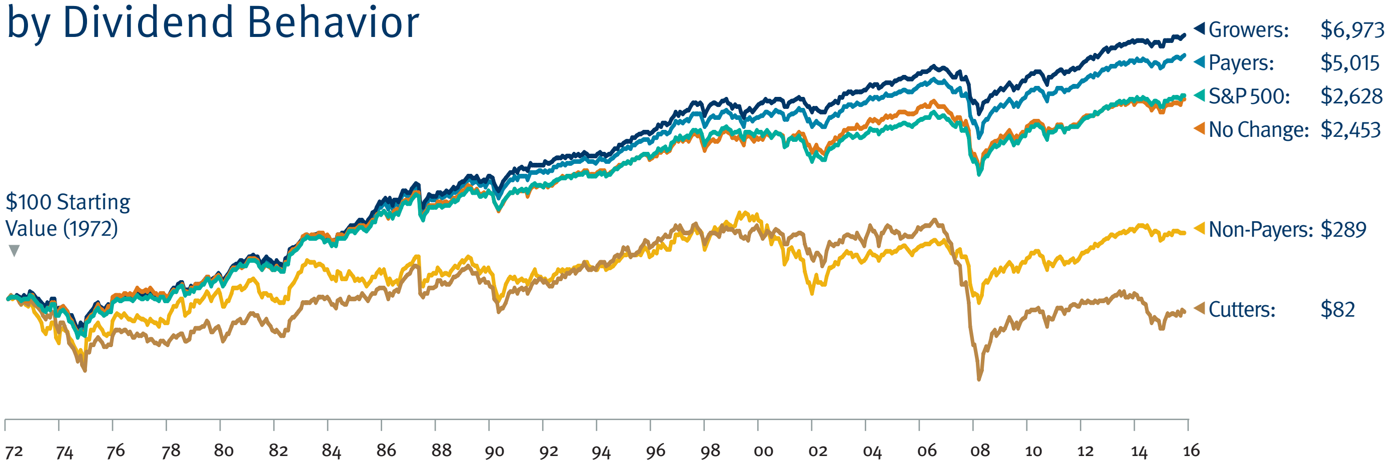
Washington Crossing Advisors

THE CASE FOR RISING DIVIDENDS

Growth in Value by Dividend Behavior



Source of chart data: Ned Davis Research, 12/31/16. © Copyright 2016 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers, refer to www.ndr.com/vendorinfo. Returns based on equal-weighted geometric average of total return of dividend-paying and non-dividend-paying historical S&P 500 Index stocks, rebalanced annually. The chart uses actual annual dividends to identify dividend-paying stocks and changes on a calendar-year basis. The performance shown is not the performance of any Washington Crossing Advisors strategy. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment. **Past performance does not guarantee future results.**

We believe companies with a history of increasing dividends provide a good starting place in a search for fundamentally strong and growing companies.

Steady dividend growth often follows consistent profitability and shareholder-focused management. A dividend growth perspective looks beyond today's yield and considers other factors, such as quality, growth, risk, and value. A track record of dividend increases can be viewed as a tangible signal by a company's management that they are both willing and able to boost a payment to shareholders. This commitment suggests quality fundamentals currently and an expectation of continued improvement into the future.

A recent study by Ned Davis Research, Inc. (see chart above) shows that return was higher and volatility lower among companies that raised their dividends when compared with ordinary dividend payers (that may or may not have raised the dividend), companies that do not pay dividends, and especially dividend cutters.

Companies that grow dividends tend to offer:

1. Shareholder-focused management
2. Solid financial performance
3. Lower volatility
4. Strong performance during tough markets
5. Attractive current yield
6. Potential for income growth
7. Tax-efficient capital appreciation

Fundamental Rationale

Steady dividend growth often follows consistent profitability and shareholder-focused management. Growth, profitability, and commitment to shareholders are all cornerstone concepts that tend to impart benefits to shareholders over time. Since these qualities can add to future earnings power and shareholder value, shouldn't investors consider companies with growing dividends?

History of Performance

A recent study by Ned Davis Research, Inc. looked at the return and volatility of dividend-paying stocks, dividend growers, and companies whose dividend remained unchanged. They found a tendency for dividend growers to exhibit strong relative performance over time and through a variety of different market environments.

Dividend growers delivered lower volatility with better returns than other categories of dividend stocks in the S&P 500 over the last 44-year study period. Performance proved to be relatively strong regardless of the level of inflation, whether the economy was in recession or expansion, or whether the Fed was raising or lowering interest rates (next page). Although markets, in general, were impacted by these factors, the relatively strong performance of dividend growers was evident.

Tax-Efficient Growth

How return is generated matters because of the impact of taxes. A $100,000, 30-year investment, assuming an 8% annual return and a 20% income and capital gains tax rate, will grow to $825,013 after taxes if the return is taxed at the end as a capital gain. If, instead, that return is received each year as income and taxed accordingly, the $825,013 is reduced to $643,056 — a $181,957 loss in accumulated value.* Why the difference?

When taxes are paid each year on income, instead of deferred to the end, the tax paid is no longer available for further compounding. Investors in taxable accounts with longer time horizons need to think carefully about relying too heavily on current income as the only source of return. Rising dividend stocks provide balance between more tax-efficient capital gains and less tax-efficient current income.

Conclusion

We attribute dividend growers' strong relative performance to a variety of factors. A shareholder-friendly focus, consistent profitability, rising income stream, and tax-efficient capital appreciation form the fundamental basis why consistent dividend growers can be a core part of a well-built stock portfolio.

**This is a hypothetical illustration only and does not represent actual performance of any investment.*

Return and Risk*

By Dividend Category (1972-2016)

S&P 500 Dividend Category	Annual Return	Annual Risk*
Growers and Initiators	10.1%	15.8%
All Dividend-Paying Stocks	9.3%	16.6%
No Increase or Decrease	7.5%	17.9%
Dividend Cutters	-0.5%	25.0%

Inflation's Impact on Returns

Returns by Dividend Category (1972-2016)

Inflation Condition	Dividend Growers	All Payers	No Change	Dividend Cutters
Recession	8.7%	8.5%	6.4%	-1.2%
Moderate (2-4%)	17.3%	16.4%	15.0%	14.5%
High (over 4%)	5.6%	4.9%	3.7%	-8.2%

The Economy's Impact on Returns

Returns by Dividend Category (1972-2016)

Economic Condition	Dividend Growers	All Payers	No Change	Dividend Cutters
Recession	-2.6%	-4.4%	-6.3%	-26.3%
Expansion	13.8%	13.4%	12.0%	8.7%

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Returns based on equal-weighted geometric average of total return of dividend-paying and non-dividend-paying historical S&P 500 Index stocks, rebalanced annually. The chart uses actual annual dividends to identify dividend-paying stocks and changes on a calendar-year basis.

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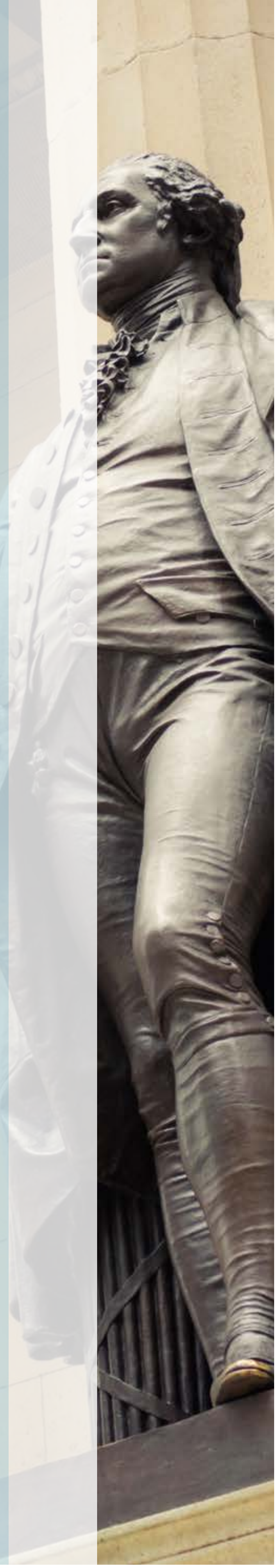
Recession and expansion dates are from the National Bureau of Economic Research.

* Risk is based on the variation of monthly returns (standard deviation).



Standard & Poor's 500 index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Dividend-Paying versus Non-Dividend-Paying stocks are categorized by Ned Davis Research based on dividend policy over a rolling 12-month time frame. A stock that pays a dividend on January 1, for example, will be classified as a "dividend payer" through January 1 of the following year. Returns are calculated by Ned Davis Research using monthly equal-weighted geometric averages of the total returns of all stocks in a particular category (dividend-paying, dividend-growing, non-paying).

Dividend No Increase or Decrease are a subcategory drawn from the dividend payers group and include only those companies that kept their dividend constant during the preceding 12-month period.

Dividend cutters are a subcategory drawn from the dividend payers group and include only those companies that reduced their dividend during the preceding 12-month period.

Dividend growers and initiators is a subcategory drawn from the dividend payers group and include only those companies that increased their dividend during the preceding 12-month period.

Dividend payout ratio: Portion of a company's net income paid to shareholders directly as a dividend.

Volatility: A statistical measurement of the variability of price movements for a given security or index. Higher volatility typically implies higher risk.

Inflation: A change in the overall price level for an economy. Herein measured as yearly changes in the Consumer Price Index as published by the U.S. Labor Department.

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Changes in market conditions or a company's financial condition may impact a company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments.

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