

COMPASS WATCH

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COMPASS DIVIDENDS

The severe recession we have been experiencing has been very difficult for many U.S. companies - - but not equally. Many of the weaker ones have been forced to preserve capital by reducing or even eliminating the dividends on their common stock. In fact, according to Standard & Poor's, 2009 was the worst stock market year since 1938 for dividend reductions and eliminations.¹ 804 companies followed by Standard & Poor's cut dividends in 2009.²

At Compass, we say we invest in "high-quality" stocks and bonds. One way of testing this claim is to see how our core stock companies which pay dividends supported them in 2009. The news is very reassuring. As shown in Table 1 below, of the twenty-two companies in our portfolio which pay dividends, none eliminated or reduced their dividends in 2009. Moreover, while one-fifth of our core names retained the same quarterly dividend in 2009, over two-thirds of our companies increased their dividends last year.

TABLE 1		
<u>COMPASS CORE STOCKS:</u>		
<u>DIVIDEND PROFILE</u>		
	<u>Number of</u>	<u>% of</u>
	<u>Companies</u>	<u>Companies</u>
No Dividend	3	12%
Pay Dividends	22	88%
No Increase in Dividends (2009 vs. 2008)	5	20%
Companies Increasing Dividends (2009 vs. 2008)	17	68%

TABLE 2	
<u>COMPASS CORE STOCKS:</u>	
<u>RATES OF DIVIDEND INCREASE IN 2009</u>	
<u>% Increase in Dividends</u>	<u>Number of</u>
<u>(2009 vs. 2008)</u>	<u>Companies</u>
1-5%	3
6-10%	7
11-25%	4
26-50%	2
More than 50%	1
Average rate of increase for above: 15.23%	

The size of the dividend increase in these seventeen companies was also significant. Table 2 shows that seven of the companies increased their dividends by over 10%, three of these by over 25%, and one by more than 50%. **Bottom line, our seventeen companies which raised their dividends in 2009 did so by 15.23%, on average - - and this in the worst year since 1938 for dividend reductions and eliminations!**

Using this financial benchmark, it appears our Compass stock portfolio is very healthy indeed. This is an important aspect of what we mean by "quality" in the stock investments we choose. (For a more extensive definition, see "What we mean by "Quality" . . . , in *Compass Watch*, Volume 19, Number 2: Summer 2007). In sum, rising dividends cannot assure investment success, but they certainly improve the possibility of it.

¹ "Dividends may stay in doldrums," *USA Today* (12-24-09)

² "Last Year's Dividend Slash was \$58 Billion," *Wall Street Journal* (1-8-10)

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