WASHINGTON CROSSING ADVISORS

DIVIDEND GROWERS DOMINATE OTHER DIVIDEND CATEGORIES

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Dividend growers outperformed all dividend categories for the past 48 1/4 years with less risk. This is our conclusion based on data provided by Ned Davis Research. The research focuses on dividend payers, non-dividend payers, and dividend cutters. Note that the pattern of dividend growers outperformance holds for both the entire period of analysis and each sub-period (First Table). It also holds that growers experienced lower volatility for both the entire period and each sub-period (Second Table). In this note, we address why we think this phenomenon exists and what it could mean to investors.

RETURN BY DIVIDEND CATEGORY (ANNUAL)

Period	Increased	Paid	No Change	Not Paid	Cut
1973-79	5.9%	5.3%	4.9%	1.7%	-3.9%
1980-89	17.8%	16.3%	12.8%	8.6%	8.4%
1990-99	13.2%	12.0%	9.4%	10.3%	6.3%
2000-09	3.5%	2.4%	0.3%	-6.5%	-12.2%
2010-19	12.9%	11.6%	7.9%	9.3%	-1.1%
1973-April 21	10.6%	9.5%	7.0%	4.8%	-0.8%

VOLATILITY BY DIVIDEND CATEGORY (ANNUAL)

Period	Increased	Paid	No Change	Not Paid	Cut
1973-79	19.2%	19.5%	20.7%	25.5%	23.7%
1980-89	17.3%	17.6%	18.9%	21.2%	21.5%
1990-99	13.9%	13.9%	14.4%	18.5%	17.1%
2000-09	15.9%	18.1%	20.1%	27.2%	31.8%
2010-19	12.7%	13.4%	15.8%	16.1%	21.9%
1973-April 21	16.1%	16.9%	18.5%	22.2%	25.1%

Source: Ned Davis Research; WCA

WHY DIVIDEND GROWERS GENERATE SUPERIOR RISK-ADJUSTED RETURNS

We believe there are five main reasons why investors should prefer dividend growers based on years of research and study.

1. A component of Gordon's (1962) constant growth equity valuation model is the growth term. An analyst has some basis for assuming a future growth rate when a stock has had consistent growth in recent years. Yet, it is hard to estimate a future growth rate for a stock without an established track record of growth.
2. Lintner (1956) notes that firms raise dividends when earnings rises appear permanent. Thus, firms that increase their dividends assume a positive outlook for profitability.
3. Barth (1999) shows that firms with rising earnings achieve higher price-earnings ratios. This, in turn, suggests favorable valuations of consistent dividend payers.
4. Dividends instill discipline in companies that facilitate corporate governance and financial health. Paying consistent dividends reduces corporate resources for projects. This, in turn, guides capital to the most productive opportunities.
5. Most importantly, we believe dividend growers tend to be of higher quality than broader market issuers. This is evident in earnings quality, earnings level and consistency, and leverage. Dividend growers tend to have superior financial strength, flexibility, and discipline.

HOW CAN CONSISTENTLY GROWING DIVIDENDS BENEFIT INVESTORS?

Dividend growers can provide some downside protection in bear markets and help provide a buffer against rising bond yields. This is because many dividend growers, like technology and industrials, have lower payout ratios and higher earnings growth. By contrast, high yield stocks cluster in highly interest-sensitive sectors, like real estate and utilities, with high dividend payouts and low growth. The stocks of these companies tend to underperform when interest rates increase.

Dividend growers contribute cash flows to investors in a predictable manner. Dividend payouts to investors contribute to long-term total returns when reinvested. Also, investors can use these cash payments to fund retirement and long-term liabilities.

Dividend growers can be an essential component of a diversified portfolio as they exhibit low volatility and imperfect correlation with other assets. These traits are generally seen as positives for wealth accumulation due to a minimal drag on wealth compounding.

CONCLUSION

Dividend growth makes sense following a year of turbulence and high market valuations. Dividends are predictable and tend to function as a marker of quality. Thus, dividends are a key to long-term success. WCA's value proposition is to focus on a growing stream of dividends. This contrasts with managers that chase dividend yields, performance, momentum, or other reactive strategies.

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