ANALYST QUICK NOTES
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Dividend Growers

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Overview

- Often overlooked amid the market's gyrations, dividend income is an important element of total return. Consider the results of 2015: the S&P 500 delivered a total return of 1.4%, including dividends -- but excluding dividends, the market was down 0.7%. In short, dividends were the only element of total return in 2015. Capital gains were a bit easier to achieve in 2016, though we note that dividend payments still contributed about 15%-20% of total return for investors.
- Still, not all dividends are created equal, and it is important to understand the difference between high-yield stocks and dividend-growth stocks, particularly in a rising-rate environment. With the Federal Reserve poised to raise rates as many as three times this year, the differences between the two dividend categories are more important than ever.
- High-yield stocks typically have dividends that pay out in the 5%-8% range. Though the income appears attractive, the share prices of high-yield stocks are perceived as being at risk in a rising-rate environment. This is because at the margin, as interest rates are moving higher, risk-averse equity investors could be drawn to the relative safety of bonds and may sell their high-yield stocks. In addition, it is worth noting that a yield in the 7%-10% range could signal a company is struggling and the dividend is at risk.
- Dividend-growth stocks typically have lower yields, often in the 1.5%-2.5% range. But while the yields are not as high, management teams are more likely to boost the payouts at an aggressive rate over time. These above-average dividend hikes give off several positive signals. For one, the company has the financial strength to boost the payout. Two, management is focused on shareholder returns and understands that dividends are a big part of those returns. And three, the company is confident enough about its outlook to boost the dividend.
- We have launched a portfolio of dividend growth stocks that will be printed in our Special Situations report. The portfolio is also available in a Unit Investment Trust and can be available as a separately managed account.

Here is a list of 10 BUY-rated companies followed by Argus analysts that have grown their dividends at double-digit pace over the past five years and are featured in our Dividend Growth portfolio:

- 3M (MMM): 3M has the longest record of consecutive dividend increases in the portfolio -- at 59. The current yield is 2.5%, just above the portfolio average.
- Ecolab (ECL): This Materials company has increased dividends for 31 consecutive years. The current yield is 1.25%.
- Exxon Mobil (XOM): XOM has increased its dividend for the past 35 years, showing a consistent effort to reward stockholders. The current yield on this blue-chip Energy company is 3.5%.
- General Dynamics (GD): This defense company helps investors play offense, having increased the dividend for 19 consecutive years -- through Republican and Democrat Congresses.
- Qualcomm (QCOM): More and more Tech companies are paying dividends. Qualcomm has been increasing its dividend payouts to investors for the past 14 years.
- Boeing (BA): Boeing management recently signaled clear skies ahead for the company by boosting the dividend 30%. The stock now yields 3.6%.
- Costco Wholesale (COST): Costco has increased its dividend for 13 consecutive years. The current yield is a below-portfolio-average 1.1%. But management's last dividend increase, in April, was 13%. And the company has paid special dividends two times in the past five years.
- Home Depot (HD): In March, HD boosted its payout 17%. The current yield on this blue-chip home improvement retailer is 2.0%.
- Simon Property Group (SPG): Simon, a retail REIT, has an impressive history of boosting its payout -- often multiple times per year. The current yield on the SPG shares is 3.6%.
- Magellan Midstream Partners (MMP): This MLP has the highest yield of the stocks in the portfolio. The company has increased its distribution 58 times since its IPO in 2001.