

# *In Dividends We Trust*

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## *John Buckingham*

*Principal, Portfolio Manager, Kovitz*

*Editor of The Prudent Speculator newsletter*

- *John joined Al Frank Asset Management (AFAM) in 1987*
  - *Worked with Al Frank, founder of AFAM*
    - *Chief Portfolio Manager since 1990*
  - *Manager of Al Frank proprietary mutual fund*
    - *AFAM Merged with Kovitz in 2018*





Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

## Russell 3000 Value Index

### Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	73.4%	820	8	2.8	9/30/2022	2/15/2024
17.5%	53.2%	530	13	2.0	9/30/2022	2/15/2024
15.0%	47.9%	451	15	1.7	9/30/2022	2/15/2024
12.5%	45.8%	426	16	1.6	9/30/2022	2/15/2024
10.0%	29.3%	232	30	0.9	10/27/2023	2/15/2024
7.5%	21.2%	144	51	0.5	10/27/2023	2/15/2024
5.0%	13.5%	71	104	0.3	10/27/2023	2/15/2024

### Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-30.6%	218	8	2.8	1/12/2022	9/30/2022
-17.5%	-26.1%	195	13	2.0	1/12/2022	9/30/2022
-15.0%	-24.8%	178	15	1.7	1/12/2022	9/30/2022
-12.5%	-24.0%	163	16	1.6	8/16/2022	9/30/2022
-10.0%	-18.1%	82	30	0.9	7/26/2023	10/27/2023
-7.5%	-14.2%	55	51	0.5	7/26/2023	10/27/2023
-5.0%	-10.1%	30	103	0.3	7/26/2023	10/27/2023

From 10.19.95 through 02.15.24. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg.

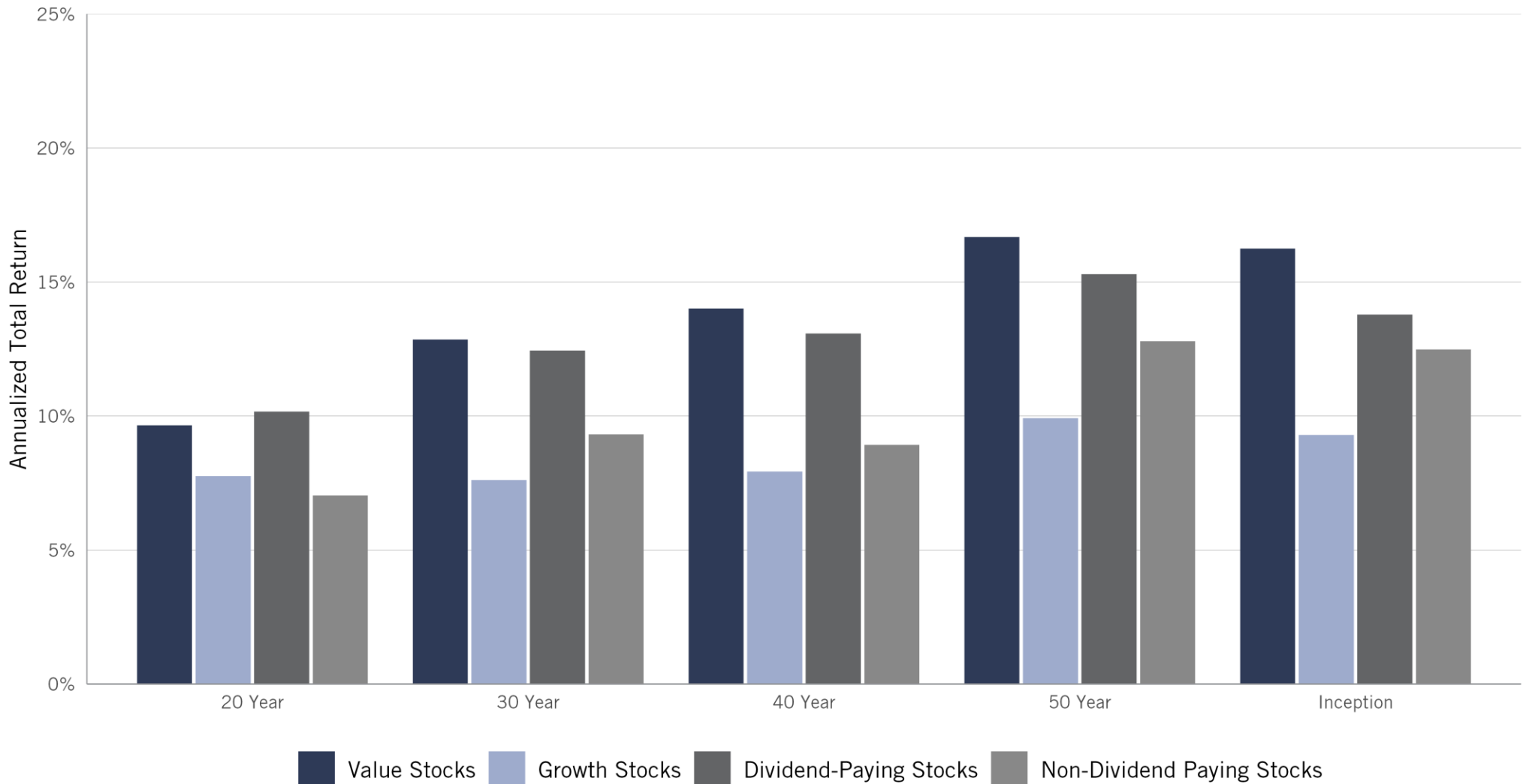
## LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.6%	18.0%
Growth Stocks	10.8%	18.9%
Dividend Paying Stocks	12.2%	14.7%
Non-Dividend Paying Stocks	11.8%	22.4%
Long-Term Corporate Bonds	7.5%	10.2%
Long-Term Gov't Bonds	7.0%	11.3%
Intermediate Gov't Bonds	6.2%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.77 through 11.30.23. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates



Portfolio created by Professors Eugene F. Fama and Kenneth R. French show that Value Stocks and Dividend Payers have enjoyed the best long-term returns.



As of 12.31.23. Value stocks are the highest 30% of Book Equity to Market Equity (BE/ME). Growth stocks are the lowest 30% of Book Equity to Market Equity (BE/ME). Common inception for the portfolios is 12.31.27. Equal weight portfolios. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

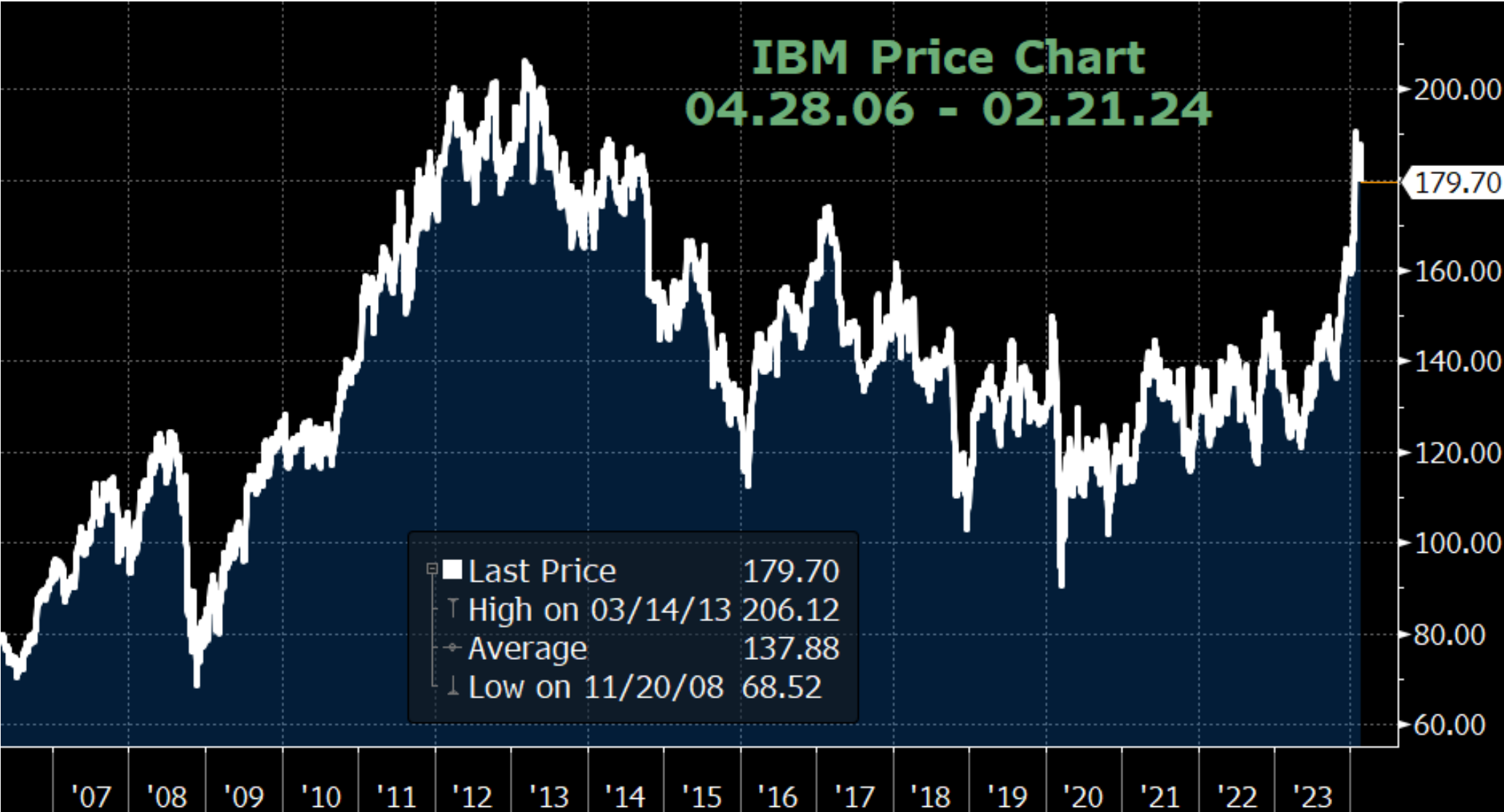


**“The true investor.. will do better if he forgets about the stock market and pays attention to his dividend returns and to the operation results of his companies.”**

**– Benjamin Graham**



# IBM Price Chart 04.28.06 - 02.21.24



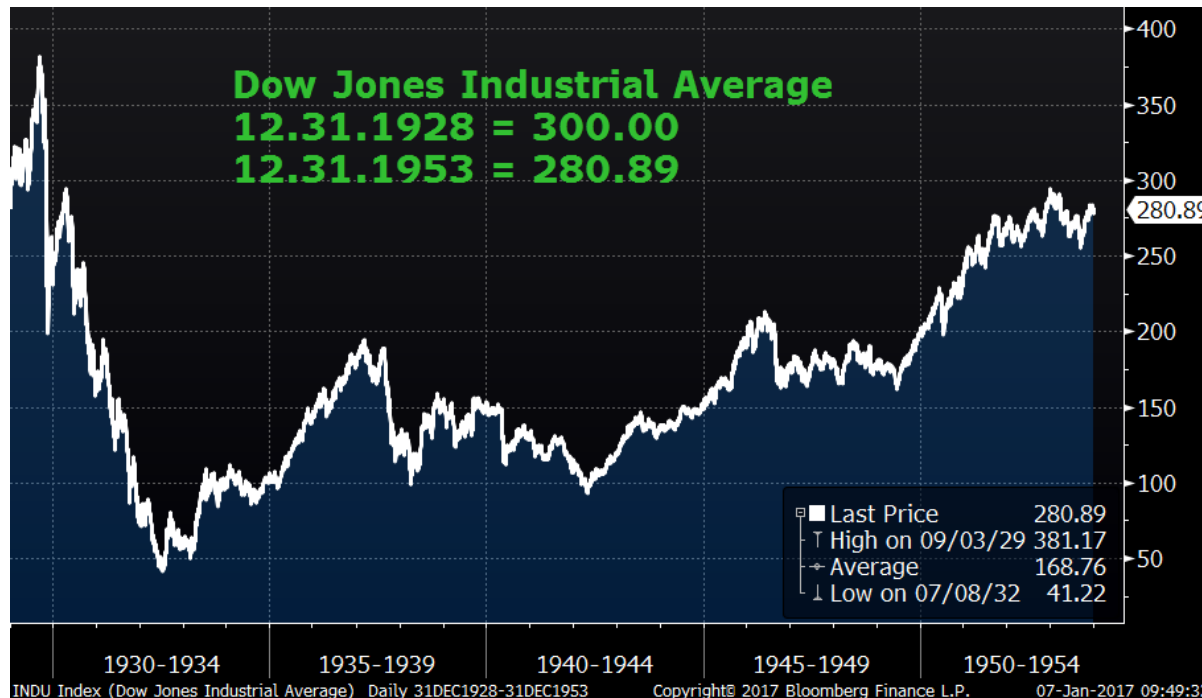


Despite what some may believe, IBM has **on a total-return basis** been a better performing stock since our initial recommendation nearly 18 years ago than the Russell 3000 Value index.





Illustrating that index values tell only part of the story, the Dow Jones Industrial Average actually lost ground over a 25-year time span from the beginning of 1929 to the beginning of 1954, yet the total return on stocks ranged from 4.02% to 8.32% per annum, with Large Caps annualized return coming in at a respectable 5.90%. The reason for the difference between the price-return-only Dow measure and the actual returns investors might have earned is dividends and their reinvestment.



<b>Annualized Total Returns</b>	
<b>25 Years</b>	
<b>12.31.28 - 12.31.53</b>	
<b>FF Value</b>	<b>8.32%</b>
<b>FF Growth</b>	<b>5.64%</b>
<b>FF Divs</b>	<b>6.03%</b>
<b>FF No Divs</b>	<b>4.02%</b>
<b>FF Large Company</b>	<b>5.90%</b>

*Source: Kovitz Investment Group using data from Morningstar and Professors Fama & French*





**“Do you know the only thing that gives me pleasure? It's to see my dividends coming in.”**

**—John D. Rockefeller**



Dividends are never guaranteed, as we saw in the wake of COVID-19 and the Great Lockdown, but the historical data show that Corporate America has a long history of raising payouts. In fact, per share dividends for the S&P 500 were higher (modestly) in 2020 vs. 2019. And dividend payments for TPS Portfolio doubled between 2013 and 2023.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2023	348	11	26	4
2022	377	7	5	0
2021	353	19	4	1
2020	287	11	27	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22

*Source: Standard & Poor's.*

S&P 500 DIVIDENDS PER SHARE	
2025 (Est.)	\$80.14
2024 (Est.)	\$74.95
2023	\$70.91
2022	\$67.57
2021	\$60.54
2020	\$58.95
2019	\$58.69
2018	\$53.86
2017	\$50.47
2016	\$46.73
2015	\$43.49
2014	\$39.44
2013	\$34.99
2012	\$31.25
2011	\$26.43
2010	\$22.73

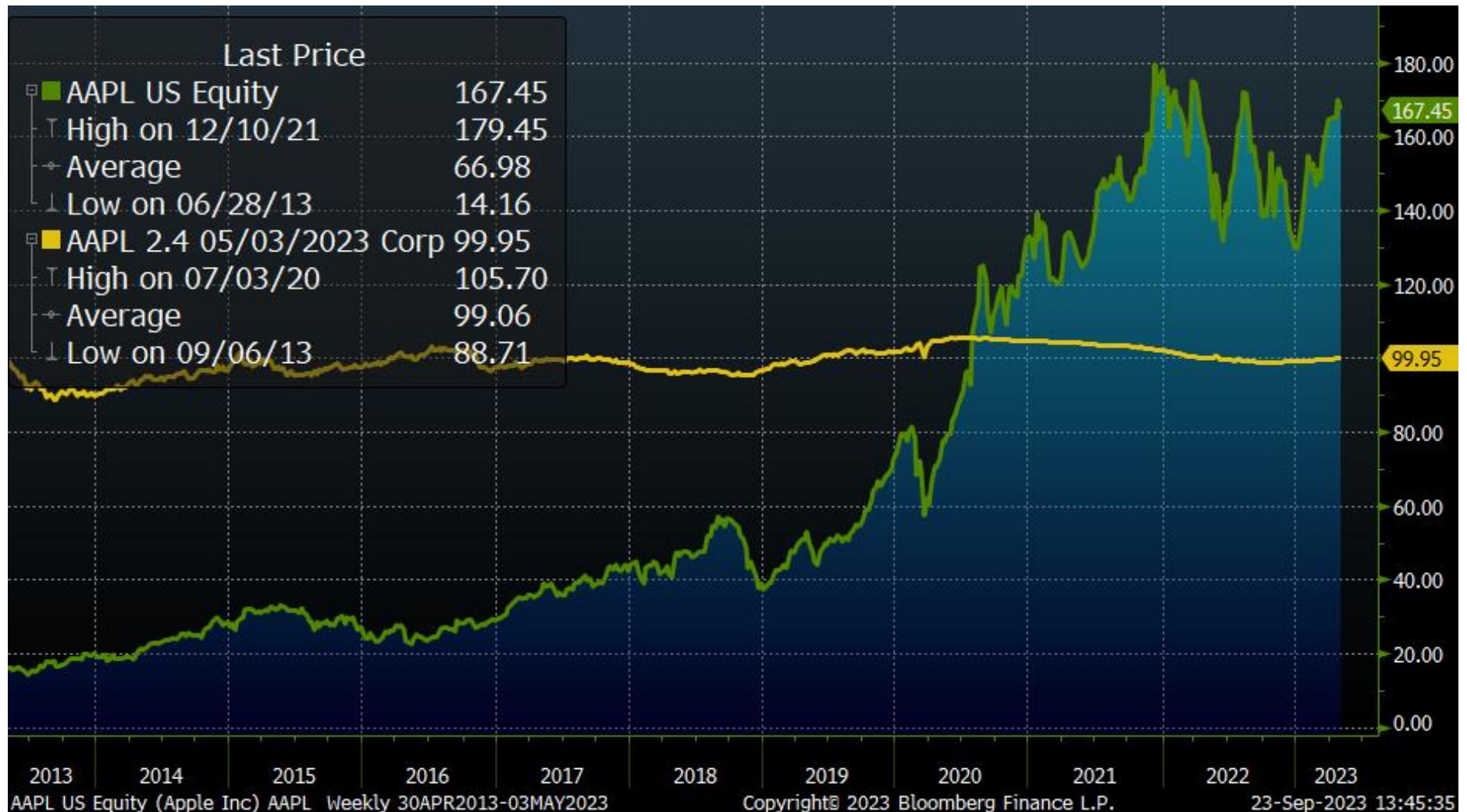
*Source: Bloomberg. As of 2.21.24*

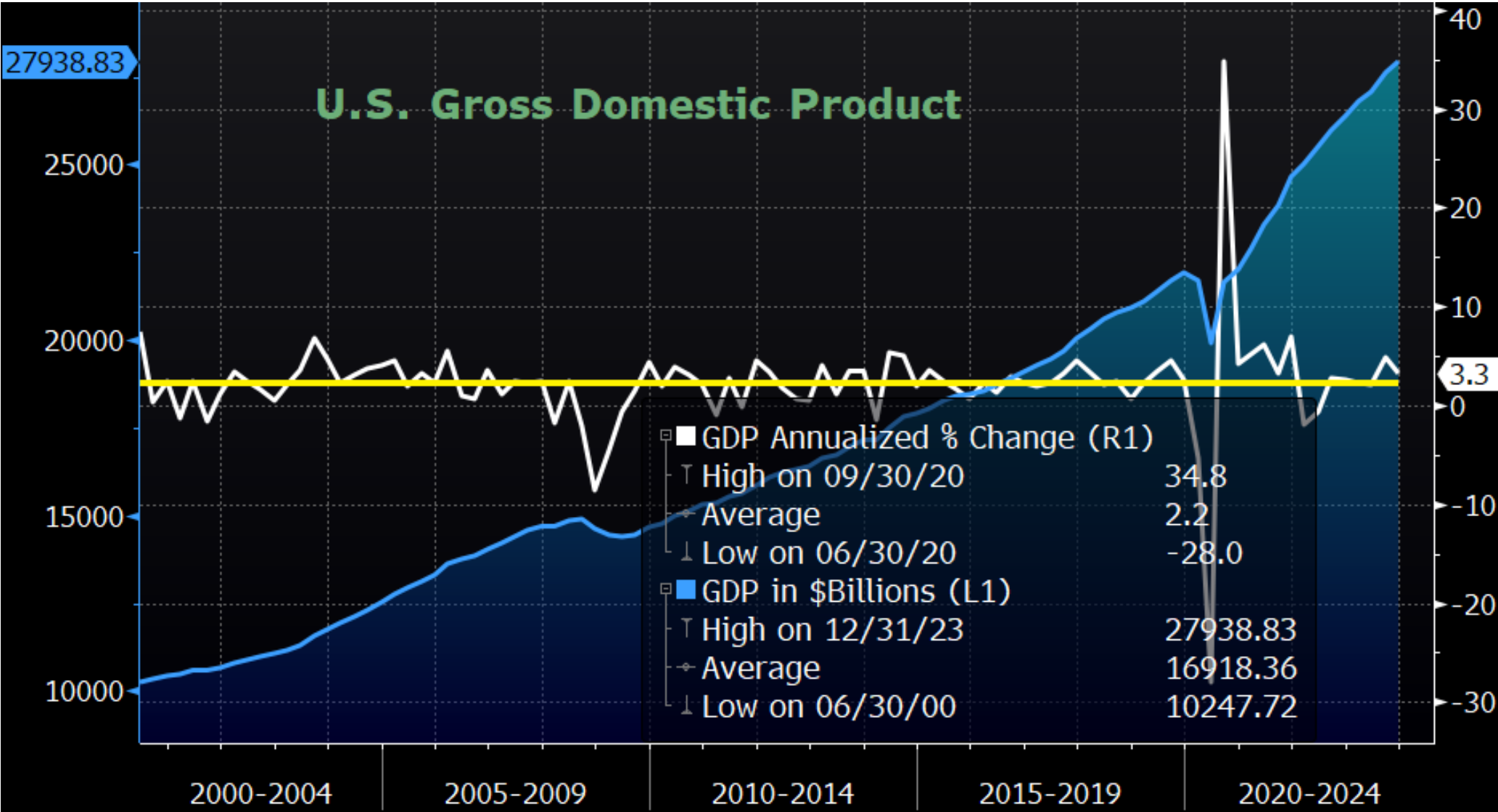
TPS Annual Dividends	
2023	\$122,361
2022	\$112,179
2021	\$96,562
2020	\$95,753
2019	\$97,995
2018	\$87,802
2017	\$89,787
2016	\$75,460
2015	\$68,785
2014	\$65,357
2013	\$55,847

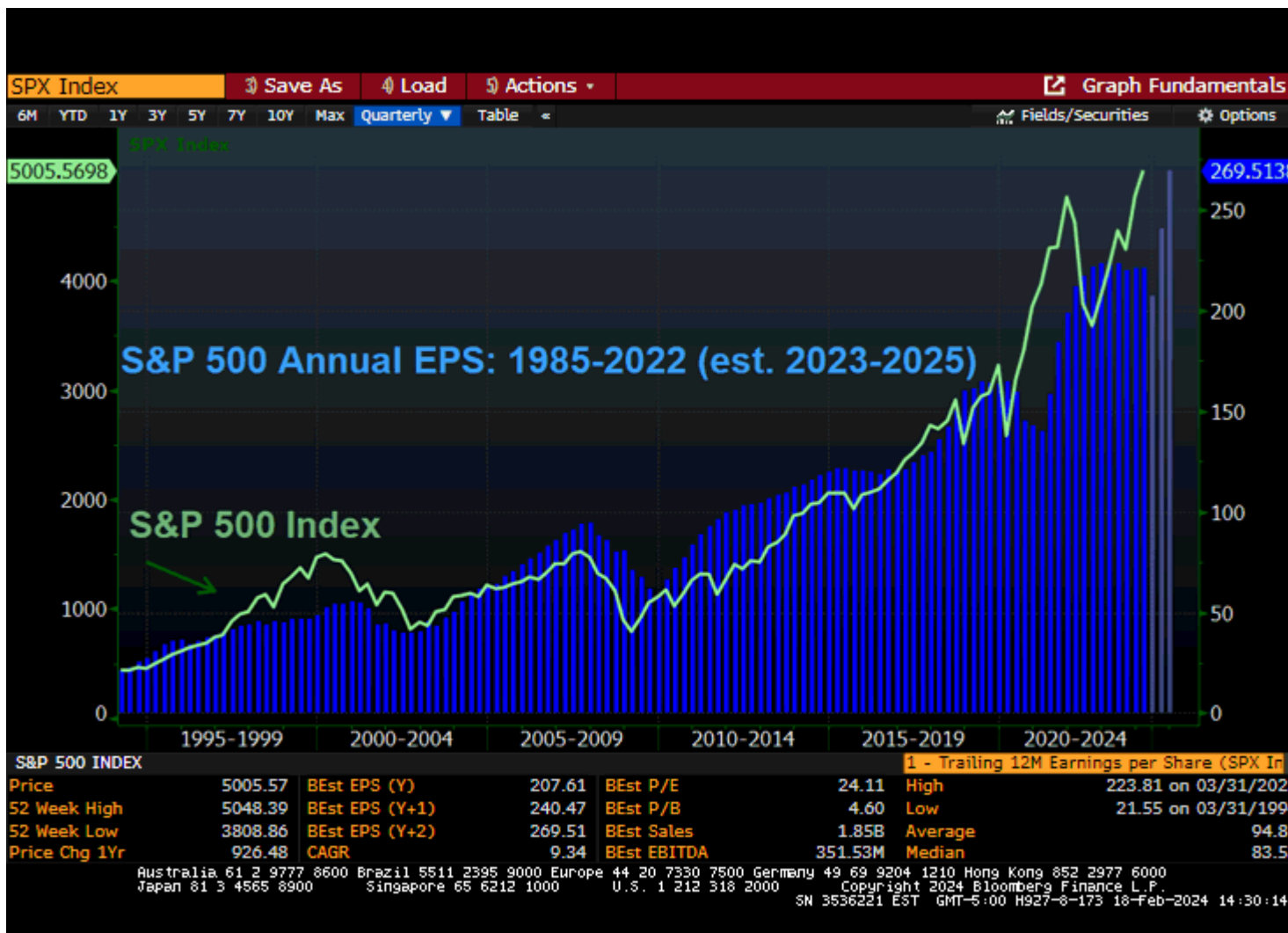
*Source: Kovitz*



Investors gobbled up an Apple 10-Year bond yielding 2.4% in May 2013 when the stock yielded 2.8%. Given an 111% increase in the dividend over the ensuing 10 years, the AAPL buyer back then ended the 10 years with a 6.2% yield to go along with an 1,107% total return! The debt holder received a consistent 2.4% annual coupon and a 28% total return over the decade.







S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
<b>ESTIMATES</b>		
12/31/2024	\$64.15	\$240.40
9/30/2024	\$62.76	\$227.72
6/30/2024	\$58.76	\$217.21
3/31/2024	\$54.73	\$213.29
12/31/2023	\$51.47	\$211.10
<b>ACTUAL</b>		
9/30/2023	\$52.25	\$210.00
6/30/2023	\$54.84	\$208.10
3/31/2023	\$52.54	\$200.13
12/31/2022	\$50.37	\$196.95
9/30/2022	\$50.35	\$203.31
6/30/2022	\$46.87	\$204.98
3/31/2022	\$49.36	\$210.16
12/31/2021	\$56.73	\$208.21
9/30/2021	\$52.02	\$189.66
6/30/2021	\$52.05	\$175.54
3/31/2021	\$47.41	\$150.28
12/31/2020	\$38.18	\$122.37
9/30/2020	\$37.90	\$123.37
6/30/2020	\$26.79	\$125.28
3/31/2020	\$19.50	\$138.63
12/31/2019	\$39.18	\$157.12

*Source: Standard & Poor's. As of 2.14.24*

S&P 500 INDEX		1 - Trailing 12M Earnings per Share (SPX In	
Price	5005.57	BEST EPS (Y)	207.61
52 Week High	5048.39	BEST EPS (Y+1)	240.47
52 Week Low	3808.86	BEST EPS (Y+2)	269.51
Price Chg 1Yr	926.48	CAGR	9.34
		BEST P/E	24.11
		BEST P/B	4.60
		BEST Sales	1.85B
		BEST EBITDA	351.53M
		High	223.81 on 03/31/2023
		Low	21.55 on 03/31/1994
		Average	94.81
		Median	83.53

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
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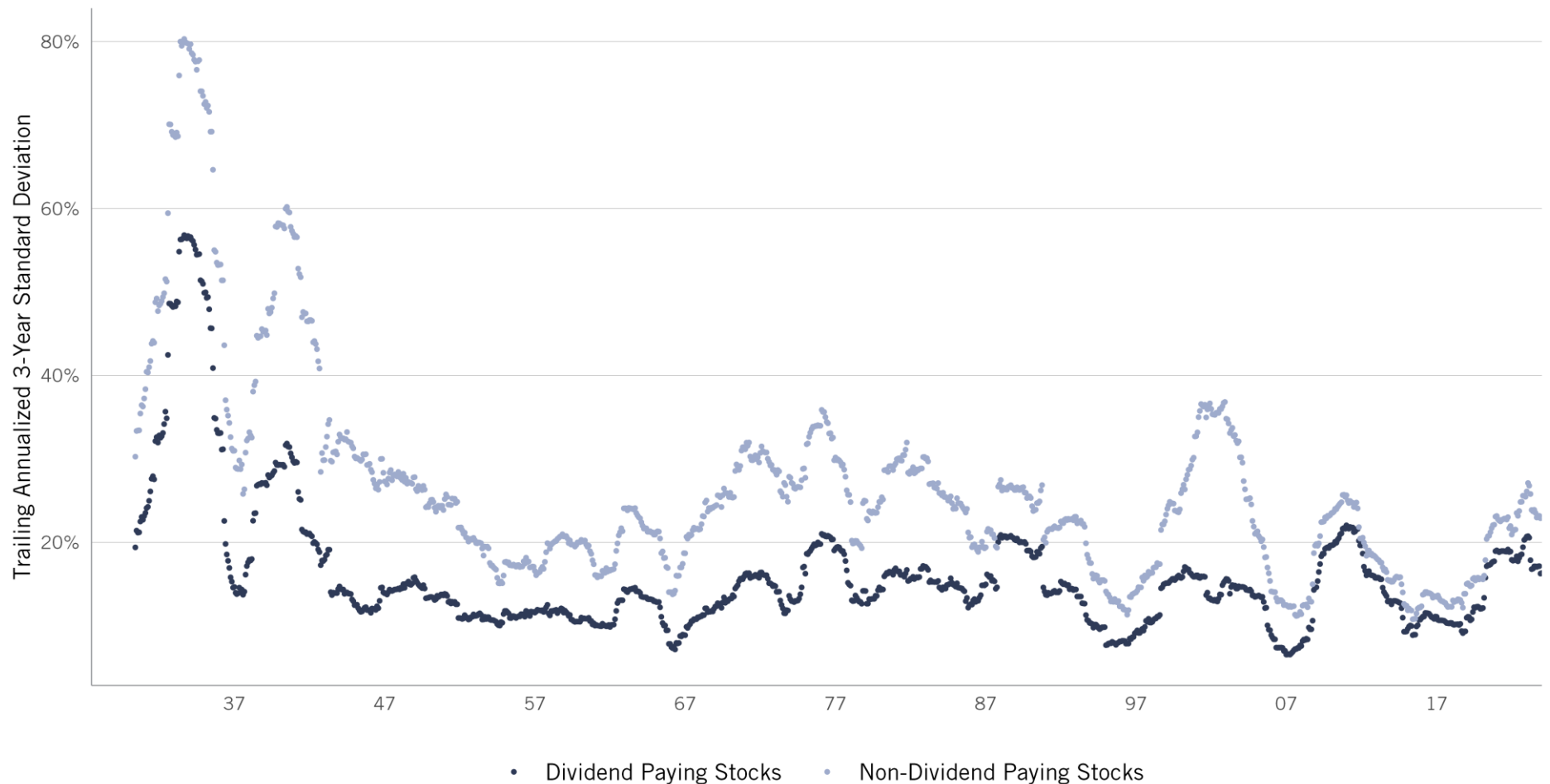


**“If you do not change direction, you may end up where you are heading”**

**—Lao Tzu**



Though we do not necessarily think that volatility equals risk, most prefer a smoother ride when it comes to their investments. Happily, dividend payers would seem to allow folks to have their cake and eat it too, given higher returns historically and lower standard deviation.





While fixed income investments generally boast lower volatility than equities, it is nice to see the historical odds of Value Stocks and Dividend Payers outperforming the recent 4.28% yield on the 10-year U.S. Treasury increase markedly as the level of patience rises.

## PATIENCE IS VIRTUOUS

### VALUE STOCKS

	Count >4.28%	Count <=4.28%	Percent >4.28%
1 Month	702	456	60.6%
3 Months	732	424	63.3%
6 Months	759	394	65.8%
1 Year	772	375	67.3%
2 Year	856	279	75.4%
3 Year	915	208	81.5%
5 Year	934	165	85.0%
7 Year	958	117	89.1%
10 Year	980	59	94.3%
15 Year	951	28	97.1%
20 Year	919	0	100.0%

### DIVIDEND PAYERS

	Count >4.28%	Count <=4.28%	Percent >4.28%
1 Month	695	463	60.0%
3 Months	733	423	63.4%
6 Months	766	387	66.4%
1 Year	787	360	68.6%
2 Year	873	262	76.9%
3 Year	891	232	79.3%
5 Year	905	194	82.3%
7 Year	939	136	87.3%
10 Year	933	106	89.8%
15 Year	942	37	96.2%
20 Year	906	13	98.6%

From 07.31.27 through 12.31.23. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French





**“The secret to making money in stocks is not to get scared out of them.”**

**—Peter Lynch**



# ***In Dividends We Trust***

## **7 Income Stocks**



**“Whether we’re talking about socks or stocks, I like to buy quality merchandise when it is marked down.”**

**—Warren Buffett**



# Whirlpool (WHR)

- ✓ **Top major appliance manufacturer in the world, with seven brands each having more than \$1 billion in sales**
- ✓ **Shares are more than 30% below the 52-week High and trade for less than 9 times management's 2024 mid-point adjusted EPS projection**
- ✓ **Divesting businesses in Europe and Africa in favor of higher margin markets**
- ✓ **Can still benefit from remaining non-North American markets as the rest of the world progresses technologically and Emerging Markets incorporate modern conveniences into daily living**
- ✓ **Big yield over 6% with a payout ratio of approximately 50%**



# PNC Financial (PNC)

- ✓ **Super-regional bank that has proven itself as a responsible acquirer and has steered clear and even benefited from past turmoil under the leadership of CEO William Demchak**
- ✓ **The stock trades for under 12 times a trough year for estimated earnings per share with mid-teen percentage growth expected in each of the next couple of years**
- ✓ **Should benefit from its investments in technology, robust deposit franchise, healthy capital levels and prudent expense management**
- ✓ **Boasts National Main Street bank model that helps foster lifelong banking relationships with a coast-to-coast branch network**
- ✓ **Dividend yield is 4.2%**



# Devon Energy (DVN)

- ✓ **Production target of about 650,000 barrels of oil equivalent per day, most of which comes from the more than 400,000 acres Devon owns in the abundant Permian Basin**
- ✓ **Diversified producer split almost equally between oil and gas/NGL with a breakeven cost under \$40 per barrel of West Texas Crude**
- ✓ **Committed to restraining production to focus on per share profitability and returning excess capital to shareholders to support a cash return payout target of around 70% split between a fixed-plus-variable dividend structure (yield is 7.0% today) and \$3.0 billion share-repurchase program**
- ✓ **DVN trades for less than 10 times EPS projections in each of the next few years.**



# CVS Health (CVS)

- ✓ Operates one of the largest domestic retail pharmacy networks, is a leading pharmacy benefits manager (PBM) and serves millions of people through traditional, health insurance (via Aetna)
- ✓ Businesses under one roof offer diversification and form a three-legged stool that can improve the cost of healthcare delivery
- ✓ Demographic trends (an aging population) serve as a tailwind for long-term growth
- ✓ Shares trade for less than 10 times forward EPS projections and boast a 10% free-cash-flow yield
- ✓ Dividend yield is 3.4%



# DHL Group (DHLGY)

- ✓ Centuries-old company that delivers to customers in 220+ countries and is positioned to benefit from easing financial conditions and a more consumer-friendly energy backdrop following regional crises
- ✓ e-commerce trends remain a significant long-term growth driver
- ✓ The sale of stock by Germany's state-owned development bank (DHL's largest shareholder) has weighed on shares in recent weeks for reasons other than the company's performance
- ✓ Offers geographic diversification to U.S. centric portfolios with a 3.1% net dividend yield
- ✓ Inexpensive relative to U.S. peers on a P/E and FCF yield basis





# Cisco Systems (CSCO)

- ✓ **Market leader in enterprise networking with complementary security solutions that are enhanced by the pending acquisition of Splunk**
- ✓ **Cisco has maintained its networking leadership amidst cloud adoption and is a sleeper beneficiary of A.I. as data center operators move further toward ethernet networking protocol**
- ✓ **Shares are reasonably priced at 13 times the consensus NTM EPS projection, well below other Big Tech names**
- ✓ **Tremendous cash flow generation – supporting future share repurchases and a dividend where the yield is presently 3.3%**



# Air Products (APD)

- ✓ **One of a handful of global industrial gas companies involved in the recovery and distribution of major gases across an array of end markets.**
- ✓ **Industrial gases are often an indispensable input, yet they account for a small fraction of overall costs for those who use them, leading customers to pay up for reliability and to pursue long-term contracts to assure uninterrupted and timely supply.**
- ✓ **Onsite investments with customers that provide the company with stable cash flows.**
- ✓ **A recent drop for shares over what appears to be temporary headwinds put the multiple below 20, yet the qualities that historically have afforded APD a premium P/E ratio are intact.**
- ✓ **40-year streak of annual dividend hikes: Yield = 3.1%**



# ALL TPS RECOMMENDATIONS

Ticker	Company	Ticker	Company	Ticker	Company	Ticker	Company	Ticker	Company
AAPL	Apple Inc	CMCSA	Comcast Corp	GILD	Gilead Sciences Inc	LRCX	Lam Research Corp	PYPL	PayPal Holdings Inc
ABT	Abbott Laboratories	CMI	Cummins Inc	GLW	Corning Inc	MAN	ManpowerGroup Inc	QCOM	QUALCOMM Inc
ADM	Archer-Daniels-Midland	COF	Capital One Financial Corp	GM	General Motors Co	MDC	MDC Holdings Inc	REG	Regency Centers Corp
ALB	Albemarle Corp	COHU	Cohu Inc	GOOG	Alphabet Inc	MDT	Medtronic PLC	SIEGY	Siemens AG
ALIZY	Allianz SE	CSCO	Cisco Systems Inc	GS	Goldman Sachs	MET	MetLife Inc	SNA	Snap-on Inc
ALL	Allstate Corp	CVS	CVS Health Corp	GT	Goodyear Tire	META	Meta Platforms Inc	SNY	Sanofi SA
AMGN	Amgen Inc	CVX	Chevron Corp	HAS	Hasbro Inc	MMM	3M Co	STX	Seagate Technology
AMT	American Tower Corp	DE	Deere & Co	HMC	Honda Motor Co Ltd	MOS	Mosaic Co/The	SYF	Synchrony Financial
APD	Air Products and Chemicals	DHLGY	Deutsche Post AG	HPE	Hewlett Packard Ent	MRK	Merck & Co Inc	TFC	Truist Financial Corp
ARE	Alexandria Real Estate	DINO	HF Sinclair Corp	IBM	IBM	MRNA	Moderna Inc	TGT	Target Corp
AVGO	Broadcom Inc	DIS	Walt Disney Co/The	INTC	Intel Corp	MS	Morgan Stanley	TKR	Timken Co/The
AXAHY	AXA SA	DKS	Dick's Sporting Goods Inc	IP	International Paper Co	MSFT	Microsoft Corp	TPR	Tapestry Inc
AYI	Acuity Brands Inc	DLR	Digital Realty Trust Inc	JBL	Jabil Inc	MU	Micron Technology Inc	TSN	Tyson Foods Inc
BAC	Bank of America Corp	DOC	Physicians Realty Trust	JNJ	Johnson & Johnson	NEM	Newmont Corp	TTE	TotalEnergies SE
BASFY	BASF SE	DVN	Devon Energy Corp	JNPR	Juniper Networks Inc	NSC	Norfolk Southern Corp	VWAPY	Volkswagen AG
BHE	Benchmark Electronics	ELV	Elevance Health Inc	JPM	JPMorgan Chase & Co	NTAP	NetApp Inc	VZ	Verizon Communications
BK	Bank of New York Mellon	ENS	EnerSys	JWN	Nordstrom Inc	NTR	Nutrien Ltd	WHR	Whirlpool Corp
BLK	BlackRock Inc	EOG	EOG Resources Inc	KEY	KeyCorp	NYCB	NY Community Bancorp	WKC	World Kinect Corp
BMJ	Bristol-Myers Squibb	ETN	Eaton Corp PLC	KIM	Kimco Realty Corp	OMC	Omnicom Group Inc	WM	Waste Management
C	Citigroup Inc	FDP	Fresh Del Monte Produce	KLIC	Kulicke & Soffa Industries	ORCL	Oracle Corp	WMT	Walmart Inc
CAH	Cardinal Health	FDX	FedEx Corp	KR	Kroger Co/The	OZK	Bank OZK	WRK	Westrock Co
CAT	Caterpillar	FITB	Fifth Third Bancorp	KSS	Kohl's Corp	PFE	Pfizer Inc	XOM	Exxon Mobil Corp
CE	Celanese Corp	FL	Foot Locker Inc	LEG	Leggett & Platt Inc	PHG	Koninklijke Philips NV	ZBH	Zimmer Biomet Holdings
CFG	Citizens Financial Group	GBX	Greenbrier Cos Inc	LITE	Lumentum Holdings Inc	PNC	PNC Financial Services		
CIVI	Civitas Resources	GD	General Dynamics Corp	LMT	Lockheed Martin Corp	PNW	Pinnacle West Capital Corp		
CMA	Comerica Inc	GEN	Gen Digital Inc	LOW	Lowe's Cos Inc	PRU	Prudential Financial Inc		



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The list of stocks on Slides 20 to 26 represent what we believe to be stocks that offer capital appreciation potential. The full list of recommendations comprises the Kovitz California Strategies, which is part of Kovitz Investment Group Partners, LLC (KIG).

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