



5 steps to successful dividend investing

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Your success. Our priority.

1. Focus on total return

PS The single most important thing as an income investor is to focus on total return. It's not just looking at the dividends or the current yield, it's the ability of the company to pay those dividends going forward, as well as making sure the company is healthy and growing, and can grow their capital base.

SD I would tell you whether it is bonds or it is stocks or it is a piece of real estate, if you're just focused on the income portion of it, you can take tremendous hits to your principal.

2. Identify high-quality companies

MB It comes down to qualifying the dividend. And when you're looking at a company and talking to management, there's really two steps. There's the ability to pay the dividend, and then there's the willingness to pay the dividend. And so, when we're talking to a company that we're considering for the portfolio, we do our own work around the ability to pay the dividend, looking at the cashflows, looking at the balance sheet. The second step is then to talk to management and to really grill them about how they think about future investments in the company, how they plan to grow the cashflows. So, it's really combining those two steps of the process to make sure that over time, we have confidence that the dividend will be sustainable and grow. We're long-term holders, so what you're not going to find us asking about is the current quarter, whether they're going to make the numbers. We're very long-term in our investment approach.

3. Put together a diversified portfolio

SD You have to have an independent way of valuing something. You can't just depend on the market to value it for you. For us, what we focused on was cash flow from operations and how we value it is we look at what we call free cashflow yield and that's simply the free cashflow per share divided by the price. That allows us to rank stocks. We have a very strict buy-and-sell discipline. For us, it's that if companies are in the top two quintiles of free cash flow, they get on our buy list and if they're in the bottom two quintiles of free cash flow, they get on our sell list. A lot of it, though, is figuring out the sustainability and the growth of cash flow over time so we spend a lot of time understanding that.

PS Looking at sector diversification is very important. The ability to invest in companies throughout many sectors gives one portfolio an advantage over another. And lastly, from a stock-specific standpoint, look at the composition of the risk of the portfolio. Are you getting all your risk from 1 stock, 5 stocks, or 10 stocks? I think the best dividend income strategies are those that spread that risk over, across a portfolio.

4. Understand the importance of research and resources

MB The other thing as portfolio manager that's really important is having the resources to execute your strategy. We have a portfolio, we manage that portfolio, but we really need to have resources in terms of the fundamental research, the quantitative research, and even our trading staff to really help us execute the strategy in a way that we can ultimately deliver what's best for the client.

PS We have 24 dedicated analysts helping build out our free cashflow and balance sheet models. So our team goes well beyond the three of us, we view it as 27 individuals or professionals that are investment professionals looking at our portfolio every day.

5. Depend on solid teamwork

PS So the dividend team I work on is kind of a microcosm of the organization as a whole. We all come from different angles of investing to form a well-rounded team.

MB We all have different sector expertise, which is a really important part of what we do, because again, when we're talking to analysts in different sectors, it's really helpful for one of us to have some expertise around the sector to be able to really push the analyst and work them through their assumptions. But, you know, we all have different personalities, but I think one of the things that really works for all of us is we're all very open minded. We're good teammates, we want to do what's best for the client and ultimately what's best for the product.

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