



# Welcome FIM Group Market Review

## Dividends Webinar



Paul Sutherland



Jeff Lokken



Barry Hyman



# Disclaimer

- The following views are intended to assist in understanding investments with FIM Group and do not constitute investment advice and or recommendations. For a complete list of FIM Group recommendations call 1.800.632.5528. Holdings disclosed may not be held in all FIM Group client accounts and may be held by FIM Group officers, employees and family members.
- Dividends paid by companies mentioned are not guaranteed, and are subject to decisions made by the management of the companies. All dividend information provided is based upon actual past dividends paid.



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- Information provided in the following slides is used to help explain the companies described and is incomplete. More information is available through the companies web sites and their governmental filings.

# Dividend Essentials



Jeff Lokken



# What Can Companies Do With Free Cash Flow?

*What is best for the shareholder?*

- Pay down debt
- Keep in cash or as a current asset
- Invest
- Grow the business; acquire, expansion, research
- Buy back company stock
- Pay a dividend



# What is a Dividend?

- The distribution of company's earnings to stockholders
- Usually done in cash
- Can be done with stock or other company property such as spinning off a division in shares
- Payout ratio: percentage of net income paid in dividends

# Measurement of Yield

Current Yield	$\frac{\text{Expected Income}}{\text{current value}}$
Yield on Purchase (Cost)	$\frac{\text{Expected Income}}{\text{investment cost}}$

- Yield on current price
- Yield on purchase
- Dividends are declared by board of directors and not guaranteed

# Advantages of Dividends in a Financial Plan

- Accumulation phase: creates cash flow for reinvestment
- Distribution phase: provides income to maintain living standard
- Often a rising stream of cash flow helps preserve purchasing power



# Dividends: Examples and Strategies



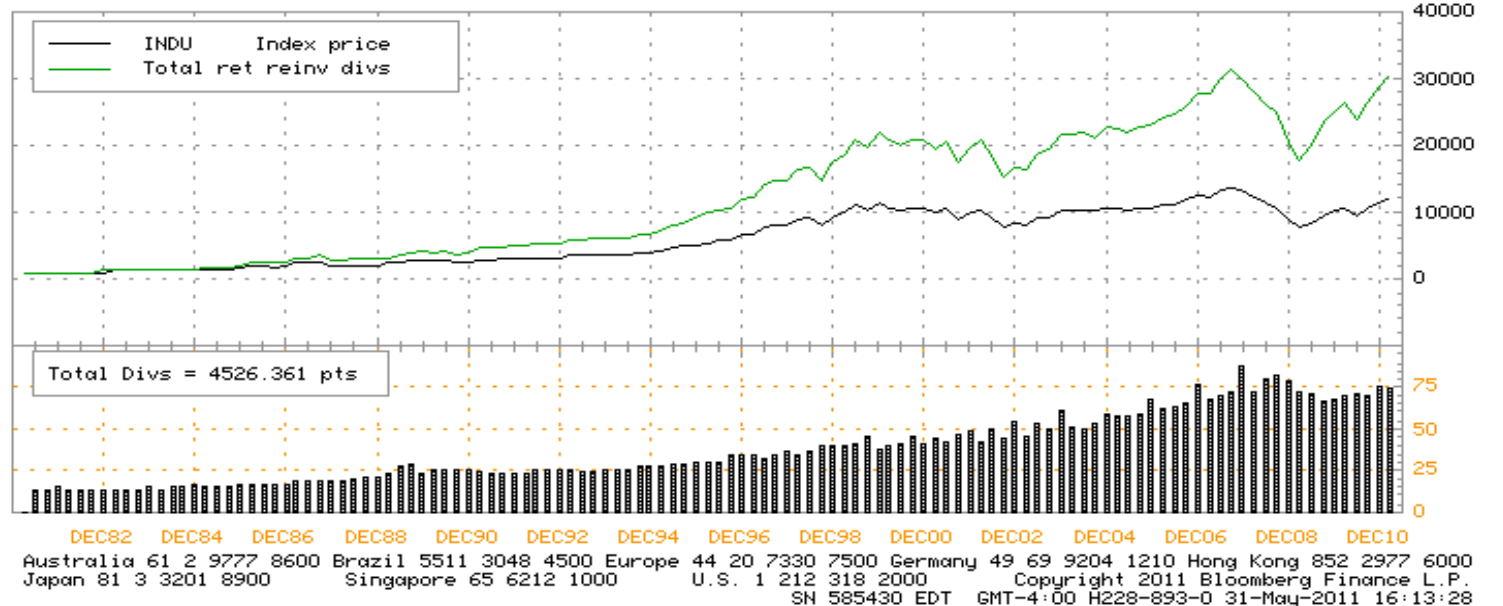
Barry Hyman

# The Power of Dividends

INDU Index TRA Index TRA  
 Hit # <PAGE> for price, dividend, and total return tables. Page 1/10

**Total Return Analysis**

3/31/81 - 3/31/11	Period	Quarterly	DOW JONES INDUS. AVG	in USD
2 Close	Divs	Gross	Show Grid	Yes
<b>Returns</b>		<b>Holding Per</b>		<b>Annual Eq</b>
Simple Price Appreciation		1127.224 %		8.7112 %
Gross divs reinvested into index		2952.955 %		12.0622 %
Divs reinv at 0.1644		1585.908 %		9.8673 %
<b>Prices</b>		FIRST 1003.87 on 03/31/81 LAST 12319.73 on 03/31/11 HIGH 13895.63 on 09/28/07 LOW 811.94 on 06/30/82 AVE 6151.76 (Close)		



Source: Bloomberg

# The Power of Dividends

LLP

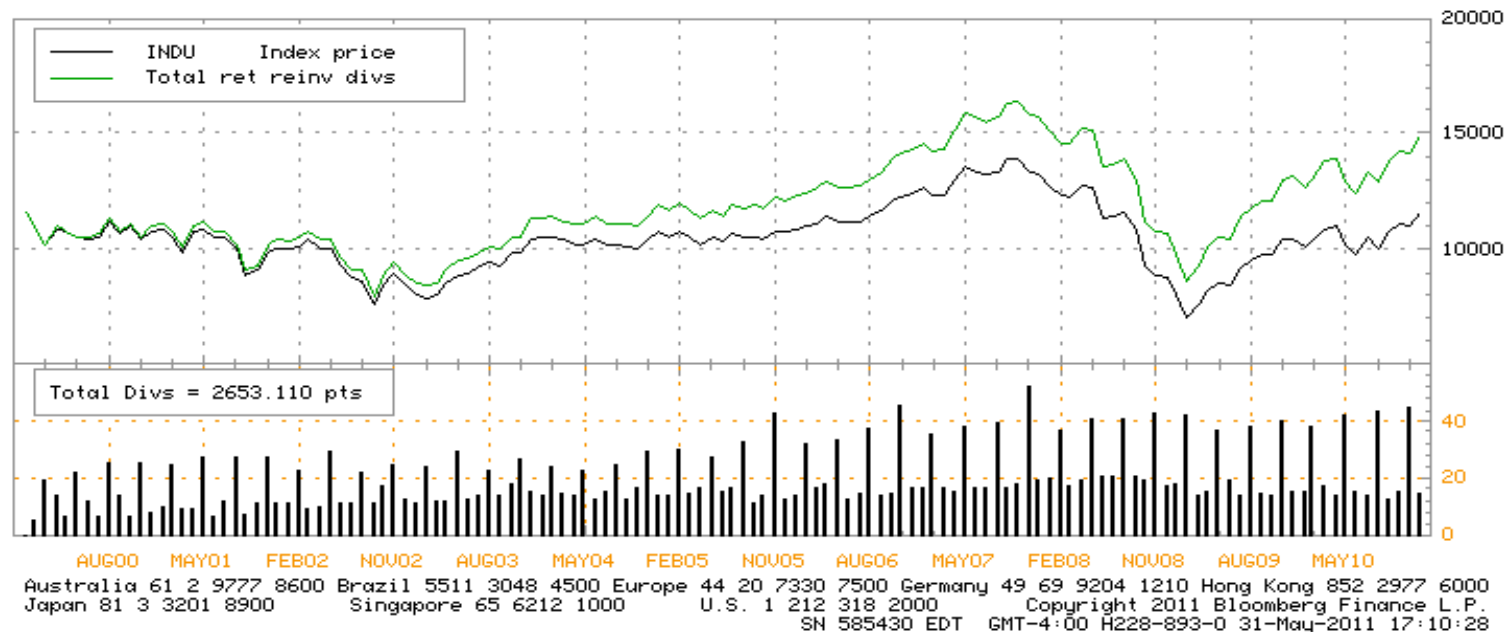
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Hit # <PAGE> for price, dividend, and total return tables.

## Total Return Analysis

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12/31/99 - 12/31/10	Period	Monthly	DOW JONES INDUS. AVG	in USD
2 Close	Divs	1 Gross	Show Grid	Yes
			132 Mo.	Holding Period
<b>Returns</b>			<b>Prices</b>	
Simple Price Appreciation	Holding Per	.6992 %	Annual Eq	.0633 %
Gross divs reinvested into index		29.9560 %		2.4088 %
Divs reinv at 0.1644		23.9601 %		1.9703 %
FIRST	11497.12	on 12/31/99		
LAST	11577.51	on 12/31/10		
HIGH	13938.81	on 10/31/07		
LOW	7062.93	on 02/27/09		
AVE	10485.74	(Close)		



Source: Bloomberg

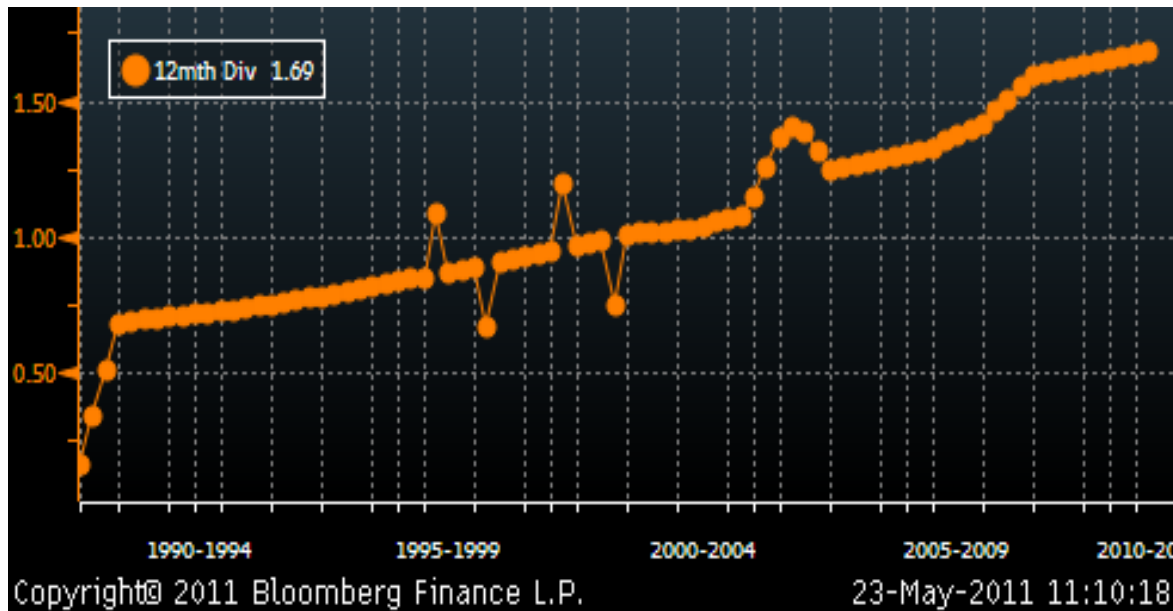
# AT&T's Stock Price History



Source: Bloomberg

# AT&T's Dividend History

## 12 Month Cumulative Dividends



Source: Bloomberg

# AT&T's Dividend History

## 12 Month Cumulative Dividends

<u>Date</u>	<u>12mth Div</u>		
12/31/1990	\$ 0.68	Stock Price 12/90:	\$14.00
12/31/1991	\$ 0.71	Dividend 12/90:	\$0.68
12/31/1992	\$ 0.73	Dividend Yield 12/90:	
12/31/1993	\$ 0.75	\$0.68/\$14.00	4.86%
12/30/1994	\$ 0.78	Dividend 12/10:	\$1.68
12/29/1995	\$ 0.82	Yield on 12/90 Cost:	
12/31/1996	\$ 0.85	\$1.68/\$14.00	12.00%
12/31/1997	\$ 0.89	Stock Price 12/90:	\$14.00
12/31/1998	\$ 0.93	Stock Price 5/11:	<u>\$31.00</u>
12/31/1999	\$ 0.97	Appreciation:	\$17.00
12/29/2000	\$ 1.01	Cumulative Dividends:	\$ 22.75
12/31/2001	\$ 1.02	Cumulative Reinvested Dividends:	\$40.88
12/31/2002	\$ 1.07	Appreciation + Reinvested Divs:	\$57.88
12/31/2003	\$ 1.37	Total Stock Price Increase:	122%
12/31/2004	\$ 1.25	Total Return From Dividend	292%
12/30/2005	\$ 1.29	Total Return	414% (8.38%/yr)
12/29/2006	\$ 1.33		
12/31/2007	\$ 1.42		
12/31/2008	\$ 1.60		
12/31/2009	\$ 1.64		
12/31/2010	\$ 1.68		



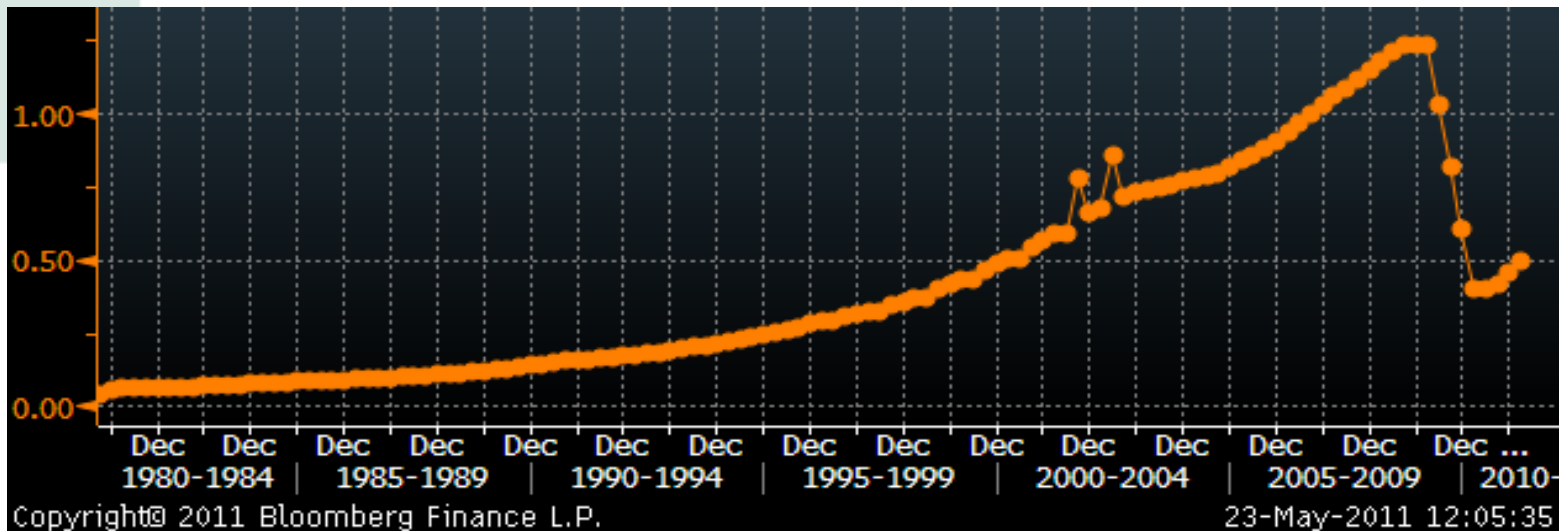
# AT&T Continued

## Dividend Stock vs. Bonds

	<u>10-Year Treasury Bond Value</u>	<u>10-Year Treasury Bond Yield</u>	<u>71.43 shares AT&amp;T</u>	<u>AT&amp;T Yield on 1990 price</u>
1990	\$1,000	8.07%	\$1,000	4.93%
2000	\$1,000	5.11%	\$3,411	7.25%
2010	\$1,000	3.29%	\$2,098	12.00%
20-Year Total Return		<b>170%</b>		<b>414%</b>

Source: Bloomberg

# General Electric's Dividends



- 1980 Stock Price: \$1.28 / share
- 1980 Dividend: 6.15 cents per share
- 1980 Yield:  $\$0.0615 / \$1.28 = 4.82\%$
- 2011 Dividend: 50 cents per share
- 30 Year Stock Price Appreciation: 1502%
- 30 Year Reinvested Dividend Appreciation: 2511%
- 30 Year Total Return: 3839% (12.87% per year)

Source: Bloomberg



# Dividends vs. CDs, Bonds and Annuities

- Fixed Investments:
  - Pay the same income every year
  - Return original investment at maturity
  - Neither principal nor income increase with inflation
  - Reinvestment income at maturity unpredictable
- Dividend paying Investments:
  - Frequently increase dividend payout over time
  - Principal may increase over time
    - Assuming they are purchased properly

**Lesson: Dividend Paying Investments Can Provide Increasing Retirement Income**



# Dividend Caveat

- At the beginning of 2000, AT&T's Dividend Yield: 1.98%
- AT&T's Total Return since 2000: 8.19% (0.70%/yr)
- At the beginning of 2000 GE's Dividend Yield: 0.94%
- GE's Total Return since 2000: - 44.61%

**Lesson: Dividend Yields Can Reflect Stock's Value**

Source: Bloomberg



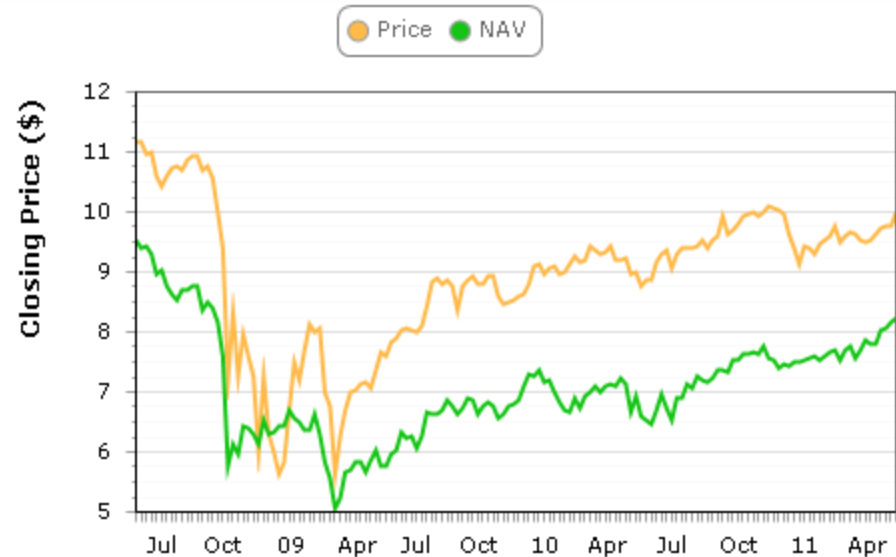
# Dividend Traps

- Bond funds selling at premium
- Bond funds paying out more than they are earning
- Yield via leverage

# Dividend Traps

## Example: DNP

- Paid out 7.81% over past 12 months
- Current internal Yield: 5.0%
- Net Asset Value \$8.13
- Price: \$9.99 (22.9% Premium over NAV)
- Leverage: 33.72%
- Sources: CEF Connect; Bloomberg





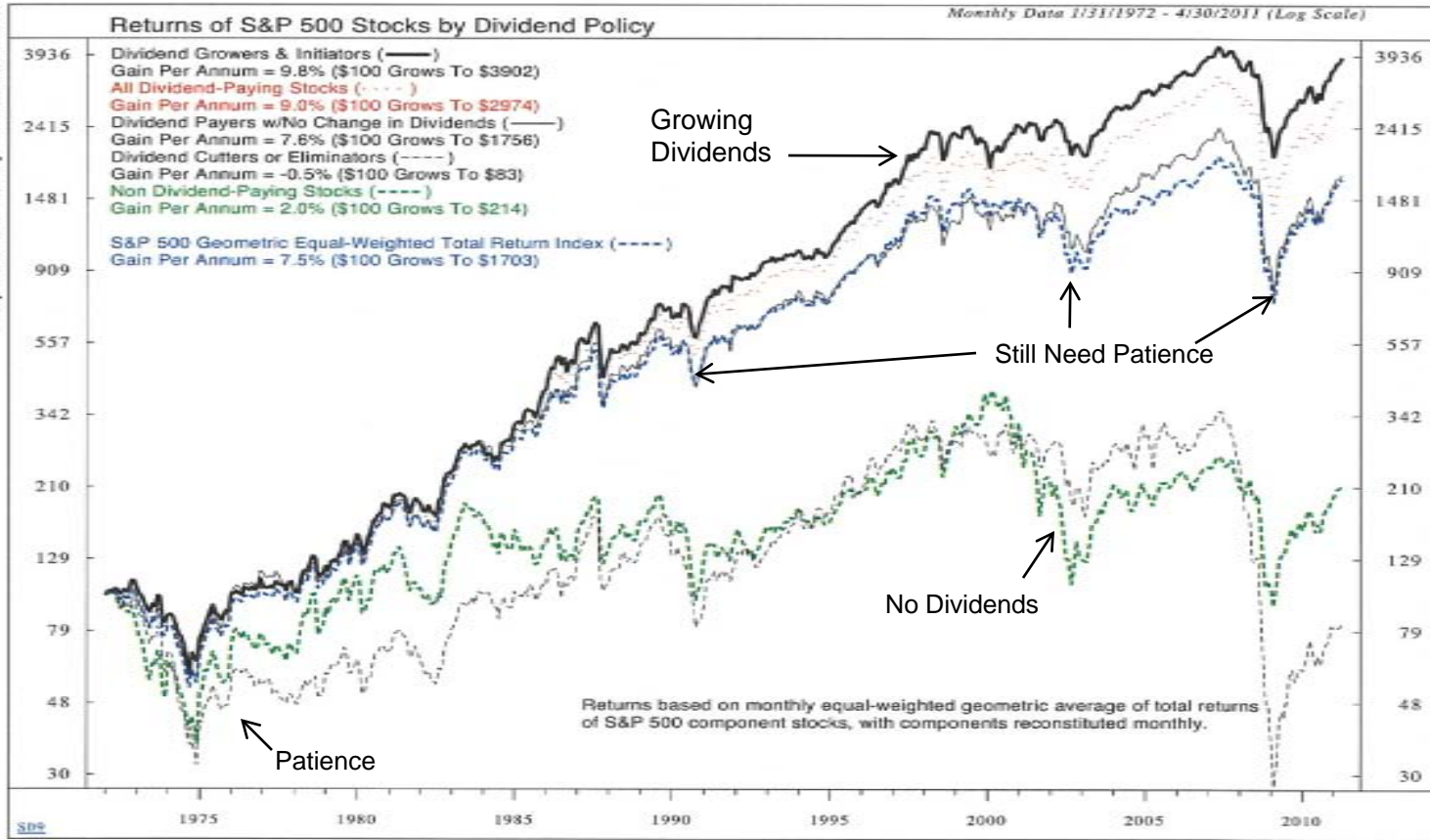
# Dividends and Your FIM Group Portfolio



Paul Sutherland

# Returns of S&P 500 Stocks by Dividend Policy

Prepared Exclusively for Paul Sutherland



Please see important disclosures at the end of this report. (ENFZ577)

[www.ndr.com](http://www.ndr.com)

Issue #ETFH201105311

Source: Ned Davis

# Vodafone

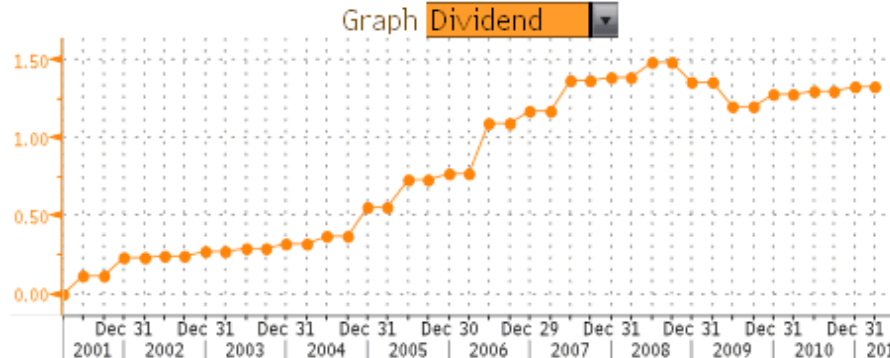
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Equity **DVD**

VOD US Equity 95) Forecast 96) Discount Model Page 1/3 Dividend/Split Summary  
 Range 2001 - 2011 Currency  Adjust for Capital Change  VODAFONE GROUP PLC-SP ADR

12 Mth Yld - Grs 4.77%  
 Indicated Yld - Grs 7.05%  
 1 Yr Dividend Growth 1.86%  
 3 Yr Dividend Growth -2.29%  
 5 Yr Dividend Growth 11.12%  
 Last Price USD 27.81  
 Frequency Semi-Annual



Type All

Declaration	Ex-Date	Record	Payable	Net Amt	Gross Amt	Type
1) 11/ 9/11	11/16/11			USD	.491294	BDVD Forecast
2) 5/19/11	6/ 1/11	6/ 3/11	8/ 5/11	USD .959918 Est	.979918 Est	Regular Cash
3) 11/ 9/10	11/17/10	11/19/10	2/ 4/11	USD .445743	.455743	Regular Cash
4) 5/19/10	6/ 2/10	6/ 4/10	8/ 6/10	USD .850326	.870326	Regular Cash
5) 11/10/09	11/18/09	11/20/09	2/ 5/10	USD .418925	.428925	Regular Cash
6) 5/20/09	6/ 3/09	6/ 5/09	8/ 7/09	USD .853528	.853528	Regular Cash
7) 11/12/08	11/19/08	11/21/08	2/ 6/09	USD .351293	.351293	Regular Cash
8) 5/28/08	6/ 4/08	6/ 6/08	8/ 1/08	USD 1.00221	1.00221	Regular Cash

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
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Source: Bloomberg

# SwissCom

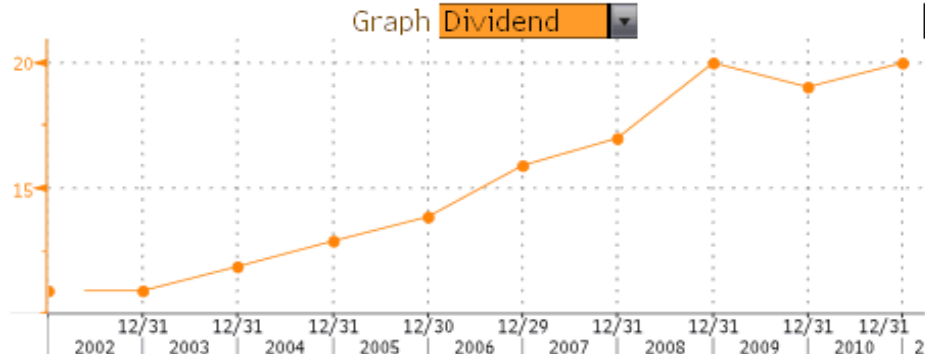
<HELP> for explanation.

Enter # <GO> to view details.

Equity **DVD**

SCMN VX Equity 95) Forecast 96) Discount Model Page 1/3 Dividend/Split Summary  
 Range 2001-2011 Currency Adjust for Capital Change SWISSCOM AG-REG

12 Month Yield 3.06%  
 Indicated Yield 3.06%  
 1 Yr Dividend Growth -40.00%  
 3 Yr Dividend Growth -15.66%  
 5 Yr Dividend Growth -5.47%  
 Last Price CHF 391.6  
 Frequency Annual



Type All

	Declaration	Ex-Date	Record	Payable		Amount	Type
1)	2/20/12	4/27/12			CHF	22	BDVD Forecast
2)	2/22/11	4/26/11	4/28/11	4/29/11	CHF	9	Return of Capital
3)	2/17/11	4/26/11	4/28/11	4/29/11	CHF	12	Regular Cash
4)	2/18/10	4/29/10	5/ 3/10	5/ 4/10	CHF	20	Regular Cash
5)	3/ 4/09	4/24/09	4/23/09	4/24/09	CHF	19	Regular Cash
6)	3/ 5/08	4/25/08	4/24/08	4/25/08	CHF	2	Special Cash
7)	3/ 5/08	4/25/08	4/24/08	4/25/08	CHF	18	Regular Cash
8)	3/13/07	4/27/07	4/26/07	4/27/07	CHF	17	Regular Cash

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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
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Source: Bloomberg

# Brickworks

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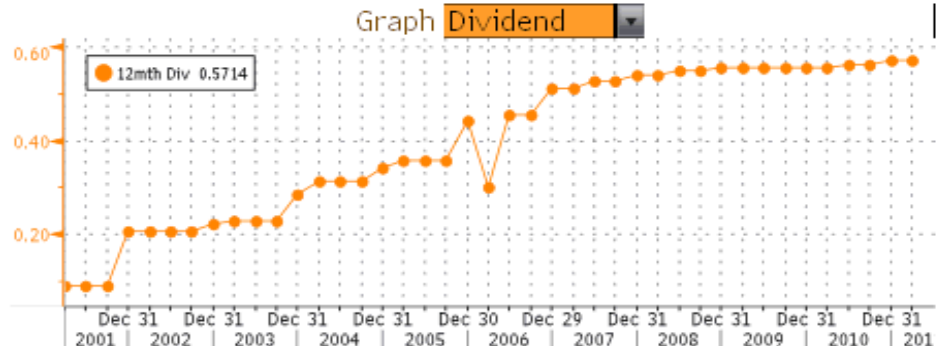
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Equity **DVD**

BKW AU Equity 95) Forecast 96) Discount Model Page 1/3 Dividend/Split Summary

Range 2001-2011 Currency   Adjust for Capital Change BRICKWORKS LTD

12 Mth Yld - Net 3.94%  
 12 Mth Yld - Grs 5.62%  
 1 Yr Dividend Growth 2.53%  
 3 Yr Dividend Growth 1.70%  
 5 Yr Dividend Growth 4.82%  
 Last Price AUD 10.29  
 Frequency Semi-Annual



Type **All**

	Declaratio	Ex-Date	Record	Payable		Declared	Gross	Frank %	Type
1)	3/24/11	4/19/11	4/28/11	5/17/11	AUD	.135	.192857	100%	Interim
2)	9/23/10	11/17/10	11/23/10	12/ 1/10	AUD	.27	.385714	100%	Final
3)	3/25/10	4/23/10	4/30/10	5/20/10	AUD	.13	.185714	100%	Interim
4)	9/24/09	11/19/09	11/25/09	12/ 9/09	AUD	.265	.378571	100%	Final
5)	3/26/09	4/29/09	5/ 5/09	5/19/09	AUD	.125	.178571	100%	Interim
6)	9/25/08	11/20/08	11/26/08	12/10/08	AUD	.265	.378571	100%	Final
7)	3/27/08	4/21/08	4/28/08	5/12/08	AUD	.125	.178571	100%	Interim
8)	9/27/07	11/12/07	11/16/07	12/ 3/07	AUD	.26	.371429	100%	Final

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.  
 SN 585430 EDT GMT-4:00 H228-893-0 23-May-2011 20:38:58

Source: Bloomberg

# How it Works For a Growing Business

United Online

(FTD, Classmates.com and Juno Internet)

Revenues ~ \$900,000,000

Cost of revenues ~ \$400,000,000

Operating expense ~ \$350,000,000

=Net operating income ~ \$100,000,000

Where does ~ \$100,000,000 in profit go ?

Interest at ~ \$22,000,000

Taxes at ~ \$35,000,000

DIVIDENDS at ~\$35,000,000

(which is a ~ 6.8% current cash yield at \$5.85 share price)

Balance to pay down debt or working capital

BTW company has a \$53,000,000 (R&D) research and development expense



Source: Bloomberg

# How Does it Work For a Dying Business?

## Altria Tobacco

- # 1 producer of cigarettes and chewing tobacco
- # 2 producer of cigars (in USA)
- Net operating Income at ~ \$6 billion
  - Taxes at ~ \$1.8 billion
- (1998 settlement) annual payment for litigation at ~ \$4.2 billion
- Dividends at \$3 billion (yield is ~ 5.4% on a \$28.00 share price)
- Balance of income to buy back shares, save, acquire, reduce debt, etc.
- BTW R&D is \$144 million (Income is 17x larger than United Online R&D is less than 3x)

Source: Bloomberg



# How it Works...

- At FIM Group we look for companies that have excellent:
  - Wealth creation characteristics (good growing business)
  - Free cash flow (excess real profits that can go to dividends, acquisitions, organic growth, pay down debt ...key is usable money)
  - The cash can go to dividends or not - we like companies to pay out dividends over buying back stock - let the investor decide what to do with the cash is our rationale
  - Culture
- Underlying all of this:
  - Price matters, we want to pay a little for a lot which gives us a risk lessing margin of error

# Example of Price Matters...



## United Online

- ~ \$100,000,000 in operating income (EBIT) can be bought for approximately \$600,000,000; which equals a EBIT yield of ~17%
- The share price, in our opinion, is very low so we would not sell United Online stock at today's valuation of around \$5.85 a share

Source: Bloomberg

# Example of Price Matters...



## Renren (Chinese Internet website) recent IPO

- Operation income (EBIT) at \$8,000,000 which can be bought for \$5.3 billion; which equals an EBIT yield of ~ .0002...well near “0”
- Renren Prospectus May 5, 2011  
Our Challenges:  
We expect to face risks and uncertainties related to our business and industry, including those relating to our ability to:
  - increase the size and level of engagement of our user base through innovation and provision of additional features, services and applications on our platform;
  - effectively respond to competition in all aspects of our business;
  - achieve and sustain operating profit, given our history of operating losses

Source: Bloomberg



# Final Thoughts...

- **Valuation matters**
- Some of the highest paying dividend stocks have been in these sectors:
  - Banks
  - Finance companies
  - Real estate companies
  - Utilities
  - Energy companies
- Companies are often reluctant to lower dividends – so **dividend can lie** and (some) companies can pay out dividends even though they are not supported by income (we call this a cow feeding itself it's own milk)
- At FIM Group we look at the numbers - free cash flow, EBIT, EBTDA, R&D, Taxes, etc to see where income is going = are they really making money (notice I did not put income - income is easy to manipulate)
- We also look at the business, it's industry, products, management, product strategy, culture, products, competitive environment, ownership structure, products, not just the numbers - and we want to pay the right price - everything cycles



# Why We Like Dividends Right Now!

- Many companies have great dividends and income and are “bondish” in their stability and ability to pay dividends
- We think that:
  - 1) Interest rates will be low
  - 2) People will be afraid of risk (stocks oh no!)
  - 3) Yields on bonds, cds, annuities and other fixed investments will be low for some time due to a slow or no growth economy



Thank you for joining us

Questions?