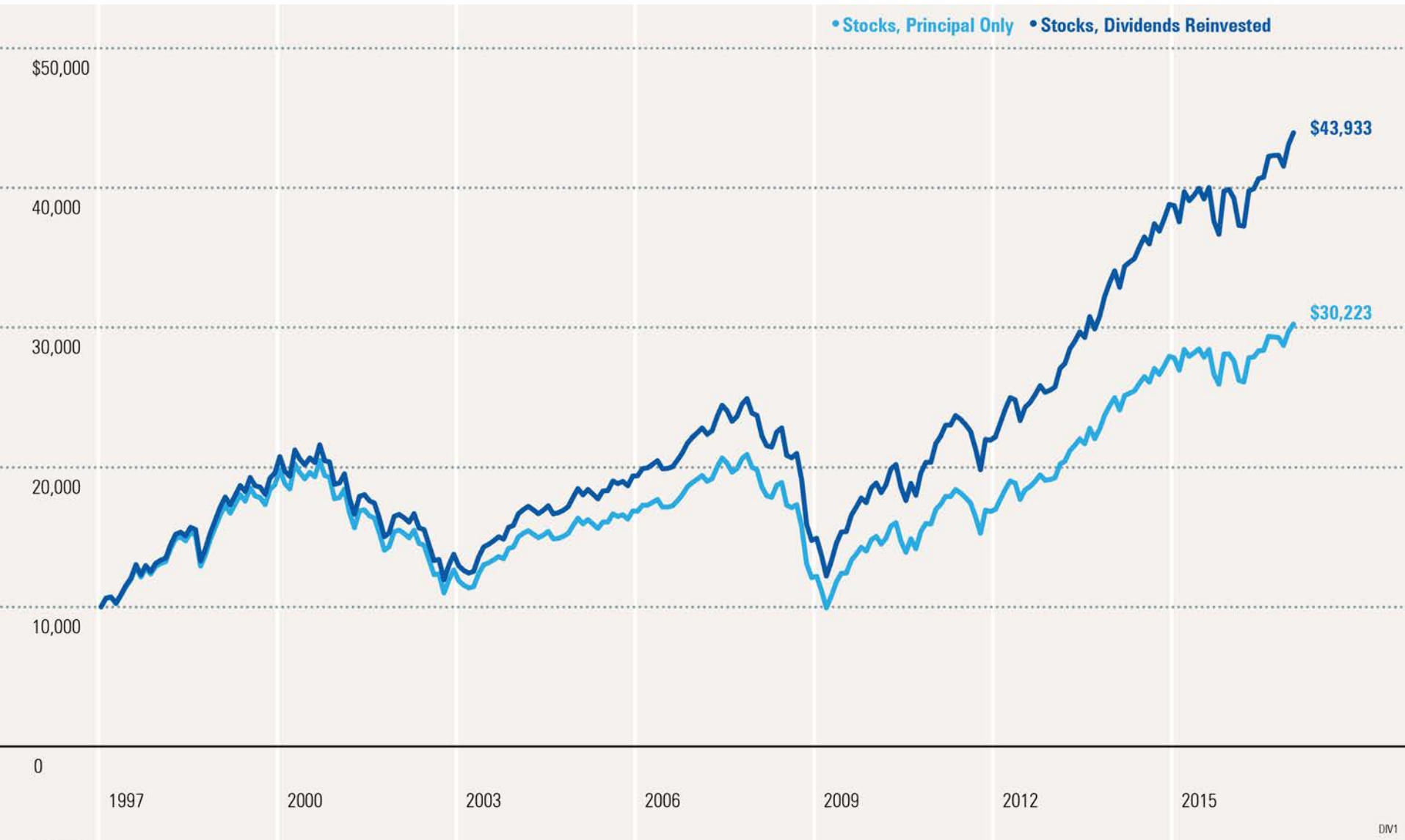

Dividend Investing

Why Invest in Dividend-Paying Stocks?

- ▶ Investors are experiencing a decline in income levels of many asset classes amid low interest rates and low government bond yields.
 - ▶ Current yields on 10-year Treasuries are at 2.5% as of December 2016, significantly lower than where they were 20 years ago (6.3% as of December 1996).
 - ▶ Average rates on a 6-month Certificate of Deposit (CD) were around 0.6% as of December 2016 (5.0% as of December 1996).
 - ▶ In 1996, a \$100,000 investment in a 6-month CD for a period of one year would return about \$5,040 whereas today that same investment yields about \$630.
- ▶ Fixed-income instruments such as Treasuries, cash, and cash equivalents may not provide income growth to stay ahead of inflation.
- ▶ Dividend-paying stocks may provide current income and the potential to participate in capital appreciation.

Impact of Dividend Reinvestment Over Time

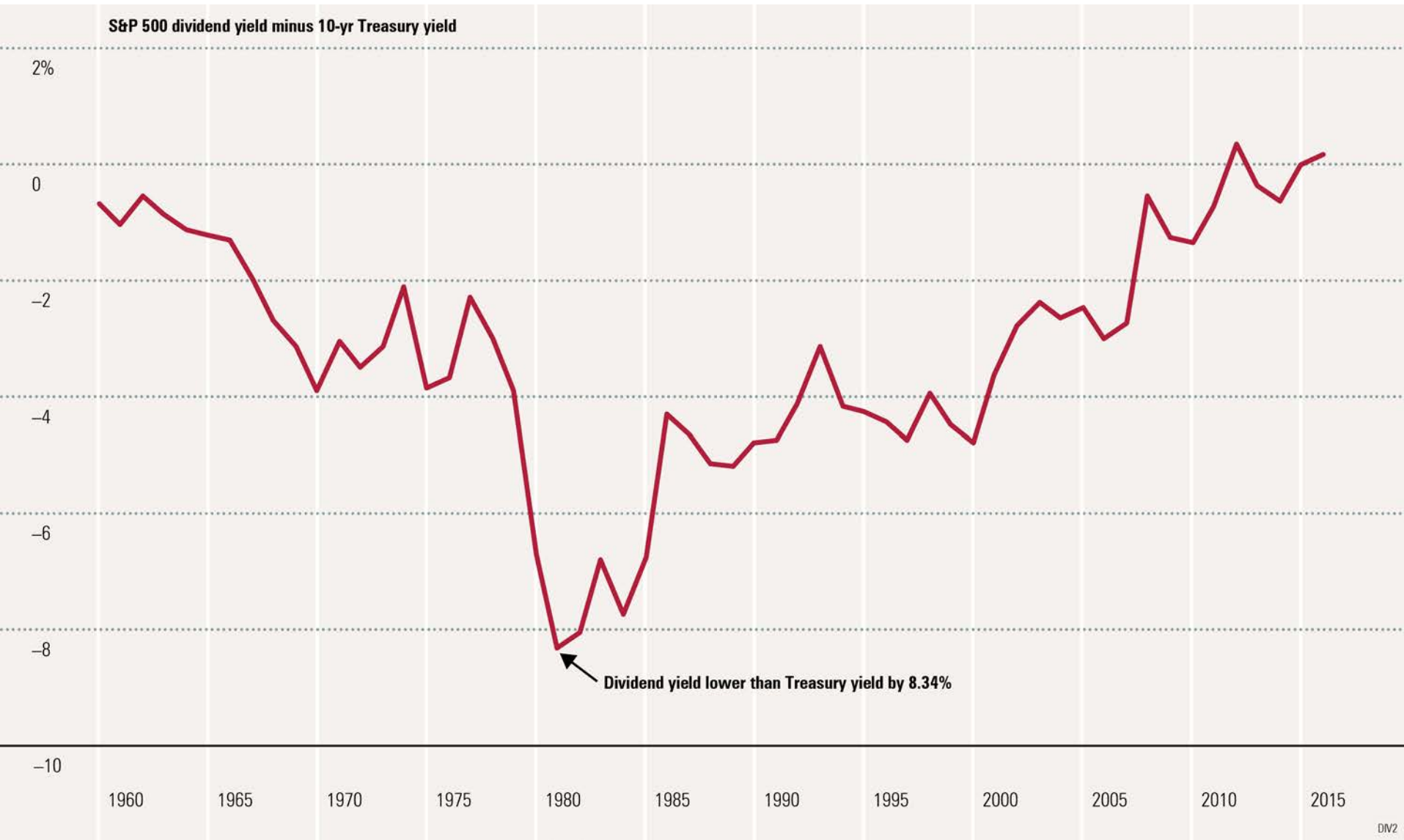
Growth of \$10,000: Principal versus Reinvested Distributions



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Trend in Yields Over Time

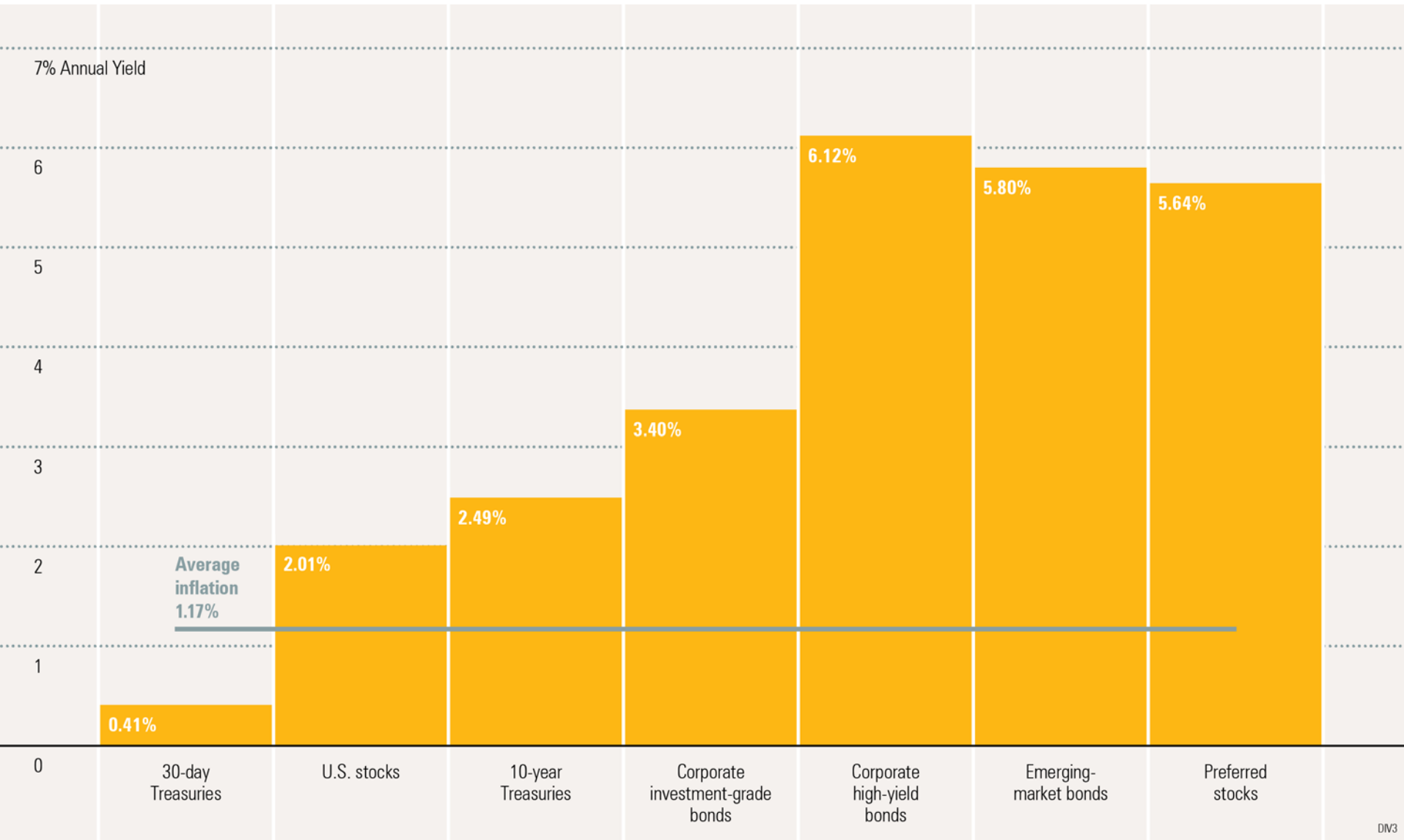
Difference in yield between S&P 500 and Treasuries, 1960-2016*



Past performance is no guarantee of future results. *The 2016 S&P 500 dividend yield is based on estimates. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

Current Yield Landscape

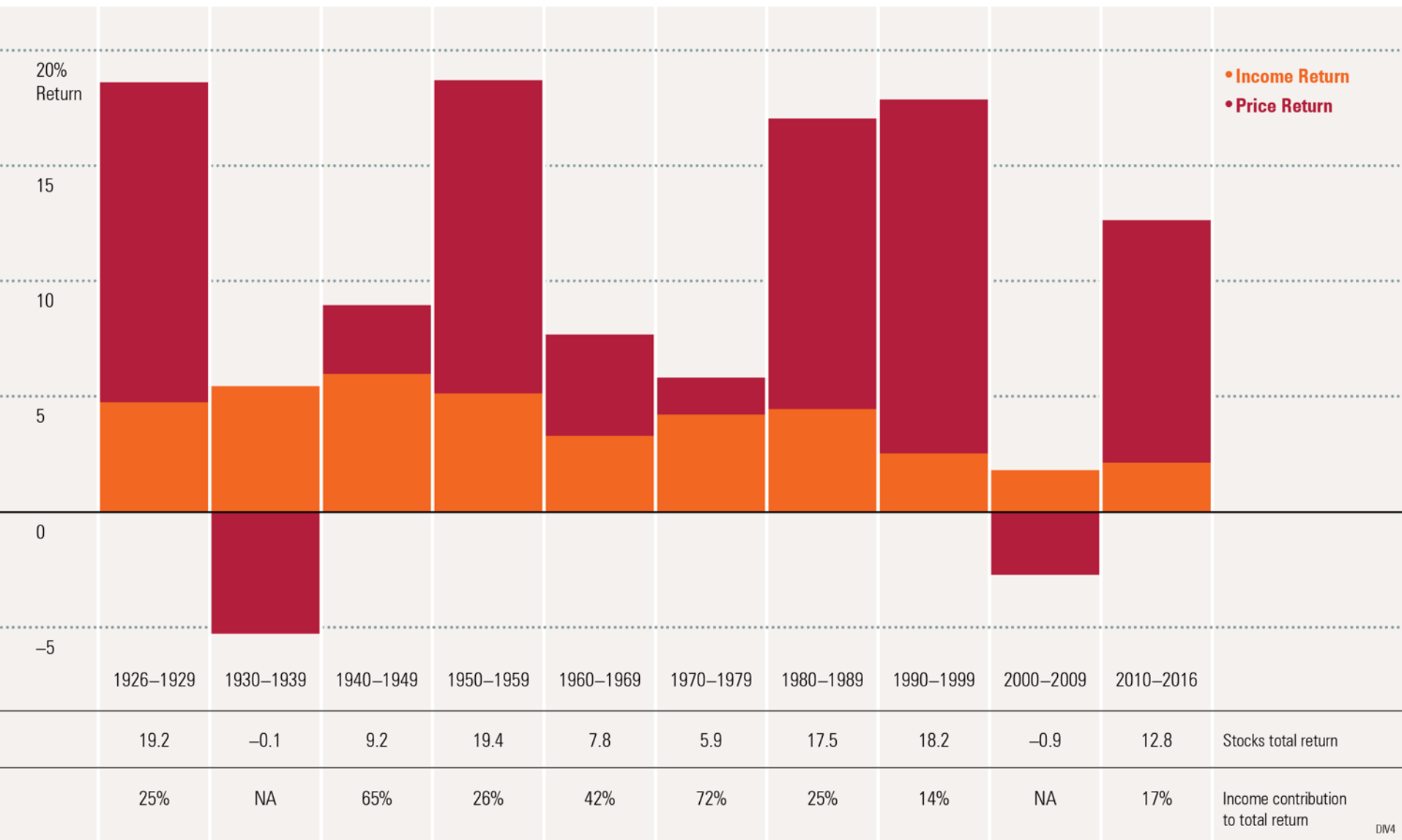
As of December 2016



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Dividend Contribution to Total Return

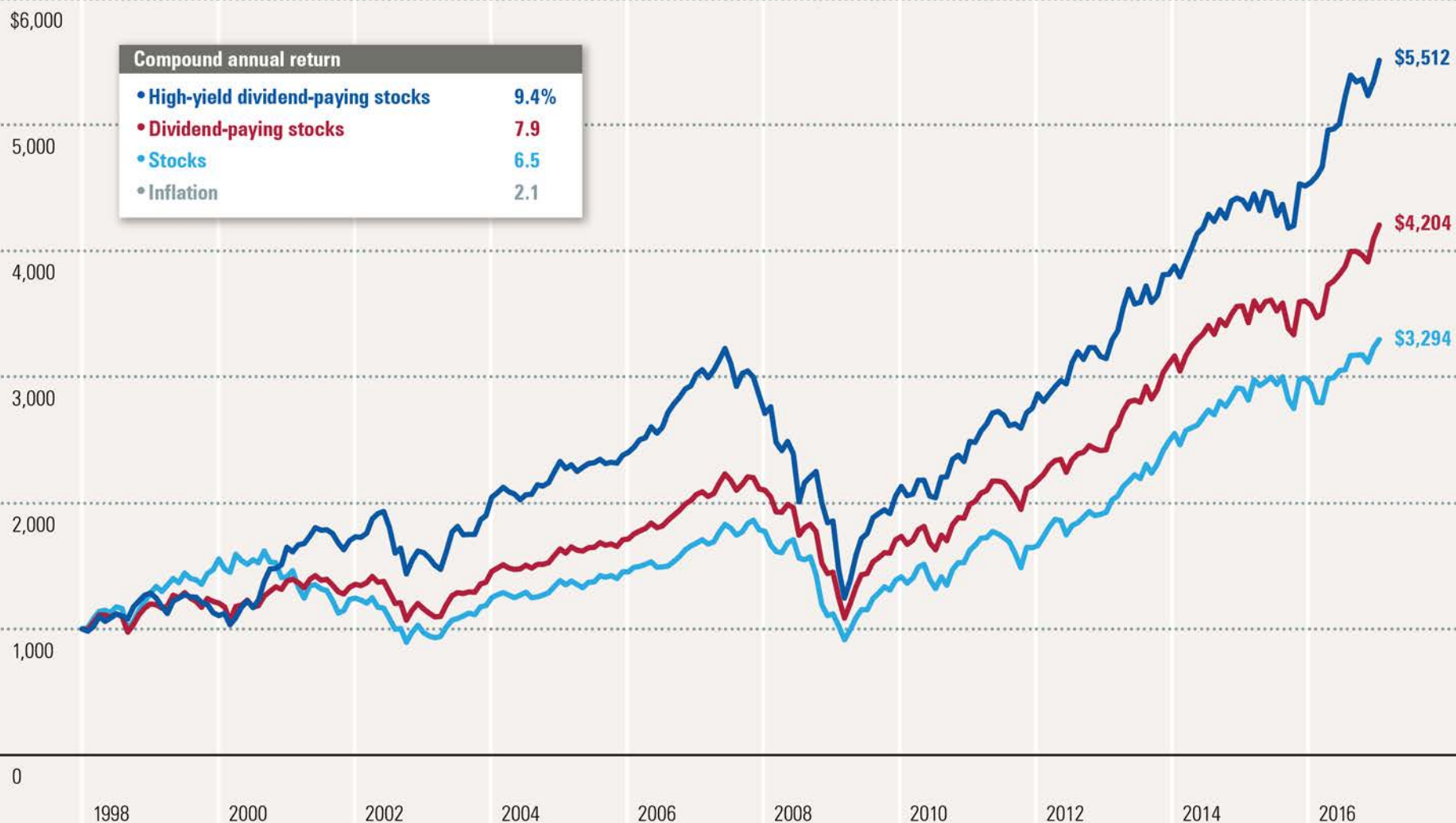
Compound annual returns by decade, 1926–2016



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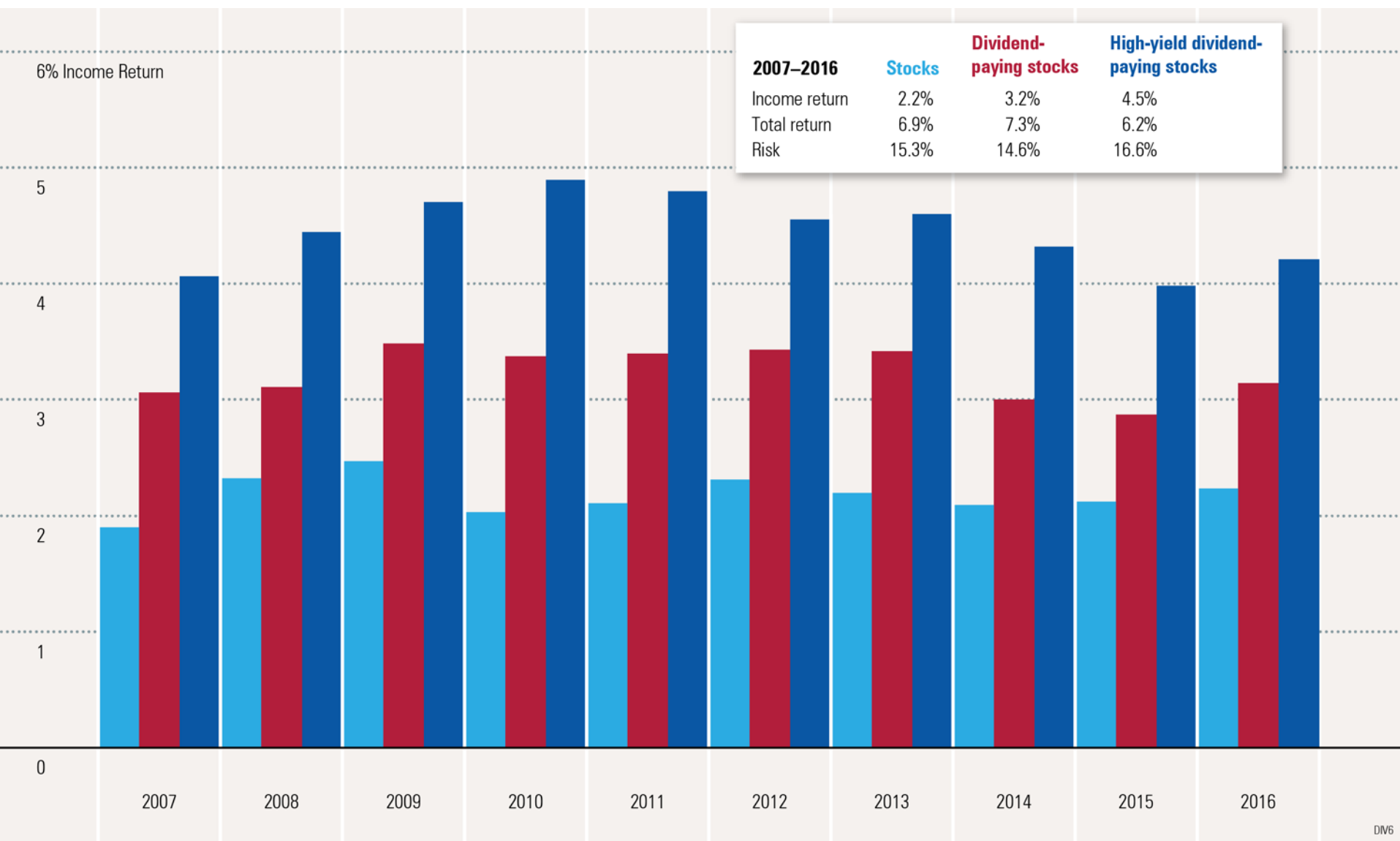


Historical Performance of Dividend Stocks 1998–2016



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Income Return Comparison 2007–2016



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Dividend Stocks: Asset Class Characteristics

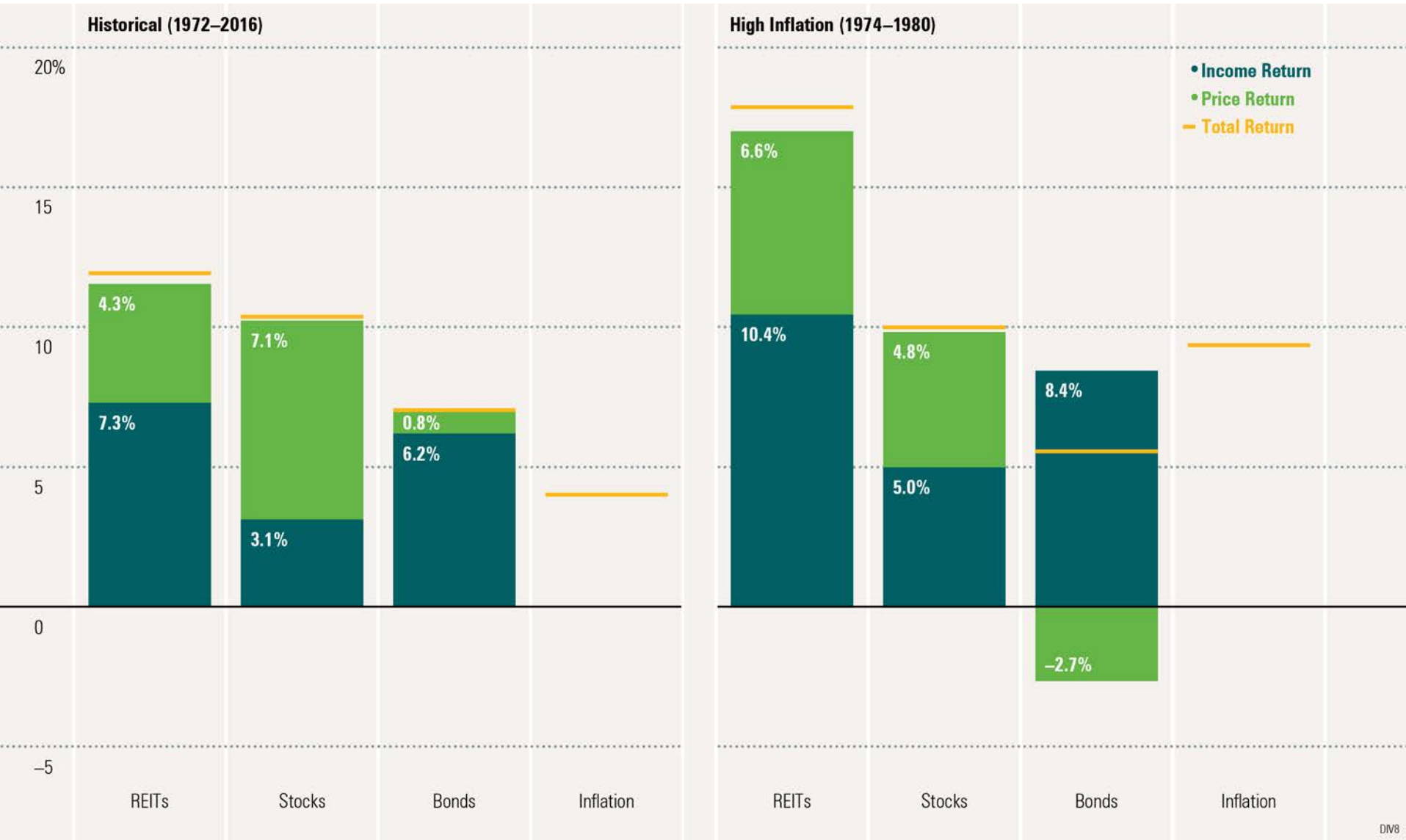
July 1997–December 2016

	Return (%)	Risk (%)	Sharpe Ratio (%)	Correlation to stocks	Correlation to bonds
REITs	9.6	20.7	0.45	0.58	-0.07
Stocks	6.9	15.3	0.38	1.00	0.58
High-yield dividend-paying stocks	10.2	15.5	0.58	0.64	-0.11
Dividend-paying stocks	8.4	13.9	0.51	0.89	-0.21
Bonds	4.9	4.3	0.67	-0.29	1.00

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Dividends and Inflation

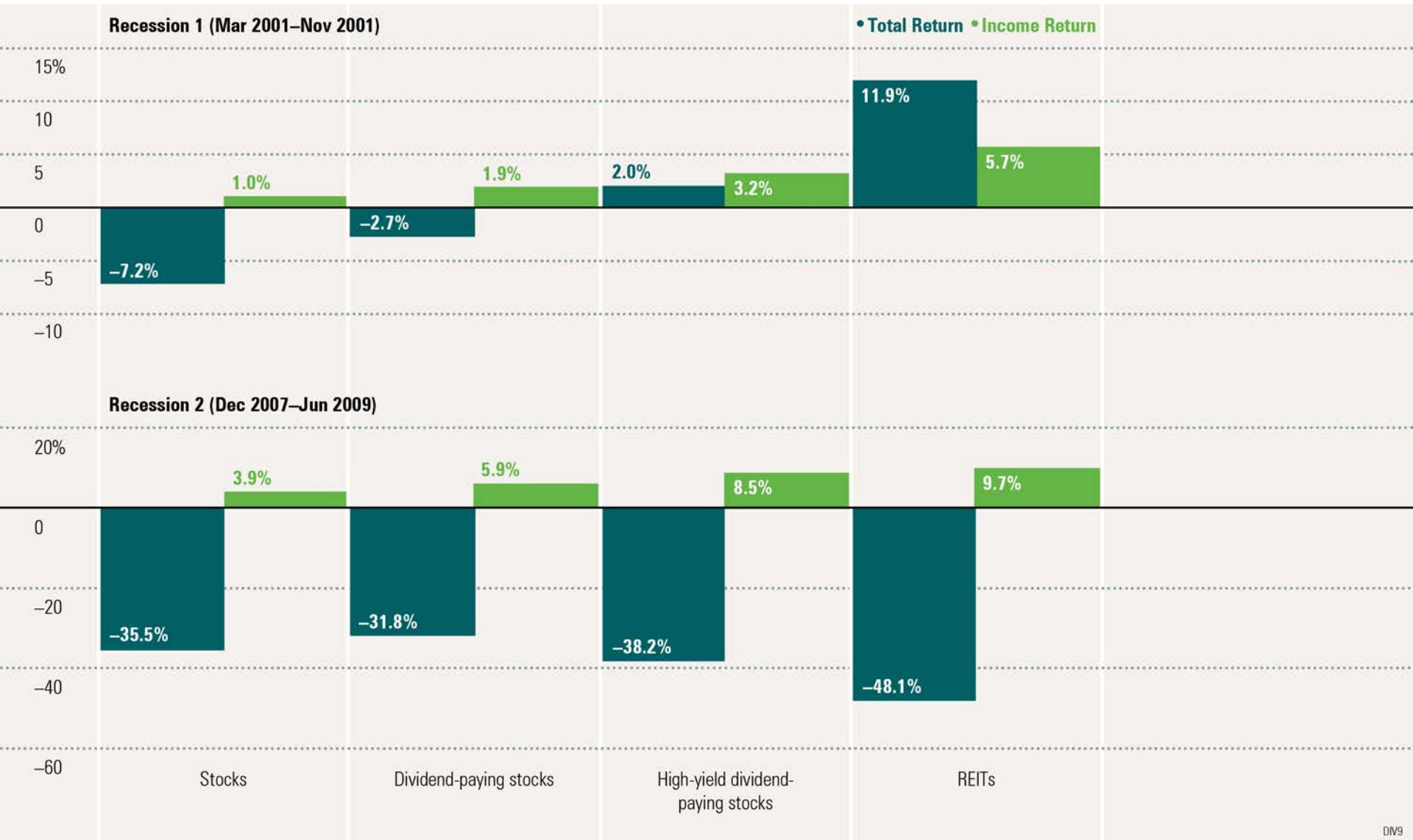
Stocks, bonds, and REITs, 1972–2016



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Dividend Income During Downturns

Returns of stocks, dividend-paying stocks and REITs



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Takeaways: Dividend Investing

- ▶ Current income from Treasuries, cash, and cash equivalents may not be enough because inflation has the effect of eroding purchasing power.
- ▶ Dividend-paying stocks can generate income, grow income, and offer the potential for capital appreciation.
- ▶ Dividend-paying stocks may provide better risk attributes, such as lower volatility and some level of downside protection when markets decline.
- ▶ Even for investors not focused on income, dividend stocks may offer advantages for long-term capital growth:
 - ▶ Dividend growth has been a driver of total return in the long run.
 - ▶ Reinvesting dividends may help boost long-term equity returns.