Beyond High Yield: Smarter Dividend Strategies and 2024 Portfolio Review

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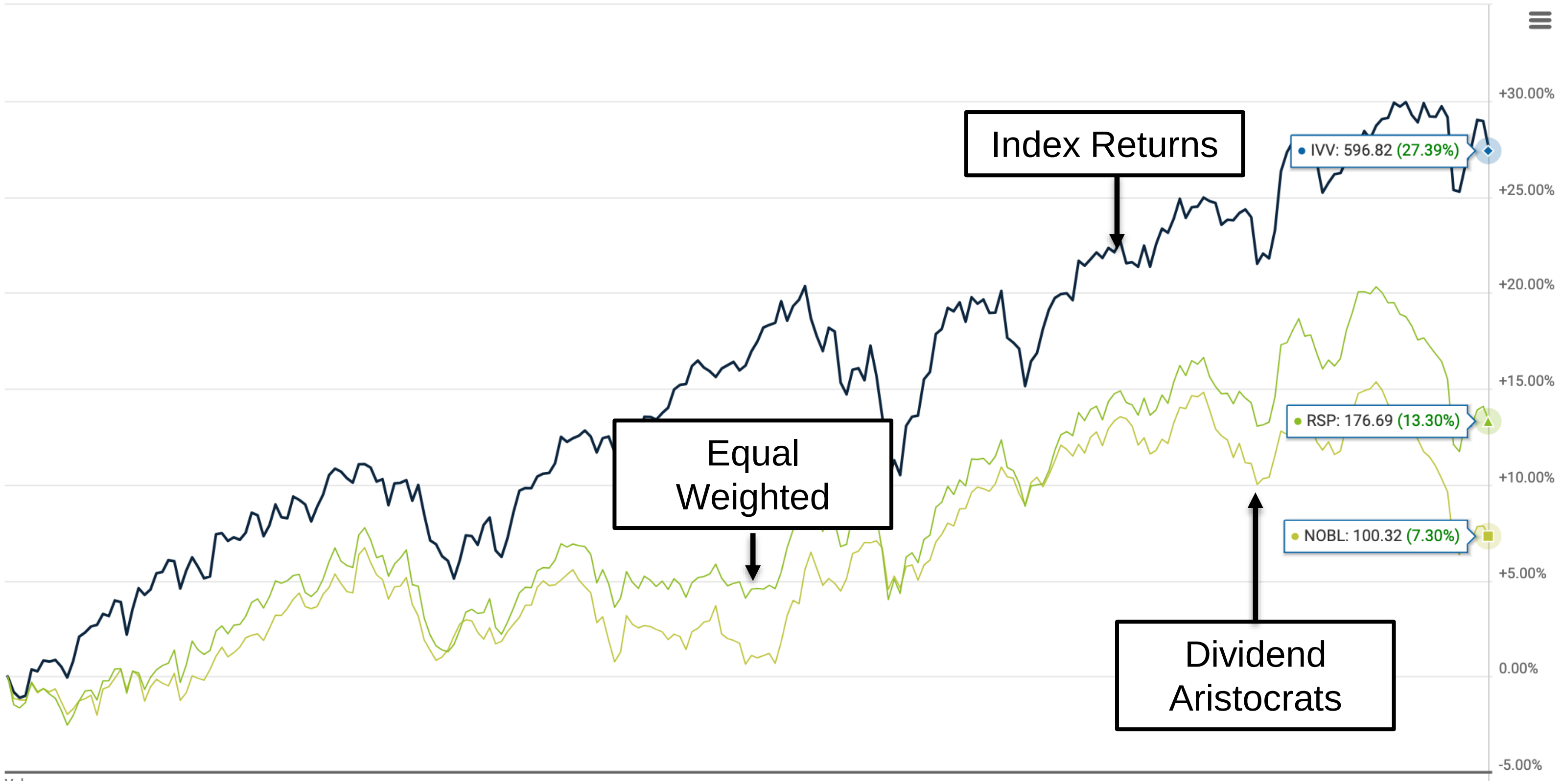
This Afternoon’s Agenda

- 2024 Market Recap
- AAII Dividend Investing Overview
- Why Focus on Dividend Growth
- 2024 Dividend Investing Review
- 2025 Outlook
- Key Features of Dividend Investing

S&P 500 vs. S&P 500 Stocks

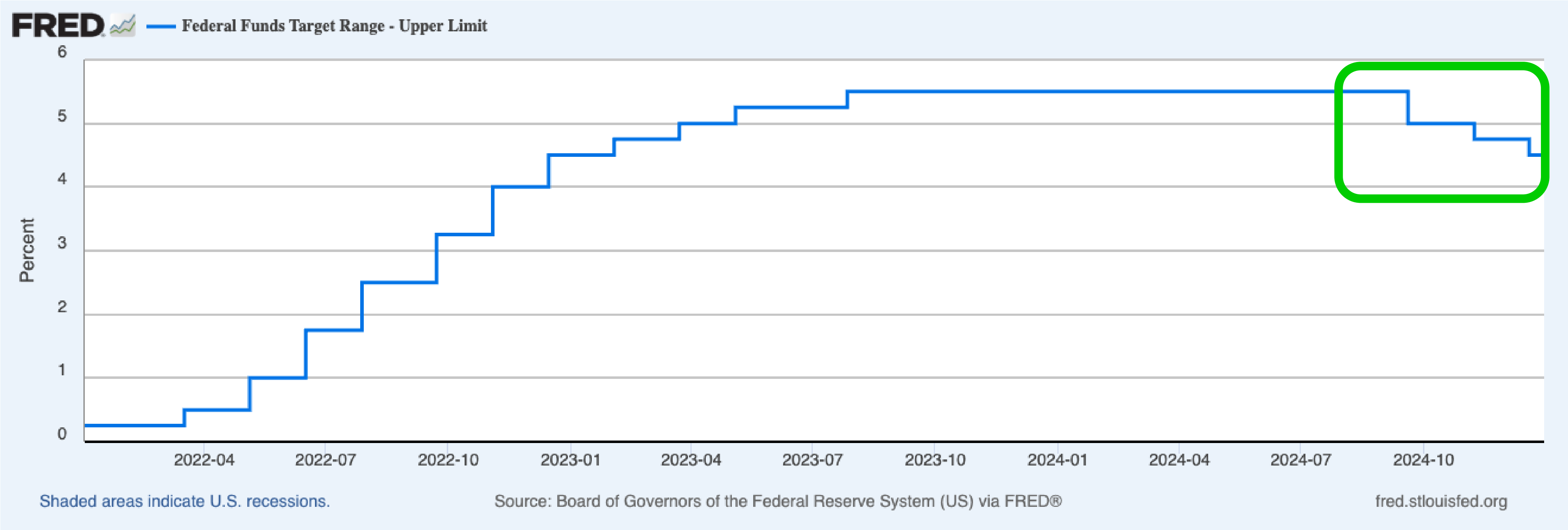


Source: AAII.com and QuoteMedia. Data as of 12/27/2024.

The S&P 500 Is Very Concentrated

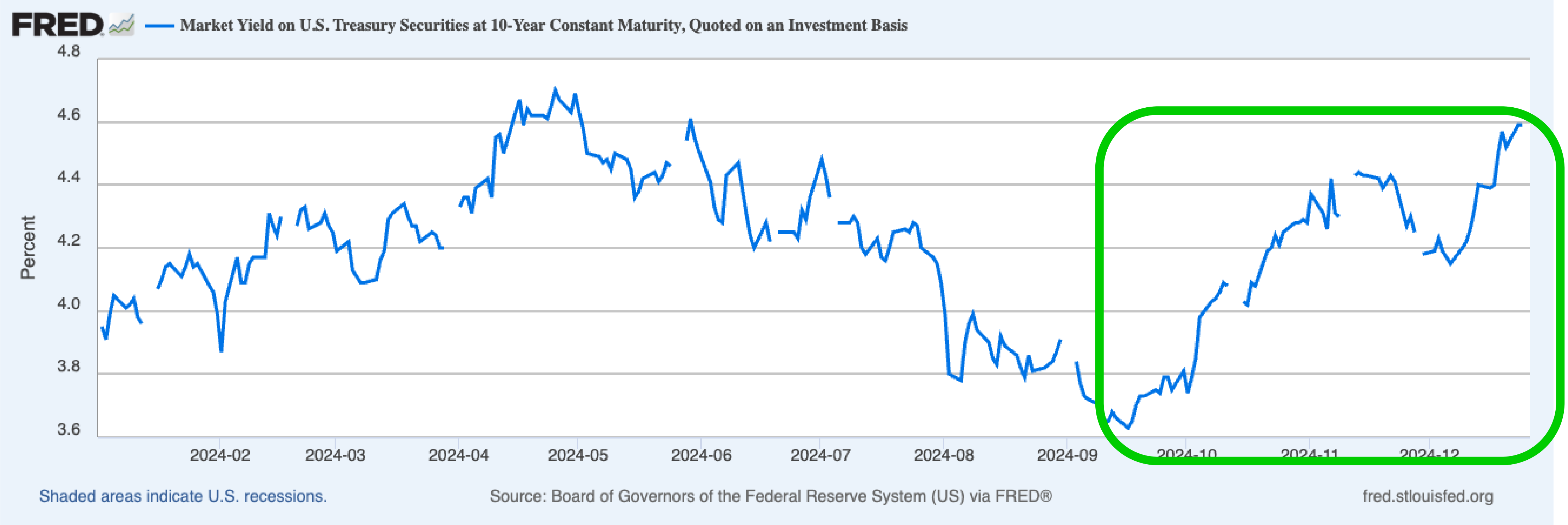
Source: J.P. Morgan Asset Management. Data as of 12/31/2024.

The Fed Started Cutting Rates



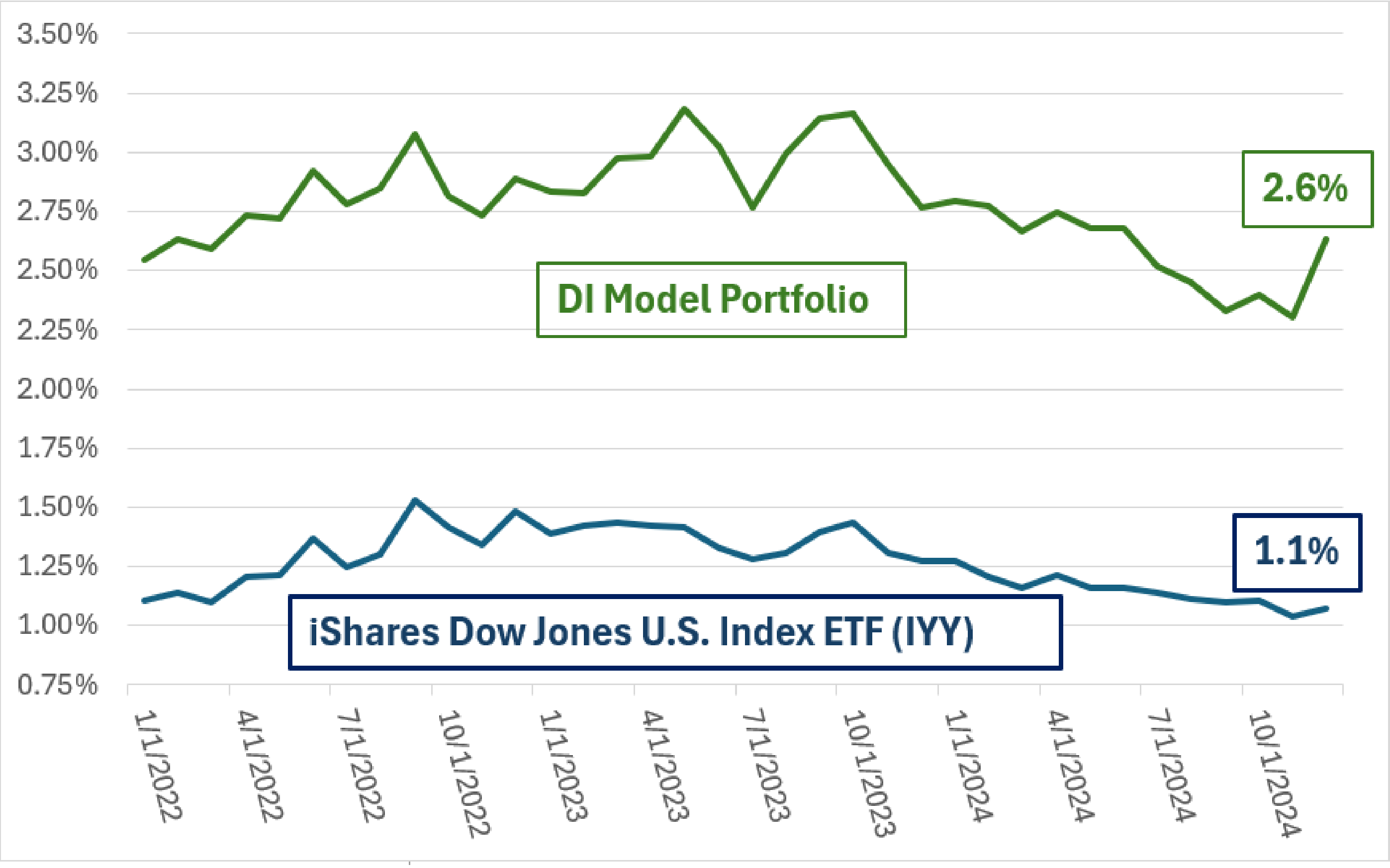
Source: St. Louis Federal Reserve and FRED Economic Data. Data as of 12/30/2024.

But Bond Yields Rebounded



Source: St. Louis Federal Reserve and FRED Economic Data. Data as of 12/30/2024.

DI Portfolio Yield vs. The Market



Source: AAII.com and QuoteMedia. Data as of 12/30/2024.

AAII Dividend Investing Overview

AAII Dividend Investing's Three Pillars

	2024-12-27	2024-09-30	2024-06-28	2024-03-28
Dividend Valuation	A	A	A	B
Dividend Growth	A	A	A	A
Dividend Strength	A	A	A	A

Dividend Grades for EOG Resources, Inc. (EOG).
Source: DI.AAII.com. Data as of 12/27/2024.

Dividend Valuation Components

RELATIVE DIVIDEND YIELD GRADE → B (SCORE: 23, VALUE)

A	**B**	C	D	F
0-20 Deep Value	**21-40 Value**	41-60 Average	61-80 Expensive	81-100 Ultra Expensive

SHAREHOLDER YIELD GRADE → A (SCORE: 12, DEEP VALUE)

A	B	C	D	F
0-20 Deep Value	21-40 Value	41-60 Average	61-80 Expensive	81-100 Ultra Expensive

Dividend Valuation Components for EOG Resources, Inc. (EOG).
Source: DI.AAII.com. Data as of 12/27/2024.

Relative Yield

- Compares the yield to the average dividend yield over the past five years
- The higher the current yield is relative to the stock's average yield, the cheaper the valuation is
- A stock will be a candidate for deletion if its current yield is below the stock's five-year low yield

Dividend Growth Components

CASH FROM OPERATIONS GRADE → B (SCORE: 70, STRONG)

A	B	C	D	F
81-100 Very Strong	**61-80 Strong**	41-60 Average	21-40 Weak	0-20 Very Weak

RETURN ON ASSETS GRADE → A (SCORE: 91, VERY STRONG)

A	B	C	D	F
81-100 Very Strong	61-80 Strong	41-60 Average	21-40 Weak	0-20 Very Weak

DIVIDEND GROWTH 12-MONTH GRADE → B (SCORE: 69, STRONG)

A	B	C	D	F
81-100 Very Strong	**61-80 Strong**	41-60 Average	21-40 Weak	0-20 Very Weak

DIVIDEND GROWTH FIVE-YEAR GRADE → A (SCORE: 82, VERY STRONG)

A	B	C	D	F
81-100 Very Strong	61-80 Strong	41-60 Average	21-40 Weak	0-20 Very Weak

Dividend Valuation Components for EOG Resources, Inc. (EOG).
Source: DI.AAII.com. Data as of 12/27/2024.

Dividend Growth Characteristics

- Cash flow from operations is the amount of cash realized from normal business operations
- Return on assets measures how effectively a company realizes profits from its assets
- Dividend growth tells us how intent a company has been about growing its dividend
- We want dividend growth to be above the rate of inflation

Dividend Strength Components

EARNINGS PAYOUT RATIO GRADE → C (SCORE: 60, AVERAGE)

A	B	C	D	F
81-100 Very Strong	61-80 Strong	**41-60 Average**	21-40 Weak	0-20 Very Weak

TOTAL LIABILITIES/ ASSETS Q1 GRADE → B (SCORE: 75, STRONG)

A	B	C	D	F
81-100 Very Strong	**61-80 Strong**	41-60 Average	21-40 Weak	0-20 Very Weak

TIMES INTEREST EARNED GRADE → A (SCORE: 94, VERY STRONG)

A	B	C	D	F
81-100 Very Strong	61-80 Strong	41-60 Average	21-40 Weak	0-20 Very Weak

DIVIDEND SUSTAINABILITY RATIO GRADE → A (SCORE: 100, VERY STRONG)

A	B	C	D	F
81-100 Very Strong	61-80 Strong	41-60 Average	21-40 Weak	0-20 Very Weak

Dividend Valuation Components for EOG Resources, Inc. (EOG)
Source: DI.AAII.com. Data as of 12/27/2024.

Determining Dividend Strength

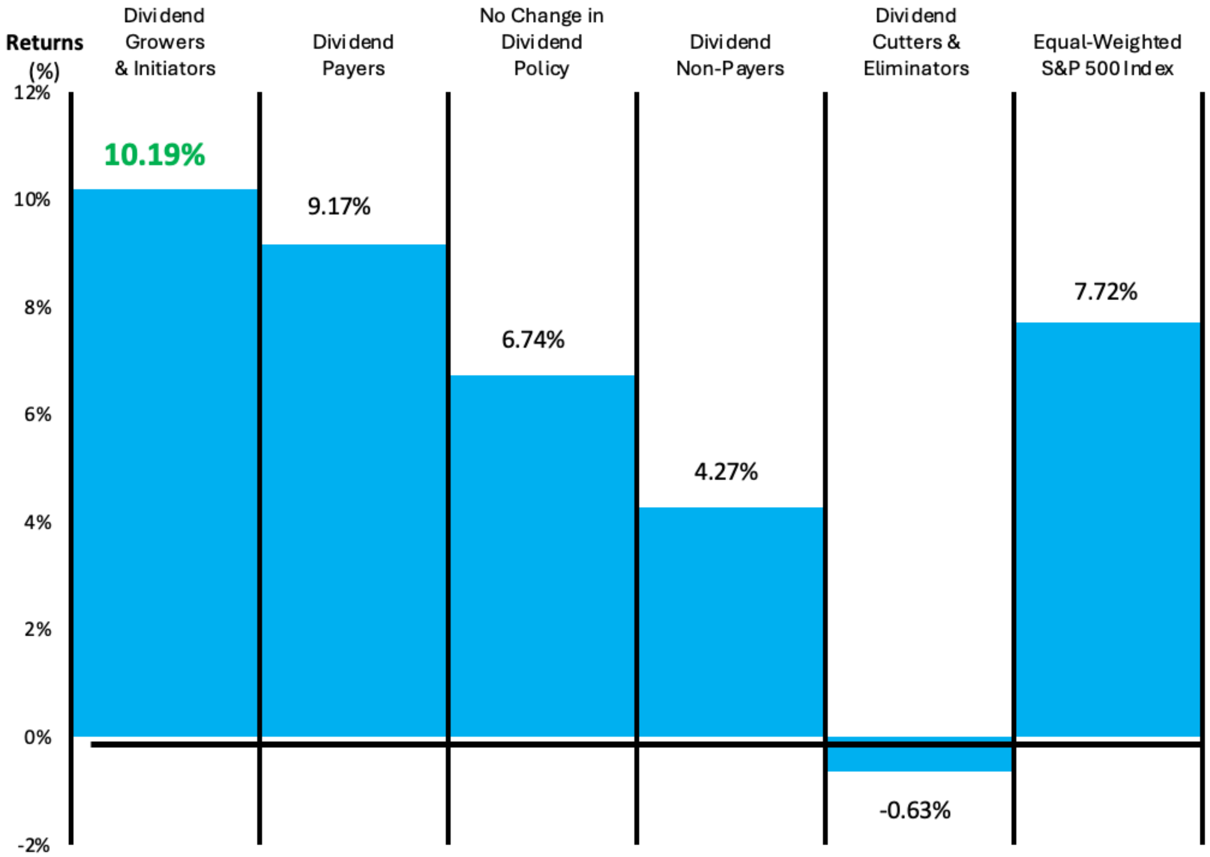
- The lower the payout ratio, the greater the ability a company has to raise its dividend
- High levels of debt and low levels of interest coverage can lead to a dividend cut
- The dividend sustainability score helps us avoid companies that have cut their dividend within the last seven years

Other Characteristics We Seek

- At least seven years of dividend growth
- Five-year sales and earnings per share growth above 3%
- Operating margins above the industry median
- Qualified dividends—No REITs or MLPs
- Exchanged-listed U.S. stocks

Why Focus on Dividend Growth?

Dividend Growers Have Outperformed



Source: Ned Davis Research and Hartford Funds, January 2024.

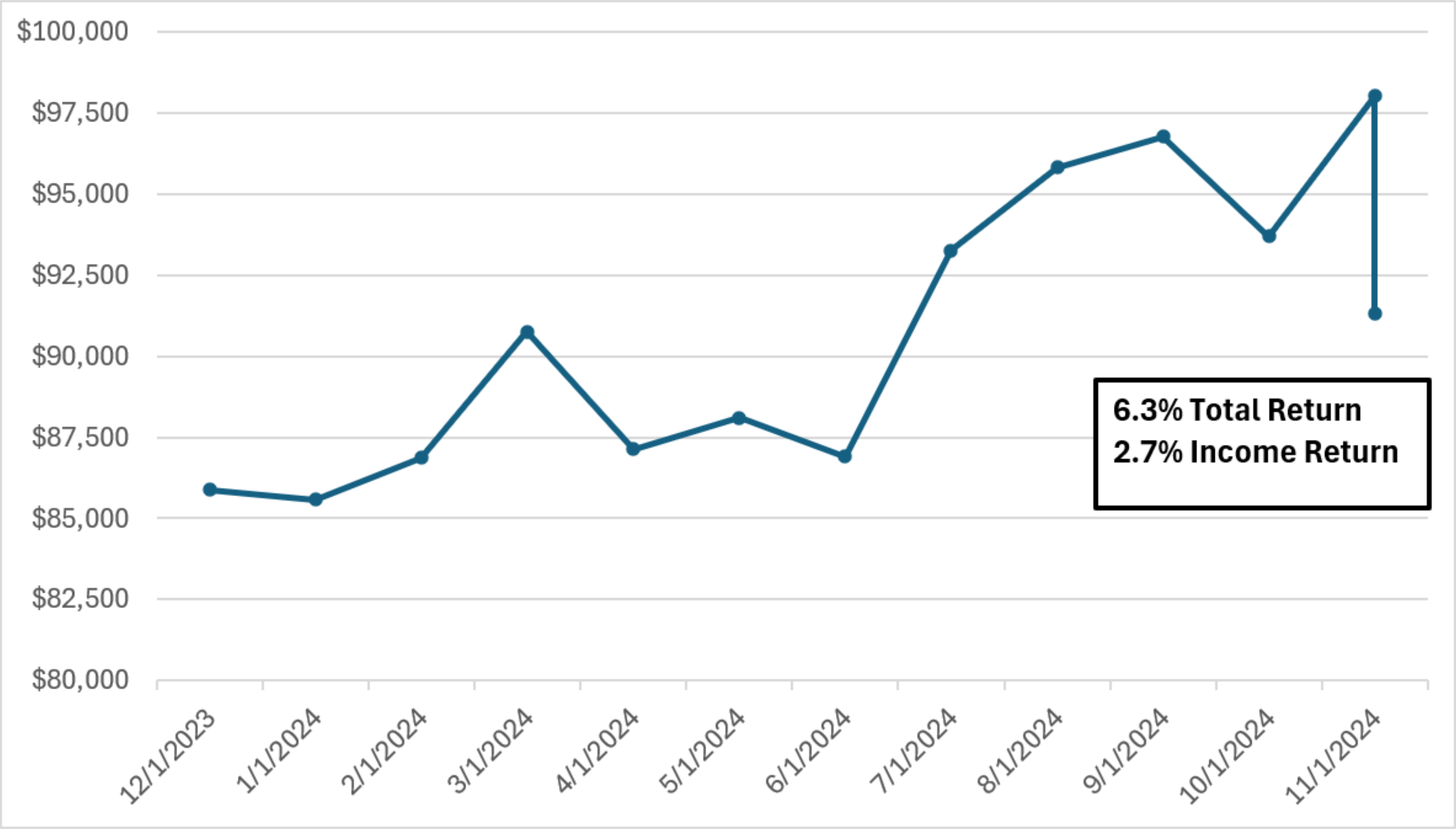
American Association of Individual Investors

The performance of all investing strategies is dependent on market conditions.

Dividend and value strategies will underperform during periods when strong growth is favored.

2024 Dividend Investing Performance

2024 DI Returns



The DI model portfolio switched to paper trading in October 2024.
Source: AAII. Data as of 12/31/2024.

DI Returns Since Inception

	Dividend Investing	Dow Jones U.S. Index (IYY)
Total Return	266.4%	455.2%
Income Return	116.0%	107.4%
Risk Ratio (3yr)	0.93	1.00

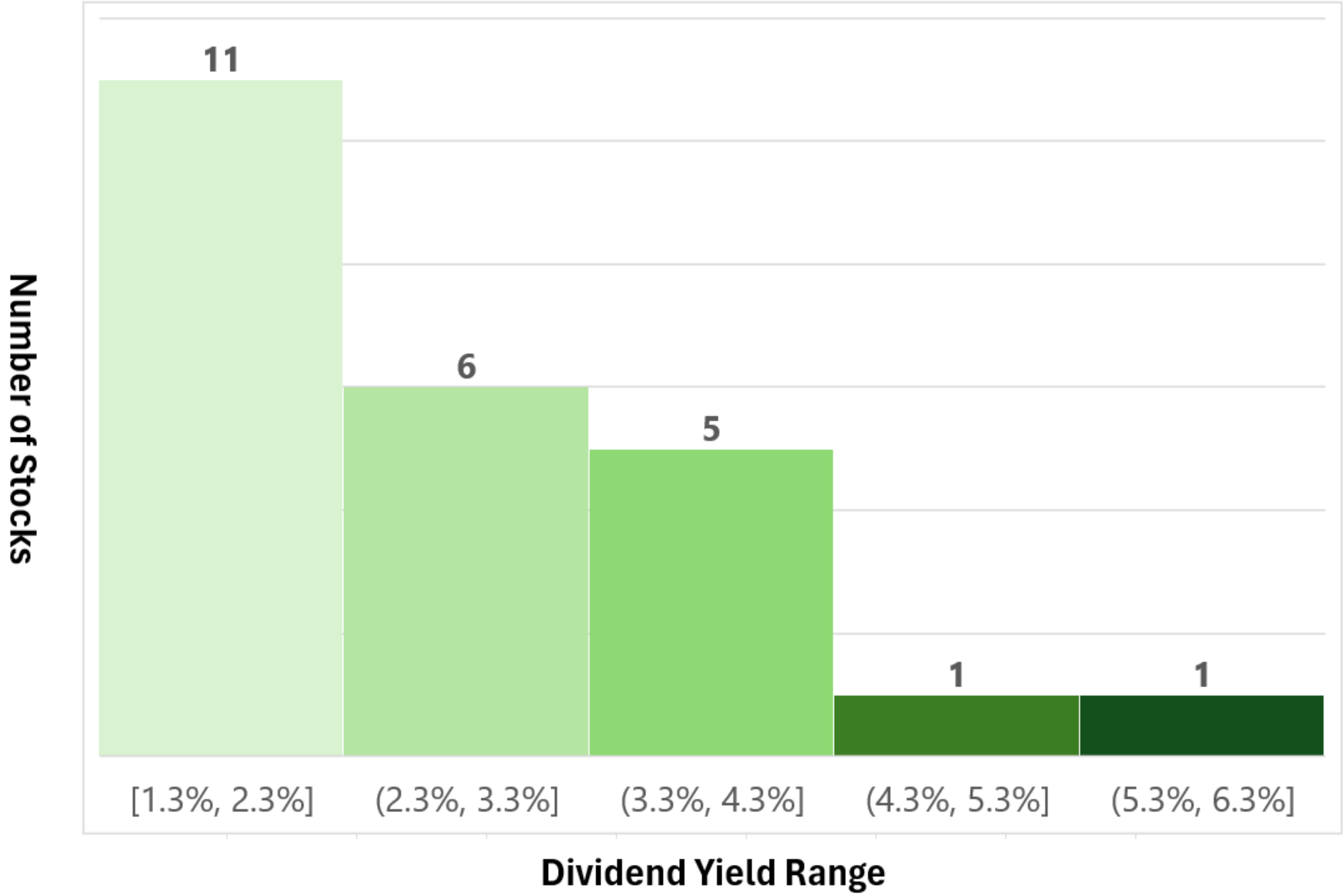
Source: AAII. Data as of 12/31/2024. The DI model portfolio switched to paper trading in October 2024.

2024 Top Performers

- Allstate Corp. (ALL) — Up 43.7%
- BlackRock Inc. (BLK) — Up 29.2%
- Cummins Inc. (CMI) — Up 26.4%
- Tractor Supply Co. (TSCO) — Up 24.9%

*Allstate and Cummins were removed in November and April, respectively, because of high valuations. Returns are for the time the stocks were held in the portfolio.

Yields of the Stocks in the DI Portfolio



Source: AAII. Data as of 12/31/2024.

2024 Transactions

- The DI model portfolio holds 24 stocks
- Eight stocks were removed
- Eight stocks replaced them
- Reinvestments were made in three stocks
- As of year-end, DI holdings EOG Resources Inc. (EOG), Nike Inc. (NKE) and Toro Co. (TTC) were on the DI Ideas list

My Thoughts on the Outlook for 2025

What We Know

- Stocks tend to gain during the first year of a presidential term
- S&P 500 earnings are projected to rise 14.0% in 2025, according to LSEG Data & Analytics
- The U.S. economy continues to grow
- Inflation has moderated

Back-to-Back 20% Gains Are Uncommon

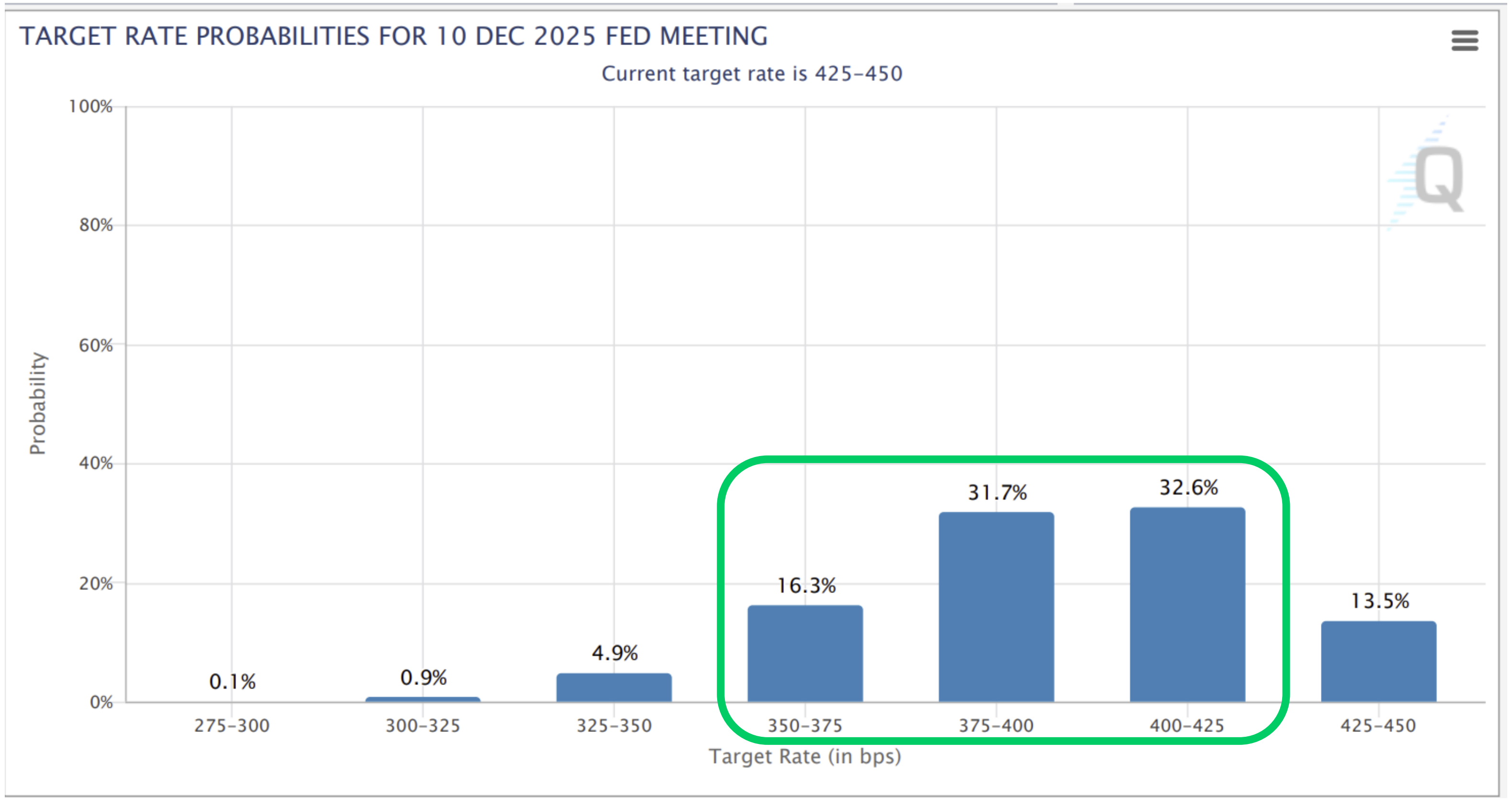
1927	37.5%
1928	43.6%
1929	-8.4%
1935	47.7%
1936	33.9%
1937	-35.0%
1942	20.3%
1943	25.9%
1944	19.8%

1950	31.7%
1951	24.0%
1952	18.4%
1954	52.6%
1955	31.6%
1956	6.6%
1975	37.2%
1976	23.9%
1977	-7.2%

1982	21.5%
1983	22.6%
1984	6.3%
1995	37.6%
1996	23.0%
1997	33.4%
1998	28.6%
1999	21.0%
2000	-9.1%
2023	26.3%
2024	25.0%
2025	??

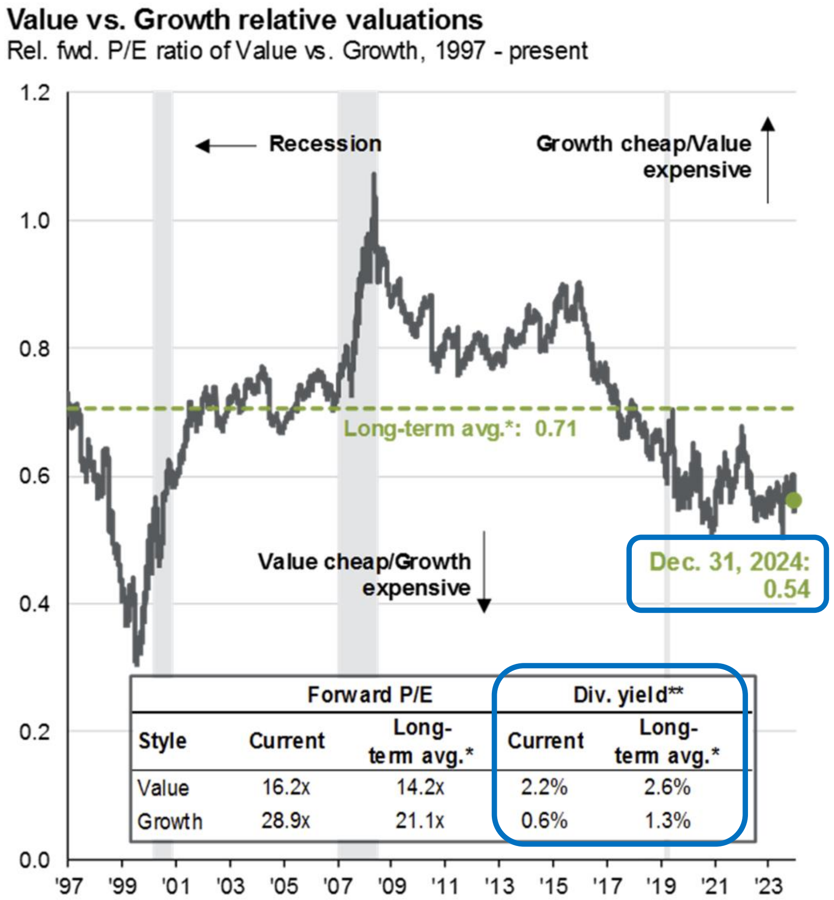
Source: Morningstar Direct/SBBI; 2024 returns from S&P Dow Jones Indices for S&P 500.

Outlook for Interest Rates



Source: CME FedWatch Tool. Data as of 1/3/2025.

A Comeback Year for Value Strategies?



	Forward P/E		Div. yield**	
Style	Current	Long-term avg.*	Current	Long-term avg.*
Value	16.2x	14.2x	2.2%	2.6%
Growth	28.9x	21.1x	0.6%	1.3%

Source: J.P. Morgan Guide to the Markets. Data as of 12/31/2024.

American Association of Individual Investors

Political Uncertainties

- New tax legislation—how many individual tax breaks will be maintained?
- Will there be a trade war?
- Canada, Germany, France and South Korea are among countries with political instability

Potential DI Portfolio Change

BLACKROCK, INC. (BLK)

Price: $1,016.78 ▼ ($0.6200) | (0.06%)

Price as of: January 03, 2025 12:15 PM | EST Volume: 175,685

POWERED BY STOCK INVESTOR PRO

DIVIDEND PILLARS

	2025-01-02	2024-12-31	2024-09-30	2024-06-28
Dividend Valuation	D	D	D	C
Dividend Growth	B	B	B	B
Dividend Strength	B	B	B	B

Source: DI.AAII.com. Data as of 1/3/2025.

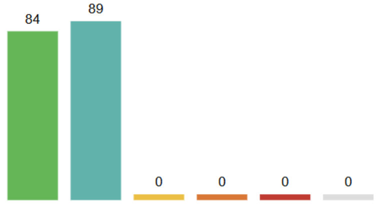
Key Features of
AAII Dividend Investing

24-Stock DI Model Portfolio

Company(Ticker)	Dividend Yield			Div Avg High (5 Yr)	Div Avg Low (5 Yr)	Div Growth Rate (5 Yr)	First Year Div Paid	Number of Years of Div Increases
	Current	1 Yr Ago	5 Yr Avg					
Abbott Laboratories (ABT)	2.1%	1.8%	1.6%	2.0%	1.4%	12.4%	1929	52
American States Water Company (AWR)	2.3%	2.2%	1.7%	2.0%	1.4%	9.3%	1931	13
Amgen Inc. (AMGN)	3.6%	2.7%	2.8%	3.4%	2.4%	10.0%	2011	12
BlackRock, Inc. (BLK)	2.0%	2.6%	2.3%	3.1%	1.9%	10.7%	2003	15
Cincinnati Financial Corporation (CINF)	2.3%	2.7%	2.4%	3.3%	1.9%	7.2%	1961	63
CME Group Inc. (CME)	4.5%	2.1%	1.8%	2.2%	1.5%	9.5%	2003	11
Eastman Chemical Company (EMN)	3.7%	3.8%	3.2%	4.5%	2.5%	6.7%	1994	14
EOG Resources, Inc. (EOG)	3.1%	2.9%	2.2%	3.1%	1.7%	33.1%	1998	26

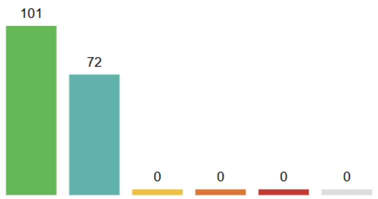
Source: DI.AAII.com. Data as of 1/3/2025.

Dividend Screener



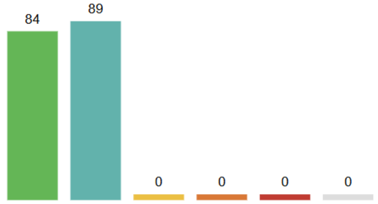
Dividend Valuation ?

A B C D F NA



Dividend Growth ?

A B C D F NA



Dividend Strength ?

A B C D F NA

Reset | Load Portfolio | Load Screens | Select a sector | Select an industry

Showing 173 dividend-paying companies. Move the slider at the top under each investment factor to adjust this list.

Ticker	Company Name	Valuation		Growth		Strength	
		Score	Grade	Score	Grade	Score	Grade
AOS	A. O. Smith Corporation	21	B	82	A	88	A
ABT	Abbott Laboratories	30	B	95	A	77	B
ACN	Accenture plc	37	B	94	A	79	B

Source: DI.AAII.com. Data as of 1/3/2025.

DI Ideas List

Company	Ticker	Price	Dividend Yield					Div Growth Rate (5 Yr)
			Current	1 Yr Ago	5 Yr Avg	5 Yr High Avg	5 Yr Low Avg	
CNA Financial Corporation	CNA	$48.17	7.8%	3.8%	3.6%	4.4%	3.1%	5.3%
Boise Cascade Company	BCC	$117.82	5.0%	0.5%	0.7%	1.0%	0.5%	18.5%
EOG Resources, Inc.	EOG	$125.91	3.1%	2.9%	2.2%	3.1%	1.7%	33.1%
Otter Tail Corporation	OTTR	$73.16	2.6%	1.9%	2.5%	3.3%	2.0%	5.5%
Air Products and Chemicals, Inc.	APD	$284.66	2.5%	0.0%	2.3%	2.9%	1.9%	9.0%
Brown-Forman Corporation	BF.B	$36.68	2.5%	1.5%	1.2%	1.5%	1.0%	5.5%
W. R. Berkley Corporation	WRB	$57.88	2.4%	0.5%	0.6%	0.7%	0.5%	10.6%
Amdocs Limited	DOX	$84.20	2.3%	1.9%	2.0%	2.4%	1.7%	11.1%
NIKE, Inc.	NKE	$73.23	2.2%	1.4%	1.1%	1.5%	0.9%	11.0%
QUALCOMM Incorporated	QCOM	$156.98	2.2%	2.1%	2.0%	3.0%	1.6%	5.9%
Chesapeake Utilities Corporation	CPK	$120.74	2.1%	2.2%	1.7%	2.1%	1.4%	9.9%

Source: DI.AAII.com. Data as of 1/3/2025.

Dividend Grader

AAII Dividend Grader

Enter company or ticker | Evaluate

DI Snapshot | DI Scorecard

ABBOTT LABORATORIES (ABT)

Price: $113.77 ▲ $0.3300 | 0.29%

Price as of: January 03, 2025 12:30 PM | EST Volume: 1,480,061

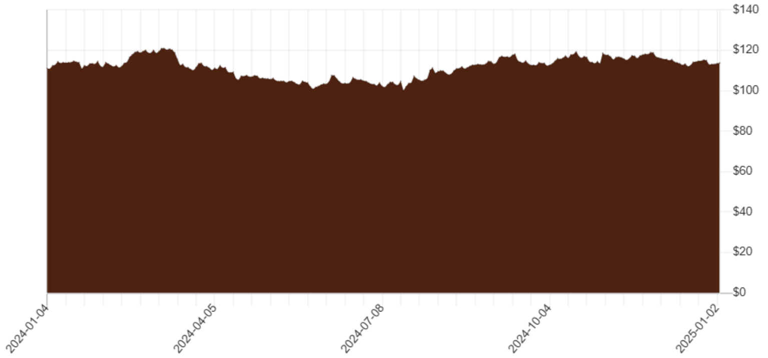
POWERED BY STOCK INVESTOR PRO

Health Care: Health Care Equipment & Supplies SECTOR: INDUSTRY	**$196,757 (Mil)** MARKET CAP	**2.1%** DIVIDEND YIELD

DIVIDEND PILLARS

	2025-01-02	2024-12-31	2024-09-30	2024-06-28
Dividend Valuation	B	B	C	B
Dividend Growth	A	A	A	A
Dividend Strength	B	B	B	B

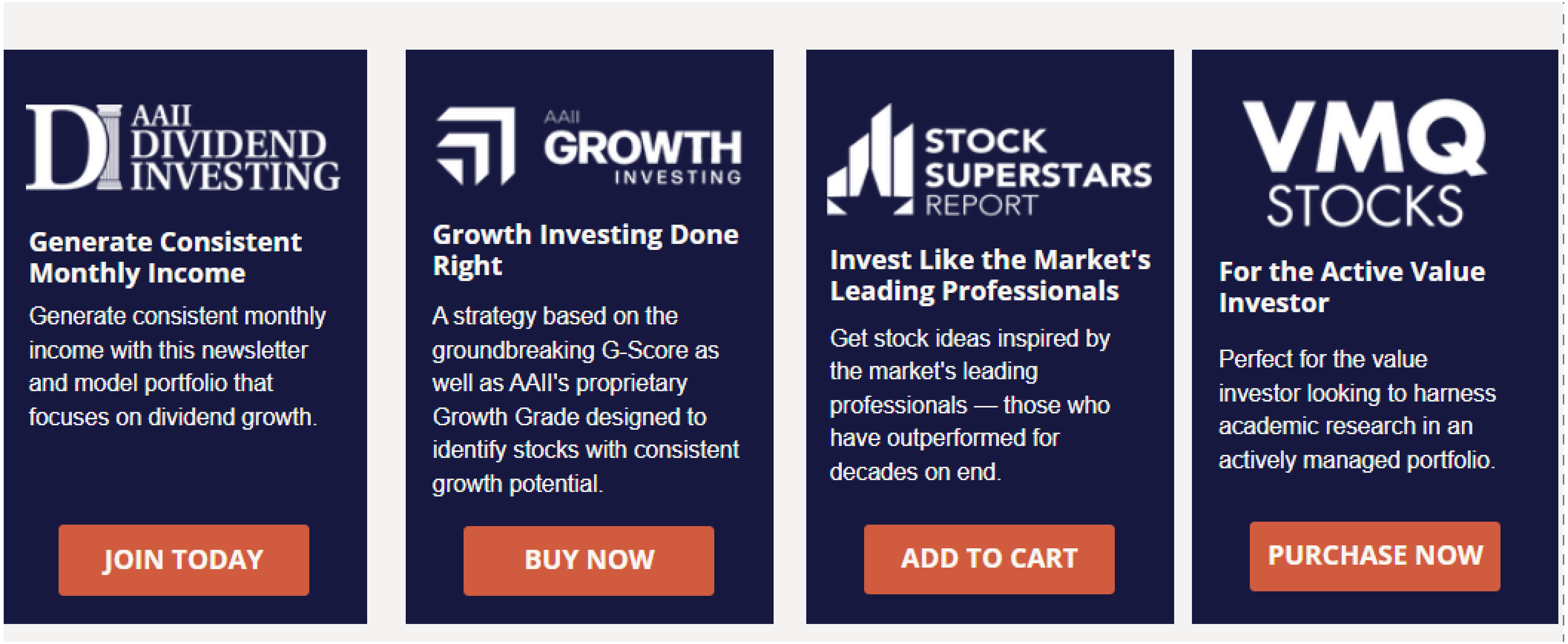
Abbott Laboratories (ABT) $113.77 ▲ $0.3300 | 0.29%



Source: DI.AAII.com. Data as of 1/3/2025.

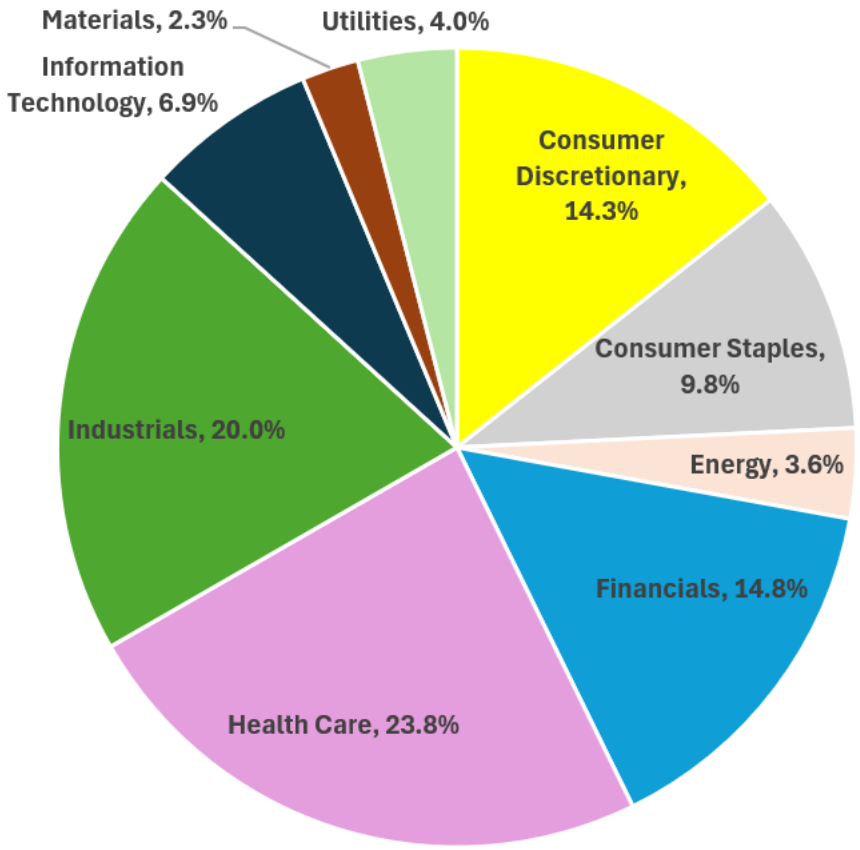
Questions?

Visit www.aaii.com/webinar-week for special pricing. Use the promo code "WEBINAR50OFF" at checkout. Deal expires January 10 at 11:59 p.m. Central Time.



Addendum

DI Model Portfolio Allocation



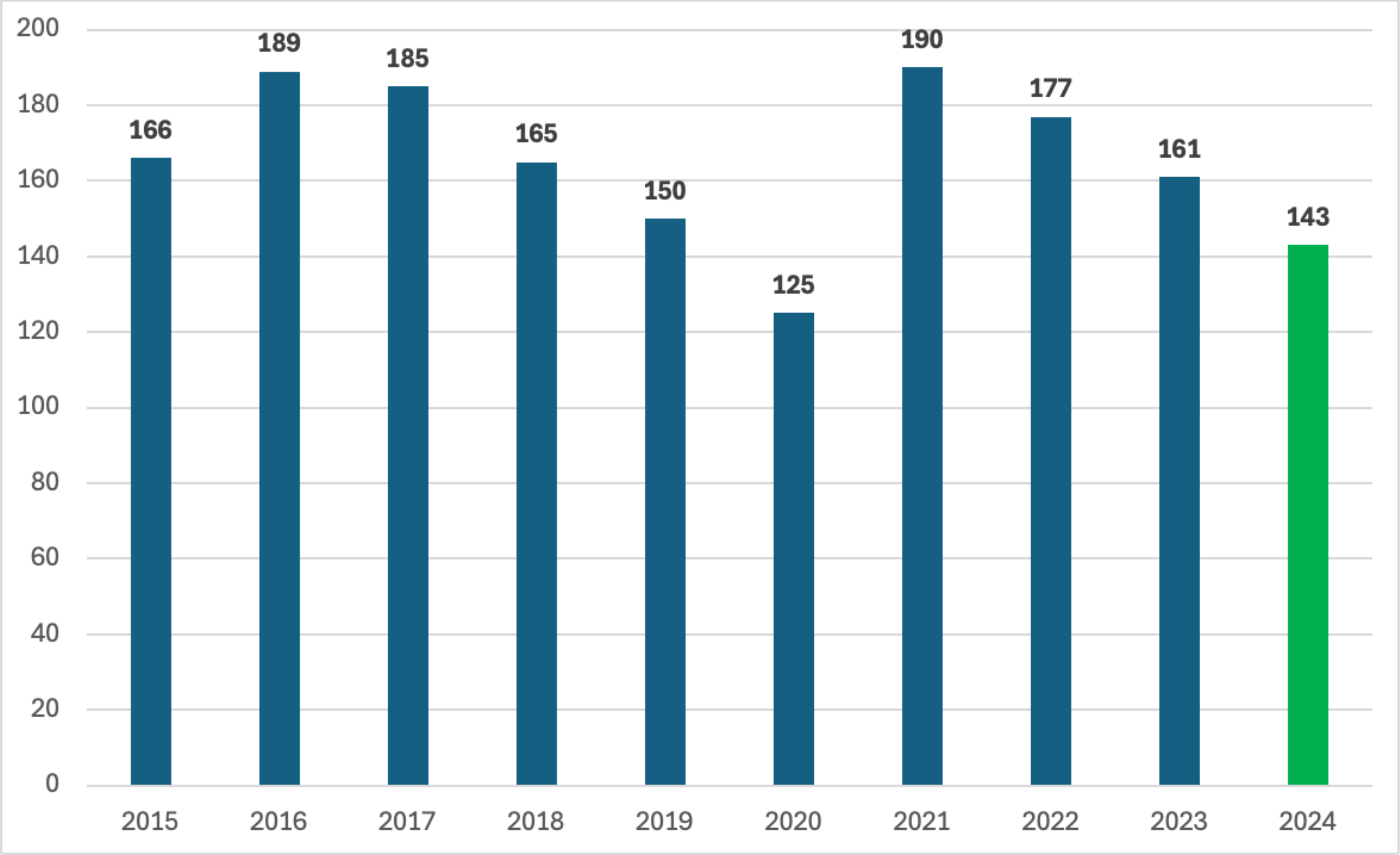
Source: AAII. Data as of 12/31/2024. The DI model portfolio switched to paper trading in October 2024.

Portfolio Holdings on the DI Ideas List

Company	Ticker	Price	Dividend Yield					Div Growth Rate (5 Yr)
			Current	1 Yr Ago	5 Yr Avg	5 Yr High Avg	5 Yr Low Avg	
EOG Resources, Inc.	EOG	$122.58	3.2%	2.7%	2.4%	3.6%	1.8%	33.1%
NIKE, Inc.	NKE	$75.67	2.1%	1.3%	1.1%	1.5%	0.8%	11.0%
The Toro Company	TTC	$80.10	1.9%	1.4%	1.4%	1.8%	1.1%	9.9%

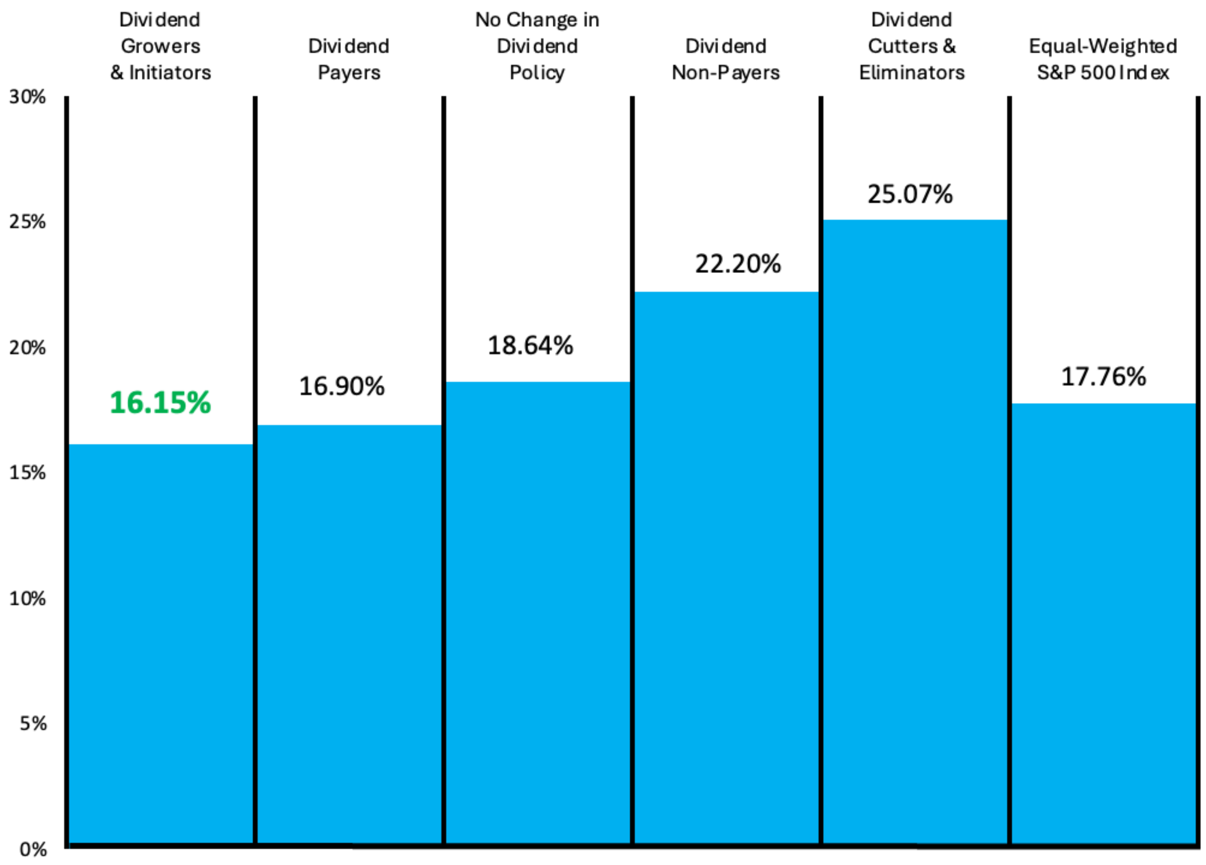
Source: DI.AAII.com. Data as of 12/31/2024.

Dividend Hikes by S&P 500 Companies



Source: S&P Dow Jones Indices. Data as of 12/30/2024.

Dividend Growers Are Less Volatile



Standard deviation of returns.

Source: Ned Davis Research and Hartford Funds, January 2024.

Switch to Paper Trading

- All AAII model portfolios, including DI, switched to paper trading on 10/1/2024.
- One share of each stock is held to track addition and deletion prices.
- We used the real-money tracking portfolio balances as of 9/30/2024 as the basis for ongoing paper-traded balances.
- Dividend income is recorded and held as cash based on theoretical share count.

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