



Why we don't chase dividend yield

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Your success. Our priority.

MB You really have to differentiate as an investor between yield and income. Income is what goes into a shareholder's pocket and you want that to grow over time. Yield is just a formula.

SD It's a simple ratio. It's simply the current dividend paid divided by the price and there's very little information in that. It doesn't tell you whether that dividend can be sustained into the future. When people ask me about that, I tell them the story about a company: at its 52-week high, it had a three percent yield. At its 52-week low, it had a three percent yield. But what I didn't tell you what this stock fell 55 percent. They had their cash flow implode. They had to cut their dividend. When someone's trying to convey information by telling me what the dividend yield is, I basically say, "You really don't know nothing." You really have to have more information than that. You have to look at the earnings power of a corporation, the cash flow generation of a corporation, and when people just get fixated on the yield, that's when they actually can get themselves into trouble.

PS Income matters, not yield. Yield for the sake of yield is not a compelling strategy. Just because a company has paid dividends, or has a history of paying dividends, doesn't mean that they'll have the ability to do so going forward. Instead, the focus should be on free cash flow, and the ability of those companies to pay that income forward.

MB For our dividend strategy, the biggest pushback we get is that the yield isn't high enough. And we have a competitive yield. But a lot of their clients are just focused on yield and not asking the question of how do they get the best total return with the lowest amount of risk over time? We make no apologies about our philosophy or our process. It's been in place for 15 years, through a variety of market environments. We're going to stick to what we do, and we feel pretty good about that.

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