investors may lose all of their investments. Past performance is not indicative of current or future performance and is not a guarantee. This document was created for informational purposes only; the opinions expressed are solely those of the author, and do not represent those of HighTower Advisors, LLC or any of its affiliates.



[THEBAHNSENGROUP.COM](http://THEBAHNSENGROUP.COM)

CALIFORNIA / NEW YORK / MINNESOTA / TENNESSEE / OREGON / TEXAS / ARIZONA / FLORIDA / MICHIGAN