Market *Alert*

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STANDARD & POOR'S

Dividends, Revisited: An Evergreen Strategy Gains New Relevance in Today's Market

Standard & Poor's reports that additional dividend hikes are likely in 2011 due to corporate profits that are expected to reach record levels by year-end 2011, low interest rates, and an all-time high in corporate cash.

As uncertainty around events in the Middle East and Japan roils the financial markets, income-minded investors seeking protection from the bumpy road ahead may find dividend-paying stocks offer an attractive mix of features and warrant a place in their equity portfolios.

Momentum in the Market

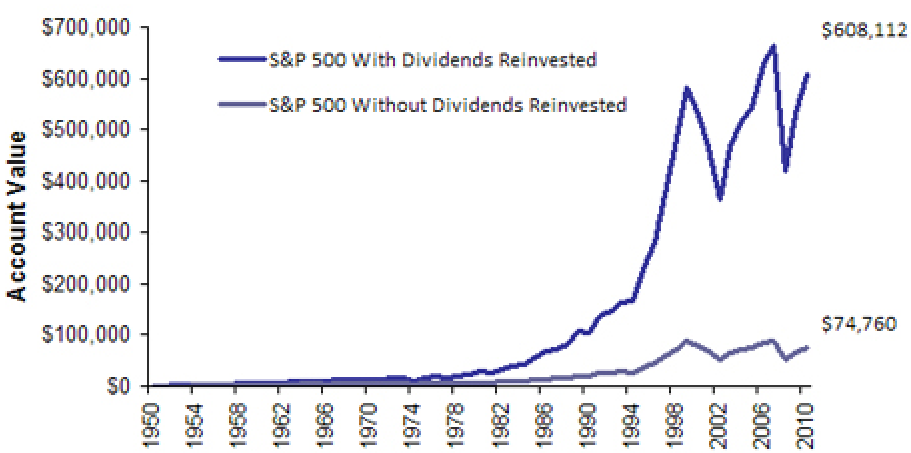
Several factors adding momentum to the dividend-investing strategy have emerged recently. For instance,the dividend rate for the S&P 500 has risen 7% from year-end 2010 and is 15% higher than a year ago. Standard & Poor's reports that additional dividend hikes are likely in 2011 due to corporate profits that are expected to reach record levels by year-end 2011, low interest rates, and an all-time high in corporate cash.[1]

Another positive sign came last month after the Federal Reserve gave healthy banks the nod to begin deploying their cash as they saw fit. In response, six of the country's largest banks said they would issue a total of $8.7 billion in new dividend payments to shareholders.[2] *The Wall Street Journal* estimates a total of $12 billion in new dividends will be issued in 2011 by just ten of the healthiest banks.

Dividends, the Evergreen Argument

If you own stock in a company that has announced it will be issuing a dividend, or if you are proactively considering adding an allocation to dividend-paying stocks, history provides compelling evidence of the long-term benefits of dividends and their reinvestment.

Growth of $1,000 in the S&P 500 (1950 through 2010)



Source: Standard & Poor's. Stocks are represented by the S&P 500, an unmanaged index considered representative of the broad U.S. stock market. For the period January 1, 1950, through December 31, 2010. Past performance is not indicative of future results. Investors cannot invest directly in any index.

A sign of corporate financial health. Dividend payouts have been a sign of a company's financial health and management's confidence in future cash flow. Dividends also communicate a positive message to investors who perceive a long-term dividend as a sign of corporate maturity and strength.

A key driver of total return. There are several factors that may contribute to the superior total return of dividend-paying stocks over the long term. One of them is dividend reinvestment. The longer the period in which dividends are reinvested, the greater the spread between price return and dividend reinvested total return. The chart above dramatically illustrates the benefits of reinvesting dividend income in a portfolio over time.

Potentially stronger returns, lower volatility. Dividends may help to mitigate portfolio losses when stock prices decline, and over long time horizons, stocks with a history of increasing their dividend each year have also produced higher returns with considerably less risk than non-dividend-paying stocks. For instance, since 1990, the S&P 500 Dividend Aristocrats - those stocks within the S&P 500 that have increased their dividends each year for the past 25 years - produced annualized returns of 11.17% vs. 8.53% for the S&P 500 overall, with less volatility (14.22% vs. 15.21% respectively).[3]

Takeaways for Investors

If you are considering adding dividend-paying stocks to your investment mix, keep the following thoughts in mind.

Dividend-paying stocks may help diversify an income-generating portfolio. Income-oriented investors may want to diversify potential sources of income within their portfolios. Given current realities present in the bond market, stocks with above-average dividend yields may compare favorably with bonds and act as a buffer should conditions turn negative within the bond market.

Dividend-paying stocks can be found outside the large-cap universe. While income investors typically hunt for dividend-paying stocks in the large-cap universe, according to Sam Stovall, S&P's chief investment strategist, "Many midcap stocks offer both growth characteristics and dividend payments." For instance, in the S&P Midcap 400 Index, 239 companies pay dividends. Further, midcap stocks have been the best performers thus far in 2011, with the S&P 400 Index rising 7% through March 25, more than 200 basis points above than their large- and small-cap counterparts.[4]

Dividends benefit from continued favorable tax treatment. The extension of the Bush-era tax cuts helps to reinforce the current case for dividend stocks. The tax bill passed in late 2010 extended the 15% tax on qualifying dividends and other forms of investment income through December 31, 2012.

[1]Source: Standard & Poor's, *Global Equity Strategy*, March 28, 2011.

[2]Source: *The Wall Street Journal*, "Banks Get Fed's Nod to Pay Dividends," March 19, 2011.

[3]Volatility is measured by standard deviation.

[4]Source: Standard & Poor's, *The Outlook*, April 6, 2011.