AAII Dividend Investing (DI):

Open House

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AAII Dividend Investing (DI): Open House

Presentation Overview

- *AAII Dividend Investing* (DI) strategy
- Benefits of dividends
- *Dividend Investing* model portfolio
- *Dividend Investing* team
- Three pillars of *Dividend Investing*
- Select DI screening characteristics
- *Dividend Investing* Service Overview
    - DI weekly update
    - DI monthly report
    - New feature: Ask Me Anything About DI Webinars
- DI website tour

AAII Dividend Investing

www.aaiidividendinvesting.com

AAII Dividend Investing Strategy

- **Dividend Investing's strategy:** Seeks stocks that have the potential to rise in price and make larger dividend payments in the future — a total-return strategy
- DI seeks to identify the best dividend investment opportunities by **focusing on a select universe of well-financed companies** that have a long history of:
    - Sales, earnings and dividend growth
    - Positive free cash flow
    - Attractive valuations
- Strategy based on robust studies of market factors that have contributed to strong long-term market returns
- Unique value proposition: provides subscribers complete control (addition/deletion decisions, tax situation, etc.)
- Weekly email/commentary; Monthly *Dividend Investing* newsletter with article archive

Provide the education and tools necessary to analyze, research and manage a successful dividend portfolio

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Benefits of Dividend Investing

1. **Passive Income:**
   - Dividends provide a steady flow of passive income, which you can choose to spend or reinvest
2. **Higher Growth Potential:**
   - Dividend-paying stocks have historically delivered higher long-term returns than non-dividend-payers
3. **Inflation Protection:**
   - Unlike bonds paying fixed income, many companies increase their dividend payout each year
4. **Continued Ownership While Collecting Profits:**
   - Owning shares in a firm that doesn't pay dividends is frustrating in that profits are locked in the stock
5. **Less Volatility Than Other Stocks:**
   - Dividend payers tend to be large, financially strong companies with more mature businesses
   - Cushion against market risk
6. **Dividends May Provide Clear Signal of Corporate Financial Health:**
   - Straightforward and effective tool to identify quality, well-run companies
   - Enhance earnings transparency of a company/apply a level of financial discipline on management
   - Can signal management's confidence in current and future growth prospects

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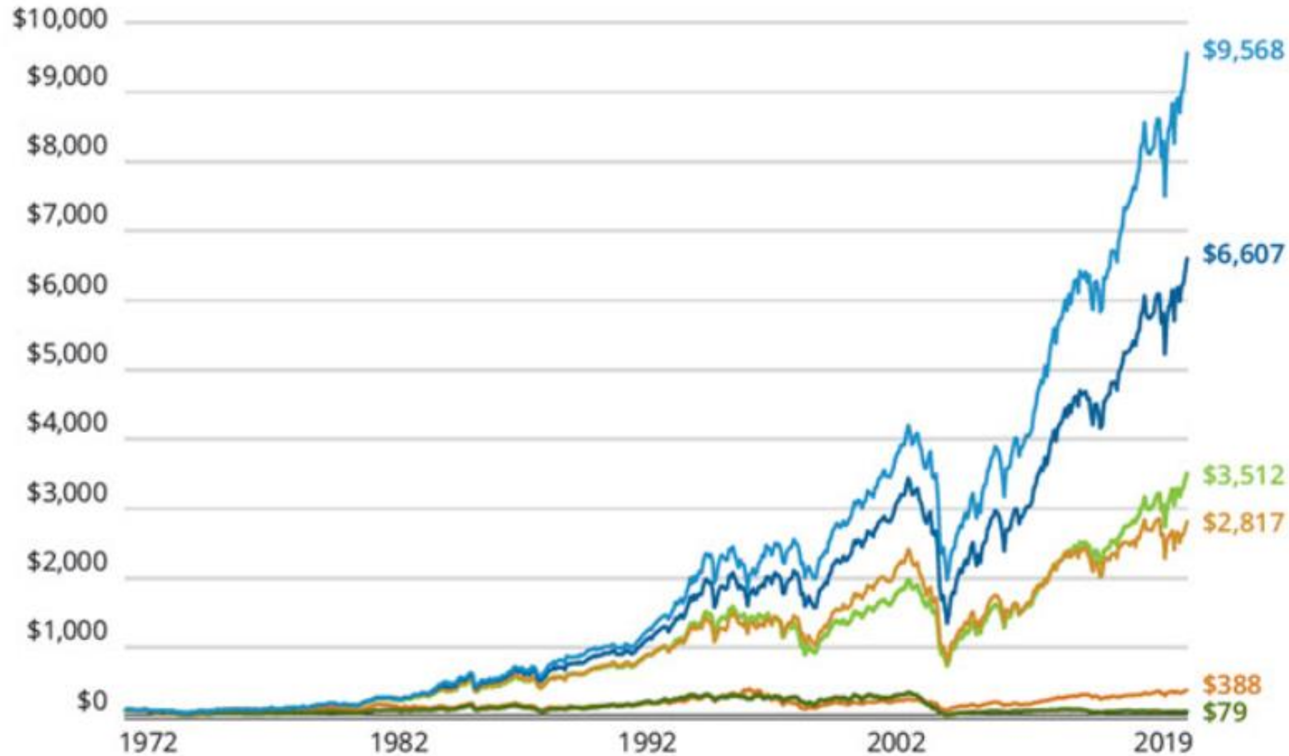
Dividend Growth May Be a Key to Outperformance

- Returns of S&P 500 Index Stocks by Dividend Policy: Growth of $100 (1972–2019)

Average Annual Returns & Beta by Dividend Policy
(3/31/72 – 12/31/19)

	Returns	Beta
Dividend Growers & Initiators	12.87%	0.92
Dividend Payers	12.79%	0.98
Equal-Weighted S&P 500 Index	12.29%	1.00
No Change in Dividend Policy	11.85%	1.13
Dividend Non-Payers	8.57%	1.13
Dividend Cutters & Eliminators	10.88%	1.23



Dividend growers and initiators have historically provided greater total return with less volatility relative to companies that either maintained or cut their dividends

Data Sources: Ned Davis Research and Hartford Funds, 2/20 “The Power of Dividends: Past, Present, and Future” from https://www.hartfordfunds.com/market-perspectives/the-power-of-dividends.html. Past performance does not guarantee future results. For illustrative purposed only. The data does not take into account fees and charges associated with actual investments.

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AAII Dividend Investing Model Portfolio

AAII Dividend Investing

- Model portfolio with real capital investment
- Portfolio inception: 2012
- 24 hand-picked dividend-paying growth stocks
  - U.S. exchange-traded
  - Diversified across sectors; no REITs or MLPs
  - Large-cap value tilt
  - Pays monthly dividends; current portfolio composition
  - Current yield 3.1% vs. market yield 1.8%
  - Compared to Dow Jones U.S. Index (IYY)
- Proprietary quantitative strategy—rules-based
- Alert members of portfolio additions/deletions

Current DI holdings - sample

Former DI holdings - sample

AAII Dividend Investing (DI) Team

Derek Hageman: Editor and Product Manager, *AAII Dividend Investing*

- Financial Analyst, AAII; Equity Analyst and Private Equity investor

***AAII Dividend Investing* Investment Committee:**

- John Bajkowski, President and CEO, AAII

- Charles Rotblut, CFA, Vice President and Financial Analyst, AAII; Editor, *AAII Journal*

- Wayne A. Thorp, CFA, Vice President and Senior Financial Analyst, AAII; Editor, *Stock Superstars Report*

Research Team:

- Experienced team including a group of finance interns currently in the honors finance program at DePaul University

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Three Pillars of Dividend Investing

1 Valuation / Attractiveness

Stock prices tend to **fluctuate between high** and **low extreme valuation levels**, these relationships can be used to determine a stock's value range

Characteristics Analyzed:
- Dividend yield
- Trailing price-earnings ratio
- Forward price-earnings ratio

Dividend Yield: Main valuation metric

2 Growth Trends

A company's success is driven by its ability to **generate sales** and **convert revenue into earnings** and **cash flow**

Characteristics Analyzed:
- Revenue
- Gross margins
- Operating margins
- Net profit margins
- Earnings
- Earnings per share
- Dividend history
  - Consistency
- Dividend growth

Growth: Does, and can, the company grow its dividend?

3 Financial Strength / Quality

Understand company's underlying financials and its ability to **generate cash flow, pay its obligations** and **return capital to shareholders**

Characteristics Analyzed:
- Earnings payout ratio
- Free-cash-flow payout ratio
- Leverage ratio
- Interest coverage ratio
- Operating cash flow
- Free cash flow
- Returned capital
  - Share buybacks & dividends

Sustainability: Can the dividend payment be sustained in the future?

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Select DI Screening Characteristics: Additions

Current dividend yield	• Greater than 5-year average
Annual dividend increases	• At least 7 consecutive yrs. of annual div. increases
Dividend growth rate	• 5-year dividend growth rate > 3%
Sales growth rate	• 5-year sales growth rate > 3%
Earnings per share	• 5-year EPS dil. cont. > 3%
Operating margins	• Op. margin 12m >= Industry op. margin 12m
Earnings payout ratio	• Earnings payout ratio 12m <= 50%
Times interest earned	• Times interest earned 12m >= 2x
Debt to capital	• Long-term debt to capital Q1 <= 50%:

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Framework: Portfolio Deletion Considerations

Excessively high yield	• Can signal a dividend cut
Yield below benchmark yield	• Market and company's historical range • Example: yield below five-year average low
Lack of dividend increase	• Case-by-case basis • Growth consistently less than inflation
Continuing poor fundamentals	• Shrinking revenue and/or lower margins • Negative free cash flow
Interest coverage ratio	• Below 2.0x
Better dividend growth opportunities available	• Example: higher dividend growth and/or more attractive yield

<u>Think</u>: Change regarding the growth, consistency or sustainability of the dividend ➡ SELL

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AAII Dividend Investing: Weekly Update

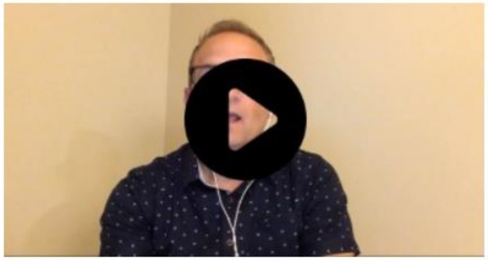
AAII Dividend Investing (DI): Weekly Update

- Weekly update email sent every Friday
- Educational/Market Commentary:
  - Dividend focused information
    - Studies, trends, etc.
  - Market recap/analysis
  - DI portfolio update
    - News
    - Dividend dates
    - Earnings reports
  - Dividend Investing videos
  - Answers to DI subscriber questions

Weekly Update:

Dividend-Paying S&P 500 Technology Stocks

Answering Subscribers' Request for Dividend-Paying Tech Stocks



Big technology companies powered stocks higher on Wall Street early this week, adding to the market's gains after a three-week winning streak. Gains by technology and communication stocks and companies that rely on consumer spending are driving the increase. The rally over the past week drove the technology-heavy Nasdaq composite to an all-time high before settling back. Technology and communication stocks and big e-commerce retailers have benefited this year as the pandemic has forced people to largely stay home and rely increasingly on the internet for shopping, work and entertainment.

Recent Topics Covered

- Federal Reserve Restricts Bank Dividends
- Building Your Dividend Investing Portfolio
- The Alphabet Soup of Economic Recovery
- Negative Earnings Surprises Not Being Punished

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AAII Dividend Investing: Monthly Report

AAII Dividend Investing (DI): Monthly Report

- Dividend Investing monthly report
- Educational/Market Commentary:
  - Portfolio alerts
  - Portfolio performance
  - Recent earnings announcements
  - Dividend payments
  - Dividend analysis
  - In-depth company reports
  - DI educational article
    - Studies, trends, etc.

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In This Issue

DI Tables

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Observations in a Lower-for-Longer Environment

There are no additions or deletions in the Dividend Investing (DI) portfolio for July. However, the excess cash accumulated in the Dividend Investing tracking portfolio is being reinvested into existing holding Hubbell Incorporated (HUBB).

Dividend Investing Webinars

The past few months, Dividend Investing's lead analyst and editor, Derek Hageman, spoke about "Seeking Dividend Safety and Aristocrats in a Volatile Market" and "Discover the Power of Dividends: Knowing Is Half the Battle" as part of AAII's Webinar Wednesdays series. Videos of these free webinars are available for viewing at the AAII Webinars page: www.aaii.com/webinars.

Starting Tuesday, July 7, at 2:00 p.m. CDT, we are launching a new feature for Dividend Investing members. Hageman will be hosting periodic Ask Me Anything About DI webinars, 30-minute conversations where subscribers can ask questions specific to the Dividend Investing methodology and holdings and get answers in real time. Please keep in mind that these Q&A sessions are not for individual investment advice and will be focused exclusively on Dividend Investing and its portfolio. Email notices are being sent for you to register for these events; you can also get the register link at the Videos page under Resources at the Dividend Investing website. Past DI Ask Me Anything webinars will also be posted to the DI Videos page, if you are not able to join the live event.

Why Rates Are Low

Big banks have been on a roller-coaster ride over the past few weeks, with concerns that an upward trend in new coronavirus cases in certain states will prolong restrictions on economic activity. As expected, the Federal Reserve held rates steady at its most recent policy meeting and signaled no rate increases through 2022. At the virtual press conference following the meeting, Fed chairman Jerome Powell said, "We're not thinking about raising rates. We're not even thinking about thinking about raising rates." The lower the fed funds rate, the less expensive it is to borrow money.

Low interest rates are good if companies are selling senior notes and other bonds, like DI portfolio holdings Amgen Inc. (AMGN), Home Depot Inc. (HD) and Texas Instruments (TXN) recently did, but we don't need to tell you how painful they are for savers. The low rates have caused many investors, both individual and institutional, to seek out dividend-paying stocks in order to satisfy their thirst for yield.

Back in May, Warren Buffett sat by himself in an empty 19,000-seat arena during the Berkshire Hathaway annual shareholders meeting and wondered aloud, "If rates can stay low forever without negative consequences, then why didn't civilization figure that out 2,000 years ago?" In other words, Buffett still believes low rates are unsustainable and remains puzzled at the situation. If rates do stay low, Buffett would say, you better be in equities.

Recent Topics Covered

- Observations in a Lower-for-Longer Environment
- DI Portfolio Is in Good Hands With Allstate
- Turning Trash Into Cash
- A Buffett of Classic Advice

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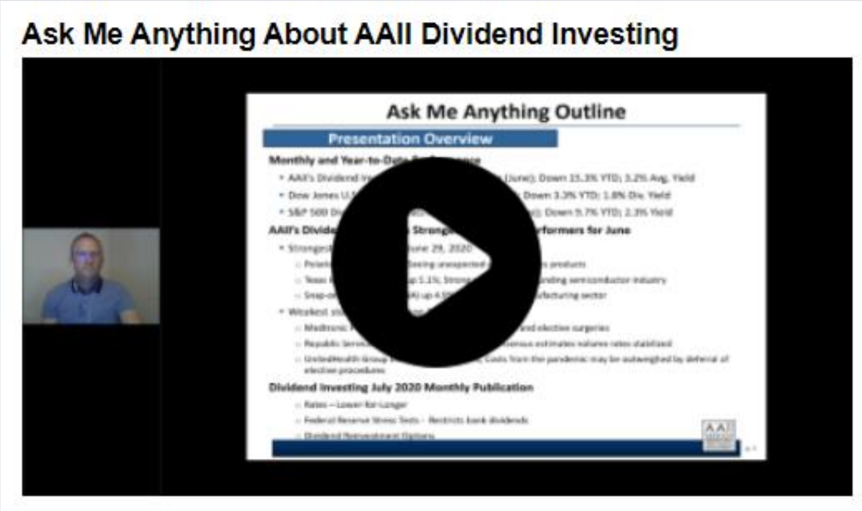
AAII Dividend Investing: Ask Me Anything

AAII Dividend Investing (DI): Ask Me Anything

New DI Feature

- Ask Me Anything About DI Webinars
- 30-minute conversations where DI subscribers can ask questions specific to Dividend Investing and get answers in real time:
    - Methodology
    - Strategy
    - Holdings
    - Additions/Deletions
    - Dividend concepts



AAII Dividend Investing: DI Website Tour

AAII Dividend Investing (DI): DI Website Tour

- AAII Dividend Investing Website
- DI Portfolio:
  - Holdings and performance
  - Dividend payments and analysis
  - Fundamentals and news
  - Transactions
- DI Ideas
- Weekly Update and Monthly Report
- Resources:
  - Quick Invest Guide
  - Users Guide
  - Videos
  - FAQs
  - Meet the Team
- Articles archive

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AAII Dividend Investing: Testimonials

> Helps me understand the importance of dividend producing stocks and helps explain the reasons why certain stock picks are made.

—DI subscriber

> I will retire next May and wanted to see how much income I can generate each month. I am pleasantly surprised with the income generated with the Dividend Investing portfolio. I also doubled my shares at the bottom of the coronavirus scare and am pleasantly surprised by the additional capital gains. I am pleased with the performance of the Dividend portfolio in my pre-retirement testing phase.

—DI subscriber

> The stock analyses developed by Hageman are concise, detailed and insightful. I truly enjoy his columns.

—DI subscriber

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$1 Trial for Today's Attendees

https://www.aaiidividendinvesting.com/subscribe/reportb.cfm

☑ YES, give me your just-released **Special Report: 5 Dividend Winners.** Plus, full 3-month access to *AAII Dividend Investing*. **All for only $1.**

My *AAII Dividend Investing* access includes:

- AAII Dividend Portfolio (24 holdings)
- Monthly DI Newsletter (with briefings & portfolio changes)
- Company snapshots, commentaries and more at the Dividend Investing Website

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» Click Here to Start the Login/Order Process

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Risk-Free Access: Enjoy your $1 AAII Special Report PLUS all AAII Dividend Investing subscriber benefits for 3 months—read every issue, get access to our complete portfolio, read all the weekly updates, enjoy unlimited access to the subscriber-only website and all the investing tools it offers—and judge for yourself whether or not it's right for you.

If you're not completely thrilled with the service for any reason, simply drop us a note at members@aaii.com and we'll promptly issue you a 100% refund during your trial, no questions asked. **You don't risk a single penny and our special report and all subscriber materials are yours to keep.**

Upcoming Webinars

Register at www.aaii.com/webinars

Alliance for Investor Education Panel: Staying the Course in a Time of Upheaval: What to Do Now?
Wednesday, August 5, 2020, 7:30 p.m. CDT

Wayne Thorp: Investing Like a Stock Superstar: A Contrarian Approach to Seeking Fundamental Growth
AAII Senior Financial Analyst
Wednesday, August 12, 2020, 7:30 p.m. CDT

And more to come! Stay tuned!

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