

## Revisiting an Old Theme: Dividend Stock in a Volatile Market

The recent increase in equity market volatility has not gone unnoticed, even by the most passive market observers. In our 2018 Outlook Report – Strolling Through the Tulip Fields we spent some time on noting the risks associated with persistent low volatility noting: “The big risks to the 2018 outlook, in our opinion, don’t rest so much on the economic cycle, but rather the lofty valuations themselves coupled with extremely low volatility.”, and “The problem is that volatility typically spikes dramatically, after which it starts decreasing in a more orderly fashion. The net effect, in our opinion, is that the cause for concern for volatility, is not when it’s high, but rather when it’s low, and especially times like this when it appears, exceptionally low.”

### S&P 500 Volatility Index (VIX)



Source: YCharts,

Since we haven’t seen such a spike since the back half of 2015, we thought we’d go back and revisit our investment themes from that most-recent turbulent time. In September of 2015 we published a report titled Show Me The Dividends (all our thematic research is available at <http://www.sixtyguildersresearch.com/thematic-research.php>). Our objective at the time was to recommend a list of stocks that balanced quality with dividends that could compensate investors with a cash return during turbulent markets. Unlike traditional bottom-fishing strategies that typically look for high dividend yielding stocks, we built our list around the principles of growing companies, with solid credit qualities,

and low dividend payout ratios. Looking back at the performance of this list, we are pleased to report that it has performed admirably, generating an average compound annualized total return of 18.4% versus 14.9% for the S&P 500 (we calculated annualized returns since several companies on the list were acquired during the holding period – highlighted in yellow in the accompanying table).

### Show Me the Dividends Original List

Ticker	Company	Industry Sector	Price	Dividend Yield	Sep 2, 2015 Price	Stock Price IRR	Sep 2015 Div Yield	Annualized Total Return
1 SGU	Star Gas Partners	Retail	\$9.35	4.7%	\$9.26	0%	4.1%	4.48%
2 MCHP	Microchip Technology Inc	Semiconductors	\$91.36	1.6%	\$40.58	37%	3.5%	41%
3 CSCO	Cisco Systems Inc	Telecommunications	\$42.89	2.7%	\$25.34	23%	3.3%	26%
4 UPS	United Parcel Service	Transportation	\$104.66	3.2%	\$96.14	3%	3.1%	6%
5 GPC	Genuine Parts Co	Distribution/Wholesale	\$89.84	3.1%	\$81.11	4%	3.0%	7%
6 MMM	3M Co	Miscellaneous Manufactur	\$219.52	2.2%	\$140.20	19%	3.0%	22%
7 GPS	Gap Inc	Retail	\$31.20	2.9%	\$32.58	-2%	2.9%	1%
8 GLW	Corning Inc	Electronics	\$27.88	2.3%	\$16.89	21%	2.9%	24%
9 BA	Boeing Co	Aerospace/Defense	\$327.88	1.8%	\$129.95	43%	2.9%	46%
10 WDC	Western Digital Corp	Computers & Office Equip	\$92.27	2.2%	\$80.31	6%	2.5%	8%
11 PNR	Pentair Ltd-Registered	Miscellaneous Manufactur	\$68.13	2.0%	\$53.42	10%	2.4%	12%
12 HUBB	Hubbell Inc	Electrical Compo&Equip	\$121.78	2.4%	\$96.84	9%	2.3%	12%
13 CHRW	CH Robinson Worldwide	Transportation	\$93.71	1.9%	\$68.14	13%	2.3%	15%
14 MJN	Mead Johnson Nutrition	Pharmaceuticals	\$90.00		\$76.06	24%	2.2%	26%
15 HON	Honeywell International Inc	Electronics	\$144.51	2.0%	\$97.15	17%	2.2%	19%
16 AMGN	Amgen Inc	Biotechnology	\$170.48	2.8%	\$149.31	5%	2.1%	7%
17 DLX	Deluxe Corp	Commercial Services	\$74.01	1.6%	\$56.47	11%	2.1%	13%
18 TIF	Tiffany & Co	Retail	\$97.66	2.0%	\$81.05	8%	2.0%	10%
19 ETH	Ethan Allen Interiors	Household Products/Wares	\$22.95	3.3%	\$29.50	-9%	1.9%	-7%
20 EMC	EMC Corp	Computers & Office Equip	\$32.18		\$23.99 *	45%	1.9%	47%
21 AAPL	Apple Inc	Computers & Office Equip	\$167.78	1.5%	\$110.70	18%	1.9%	19%
22 BRCD	Brocade Communications Sys	Computers & Office Equip	\$12.75		\$10.13	34%	1.8%	36%
23 LRCX	Lam Research Corp	Semiconductors	\$203.16	0.9%	\$70.41	51%	1.7%	53%
24 GILD	Gilead Sciences Inc	Biotechnology	\$75.39	2.8%	\$102.63	-11%	1.7%	-10%
25 ORCL	Oracle Corp	Software	\$45.75	1.7%	\$36.42	9%	1.7%	11%
26 RHI	Robert Half Intl	Commercial Services	\$57.89	1.7%	\$50.97	5%	1.6%	7%
27 IM	Ingram Micro Inc	Distribution/Wholesale	\$38.90		\$26.34	64%	1.5%	65%
28 EXPD	Expeditors Intl Wash	Transportation	\$63.30	1.3%	\$49.55	10%	1.5%	11%
29 HAR	Harman International	Household Products/Wares	\$112.00		\$95.94	22%	1.5%	23%
30 MAR	Marriott International	Lodging	\$135.98	1.0%	\$70.61	29%	1.4%	30%
31 MAS	Masco Corp	Building Materials	\$40.44	1.0%	\$26.00	19%	1.4%	20%
32 WLK	Westlake Chemical Corp	Chemicals	\$111.15	0.7%	\$51.86	34%	1.4%	36%
33 TFX	Teleflex Inc	Healthcare-Products	\$254.98	0.5%	\$127.50	31%	1.1%	32%
34 BC	Brunswick Corp	Leisure Time	\$59.39	1.2%	\$47.91	9%	1.0%	10%
35 LEA	Lear Corp	Autos	\$186.09	1.2%	\$99.44	28%	1.0%	29%
36 LUV	Southwest Airlines Co	Airlines	\$57.28	0.8%	\$37.36	18%	0.8%	19%
37 PKI	Perkinelmer Inc	Electronics	\$75.72	0.4%	\$46.99	20%	0.6%	21%
38 MCK	McKesson Corp	Pharmaceuticals	\$140.87	0.9%	\$195.93	-12%	0.6%	-11%
39 XRAY	DENTSPLY International Inc	Healthcare-Products	\$50.31	0.7%	\$51.28	-1%	0.6%	0%
40 DDS	Dillards Inc	Retail	\$80.34	0.5%	\$91.15	-5%	0.3%	-4%
Average				1.8%		16%	1.9%	18.4%
SPX	S&P 500 Index		2,641	1.8%	1,933	13%	2.0%	14.9%

Note: Yellow rows represent companies that were acquired during the period, thus we show their final takeout price at deal closing.

\* Represents EMC's equity takeout value including the current market value of partial ownership in publicly held DVMT

Source: YCharts, Sixty Guilders Research, LLC

We now turn to what the same criteria applied today would yield. Specifically, we sorted our coverage universe, seeking companies that had the following parameters: 1) revenue growth, 2) EBITDA growth, 3) free cash flow generation, 4) dividend payout of less than 50% of available cash flow, 5) a credit ranking of 70% or greater, and 6) an equity ranking of 80% or greater. In other words, we went looking for stocks we foremost find attractive (regardless of dividend policy)

with a solid balance sheet. Our goal was to avoid “dividend traps”, equities with unsustainably high dividend payments relative to fundamental performance.

## Show me The Dividends Updated List

Ticker	Company	Price	Industry Sector	Dividend Yield	Moody's S&P	Bond T-spread	Equity Market Cap (\$, mils)	Forward EV/EBITDA
1 SIG	Signet Jewelers	\$37.06	Retail	3.3%			2,187	5.7X
2 HAS	Hasbro	\$85.57	Leisure Time	2.7%	Baa1 BBB	3.10%	10,701	10.0X
3 BIG	Big Lots	\$44.55	Retail	2.4%			1,879	4.8X
4 TXN	Texas Instruments	\$101.07	Semiconductors	2.2%	A1	3.16%	99,363	13.1X
5 KLAC	KLA-Tencor	\$108.84	Semiconductors	2.1%	Baa2 BBB	3.57%	16,965	10.1X
6 HD	Home Depot	\$178.49	Home Furns.	2.1%	A2	3.36%	205,748	12.4X
7 SNA	Snap-on	\$149.73	Hand-Machine Tools	2.0%	A2 A-	2.87%	8,492	8.4X
8 BBY	Best Buy Co	\$72.27	Retail	2.0%	Baa1 A+	2.85%	20,432	6.7X
9 AVGO	Broadcom	\$237.69	Semiconductors	2.0%	BBB+		97,632	7.8X
10 JNPR	Juniper Networks	\$24.31	Computers-Office Eq	2.0%	Baa2 BBB	4.20%	8,357	6.7X
11 PNR	Pentair	\$70.28	Machinery	2.0%	Baa3 BBB-	4.03%	12,534	12.5X
12 TSCO	Tractor Supply	\$61.41	Retail	1.8%	BB		7,683	8.8X
13 RHI	Robert Half International	\$59.09	Commercial Serv.	1.7%			7,343	11.0X
14 ACN	Accenture	\$151.03	Internet	1.7%	BBB		101,646	14.3X
15 MAN	ManpowerGroup	\$115.05	Commercial Serv.	1.6%			7,611	7.4X
16 TJX	TJX Companies	\$84.75	Apparel	1.5%	A2 A+	3.15%	53,588	10.4X
17 AAPL	Apple	\$173.36	Electronics	1.5%	Aa1 BBB+	3.46%	879,631	10.8X
18 STLD	Steel Dynamics	\$45.64	Iron-Steel	1.4%	Ba1	4.30%	10,779	6.2X
19 RMR	The RMR Group	\$72.95	Real Estate	1.4%	CCC+		2,273	18.7X
<b>Average</b>				<b>2.0%</b>		<b>3.46%</b>	<b>81,834</b>	<b>9.8X</b>
<b>SPX</b>	<b>S&amp;P 500 Index</b>	<b>2,659</b>		<b>1.9%</b>				<b>13.7X</b>

The updated list provides a dividend yield roughly equal to that of the S&P 500 (2.0% versus 1.9% for the S&P), with a significantly lower valuation (9.8x EV/EBITDA vs 13.7x for the S&P). As always, we encourage investors to use a list like this as a beginning step of the investment process, not the final one.

We thank you for your interest and support, and welcome all questions and suggestions.

Dimitri Triantafyllides, CFA  
(704)968-9074  
Sixty Guilders Research, LLC

### Disclosure Statements

This report is for your information only and is not an offer to sell or a recommendation to buy the securities or instruments named or described in this report. Additional information is available upon request. The information in this report has been obtained or derived from sources believed by Sixty Guilders Research, LLC (Sixty Guilders) to be reliable, but Sixty Guilders does not represent that this information is accurate or complete. Any opinions or estimates contained in this report are current as of the date of the report and are subject to change without notice. Copyright © 2018 Sixty Guilders Research, LLC.

**Conflicts of Interest.** Sixty Guilders, its employees and its affiliates may from time to time hold securities mentioned in this report, either long or short, whether relying or not on information provided in this report.

**Sources of Information.** The information in this report has been obtained or derived from sources believed by Sixty Guilders to be reliable, but Sixty Guilders does not represent that this information is accurate or complete. Estimates for revenue and cash flow (EBITDA) are derived from street expectations as of the date of publication, therefore changes following the publication of the report are not reflected in the report. Other estimates in the report are provided by Sixty Guilders and may similarly be changed following the publication of the report.

**Ratings.** Sixty Guilders does not provide buy, hold or sell recommendations on the debt and equity securities profiled in its reports. Instead, Sixty Guilders force-ranks securities under coverage on a percentile scale, ranging from 100% (highest possible percentile) to 0% (lowest possible percentile). As a result, Sixty Guilders's rankings are evenly distributed across the percentile spectrum of 100% to 0%. In its reports, Sixty Guilders discloses rankings for a company's equity appeal and credit quality in 10 percentile increments rounded to the lowest 10 percentile increment. This format is also followed for a company's peer group ("industry sector"). Industry sector rankings similarly rank sector fundamentals against the broader Sixty Guilders coverage index. In order to preserve the ranking relevance on our index data, company credit and equity percentile rankings are not rounded when

displayed on the index. Furthermore, rankings on company reports are only current as of the publication date of a report, and may change as a company's credit or equity relative appeal may improve or deteriorate following the publication of a report. Since our index data are updated daily, credit and equity rankings on the index are more current than those published in reports whose publication date may have been several days or weeks prior to the most recent current ratings.