



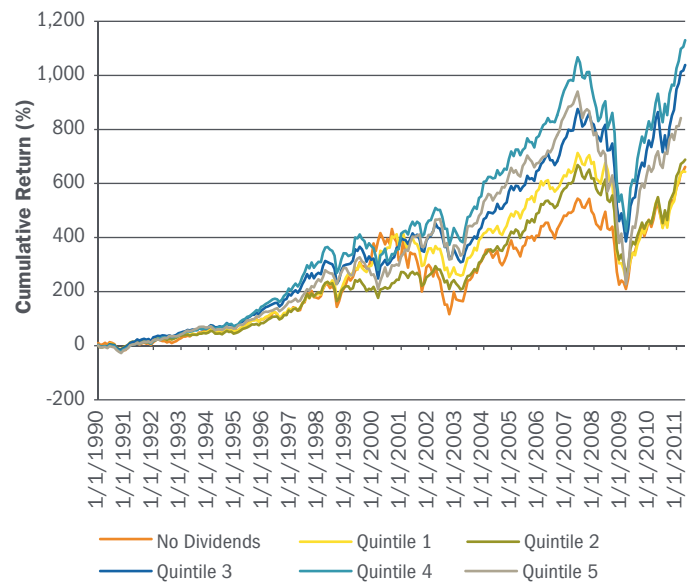
Dividend investing in today's markets

Steve Schroll, Senior Portfolio Manager
Laton Spahr, CFA, Senior Portfolio Manager
Paul Stocking, Senior Portfolio Manager

This year, U.S. equity markets have enjoyed one of their strongest first-quarter advances since 1999, with major indices climbing between 6% and 7% in the period. As a result, there has been a shift in the trend of investment flows. For several years, flows into bond funds have outpaced investments into equities. Recently, there has been a modest but noticeable shift of flows back into equity investments. In this environment, dividend investing has garnered increasing interest, as investors look to capitalize on rising equity markets while still obtaining a meaningful source of current income.

Dividend investing has been a relatively successful strategy for investors. As Exhibit 1 shows, since the beginning of 1990, the highest yielding components of the market (as measured by the S&P 500 Index) have outperformed with lower levels of volatility. Returns for the highest yielding 40% of the market (represented by Quintile 4 in Exhibit 1) have been 0.95%/year greater than the rest of the market, while volatility in that segment has been 4% lower.

Exhibit 1: Monthly rebalance: Total return



Source: Credit Suisse, April 2011

Past performance does not guarantee future results.

Dividend payments are not guaranteed. The amount of a dividend payment if any, can vary over time and issuers may reduce dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer.

A long-term strategy with near-term potential

There are several explanations for this outperformance. Although there are exceptions and past performance does not guarantee future results, high yields may indicate inexpensive valuations, strong corporate balance sheets with high cash levels and a corporate commitment to returning cash to shareholders. As a result, investment strategies that focus on dividend investing have the potential to deliver strong total returns and attractive current income.

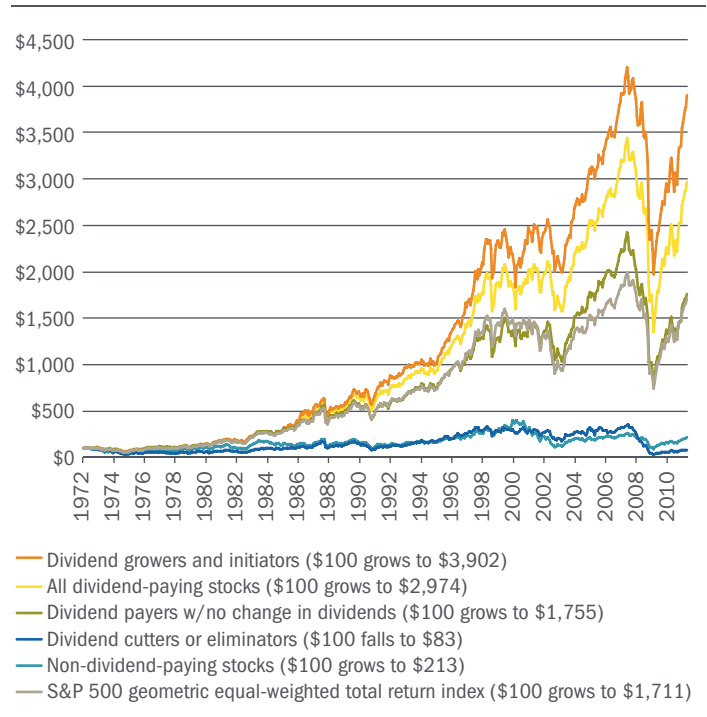
Today, investors are asking if the near-term environment presents new challenges or risks to a dividend investing strategy. In our view, the long-term drivers supporting dividend investing remain intact, and the short-term considerations also highlight advantages of dividend investing.

As the chief investment officer for Columbia Management has pointed out, the market has been climbing a wall of worry over concerns of rising inflation, a sluggish U.S. economic recovery and rising geopolitical risks. Our firm's equity market forecast calls for an 8%–10% rise in the S&P 500 (before dividends) for 2011. If the market's appreciation through the end of the year is modest or if market volatility increases, we believe dividend investing can be an important advantage.

Dividends contributed 8%–10% of the first-quarter's total return this year, with price appreciation accounting for 90% or more. Is the recent strength in the market indicating that dividends are becoming a less important factor in total return? Actually, the contribution of dividends in the first quarter of 2011 is not a surprise given the lower volatility of dividend payments. However, in lower return environments, dividends can become a more significant component of total return. Since 1990, in years when total returns were modestly positive (between 0% and 6%), dividends have provided 83% of total returns on average. If returns through the end of the year are more modest than in the first quarter, dividends could become a larger component of total return.

These opinions are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

Exhibit 2: Dividend stocks have outperformed the broader market over time



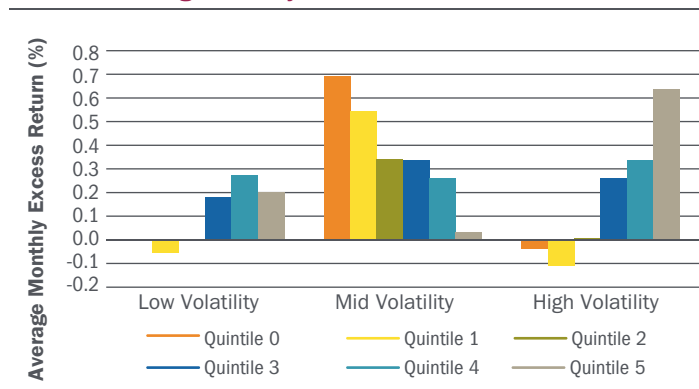
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Graph indicates that stocks have tended to perform better while paying or increasing dividends. Returns based on monthly equal-weighted geometric average of total returns of S&P 500 Index component stocks with components reconstituted monthly. Individual stocks may have moved from group to group over the time period shown.

Source: Ned Davis Research, Inc., January 1972–April 2011

In addition, if rising macro concerns cause the equity markets to become more volatile in the remainder of this year, dividend investors could have an advantage. While high-dividend-yielding stocks have outperformed on a total return basis since 1990, they have also performed well both in periods of rising volatility and elevated volatility. In an analysis by Credit Suisse (Exhibits 3 and 4), the returns of high-dividend stocks have outperformed the market by 64 basis points/month (0.64%) in periods of rising market volatility and by 48 basis points/month in periods of elevated volatility.

Exhibit 3: Average monthly excess return



Source: Credit Suisse, April 2011

This exhibit shows the S&P 500 Index in a sample period of January 1990–April 2011. It describes the excess returns in a low, mid and high volatility environment.

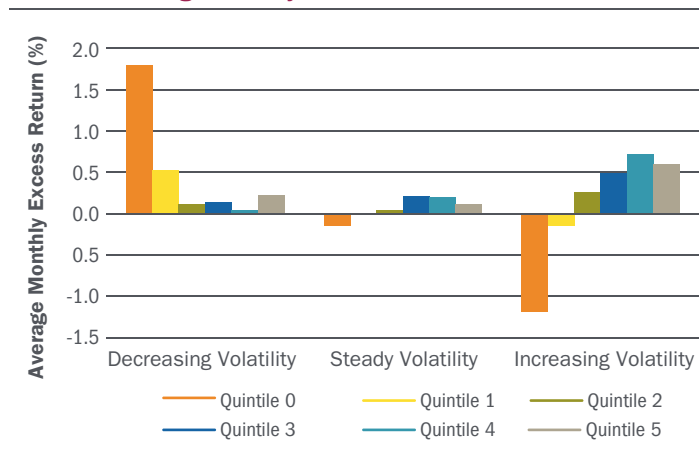
Quintile 0 contains no dividends

Quintile 1 contains the smallest dividend yield

Quintile 5 contains the greatest dividend yield

We believe a longer investment horizon is most appropriate for equity investors, and we caution against focusing on very short timeframes. The benefits of a long-term dividend investment strategy continue to be attractive, in our view. Dividend investing offers investors strong current income as well as the opportunity to participate in the long-term appreciation of the equity markets. Should near-term market appreciation be modest or if market volatility increases, dividend investing should prove to be an important part of a well-diversified investment strategy.

Exhibit 4: Average monthly excess return



Source: Credit Suisse, April 2011

This exhibit shows the S&P 500 Index in a sample period of January 1990–April 2011. It describes the excess returns in a decreasing, steady and increasing volatility environment.

Quintile 0 contains no dividends

Quintile 1 contains the smallest dividend yield

Quintile 5 contains the greatest dividend yield

Past performance does not guarantee future results.

It is not possible to invest directly in an index.

The S&P 500 Index is an index containing the stocks of 500 large-cap corporations, most of which are American. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill.

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Past performance does not guarantee future results and no forecast should be considered a guarantee either.

Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that the forecasts are accurate.

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