Beyond High Yield: Smarter Dividend Strategies and 2025 Portfolio Review

AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

Charles Rotblut, CFA

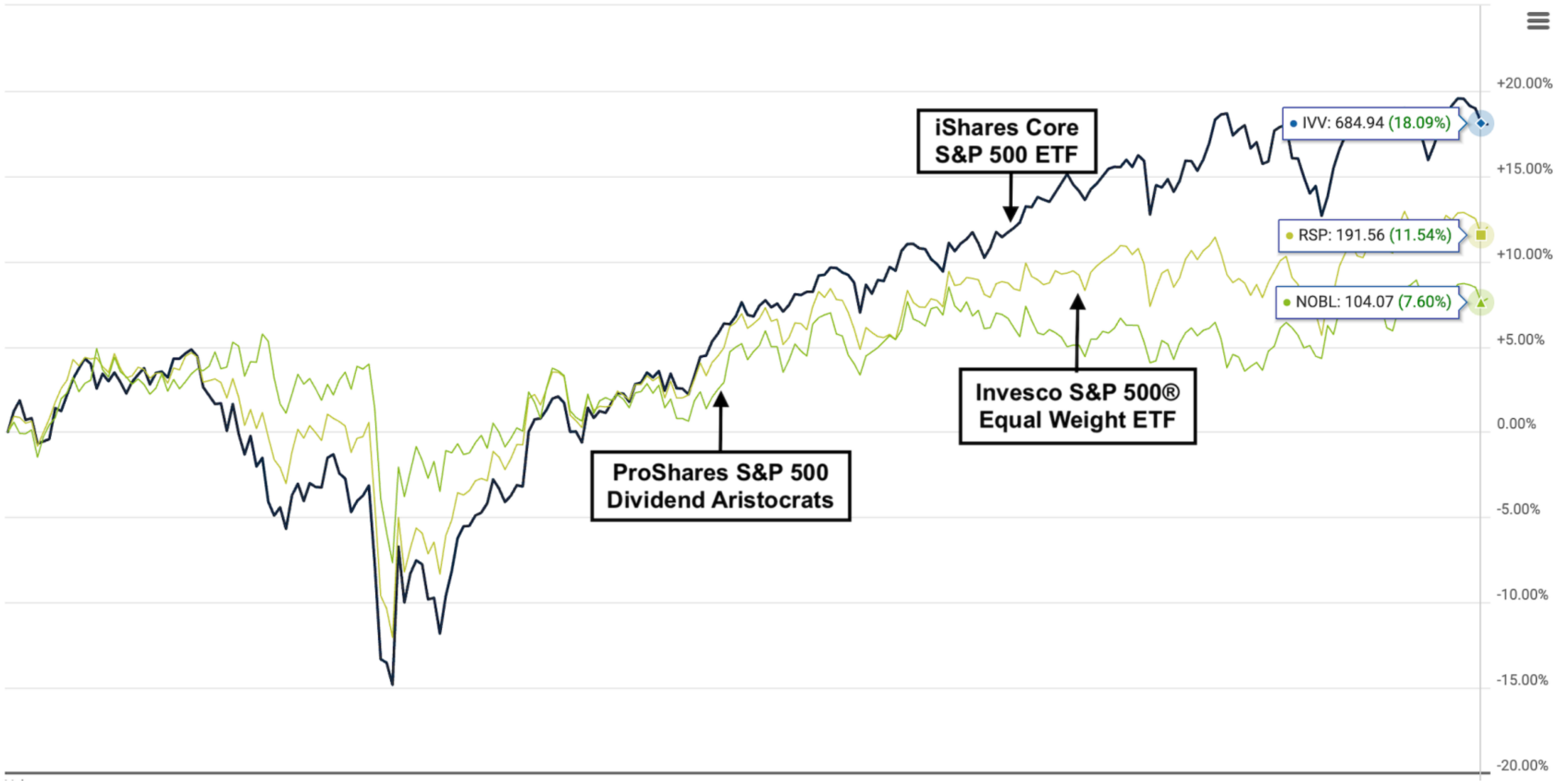
Vice President &
AAII Journal and Dividend Investing Editor

This Afternoon’s Agenda

- 2025 Market Recap
- The Dividend Investing Strategy and New Portfolio Addition
- 2025 Dividend Investing Review
- 2026 Outlook
- Key Features of Dividend Investing

2025 Market Recap

S&P 500 vs. S&P 500 Stocks

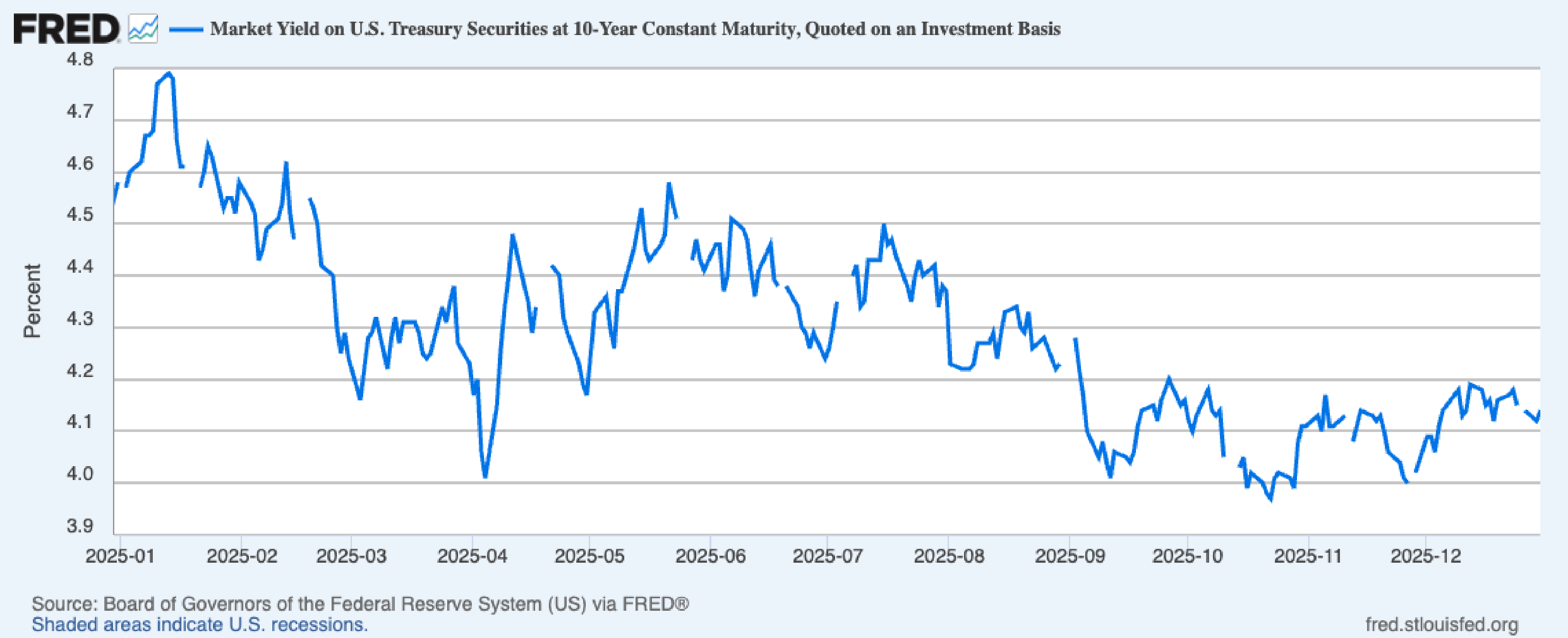


Source: QuoteMedia and AAII.com. Data as of 1/2/2026.

The S&P 500 Is Very Concentrated

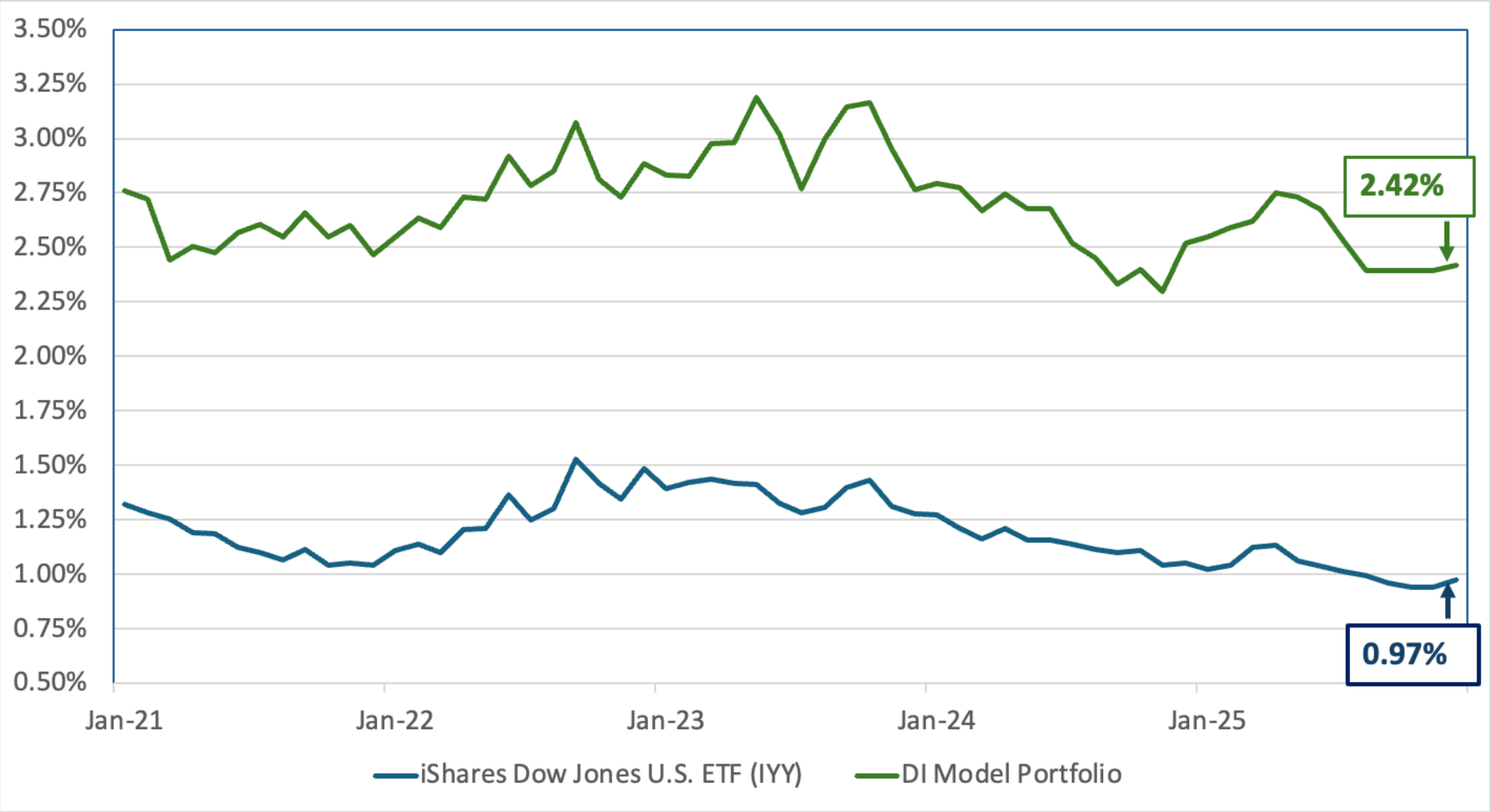
Source: J.P. Morgan Asset Management. Data as of 12/31/2025.

10-Year Treasury Yields Declined



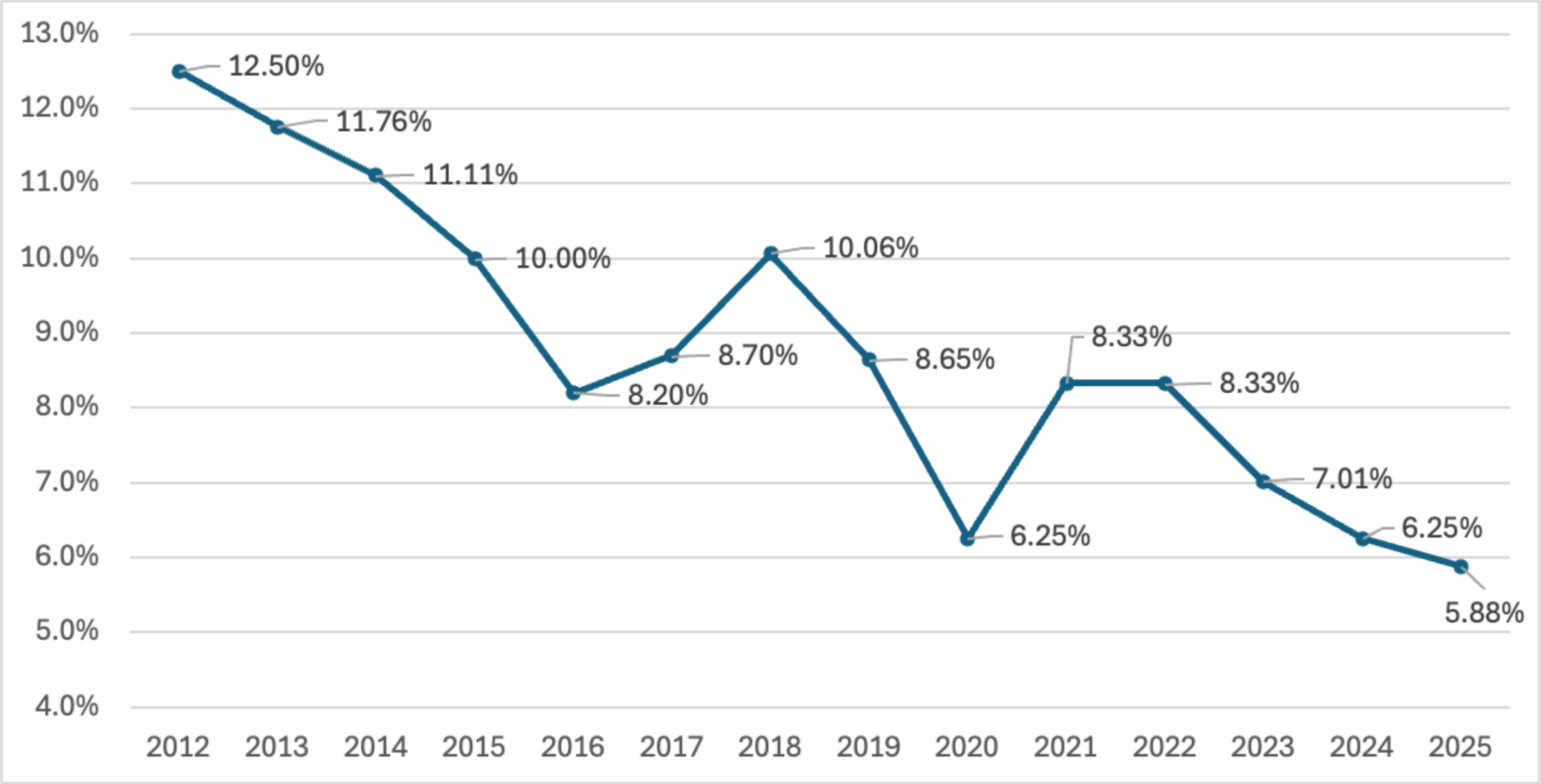
Source: St. Louis Federal Reserve's FRED Economic Data. Data as of 12/31/2025.

The Stock Market's Yield Is Below 1.0%



Source: QuoteMedia, BlackRock and AAII. Data as of 12/31/2025.

Slowing Dividend Growth Rates for S&P 500 Companies



Source: S&P Dow Jones Indices. Data as of 12/31/2025.

The Dividend Investing (DI) Strategy

and the Addition of
Merck & Co. Inc. (MRK)

Dividend Grades for Merck & Co.

	2025-12-31	2025-09-30	2025-06-30	2025-03-31
Dividend Valuation	B	A	A	B
Dividend Growth	B	B	A	A
Dividend Strength	B	B	B	B

An addition alert for Merck & Co. was issued on 1/6/2026.
Source: AAII Dividend Investing. Data as of 12/31/2025.

Merck & Co.'s Dividend Valuation Components

RELATIVE DIVIDEND YIELD GRADE → C (SCORE: 44, AVERAGE)

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: 17, DEEP VALUE)

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

Source: AAII Dividend Investing. Data as of 12/31/2025.

Relative Yield

- Compares the current dividend 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 is a candidate for deletion if its current yield is below the stock's five-year low yield

Merck & Co.'s Dividend Growth Components

CASH FROM OPERATIONS GRADE → D (SCORE: 38, WEAK)

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: 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 GROWTH 12-MONTH GRADE → C (SCORE: 55, AVERAGE)

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 → B (SCORE: 65, STRONG)

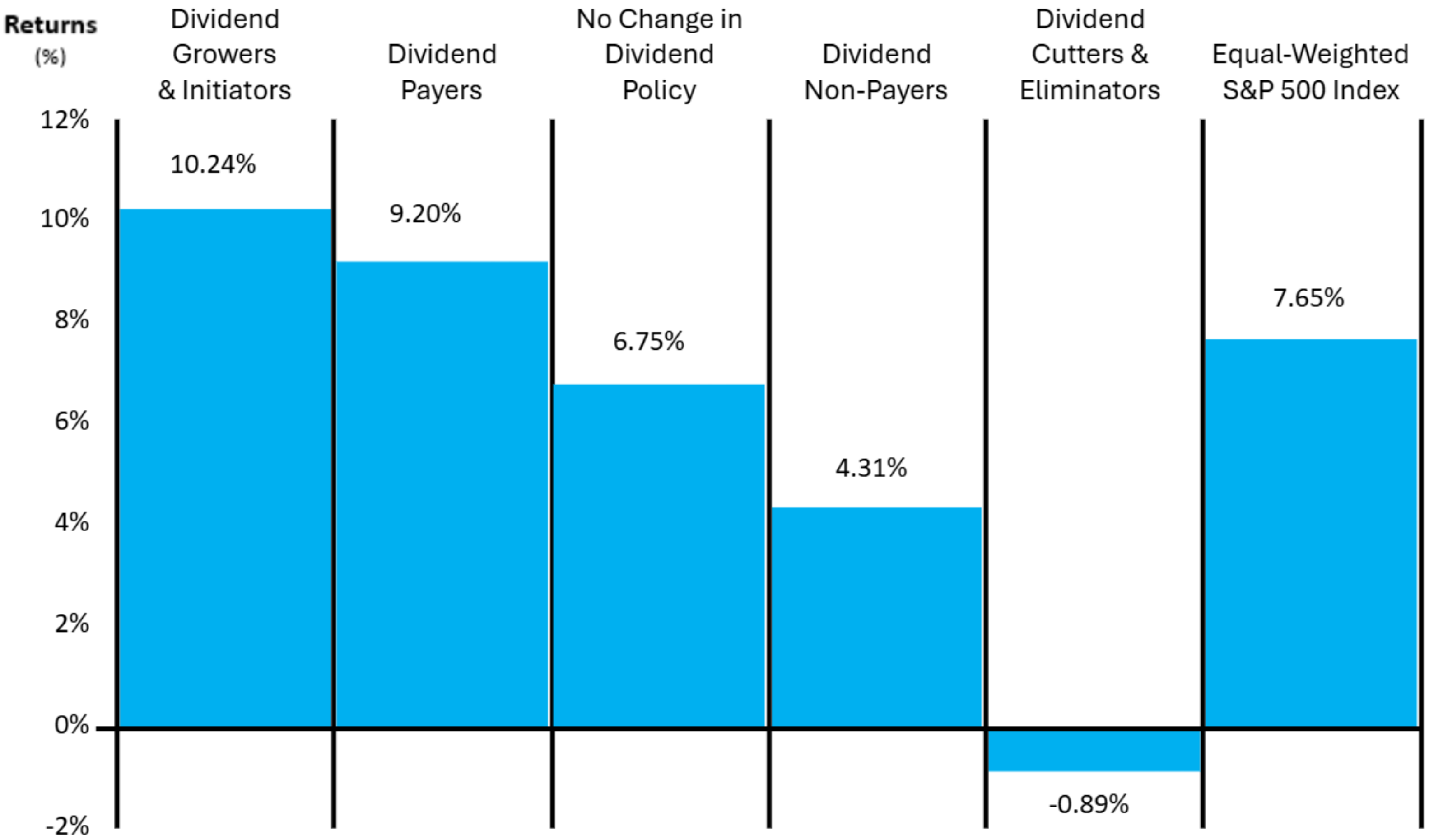
A	**B**	C	D	F
81-100 Very Strong	**61-80 Strong**	41-60 Average	21-40 Weak	0-20 Very Weak

Source: AAII Dividend Investing. Data as of 12/31/2025.

Growth Characteristics

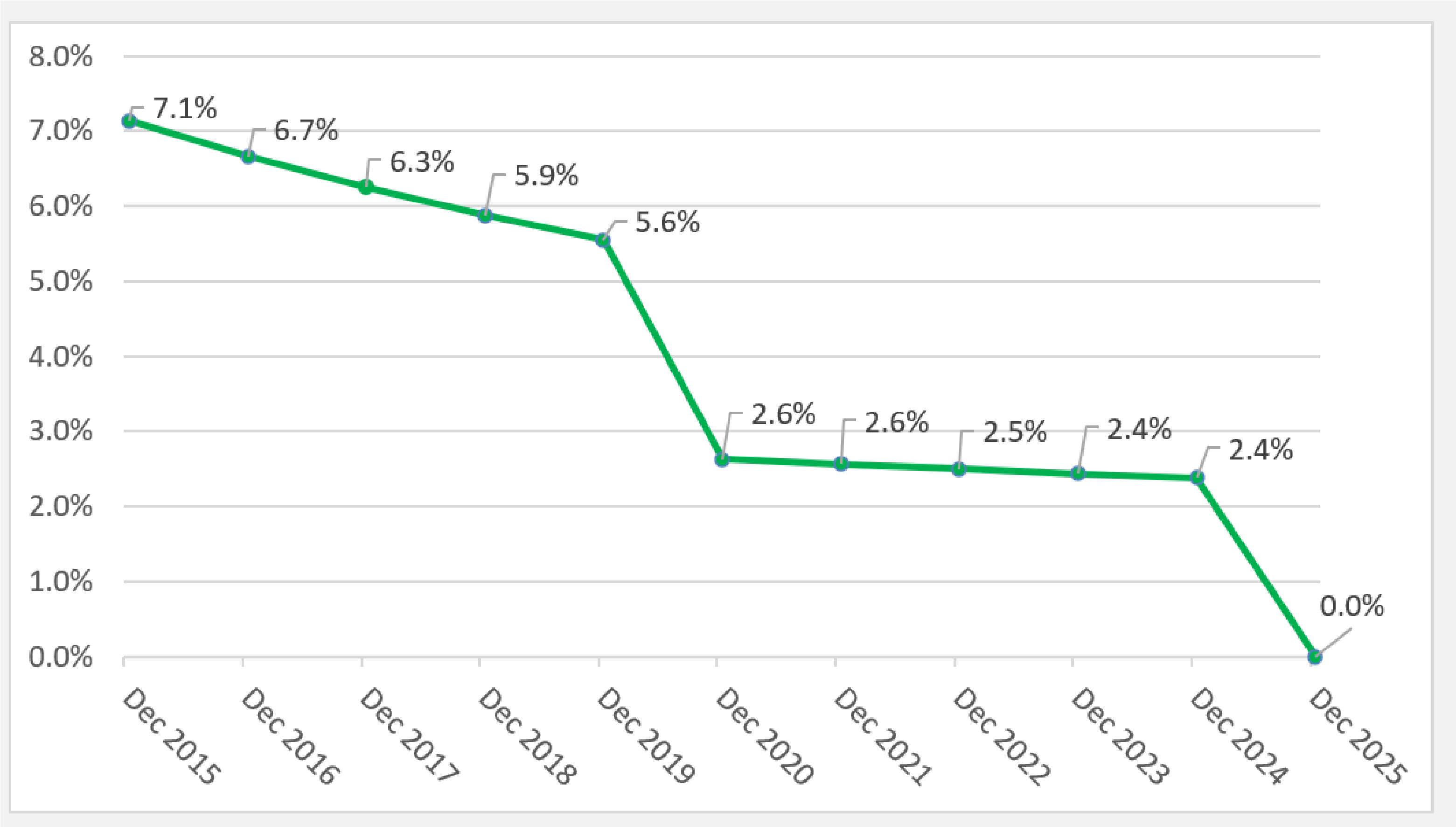
- Cash flow from operations is the amount of cash realized from normal business operations
- Return on assets measures how effectively a company realizes profits from its assets
- Dividend growth tells us how intent a company has been about growing its dividend
- We want dividend growth to be above the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

Dividend Growth = Higher Returns



Source: Ned Davis Research and Hartford Funds. Data as of 12/31/2024.

Pfizer Was Removed for Lack of Growth



Source: Pfizer Inc. and AAII Dividend Investing. Data as of 12/12/2025.

Merck & Co.’s Dividend Strength Components

EARNINGS PAYOUT RATIO GRADE → D (SCORE: 31, WEAK)

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 → C (SCORE: 47, AVERAGE)

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: 95, 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)

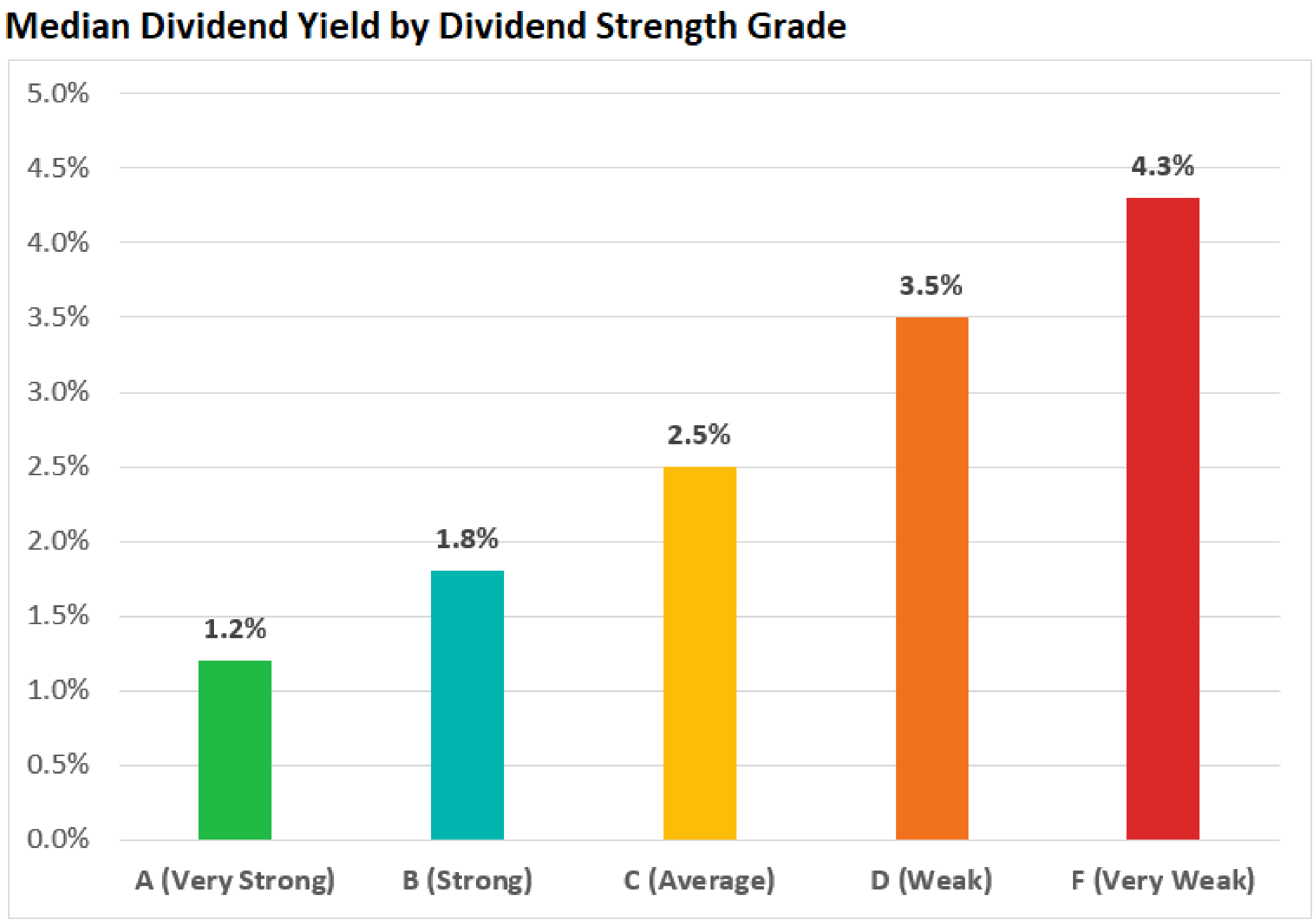
A	B	C	D	F
81-100 Very Strong	61-80 Strong	41-60 Average	21-40 Weak	0-20 Very Weak

Source: AAII Dividend Investing. Data as of 12/31/2025.

Determining Dividend Strength

- The lower the payout ratio, the greater the company’s ability 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 the DI strategy avoid companies that have cut their dividend within the last seven years

Weak Strength = Higher Yields



Exchange-listed stocks, excluding REITs and stocks without a trailing 12-month and indicated dividend.
Source: AAII Dividend Investing, AAII Stock Investor Pro *and S&P Global Market Intelligence. Data as of 8/4/2025.*

Other Characteristics the DI Strategy Seeks

- 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

2025 Dividend Investing Review

2025 DI Performance

Performance

	Dividend Investing Portfolio	Dow Jones U.S. Index (IYY)
Dividend Yield	**2.4%**	**1.0%**

	Dividend Investing Portfolio*			Dow Jones U.S. Index (IYY)		
	Total Return	Income Return	Capital Gain/(Loss)	**Total Return**	Income Return	Capital Gain/(Loss)
From Inception	**281.8%**	128.1%	153.7%	**550.0%**	131.1%	418.9%
Week (Ending 12/31)	**(1.0%)**	0.0%	(1.0%)	**(1.2%)**	0.0%	(1.2%)
Month (December)	**(0.9%)**	0.3%	(1.2%)	**0.0%**	0.2%	(0.2%)
2025 YTD	**4.2%**	2.6%	1.6%	**17.1%**	1.2%	15.9%
2024	**6.3%**	2.7%	**3.6%**	**24.2%**	1.4%	22.8%
2023	**4.6%**	3.0%	**1.6%**	**26.5%**	1.8%	24.7%
2022	**(4.5%)**	2.6%	**(7.1%)**	**(19.6%)**	1.1%	(20.7%)
2021	**28.9%**	3.2%	**25.7%**	**26.4%**	1.5%	24.9%
2020	**3.4%**	3.4%	**0.0%**	**20.1%**	1.9%	18.2%

The DI model portfolio is paper traded.

Source: AAII Dividend Investing. Data as of 12/31/2025.

2025 Top Performers

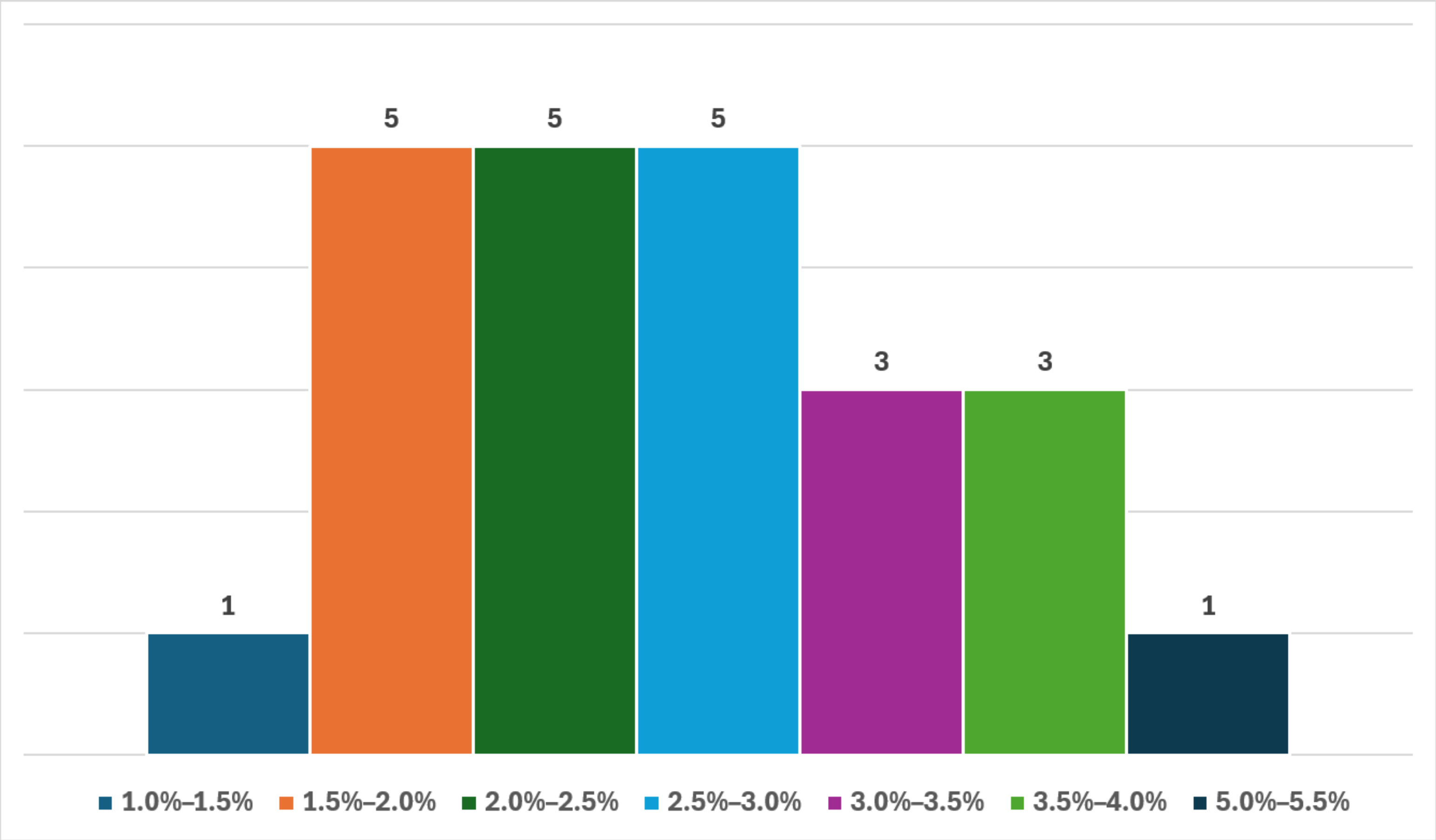
- Huntington Ingalls Industries Inc. (HII) — up 65.1%*
- Oshkosh Corp. (OSK) — up 34.5%
- Amgen Inc. (AMGN) — up 29.6%
- Medtronic PLC (MDT) — up 24.2%
- CME Group Inc. (CME) — up 22.8%

**Huntington Ingalls Industries was removed from the DI model portfolio in November.*

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

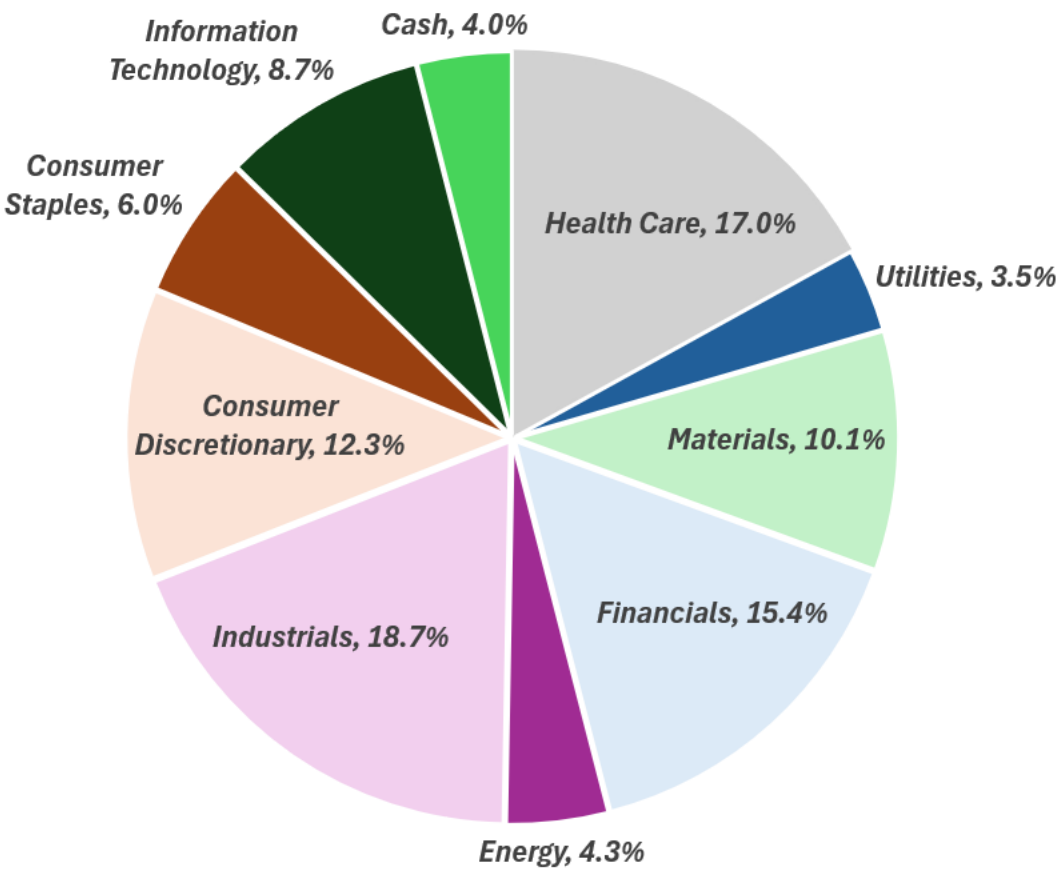
Dividend and value strategies will underperform during periods when strong growth is favored.

DI Yield by Holding



Source: AAII.com. Data as of 12/31/2025.

DI Model Portfolio Allocation



Source: AAII.com. Data as of 12/31/2025.

2025 Transactions

- The DI model portfolio holds 24 stocks
- Six stocks were removed
- Five stocks replaced them
- A reinvestment was made in EOG Resources Inc. (EOG)

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	
Abbott Laboratories	ABT	$124.19	2.0%	1.7%	1.7%	1.9%	1.5%	11.2%
EOG Resources, Inc.	EOG	$107.27	3.8%	2.9%	2.4%	3.0%	2.0%	27.9%
Jack Henry & Associates, Inc.	JKHY	$178.35	1.3%	1.2%	1.2%	1.4%	1.1%	6.4%
Snap-on Incorporated	SNA	$350.95	2.8%	2.1%	2.2%	2.7%	1.9%	14.5%

Source: AAII Dividend Investing, https://di.aaii.com/ideas. Data as of 1/2/2026.

Thoughts on 2026

Analysts Expect Earnings Growth

EXHIBIT 8C. S&P 500: CY 2026 EARNINGS GROWTH

Sector	Today	1 Jan	1 Oct
Consumer Discretionary	11.4%	11.4%	13.0%
Consumer Staples	7.3%	7.3%	8.1%
Energy	7.8%	7.8%	16.3%
Financials	9.5%	9.5%	11.5%
Health Care	9.2%	9.2%	9.8%
Industrials	15.6%	15.6%	17.2%
Materials	20.9%	20.9%	17.3%
Real Estate	7.7%	7.7%	9.7%
Information Technology	30.8%	30.8%	22.1%
Communication Services	10.5%	10.5%	7.9%
Utilities	9.4%	9.4%	9.1%
S&P 500	*15.6%*	*15.6%*	*14.1%*

Source: LSEG I/B/E/S. Data as of 1/2/2026.

Large-Cap Streaks of Double-Digit Gains

1926	11.6%
1927	37.5%
1928	43.6%
1929	(8.4%)

1942	20.3%
1943	25.9%
1944	19.8%
1945	36.4%
1946	(8.1%)

1949	18.8%
1950	31.7%
1951	24.0%
1952	18.4%
1953	(1.0%)

1963	22.8%
1964	16.5%
1965	12.5%
1966	(10.1%)

1995	37.6%
1996	23.0%
1997	33.4%
1998	28.6%
1999	21.0%
2000	(9.1%)

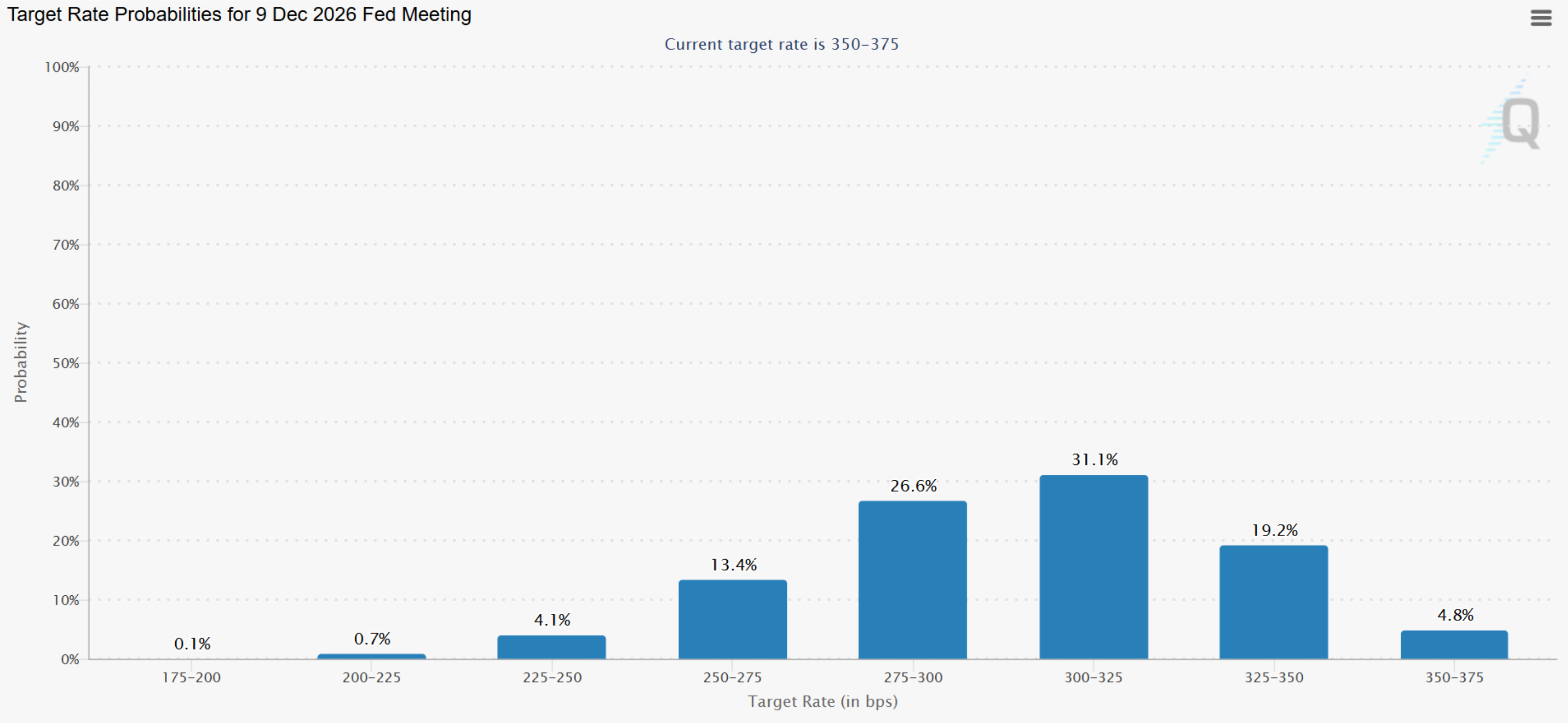
2012	16.0%
2013	32.4%
2014	13.7%
2015	1.4%

2019	31.5%
2020	18.4%
2021	28.7%
2022	(18.1%)

2023	26.3%
2024	25.0%
2025	**17.9%**
2026	??

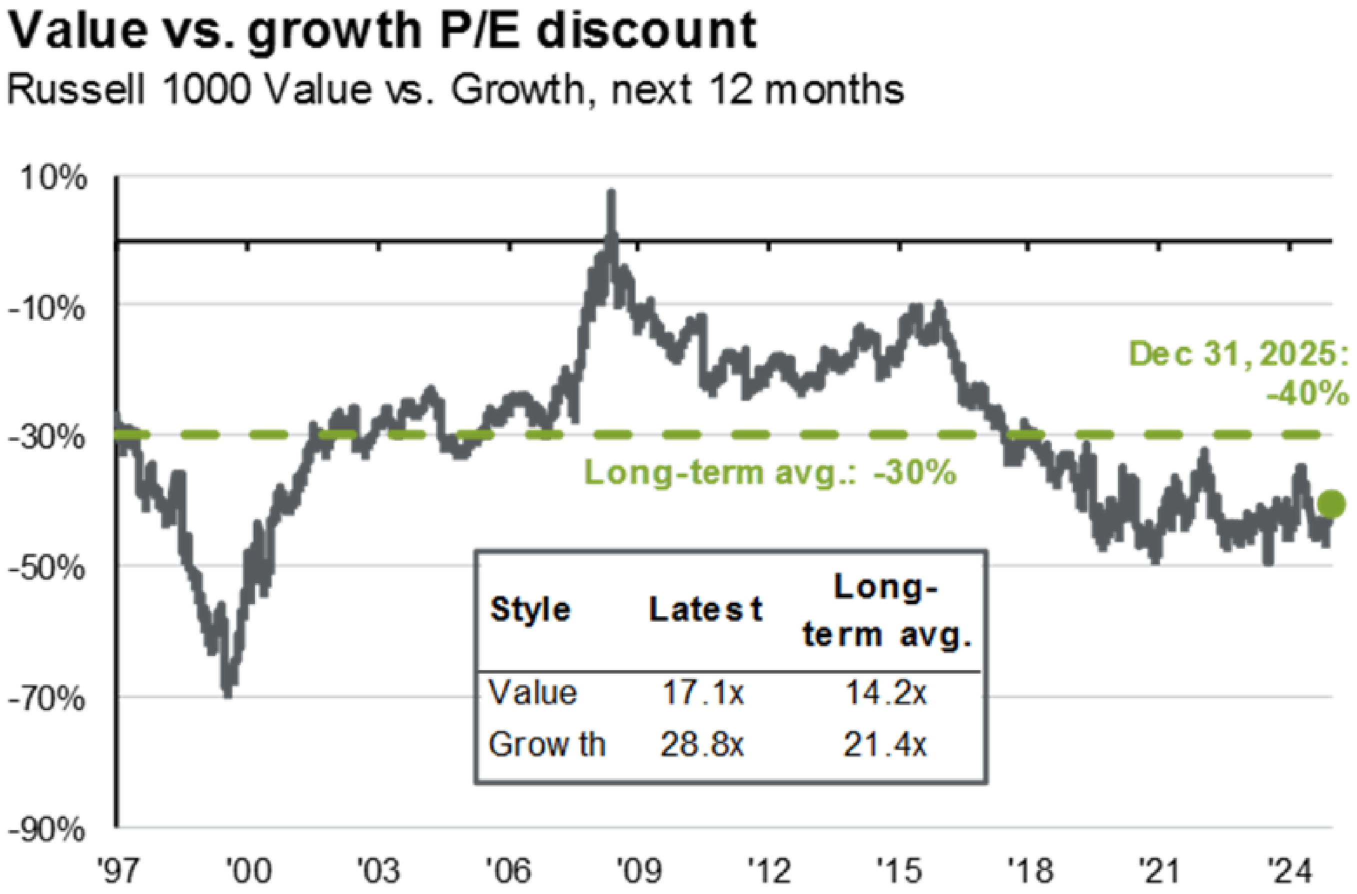
Source: Morningstar Direct/SBBI; S&P 500 returns for 2024 and 2025 from S&P Dow Jones Indices.

Outlook for Interest Rates



Source: CME FedWatch Tool. Data as of 1/5/2026.

Will Value Strategies Make a Comeback?



Source: J.P. Morgan Guide to the Markets. Data as of 12/31/2025.

Market Considerations for 2026

- We don’t have a great read on the economy
- Potential for more dissentions from FOMC members regarding interest rate decisions
- The S&P 500’s high level of concentration is a concern
- Too early determine the impact of Venezuela

Key Features of
AAII Dividend Investing

24-Stock DI Model Portfolio

Company(Ticker)	Portfolio Alert		Current Price	Total Return Since Purchase	Div Yield	Market Cap (Mil)	Dividend Investing Grades			Sector: Industry	Notes
	Date	Price					Valuation	Growth	Strength		
Abbott Laboratories (ABT)	04/06/23	$104.93	$124.19	10.2%	2.0%	$215,950	C	A	A	Health Care: Health Care Equipment & Supplies	**(12/12/25) Abbott Laboratories (ABT)**
American States Water Company (AWR)	09/06/24	$80.98	$72.26	-9.6%	2.8%	$2,797	B	A	A ▲	Utilities: Water Utilities	News Archive for AWR
Amgen Inc. (AMGN)	10/27/17	$175.28	$327.64	91.5%	3.1%	$176,427	C	A	D	Health Care: Biotechnology	News Archive for AMGN
Avery Dennison Corporation (AVY)	05/23/25	$177.55	$182.44	6.6%	2.1%	$14,101	A	B	C	Materials: Containers & Packaging	News Archive for AVY
Cincinnati Financial Corporation (CINF)	05/03/24	$116.94	$161.49	43.3%	2.2%	$25,195	C ▲	A	A	Financials: Insurance	News Archive for CINF
CME Group Inc. (CME)	08/16/24	$207.88	$269.68	45.8%	4.0%	$97,245	A	A	D	Financials: Capital Markets	News Archive for CME

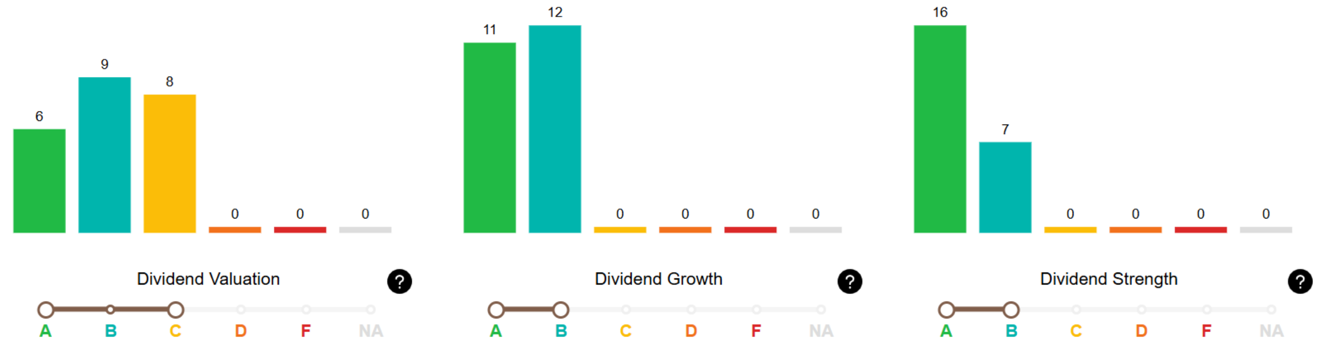
Source: AAII Dividend Investing, https://di.aaii.com/portfolio. Data as of 1/3/2026.

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: AAII Dividend Investing, https://di.aaii.com/ideas. Data as of 1/3/26.

Dividend Screener



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

DI Ideas Showing 23 dividend-paying companies. Move the slider at the top under each investment factor to adjust this list.

Ticker	Company Name	Valuation		Growth		Strength		Dividend Yield
		Score	Grade	Score	Grade	Score	Grade	
RLI	RLI Corp.	6	A	71	B	89	A	4.2
EOG	EOG Resources, Inc.	7	A	84	A	93	A	3.8
MRK	Merck & Co., Inc.	35	B	71	B	75	B	3.2

Source: AAII Dividend Investing, https://di.aaii.com/grader/screen.cfm. Data as of 1/3/2026.

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

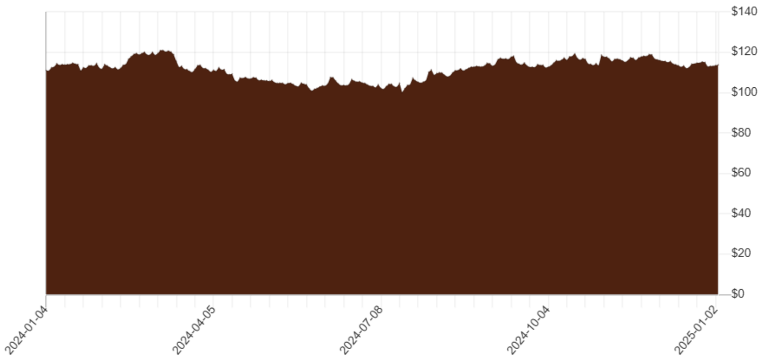
POWERED BY STOCK INVESTOR PRO

Health Care: Health Care Equipment & Supplies	**$196,757 (Mil)**	**2.1%**
SECTOR: INDUSTRY	MARKET CAP	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: AAII Dividend Investing, https://di.aaii.com/grader. Data as of 1/3/26.

DI View in My Portfolio—New!

Dashboard / All Portfolios / DI Ideas

Holdings

View: DI | Holdings | Yield Valuation | Dividend Analysis | Columns | Excel | Print | + Add Holdin

- My Default
- VMQ Stocks
- SSR
- DI ✓
- Growth
- Shadow

	Ticker	Div Yield	Dividend Valuation Grade	Dividend Valuation Score	Dividend Growth Grade	Dividend Growth Score	Dividend Strength Grade	Dividend Strength Score
	AOS	0.02%	A	19	A	82	A	85
	ABT	0.02%	C	42	A	87	A	90
c.	AFG	0.03%	B	24	A	90	C	55
AptarGroup, Inc.	ATR	0.02%	B	30	C	59	A	84
Broadridge Financial Solutions, Inc.	BR	0.02%	C	42	A	93	C	57
Chesapeake Utilities Corporation	CPK	0.02%	D	65	B	68	A	85
Ecolab Inc.	ECL	0.01%	C	52	B	73	B	66
Elevance Health, Inc.	ELV	0.02%	A	11	A	95	B	79
EOG Resources, Inc.	EOG	0.04%	A	7	A	84	A	93

Source: AAII Investor Hub, https://hub.aaii.com. Data as of 1/3/2026.

The rebuilt My Portfolio is included in the brand-new Investor Hub (https://hub.aaii.com).

Model Portfolio Review Week Offer!

All webinar attendees can get $50 off a one-year premium product subscription when they use the promo code **WEBINARWEEK50** at checkout.

Visit www.aaii.com/webinar-week to claim this exclusive offer.

Questions?