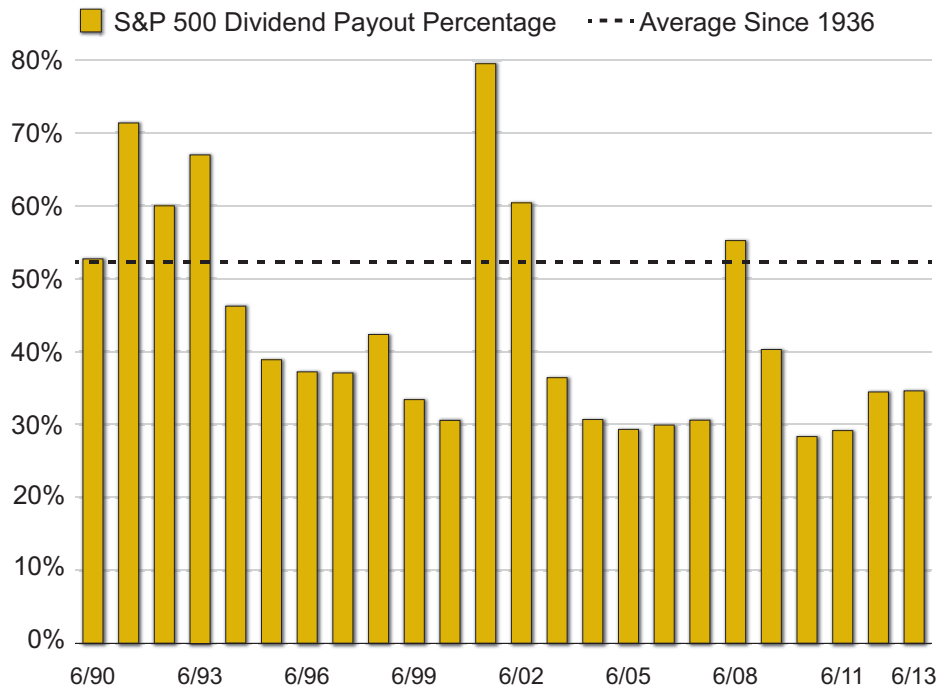


Dividend-Paying Stocks Have Demographics On Their Side

S&P 500 Dividend Payout Percentage



Source: S&P Dow Jones Indices. Past performance is no guarantee of future results.

View from the Observation Deck

1. Dividend-paying stocks have been a fairly popular asset class with investors since the passage of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Bush Tax Cuts).
2. The Bush tax cuts established a maximum tax rate of 15% on both qualified dividend income, which included dividend income from common stocks provided certain requirements were met, and capital gains.
3. Prior to the changes in the tax code, dividend income received from common stocks was taxed at an investor's ordinary income tax bracket, while capital gains were taxed at just 20% (Taxpayer Relief Act of 1997).
4. An argument could be made that, since 1997, the level of attractiveness of dividend-paying stocks has been heavily influenced by changes in the tax code, in our opinion.
5. Despite these meaningful tax code changes, two things pertaining to dividend-paying stocks have not changed much at all with respect to the S&P 500: the dividend payout percentage and the index's dividend yield.
6. The S&P 500 dividend payout percentage (% of earnings paid out as a dividend) has been below the 40% mark most quarters since the mid-1990s. The average has been 52% since 1936, according to S&P Dow Jones Indices.
7. Despite the S&P 500 increasing its dividend (per share) payout from \$3.79 in Q4'96 to \$8.61 in Q2'13, the index's dividend yield only moved from 2.01% to 2.07%. It was essentially unchanged.
8. What this means is that, on average, the companies that comprise the S&P 500 have only boosted their dividend payouts enough to compensate for any increases in share price (keep yield from falling).
9. What could motivate companies to distribute more? Answer: Demand. Where could a surge in demand come from? Answer: Millions of baby boomers entering retirement and needing to grow their capital as well as generate income.
10. Beginning in 2011, approximately 80 million baby boomers are expected to file for retirement benefits over a 20-year period, or roughly 10,000 per day, according to the Social Security Administration.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. Investors cannot invest directly in an index. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.