

COMPASS WATCH

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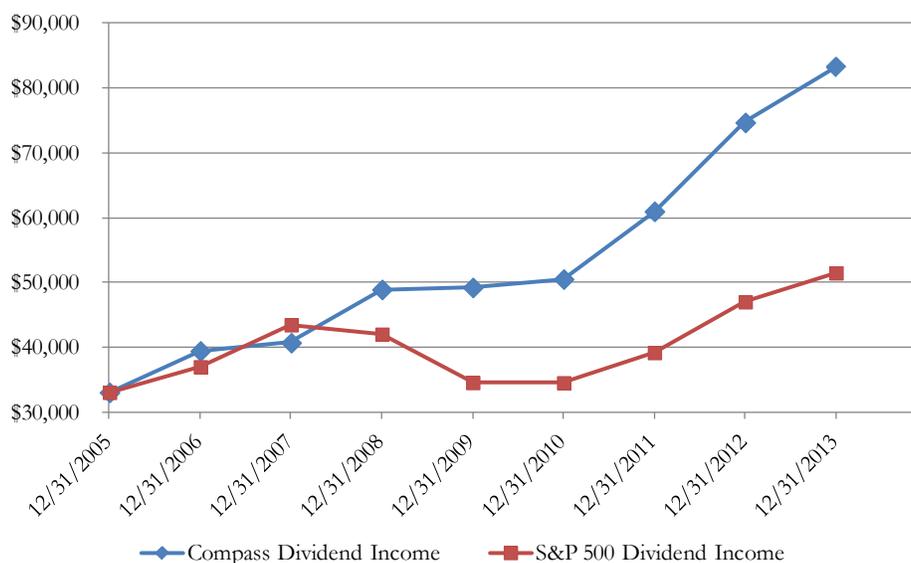
GROWING INCOME FROM GROWING DIVIDENDS

At the end of 2013, quality bonds were providing modest yields. U.S. Treasury notes, for example, were yielding between 0.38% for the two-year maturity and 3.03% for the ten-year note. These high-quality bonds, of course, provide other virtues; such as diversification, liquidity and timely payments of interest and principal.

Meanwhile, thanks to the recent run-up in the equity market (the S&P 500 Index returned 32% in 2013), many investors may be overlooking the importance of dividends over time. In fact, according to Ibbotson (SBBI 2013 Classic Yearbook), reinvested dividends accounted for 42% of the stock markets return from 1926-2012, as measured by the S&P 500 Index. With growth stocks in particular, a rapidly growing dividend may be one of the most significant contributors to the success of an investment.

At Compass, we invest in high-quality stocks. One measurement of this high-quality claim is to see how our core stock companies have increased their dividends over time. As shown in the chart below, Compass' dividend income has increased 12.23% per annum (2005-2013).^{1,2} Beginning in 2005, cash dividends paid in this example portfolio were approximately \$33,000. By 2013, the dividend income had increased over two fold to \$83,000 (and does not include an additional \$13,000 of special dividends paid). Moreover, the value of this portfolio has nearly doubled to \$5.3 million!

Dividend Growth



So, what can we conclude from this? Using a rising dividend income stream, it appears our Compass core stock portfolio is very healthy. Of course, rising dividends cannot assure investment success nor would a sensible investor buy or sell stocks simply because a company pays a dividend. However, if growing income from growing dividends is a result of rising revenues, profits and free cash-flow; it certainly improves the possibility of long-term success.

1. Actual Compass all core stock portfolio as of 12/31/05. Initial deposit = \$2.8m. No further deposits or withdrawals made. Dividends and interest reinvested.
2. Illustrative purposes only. For additional results and disclosures, please contact us.

For more information regarding our company, disciplines and results; please call, write, e-mail or visit our website: www.compasscap.com