FOR QUALITY, LOOK FOR DIVIDEND GROWTH

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 durability, flexibility, and consistency. 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 today and an expectation of continued improvement.

A recent study by Ned Davis Research, Inc. (see chart above) shows that return was higher (with lower risk) 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 for the period of January 1973 to May 2022. As we have shown in other research notes, rising dividend strategies tend to outperform high dividend yield strategies which effectively function as bond substitutes.
A Tangible Commitment
Because a dividend increase requires a cash commitment, it may be more meaningful than a few nice words from the management. Few have greater insight into how a company is really doing than its own management, who determines what dividends are paid to owners (shareholders). Moreover, management knows that an increase in a cash dividend needs to be paid for with higher earnings. They also know it would be hard to maintain higher dividends if profits are expected to fall. Thus, a dividend increase can be seen as a tangible commitment and credible signal about future growth.

Fundamental Case
Not only are dividend increases indicative of quality and growth, but dividend growers also seem to generally be:

- Lower-indebted companies;
- Companies with profitable assets; and
- Steady businesses.

The essential nature of such businesses tends to be durable, flexible, and consistent. Since these qualities can add to future earnings power and shareholder value, why would we not want to focus on 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, dividend cutters, and companies whose dividend remained unchanged. They found a tendency for dividend growers to exhibit strong relative performance and lower volatility over the 48-year study period.

Dividend growers and initiators' performance proved strong regardless of the level of inflation, whether the economy was in recession or expansion, or the direction of interest rates (next page).

Practical Considerations
Beyond fundamentals, three practical considerations support the case for quality dividend growth stocks.

- **Emotional Balance**: Focusing on dividends rather than price movements can help you stick with your strategy (especially when prices fall).

- **Inflation**: Dividend growers are better than bonds or annuities when it comes to keeping pace with inflation. This is because most bond coupons and annuity payments are fixed.

- **Fund Future Expenses**: Dividend payments can be reinvested and compounded over time and may help fund living expenses long after paychecks cease.

Conclusion
As you can see, the case for rising dividends is well founded. Frequently, dividend increases signal management commitment to shareholders, indicate fundamental strength, and convey other benefits to shareholders. Whether your goal is long-run capital appreciation, growth of income, or both, these are just a few good reasons for considering high-quality, rising dividend stocks.

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
## The Case for Rising Dividends

### Returns by Dividend Category (January 1973–May 2022)

<table>
<thead>
<tr>
<th>S&amp;P 500 Dividend Category</th>
<th>Annualized Return</th>
<th>Annualized Risk*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Growers &amp; Initiators</td>
<td>10.4%</td>
<td>16.0%</td>
</tr>
<tr>
<td>All Dividend Payers</td>
<td>9.4%</td>
<td>16.8%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>7.9%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Unchanged Dividends</td>
<td>7.0%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Dividend Non Payers</td>
<td>4.2%</td>
<td>22.1%</td>
</tr>
<tr>
<td>Dividend Cutters</td>
<td>-0.4%</td>
<td>24.9%</td>
</tr>
</tbody>
</table>

### Inflation's Impact on Returns

<table>
<thead>
<tr>
<th>Inflation Regime</th>
<th>Growers</th>
<th>All Payers</th>
<th>S&amp;P 500</th>
<th>Unchanged</th>
<th>Non Payers</th>
<th>Cutters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (&lt; 2%)</td>
<td>14.2%</td>
<td>14.0%</td>
<td>12.9%</td>
<td>12.1%</td>
<td>12.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Moderate (2-4%)</td>
<td>14.3%</td>
<td>13.3%</td>
<td>12.1%</td>
<td>10.9%</td>
<td>10.3%</td>
<td>9.2%</td>
</tr>
<tr>
<td>High (&gt; 4%)</td>
<td>9.1%</td>
<td>7.7%</td>
<td>6.1%</td>
<td>5.0%</td>
<td>1.6%</td>
<td>-4.2%</td>
</tr>
</tbody>
</table>

### The Economy's Impact on Returns

<table>
<thead>
<tr>
<th>Economic Regime</th>
<th>Growers</th>
<th>All Payers</th>
<th>S&amp;P 500</th>
<th>Unchanged</th>
<th>Non Payers</th>
<th>Cutters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recession</td>
<td>-1.0%</td>
<td>-3.1%</td>
<td>-3.7%</td>
<td>-6.7%</td>
<td>-2.4%</td>
<td>-22.1%</td>
</tr>
<tr>
<td>Expansion</td>
<td>13.8%</td>
<td>13.1%</td>
<td>11.6%</td>
<td>11.3%</td>
<td>8.2%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

### Movements in One-Year Treasury Bill Rates Impact on Returns

<table>
<thead>
<tr>
<th>Interest Rate Regime</th>
<th>Growers</th>
<th>All Payers</th>
<th>S&amp;P 500</th>
<th>Unchanged</th>
<th>Non Payers</th>
<th>Cutters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising Rates</td>
<td>5.1%</td>
<td>4.7%</td>
<td>4.5%</td>
<td>4.1%</td>
<td>3.8%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Falling Rates</td>
<td>18.7%</td>
<td>17.2%</td>
<td>14.7%</td>
<td>13.5%</td>
<td>9.7%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>


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. Past performance does not guarantee future results. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment. Recession and expansion dates are from the National Bureau of Economic Research.

* Risk is based on the variation of monthly returns (standard deviation). A higher standard deviation indicates greater risk.
A recent study by Ned Davis Research, Inc. (see chart above) shows that return was higher and volatility lower among companies that raised or initiated 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 for the period of January 1973 to May 2022.
About Washington Crossing Advisors

Washington Crossing Advisors, LLC (“WCA”) is an SEC registered investment adviser and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $7 billion in assets under advisement for individuals and institutions.*

The team is managed by Kevin R. Caron, CFA, and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.


Philosophy and Process

We believe that investments should be selected only after clear and quantified measures of value, risk, and potential reward have been made. Our investment approach combines top-down analysis of the macro economy with fundamentally rooted, bottom-up security analysis.

* Assets under advisement as of March 31, 2022.
ABOUT WASHINGTON CROSSING ADVISORS | Washington Crossing Advisors (“WCA”) a wholly owned subsidiary of Stifel Financial Corp. (NYSE-SF). The WCA team has been helping individual and institutional investors build wealth for more than 25 years.

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