

Quantitative Research

QUANTITATIVE ANALYSIS

Canadian Dividend Yield Strategy

High Yield and Low Payout

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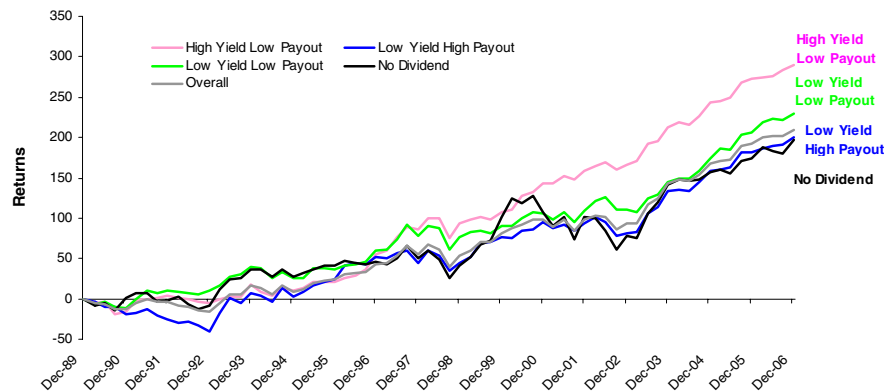
What is the optimal combination of dividend yield and payout ratio for investors? We extend our coverage to the Canadian market in this report, expanding on our prior research, which examined the influences of dividend yield and payout ratios within the U.S. market. Consistent with our previous work, we find that companies with a high dividend yield and a low payout ratio had the best performance when applying our backtest methodology to large-cap Canadian companies since 1990. (See Exhibit 1.)

Dividend Yield

How has a strategy based only on dividend yield worked over the years? While stocks with high yields generally outperformed those with low yields, the highest dividend-yielding stocks were not the overall leaders. Rather, stocks with moderately high dividend yields outpaced the extremely high-yielding, value-trap stocks. (See Exhibit 7.)

Exhibit 1: Dividend Yield and Payout Ratio

equal-weighted performance form January 1990 to December 2006, quarterly rebalance



Source: Credit Suisse Quantitative Equity Research.

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Dividend Yield and Payout Ratio

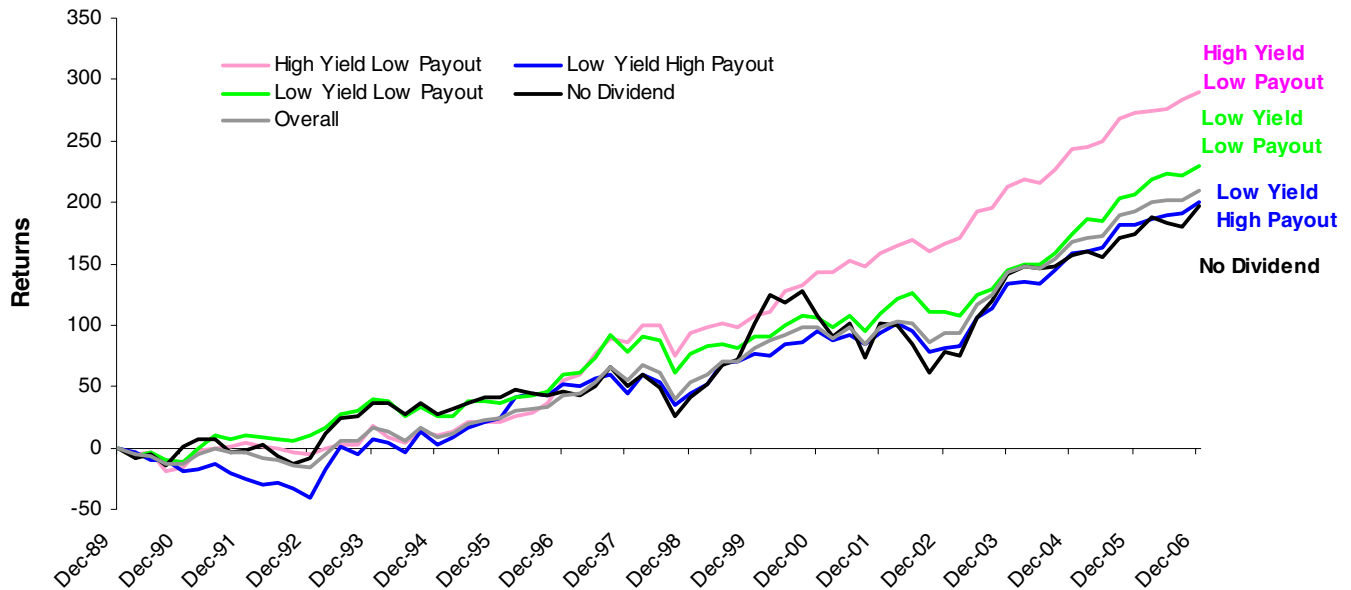
We examined the effects of various combinations of dividend yield and payout ratio by creating portfolios of companies grouped by these attributes and comparing their price performance. We applied a two-stage process in creating the portfolios for the backtest. First, the universe was divided into two groups by dividend yield. Each group was then further divided into two by the payout ratio. Equal-weighted portfolios of these four groups were created as of the quarter-end and their performance measured over the following quarter. This process was repeated for each quarter from January 1990 to December 2006. We limit our universe to the top 85% by market cap of all Canadian companies.¹

Backtest methodology

In Exhibit 2 we show the cumulative return obtained in our backtest for each dividend yield and payout ratio portfolio. We found that companies with low payout ratios tend to perform better than companies with high or negative payout ratios. The portfolio of companies with high dividend yields and low payout ratios had the best returns.

High yield and low payout is the best combination

Exhibit 2: Dividend Yield and Payout Ratio
equal-weighted performance from January 1990 to December 2006



Source: Credit Suisse Quantitative Equity Research.

¹ Universe: To create the universe, we ranked all active Canadian companies by market cap and took the top 85%. This universe was recreated at each rebalance period.

In Exhibits 3, 4, and 5 we show the annualized return for all four portfolio groups, companies that paid no dividend, and the overall equal-weighted portfolio. The annualized return for companies that did not pay dividends during this period was 11.6%, while the equal-weighted overall universe return was 12.3%. The high yield, low payout portfolio had the highest annualized return, at 17%. (See Appendix A for a complete chart from 1990 to 2006.)

Exhibit 3: Portfolio Groups

		Payout Ratio	
		High	Low
Dividend Yield	Low	Low Yield High Payout	Low Yield Low Payout
	High	High Yield High Payout	High Yield Low Payout
	No Dividend	No Dividend	Overall (Equal-Weight)

Source: Credit Suisse Quantitative Equity Research.

Exhibit 4: Annualized Returns

from January 1990 to December 2006

		Payout Ratio	
		High	Low
Dividend Yield	Low	11.8%	13.5%
	High	11.2%	17.0%
	No Dividend	11.6%	12.3%

Source: Credit Suisse Quantitative Equity Research.

The high yield and low payout portfolios generated an annualized return of 17.0% versus 12.3% for the overall equal-weighted universe

Exhibit 5: Dividend Yield and Payout Ratio Strategy Rankings

equal-weighted performance from January 2001 to December 2006, quarterly rebalance

		2001	2002	2003	2004	2005	2006	1990 - 2006
Performance	Best	High Yield Low Payout	High Yield Low Payout	No Dividend	High Yield Low Payout	Low Yield Low Payout	Low Yield Low Payout	High Yield Low Payout
		Low Yield Low Payout	High Yield High Payout	High Yield High Payout	Low Yield Low Payout	High Yield Low Payout	No Dividend	Low Yield Low Payout
		High Yield High Payout	Low Yield Low Payout	Low Yield High Payout	Low Yield High Payout	High Yield High Payout	Low Yield High Payout	Overall (Equal-Weight)
		Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	High Yield Low Payout	Low Yield High Payout
		Low Yield High Payout	Low Yield High Payout	High Yield Low Payout	High Yield High Payout	Low Yield High Payout	Overall (Equal-Weight)	No Dividend
	Worst	No Dividend	No Dividend	Low Yield Low Payout	No Dividend	No Dividend	No Dividend	High Yield High Payout

Source: Credit Suisse Quantitative Equity Research.

In 2005 and 2006, companies with low yield and low payout ratios have had the best performance

In 2003, companies with no dividend had the best performance

Avoid companies with high yields and high payouts

High Yield and Low Payout Companies

Exhibit 6: High Yield and Low Payout Portfolio

data as of February 12, 2007

Ticker	Company Name	Dividend Yield (%)	5 Yr Avg Dividend Yield (%)	Dividend Payout Ratio (%)	5 Yr Avg Dividend Payout Ratio (%)	Sector
TS.B	TORSTAR CORP	5.9%	2.9%	71.8%	78.4%	Consumer Discretionary
ENB	ENBRIDGE INC	5.5%	3.2%	67.7%	57.9%	Energy
ABER	ABER DIAMOND CORP	4.4%	1.1%	63.3%	36.9%	Materials
AGF.B	A G F MANAGEMENT LTD	3.9%	2.3%	62.6%	55.8%	Financials
TOC	THOMSON CORP	3.8%	2.3%	64.5%	66.1%	Consumer Discretionary
CCR.U	CCS INCOME TR	3.6%	6.3%	76.1%	106.1%	Energy
TRP	TRANSCANADA CORP	3.4%	4.0%	62.3%	61.0%	Energy
COS.U	CANADIAN OIL SANDS TR	3.3%	4.0%	67.0%	48.4%	Energy
CU.	CANADIAN UTILS LTD	3.2%	3.4%	49.4%	47.9%	Utilities
RUSMF	RUSSEL METALS INC	3.1%	4.9%	52.0%	47.1%	Industrials
IGM.	IGM FINANCIAL INC	3.0%	3.3%	55.8%	53.9%	Financials
FTS.	FORTIS INC	3.0%	3.3%	64.1%	50.2%	Utilities
RET.A	REITMANS CDA LTD	2.9%	2.2%	58.7%	30.5%	Consumer Discretionary
GWO.	GREAT WEST LIFECO INC	2.8%	2.8%	46.6%	43.5%	Financials
TU	TELUS CORP	2.8%	2.9%	51.9%	137.7%	Telecommunication
BMO	BANK MONTREAL QUE	2.8%	3.0%	43.7%	41.2%	Financials
BVF	BIOVAIL CORP	2.7%	0.6%	37.3%	9.8%	Health Care
BNS	BANK NOVA SCOTIA HALIFAX	2.7%	3.0%	39.6%	40.9%	Financials
RY	ROYAL BK CDA MONTREAL	2.7%	2.8%	38.3%	41.4%	Financials
NA.	NATIONAL BK CDA MONTREAL	2.7%	3.2%	41.4%	40.9%	Financials
SLF	SUN LIFE FINL INC CDN IMPERIAL BK OF	2.5%	2.2%	35.0%	32.6%	Financials
CM	COMMERCE	2.5%	3.2%	31.6%	51.3%	Financials
MFC	MANULIFE FINL CORP	2.5%	1.8%	32.7%	27.0%	Financials
PWF	POWER FINANCIAL CORP	2.4%	2.7%	36.8%	36.1%	Financials
MGA	MAGNA INTL INC	2.3%	2.0%	28.4%	23.3%	Consumer Discretionary
L.	LOBLAW COS LTD	2.2%	1.2%	31.2%	24.1%	Consumer Staples
TD	TORONTO DOMINION BK	2.1%	2.9%	25.6%	70.2%	Financials
WN.	WESTON GEORGE LTD	2.0%	1.3%	25.6%	24.6%	Consumer Staples
POW	POWER CORP CDA	2.0%	2.1%	26.4%	27.2%	Financials
ACO.X	ATCO LTD	1.9%	2.4%	25.9%	27.2%	Utilities
HSE.	HUSKY ENERGY INC	1.9%	1.8%	29.7%	20.0%	Energy
NB	NORTHBRIDGE FINL CORP	1.8%	2.1%	21.0%	18.6%	Financials
MEOH	METHANEX CORP	1.8%	1.9%	11.3%	179.8%	Materials

Source: Credit Suisse Quantitative Equity Research.

Dividend Yield

Dividend selection strategies help investors select high-earnings-quality companies, as companies that consistently grow dividends tend to signal sound financial health.

How has the dividend yield strategy worked over the years?

We performed a backtest, grouping companies by their dividend yield. The universe was restricted to the top 85% of Canadian companies by market capitalization, quarterly rebalanced from January 1990 to December 2006. Four equal-weighted portfolios were created based on dividend yield as of each quarter-end and a fifth portfolio included all companies not paying dividends. Based on this analysis, we arrived at the following conclusions:

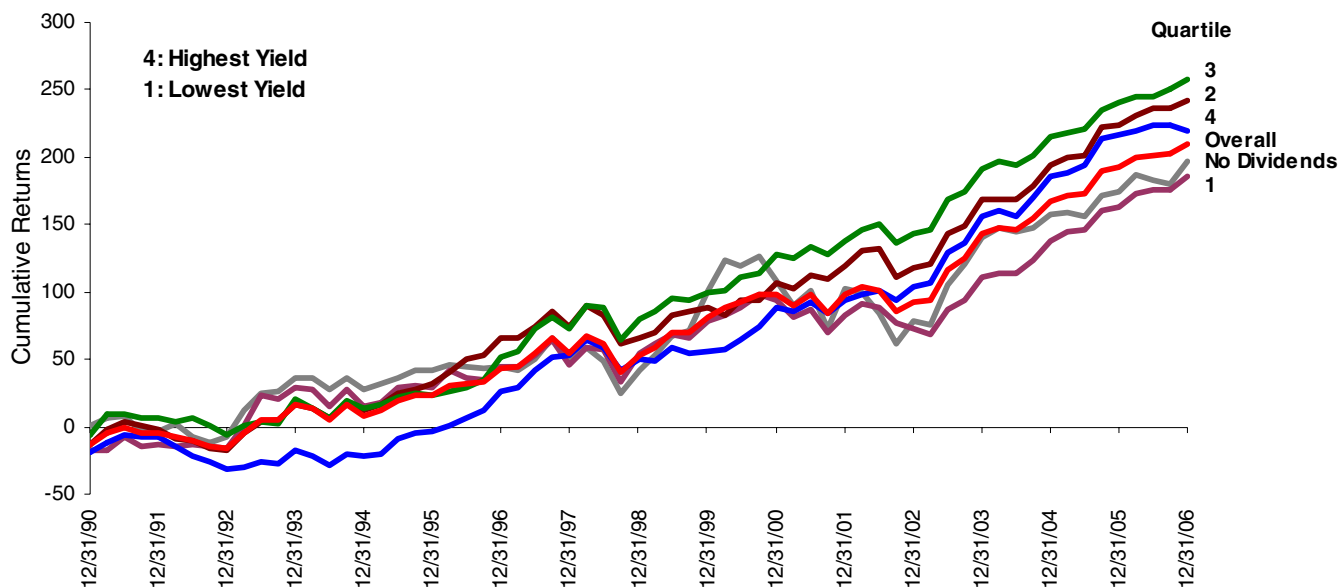
- Stocks with higher dividend yields generally outperformed those with lower dividend yields.
- The highest-yielding stocks were not the overall leaders. As Exhibit 7 indicates, quartiles 2 and 3 outpaced quartile 4, the highest-yielding quartile.

Hence, while analyzing dividend yield, investors should not focus on the highest dividend-yielding companies for their portfolios.

Dividends yield is a useful factor, but do not invest in just the highest dividend-yielding stocks

Higher dividend-paying companies generally outperform the overall market

Exhibit 7: Dividend Yield Strategy
equal-weighted quartile performance from January 1990 to December 2006



Source: Credit Suisse Quantitative Equity Research.

Dividend Yield Screen

Exhibit 8: Dividend Yield, Third Quartile Companies

data as of February 12, 2007

Ticker	Company Name	Dividend Yield (%)	5 Yr Avg Dividend Yield (%)	Dividend Payout Ratio (%)	5 Yr Avg Dividend Payout Ratio (%)	Sector
BMO	BANK MONTREAL QUE	3.8%	3.0%	43.7%	41.2%	Financials
TRP	TRANSCANADA CORP	3.6%	4.0%	62.3%	61.0%	Energy
NA.	NATIONAL BK CDA MONTREAL	3.4%	3.2%	41.4%	40.9%	Financials
BOWFF	BOARDWALK REAL ESTATE	3.3%	3.6%	841.3%	1678.0%	Financials
BNS	BANK NOVA SCOTIA HALIFAX	3.3%	3.0%	39.6%	40.9%	Financials
ENB	ENBRIDGE INC	3.2%	3.2%	67.7%	57.9%	Energy
IGM.	IGM FINANCIAL INC	3.1%	3.3%	55.8%	53.9%	Financials
RY	ROYAL BK CDA MONTREAL	3.0%	2.8%	38.3%	41.4%	Financials
FTS.	FORTIS INC	3.0%	3.3%	64.1%	50.2%	Utilities
RET.A	REITMANS CDA LTD	2.9%	2.2%	58.7%	30.5%	Consumer Discretionary
X.	TSX GROUP INC	2.9%	2.1%	79.2%	50.7%	Financials
CU.	CANADIAN UTILS LTD CDN IMPERIAL BK OF	2.8%	3.4%	49.4%	47.9%	Utilities
CM	COMMERCE	2.8%	3.2%	31.6%	51.3%	Financials
TD	TORONTO DOMINION BK ONT	2.8%	2.9%	25.6%	70.2%	Financials
GWO.	GREAT WEST LIFECO INC	2.7%	2.8%	46.6%	43.5%	Financials
PWF	POWER FINANCIAL CORP	2.7%	2.7%	36.8%	36.1%	Financials
TU	TELUS CORP	2.7%	2.9%	51.9%	137.7%	Telecommunication
HSE.	HUSKY ENERGY INC	2.7%	1.8%	29.7%	20.0%	Energy
AGF.B	A G F MANAGEMENT LTD	2.5%	2.3%	62.6%	55.8%	Financials
ABER	ABER DIAMOND CORP	2.5%	1.1%	63.3%	36.9%	Materials
SLF	SUN LIFE FINL INC	2.5%	2.2%	35.0%	32.6%	Financials
BVF	BIOVAIL CORP	2.4%	0.6%	37.3%	9.8%	Health Care
TOC	THOMSON CORP	2.3%	2.3%	64.5%	66.1%	Consumer Discretionary
NB	NORTHBRIDGE FINL CORP	2.2%	2.1%	21.0%	18.6%	Financials
POW	POWER CORP CDA	2.1%	2.1%	26.4%	27.2%	Financials
MFC	MANULIFE FINL CORP	2.0%	1.8%	32.7%	27.0%	Financials
WN.	WESTON GEORGE LTD	2.0%	1.3%	25.6%	24.6%	Consumer Staples
MGA	MAGNA INTL INC	1.9%	2.0%	28.4%	23.3%	Consumer Discretionary
MEOH	METHANEX CORP	1.9%	1.9%	11.3%	179.8%	Materials
ACO.X	ATCO LTD	1.8%	2.4%	25.9%	27.2%	Utilities
L.	LOBLAW COS LTD	1.8%	1.2%	31.2%	24.1%	Consumer Staples
BPO	BROOKFIELD PPTYS CORP	1.7%	2.1%	135.7%	74.3%	Financials

Source: Credit Suisse Quantitative Equity Research.

Indicated Annual Dividend

In Exhibit 9, we list the top 20 companies in the TSX with the highest annual indicated dividends. The indicated dividend is calculated by annualizing the latest dividend payment. The estimated payout ratio is calculated by using the indicated dividend and IBES consensus fiscal year-one earnings estimates.

Exhibit 9: Large-Cap Companies with the Highest Indicated Annual Dividend
data as of February 13, 2007

Ticker	Company Name	Total indicated Annual Dividend	Estimated Dividend Payout Ratio (%)	Sector
RY	ROYAL BK CDA MONTREAL QUE	2,102	35.2%	Financials
HSE	HUSKY ENERGY INC	1,699	57.6%	Energy
BNS	BANK NOVA SCOTIA HALIFAX	1,648	37.2%	Financials
TD	TORONTO DOMINION BK ONT	1,374	31.3%	Financials
BMO	BANK MONTREAL QUE	1,344	42.4%	Financials
MFC	MANULIFE FINL CORP	1,230	24.2%	Financials
BCE	BCE INC	1,163	59.8%	Telecommunication
PWT.U	PENN WEST ENERGY TR	967	119.3%	Energy
CM	CDN IMPERIAL BK OF COMMERCE	931	30.8%	Financials
GWO	GREAT WEST LIFECO INC	879	40.1%	Financials
PWF	POWER FINANCIAL CORP	759	37.5%	Financials
TOC	THOMSON CORP	734	61.8%	Consumer Discretionary
PGF.U	PENGROWTH ENERGY TR	726	145.1%	Energy
SLF	SUN LIFE FINL INC	722	27.0%	Financials
TRP	TRANSCANADA CORP	659	56.9%	Energy
ERF	ENERPLUS RES FD	616	94.8%	Energy
COS.U	CANADIAN OIL SANDS TR NEW	568	52.3%	Energy
HTE.U	HARVEST ENERGY TR	563	152.6%	Energy
FDG	FORDING CDN COAL TR	555	79.9%	Materials
YLO.U	YELLOW PAGES INCOME FD	554	81.3%	Consumer Discretionary

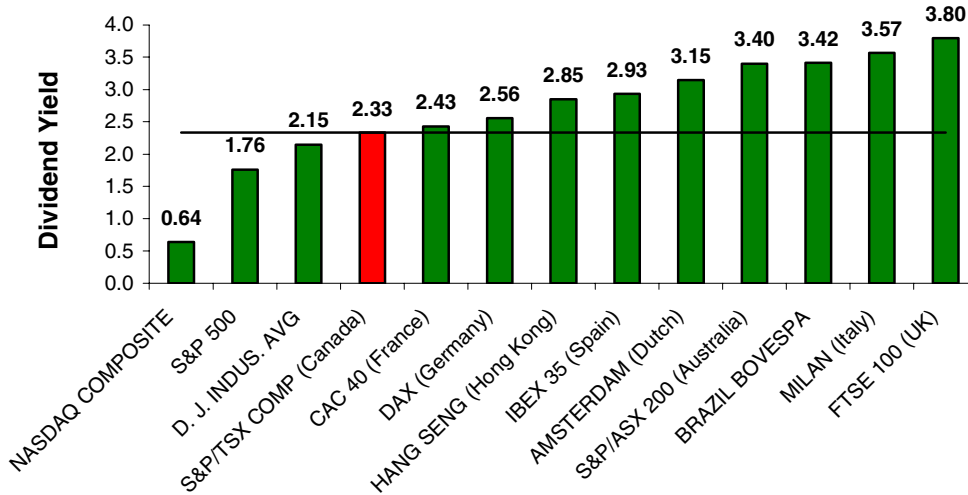
These 20 companies will pay 50% of the total dividends paid by all companies in the TSX index

Source: Credit Suisse Quantitative Equity Research.

Dividends in Developed Markets

We compared equity dividend yields in major international markets. Yields in North America (the United States and Canada) are the lowest among major equity markets. In most of the developed markets, dividends are taxed at a lower rate than regular income, through tax relief or tax credits.

Exhibit 10: Dividend Yields in Major International Equities Markets
data as of February 12, 2007



Source: Credit Suisse Quantitative Equity Research.

Appendix A: Dividend Yield and Payout Ratios

Exhibit 11: Appendix A: Dividend Yield and Payout Ratio Strategy Backtest
equal-weighted performance from January 1990 to December 2006, quarterly rebalance

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		
Performance ↑ ↓	Best	No Dividend	Low Yield Low Payout	Low Yield Low Payout	Low Yield High Payout	Low Yield High Payout	Low Yield High Payout	High Yield Low Payout	High Yield Low Payout	High Yield Low Payout	No Dividend	High Yield Low Payout	High Yield Low Payout	High Yield Low Payout	No Dividend	High Yield Low Payout	Low Yield Low Payout	Low Yield Low Payout	
		High Yield High Payout	High Yield Low Payout	No Dividend	No Dividend	High Yield High Payout	High Yield High Payout	Low Yield High Payout	Low Yield Low Payout	Low Yield High Payout	Low Yield High Payout	High Yield High Payout	Low Yield Low Payout	High Yield High Payout	High Yield High Payout	Low Yield Low Payout	High Yield Low Payout	No Dividend	
		Low Yield Low Payout	Overall (Equal-Weight)	High Yield Low Payout	Overall (Equal-Weight)	High Yield Low Payout	Overall (Equal-Weight)	High Yield High Payout	High Yield High Payout	Low Yield Low Payout	Overall (Equal-Weight)	Low Yield High Payout	High Yield High Payout	Low Yield Low Payout	Low Yield High Payout	Low Yield High Payout	High Yield High Payout	Low Yield High Payout	
		Overall (Equal-Weight)	High Yield High Payout	Overall (Equal-Weight)	Low Yield Low Payout	Overall (Equal-Weight)	No Dividend	Low Yield Low Payout	Overall (Equal-Weight)	Overall (Equal-Weight)	High Yield High Payout	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	Overall (Equal-Weight)	High Yield Low Payout
		High Yield Low Payout	No Dividend	Low Yield High Payout	High Yield Low Payout	No Dividend	Low Yield Low Payout	Overall (Equal-Weight)	No Dividend	High Yield High Payout	Low Yield Low Payout	Low Yield Low Payout	Low Yield High Payout	Low Yield High Payout	High Yield Low Payout	High Yield High Payout	Low Yield High Payout	Overall (Equal-Weight)	
	Worst	Low Yield High Payout	Low Yield High Payout	High Yield High Payout	High Yield High Payout	Low Yield Low Payout	High Yield Low Payout	No Dividend	Low Yield High Payout	No Dividend	High Yield Low Payout	No Dividend	No Dividend	No Dividend	No Dividend	Low Yield Low Payout	No Dividend	No Dividend	High Yield High Payout

Source: Credit Suisse Quantitative Equity Research.

References

Professor Robert J. Shiller's Web site: <http://www.econ.yale.edu/~shiller/data.htm>.

Credit Suisse Quantitative Equity Research Studies

Quantitative Research: High Yield, Low Payout, August 15, 2006

Quantitative Research: Dividends and Earnings, July 29, 2005

Quantitative Research: Earnings Quality and Dividends, May 18, 2004

Quantitative Research: Sizing UP S&P 500 Dividend Payers, March 25, 2004

Quantitative Research: Myth Dividends Are Disappearing, March 31, 2004

Quantitative Research: Dividend Foiled? (For Now), October 30, 2003

Quantitative Strategy: Wrinkle in the Yield Strategy, September 5, 2002

Quantitative Strategy: Analyze Those Dividends, December 17, 2002

Companies Mentioned (Price as of 12 Feb 07)

A G F Mangement (AGF.B, C\$28.56)
 Aber Diamond Corp (ABER, 39.82)
 Atco Ltd (ACO.X, C\$48.20)
 Bank of Montreal (BMO.TO, C\$71.35, NEUTRAL, TP C\$74.00, MARKET WEIGHT)
 Bank of Nova Scotia (BNS.TO, C\$51.14, NEUTRAL, TP C\$56.00, MARKET WEIGHT)
 BCE Inc. (BCE.TO, C\$30.22, NEUTRAL, TP C\$33.50, MARKET WEIGHT)
 Biovail Corporation (BVF, \$20.62, NEUTRAL, TP \$23.00, OVERWEIGHT)
 BOARDWALK REAL ESTATE INV T (BOWFF, \$38.34)
 Brookfield Properties Corporation (BPO, \$45.87, UNDERPERFORM, TP \$30.00, MARKET WEIGHT)
 Canadian Imperial Bank of Commerce (CM.TO, C\$100.25, OUTPERFORM, TP C\$110.00, MARKET WEIGHT)
 Canadian Oil Sands TR (COS.U, C\$27.44)
 Canadian Utilities Ltd. (CU.TO, C\$43.82)
 CSS Income (CCR.U, C\$38.44)
 Enbridge Inc. (ENB.TO, C\$38.36, NEUTRAL, TP C\$41.00, MARKET WEIGHT)
 Enerplus Resources Fund (ERF, C\$50.56)
 FORDING CDN COAL TR (FDG, \$23.14)
 Fortis Inc. (FTS.TO, C\$27.69, NEUTRAL, TP C\$25.50, MARKET WEIGHT)
 George Weston Limited (WN.TO, C\$71.97, OUTPERFORM, TP C\$88.00, MARKET WEIGHT)
 Great-West Lifeco Inc. (GWO.TO, C\$35.09, NEUTRAL, TP C\$35.00, OVERWEIGHT)
 HARVEST ENERGY TR (HTE.U, C\$26.39)
 Husky Energy Inc. (HSE.TO, C\$76.40, NEUTRAL, TP C\$83.00, MARKET WEIGHT)
 IGM Financial (IGM.TO, C\$50.63, OUTPERFORM, TP C\$58.00, MARKET WEIGHT)
 Loblaw Companies Limited (L.TO, C\$46.75, OUTPERFORM, TP C\$53.00, MARKET WEIGHT)
 Magna International (MGA, \$78.80, NEUTRAL, TP \$80.00, UNDERWEIGHT)
 Manulife Financial Corporation (MFC.TO, C\$40.66, OUTPERFORM, TP C\$43.00, OVERWEIGHT)
 Methanex (MEOH, \$26.93)
 National Bank of Canada (NA.TO, C\$64.08, OUTPERFORM, TP C\$70.00, MARKET WEIGHT)
 NORTHBRIDGE FINL CORP (NB, C\$30.5)
 Power Corp (POW, C\$37.85)
 Power Financial Corp (PWF, C\$39.45)
 POWER FINANCIAL CORP (PWE, \$29.79)
 PSG Investment Bank Holdings (PGH, \$16.70)
 Reitmans (RET.A, C\$21.80)
 Royal Bank of Canada (RY.TO, C\$54.26, OUTPERFORM, TP C\$62.00, MARKET WEIGHT)
 Russel Metals Inc (RUSMF, \$23.43)
 Sun Life Financial Services (SLF.TO, C\$51.72, OUTPERFORM, TP C\$57.00, OVERWEIGHT)
 Telus Corp (TU, \$48.25)
 The Thomson Corporation (TOC, \$42.69, NEUTRAL, TP \$45.50, OVERWEIGHT)
 Toronto Dominion Bank (TD.TO, C\$69.58, OUTPERFORM, TP C\$77.00, MARKET WEIGHT)
 Torstar Corp (TS.B, \$16)
 TransCanada Corp. (TRP.TO, C\$38.00, OUTPERFORM, TP C\$45.00, MARKET WEIGHT)
 TSX Group (X.TO, C\$51.89)
 YELLOW PAGES INCOME FD (YLO.U, C\$13.15)

Disclosure Appendix

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