Washington Crossing Advisors

Portfolio Comment

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About Washington Crossing Advisors
WCA strategies are offered through the Stifel Score Program (Research-Driven Portfolios). The management team has worked together for the past 20 years as market strategists and portfolio managers.

About Stifel
Founded in 1890, Stifel is one of the leading financial services firms in the U.S., providing full-service brokerage and investment banking services. Stifel is a leading underwriter and advisor for companies and a top provider of trade execution and securities distribution with nationally recognized research and a suite of asset management strategies.

STIFEL

THE CASE FOR RISING DIVIDENDS

One way to help minimize the impact of potential inflation on your purchasing power and lifestyle is to focus on stocks that have the potential to produce a rising stream of income.

Why Invest in Companies With Growing Dividends?

- History of solid performance
- History of relatively lower volatility
- Historically strong relative performance during periods of inflation
- Historically strong relative performance during periods of recession
- Attractive yield relative to bond and cash alternatives
- Suggests shareholder-focused management
- Potential for rising income stream

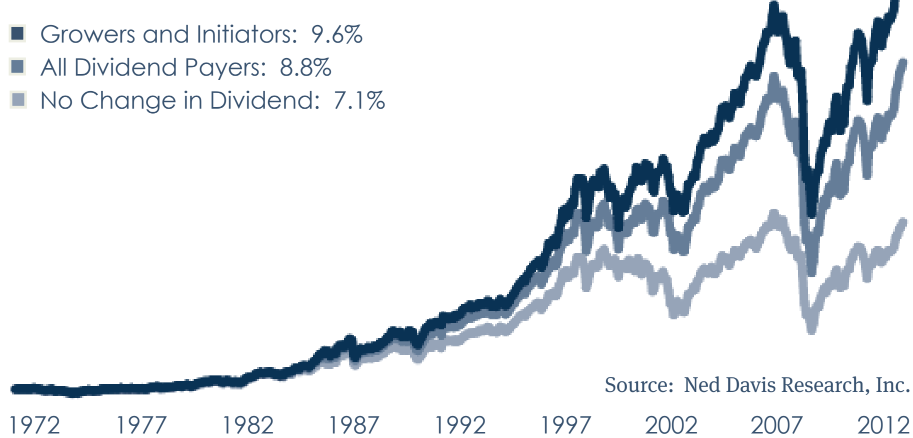
Fundamental Rationale

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

How have dividend growers performed over time? This question was addressed in a recent study by Ned Davis Research, Inc. The study 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.

ANNUALIZED RETURNS OF S&P 500 STOCKS
BY DIVIDEND POLICY (1972-2012)



Source: Ned Davis Research, Inc.

The study went on to show that ***dividend growers delivered lower volatility with better returns than other categories of dividend stocks in the S&P 500 over the 40-year study period***. By contrast, companies that kept their dividend the same saw lower returns and higher volatility than growers. Dividend cutters fared the worst. These tended to deliver losses, on average, along with significantly more volatility.

Return and Volatility
By Dividend Category (1972-2012)

S&P 500 Dividend Category	Annual Return	Annual Volatility
Growers and Initiators	9.5%	16.3%
All Dividend-Paying Stocks	8.7%	17.1%
No Increase or Decrease	7.1%	18.5%
Dividend Cutters	-0.6%	25.8%

Source: Ned Davis Research, Inc. with WCA calculations
Past performance does not guarantee future results.

Inflation's Impact on Returns

The study covered a 40-year period that saw episodes of low, moderate, and heightened inflation. We again examined returns and estimated that ***dividend growers performed better than other dividend classes regardless of inflation***. Again, companies that cut the dividend fared least well.

Inflation and Average Annualized Returns
By Dividend Category (1972-2012)

Inflation Condition	Dividend Cutters	No Increase or Decrease	All Dividend Payers	Dividend Growers
Low (under 2%)	-0.2%	+10.0%	+11.4%	+11.8%
Moderate (2-4%)	+10.3%	+10.4%	+12.1%	+12.8%
High (over 4%)	-12.4%	+2.3%	+3.9%	+4.9%

Source: Ned Davis Research, Inc. with WCA calculations
Past performance does not guarantee future results.

Economy's Impact on Returns

Another question we had was how various categories of dividend stocks performed over the business cycle. Over the 40-year study period, there were six periods of recession and six periods of expansion. Once again, we found that ***dividend growers tended to perform better than the average dividend-paying stock, companies that kept their dividend constant, and those that cut the dividend.***

Recession, Expansion, and Average Annualized Returns
By Dividend Category (1972-2012)

Economic Condition	Dividend Cutters	No Increase or Decrease	All Dividend Payers	Dividend Growers
Recession	-32.6%	-9.8%	-7.4%	-5.2%
Expansion	+7.2%	+10.8%	+12.2%	+12.6%

Source: Ned Davis Research, Inc. with WCA calculations
Past performance does not guarantee future results.

Returns include dividends but do not reflect deductions for investment management fees, trading costs, taxes, or any other costs. Individual returns would be reduced by expenses that may include management fees.

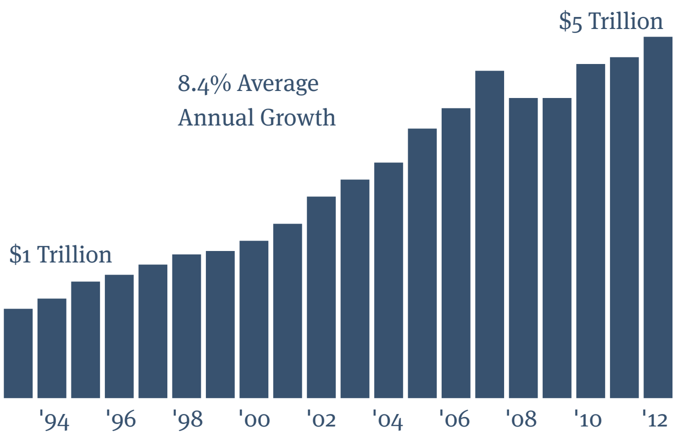
Corporations Appear Able to Pay

Most companies are enjoying record levels of cash and profits following a period of retrenchment and cost cutting, and possess the wherewithal to pay dividends. Advances in technology and a gradually recovering economy are also providing companies with ample resources to invest, pay down debt, repurchase stock, and initiate or increase dividends.

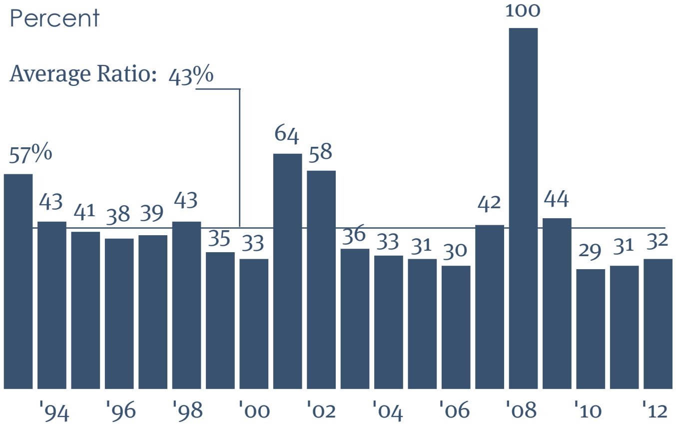
Cash Flush Balance Sheets and Strong Profitability

Companies appear well positioned to pay dividends given high levels of cash on hand and low dividend payments in relation to earnings. The companies in the Standard & Poor's 500 index, for example, currently hold $5 trillion in cash and pay only 32% of earnings to shareholders as dividends. On average, companies appear well positioned to pay dividends to investors.

S&P 500 Corporate Cash Balances Mount



S&P 500 Dividend Payout Ratio Below Average
Percent



Source: Standard & Poor's

Valuation in a Low Yield World

Equity valuations remain attractive given restored earnings and improved capacity to pay dividends (thanks to a low starting payout ratio and ample cash on hand for many companies). The dividend yield on the Standard & Poor's 500 index stands at 2.1%, compared to a 3-month U.S. Treasury bill yielding only 0.04%. Over the past 40 years, the T-Bill averaged closer to 5% while dividend yields averaged 3%. Stocks normally offer a lower yield relative to cash yields because of the prospect for dividend growth. Currently, low interest rates have reversed this historic relationship.

Conclusion

Dividend-paying stocks on the whole, and especially dividend growers, tended to perform better than non-dividend payers across a range of different inflation scenarios and economic cycles based on research conducted by Ned Davis Research.

We attribute this performance to the fact that many of these companies share some or all of the following characteristics:

1) A shareholder-friendly focus

2) Relatively consistent profitability / cash flow

3) Operate in relatively more mature and/or stable industries

It stands to reason that companies with these attributes should tend toward a better outcome for investors over time. Ned Davis' historic studies provide some quantitative support to this hypothesis. While no assurance can be given that past is prologue, the varied and often challenging economic conditions of the past four decades provides an interesting and varied background for considering important factors that drive equity value over time — including the role of dividends.

A company's dividend record is obviously an important consideration for investors looking for consistency and quality, but should not be the only consideration. Companies that regularly increase dividends offer an interesting pool of potential candidates for investors seeking solid long-run returns, moderate risk, and a rising stream of income.

DEFINITIONS AND DISCLOSURES

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.

Past performance is not a guarantee of future results.