RIA Advice

10 Dividend Stocks We Like Now

In this issue of *"10-dividend stocks we like now,"&#2013266080;*we scan our database for the ten companies with strong fundamentals to add income to portfolios. I previously discussed in ***&#2013266080;["GE - Bringing Investment Mistakes To Life,"]&#2013266080;***the fundamental investor fallacy of&#2013266080;*"I bought it for the dividend."&#2013266080;*However, the most critical point was what we are currently seeing, as the pandemic is crushing corporate revenue. To wit:

> *"While **I completely agree that investors should own companies that pay dividends**,&#2013266080;**it is also crucial to understand that companies will cut dividends during periods of financial stress.**&#2013266080;During the next major market reversion, we will see much of the same happen again."*

With a litany of companies that have cut, and even eliminated dividends, that risk has come to fruition.

The Screen

However, this doesn't mean dividends aren't important. If you look at our portfolios, you will see we have a preference for high-quality names that pay dividends. We usually screen our database of over 8000 stocks for companies that fit several fundamental and value factors. Such ensures we are buying top-quality names and lowering bankruptcy risk. For today's purpose of a specific dividend focus, we are looking for companies that are members of the S&P 500 index. They must also have a history of growing dividends over the last 5-years and a declining payout ratio relative to their earnings. We are taking only the top 10 highest rated stocks. The criteria for our Dividend screen are:

- *Market Capitalization > $1 Billion*
- *Index Constituency: Must Be A Member of the S&P 500 Index*
- *Dividend Yield > 1%&#2013266080;*
- *5-Year Dividend Growth Rate > 0*
- *Change In Payout Ratio < 0*
- *Zack's Investment Ranking = **Top 10***

The table below are the 10-candidates that resulted from the latest screening.

Company	Ticker	Div Yield	Div 5yr Growth	Change in Payout Ratio	Zacks Rank
S&P 500	SPAL	2.02%	7.73%	0.45%	3
SOAPS-COSMETICS					
Clorox Co	CLX	1.97%	8.24%	-0.01%	2
CONS PROD-MISC STAPLES					
Kimberly Clark	KMB	3.13%	4.00%	-0.03%	2

The combination of these fundamental measures should yield an excess return over the market.

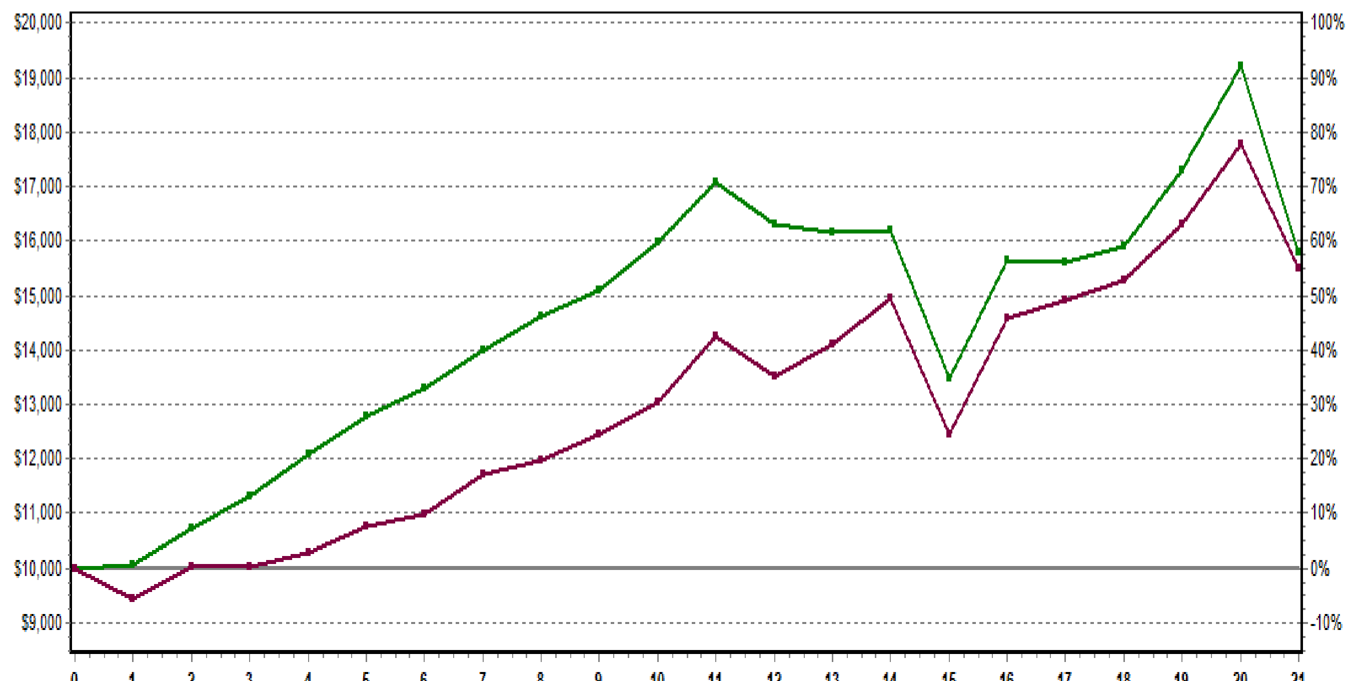
The Results

The table below assumes that over the last 5-years you bought all 10-stocks and rebalanced them quarterly.

Period	Date	Companies in Portfolio	Tot Return of Portfolio %	S&P 500 Total Return %	Excess Ret of Screen %
1	07/10/15	10	0.60	-5.60	6.2
2	10/02/15	10	6.60	6.10	0.5
3	12/25/15	10	5.40	-0.10	5.4
4	03/18/16	10	7.00	2.80	4.2
5	06/10/16	10	5.70	4.50	1.2
6	09/02/16	10	3.90	2.00	1.9
7	11/25/16	10	5.40	6.70	-1.3
8	02/17/17	10	4.40	2.20	2.2
9	05/12/17	10	3.20	4.00	-0.8
10	08/04/17	10	6.00	4.70	1.3
11	10/27/17	10	6.90	9.30	-2.4
12	01/19/18	10	-4.60	-5.10	0.5
13	04/13/18	10	-1.00	4.30	-5.3
14	07/06/18	10	0.40	6.00	-5.6
15	09/28/18	10	-16.90	-16.70	-0.2
16	12/21/18	10	16.20	17.30	-1.1
17	03/15/19	10	-0.30	2.30	-2.6
18	06/07/19	10	2.00	2.30	-0.3
19	08/30/19	10	8.60	6.70	1.9
20	11/22/19	10	11.10	9.10	2.0
21	02/14/20	10	-17.70	-12.90	-4.8
Average		10.0	2.50	2.40	0.1
Up Markets	16	10.0	5.40	5.60	-0.3
Down Markets	5	10.0	-6.70	-8.10	1.4
Annualized			11.40	10.80	0.6

STATISTICS - $10,000 Start	Strategy	S&P 500
Total Compounded Return %	58.0%	54.8%
Total Compounded Return $	15,803	15,479
Compounded Annual Growth Ra	9.9%	9.4%
Win Ratio %	76%	76%
Winning Periods/Total Periods	16 of 21	16 of 21
Avg. # of Stocks Held	10.0	
Avg. Periodic Turnover %	70.0%	
Avg. Return per Period %	2.5%	2.4%
Avg. Winning Period %	5.8%	5.6%
Largest Winning Period %	16.2%	17.3%
Avg. Losing Period %	-8.1%	-8.1%
Largest Losing Period %	-17.7%	-16.7%
Max. Drawdown %	-21.2%	-16.7%
Avg. Winning Stretch (# of Peri	4.0	4.0
Best Stretch (# of Periods)	11	8
Avg. Losing Stretch (# of Period	1.3	1.0
Worst Stretch (# of Periods)	2	1

Over the 21-quarterly rebalancing periods, the portfolio had an annualized return of 11.4% versus the 10.8% for the market. This annual outperformance is likely better, however, since this is a quarterly rebalance, the data for Q2-2020 is not included as of yet.



The Need

With interest rates near historic lows, the price of money has been persistently lower in this economic cycle than in the past. This factor provides support for income-yielding stocks as a growing population of retirees, are seeking higher incomes. The risk of this strategy is that valuations for many companies, including higher dividend payers, have expanded much more than usual. Such is reminiscent of the *"Nifty-Fifty"*&#2013266080;period in the late 1970s. While investing in dividend-yielding stocks certainly provides an additional return to portfolios,&#2013266080;**as "GE" reminds us, stocks are *"not safe"* &#2013266080;investments.**&#2013266080;They can, and will lose value, and often much more than you can withstand. **For our&#2013266080;*"safe money"* we continue to use rallies in interest rates to buy Treasury bonds. Bonds not only provide income, but safety of principal during a market sell-off.**

Conclusion

Valuation and safety continue to be a top concern for investors. Such is especially the case with&#2013266080;***markets signaling more troubling technical trends.*** ***&#2013266080;***We believe the best way for investors to generate income is to invest in quality businesses at a discount to their intrinsic value. We focus on names that still maintain a fair valuation, are growing, and are well-founded in their industries. We think these names are more likely to offer investors a reasonable return on their investment.
