

DIVIDEND STABILITY

We recognize that you and your clients likely have concerns about the stability of dividend income in this current, very volatile market. Dividends are being cut at the fastest pace since the S&P started keeping dividend records in 1955 as companies struggle to adjust to worsening economic conditions.

Stories of the carnage are easy to find: Dow Chemical reduced their dividend in February for the first time in 97 years. Bank of America, State Street, and Pfizer (all S&P Dividend Aristocrats - firms that have raised dividends every year for the past 25 years) have all announced dividend cuts. Dividend reductions within the S&P 500 set a record \$15.9 billion in dividend reductions in the fourth quarter of 2008 and a new record has already been set for the first quarter of 2009 with \$21.6 billion in reductions during the first 55 days of the quarter. Standard & Poor's is forecasting a 13.3% plunge in dividend payouts by S&P 500 companies in 2009, the worst annual performance since 1942 when dividends fell 16.9%.

While preserving the stability of our dividend yield is of primary importance to us, we also emphasize a company's ability to grow the dividend in our investment process.

Year	Dividend Increases	Dividend Reductions	Ratio
2008	1,744	485	3.6 to 1
2007	1,972	118	16.7 to 1
2006	2,030	318	6.4 to 1
2005	2,035	217	9.4 to 1
2004	1,625	96	16.9 to 1

Source: Capital IQ, a division of Standard & Poor's

While preserving the stability of our dividend yield is of primary importance to us, we also emphasize a company's ability to grow the dividend in our investment process. Though we cannot guarantee that we'll avoid all dividend cuts in our strategy, we can reassure you that we are working hard to avoid holding companies that are in danger of cutting their dividend. Our goal is to maintain a high current income level with some growth of income as we ride out the current turbulence and eventual healing process in the markets. In fact, 10 of the 35 holdings in our Income-Equity Strategy have announced dividend increases so far in 2009. We continue to believe that companies with strong balance sheets and recurring business models are the types of companies that investors can hold if they wish to remain invested in the equity markets as they wait for the eventual recovery.

Without going into too much detail, here are a few metrics that we look at when evaluating a company's ability to maintain their dividend.

Cash Flow Coverage

This metric answers a simple question: How much cash is the business generating relative to how much they are paying in dividends.

Free Cash Flow

This shows how much cash flow available after all fixed expenses have been met and how much is available for shareholders. Some examples are – debt repayments, capital expenditure obligations, and interest coverage.

Interest Coverage

Interest on debt is a prior claim as companies need to meet their interest obligation before they can pay dividends.

Payout Ratios

Confirms that earnings are there to pay the dividends long term.

Future Debt Obligations

Keeping an eye on bank lines, and the specific covenants of those bank lines. Will certain loans the companies take limit their ability to pay dividends?

Volatility of Earnings / Macro Business Environment

Is the company in a cyclical or non-cyclical business? How consistent are earnings and how consistent have projections been in the past?

Herd Mentality

Companies are more likely to reduce dividends if their competitors have already taken that painful step. Whether it is hoarding cash to fortify their balance sheets or because it is no longer seen as a competitive advantage to have a high yield, the current environment may make it easier for companies to reduce their dividends.

Philosophy of Management

Is there a possibility that management will want to use their excess cash for other purposes? Will they look to acquire weaker competitors whose price has fallen dramatically, and possibly temporarily? Will they use current market conditions to retire future obligations (debt maturing in a few years or convertible preferred shares, for example) at discount prices?

Other Incentives for a Dividend Cut

Are there incentives to cut the dividend, such as new or temporary tax rulings, other government mandates (TARP, for example) competitive hoarding of cash in the company's industry, repurchase of debt at a discount, etc.?

These are just some of the factors at play in our evaluation of a company's ability to maintain their dividend payments. It is a task that has rarely been more difficult than it is at the current moment. On the positive side, a company's ability to maintain their dividend payments during tough economic times is a strong signal of their financial health and competitive position.

Portfolio Team

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Dividend yield is one component of performance and should not be the only consideration for investment. This information is intended solely to report on investment strategies as reported by the Investment Manager. Opinions and estimates offered constitute their judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Equity portfolios are subject to the basic stock market risk that a particular security, or securities in general, may decrease in value. The stocks of small and medium-sized companies are often associated with higher risk than stocks of larger companies, including higher volatility. When investing in value securities, the market may not necessarily have the same value assessment as the manager, and, therefore, the performance of the securities may decline. Past performance is no guarantee of future results.