"The prime purpose of a business corporation is to pay dividends regularly and, presumably, to increase the rate as time goes on." – Benjamin Graham, *Security Analysis*, 1934

We have been asked two questions recently: What is our strategy to cope with increased stock market volatility? ; and ; How are we investing to gain income with lower interest rates? Our response to these questions is that our strategy remains the same – to establish as a core part of our investment portfolios stocks paying exceptional dividends. The weighted aggregate yield for the S&P 500 is about 2.05% vs. 1.75% currently for the 10 year US Treasury Bond. Our portfolios, including equity oriented and balanced, have a much higher dividend yield, providing a nice stream of income for our clients. Numerous studies have shown that dividend paying stocks have provided higher cumulative returns with lower volatility than non-dividend paying stocks and have outperformed non-paying stocks during moderate and severe market corrections. These findings are more pronounced for higher levels of dividend yield.

There are three components to a stock's long-term total return: capital appreciation (depreciation), dividend yield, and dividend growth. In general terms, the current dividend and dividend growth will offset some of the impact from a market downturn and also offset market volatility. Seaway Advisors looks for a combination of stocks with a high current yield and those that offer the opportunity for dividend growth. If Intel had been purchased on 9/17/2014, one would have paid $30.56 per share with the stock yielding 2.9%. On 9/17/2019, Intel closed at $51.95 with the stock yielding 2.4%, a lower current yield. The stock price appreciated 70%. Over this time frame, Intel also increased its dividend 40%. The yield, looking at the current dividend and the purchase price, would be 4.1%,. We present this as yield-to-cost for our clients. The total return for Intel, including dividends becomes 88% assuming no reinvestment of dividends. Even with no further increases in the dividend, the 4.1% provides excellent income. This is the power of dividend growth.

When seeking stocks for income, Seaway Advisors looks at the dividend payout to cash flow, debt levels, and expectations for future earnings and growth. Earnings expectations are the determinant as to whether the dividend is sustainable. The S&P 500 in aggregate saw a 21% dividend cut in 2009 in the wake of the Great Recession as earnings expectations were low. As a value manager, investment opportunities arise (barring a broad market sell-off) when a company is undergoing change to its business. Earnings sustainability then becomes a question. Intel is an example of this. An opportunity to purchase Intel arose as a marked slowdown in PC and laptop demand created a question as to the future of the company which was dependent on microprocessor demand from computer manufacturers. Intel found a huge and growing customer base from data centers serving the broadband internet. Business transformation creates both opportunity and risk.

Should traditional bond investors look to stocks for income? The Norwegian pension fund, the Japanese government pension fund, and the Swiss National Bank are now investing in stocks for income following the increase in negative-yielding bonds globally. Some U.S. insurance companies have increased their allocation to dividend stocks in order to gain income. This buttresses the case for dividend paying stocks to outperform going forward.

Data Source; Kenneth R. French, Center for Research in Security Prices (CRSP) and the University of Chicago Booth School of Business