Sure Dividend

HIGH QUALITY DIVIDEND STOCKS, LONG-TERM PLAN

The 8 Rules of Dividend Investing

By Ben Reynolds

Rules 1 to 5: What to Buy

Rule # 1 – The Quality Rule

"The single greatest edge an investor can have is a long term orientation"
– Seth Klarman

Common Sense Idea: Invest in great businesses that have a proven long-term record of stability, growth, and profitability. There is no reason to own a so-so business when you can own a great business for a very long time.

Financial Rule: Invest only in stocks with 25 or more years of dividend payments without a reduction.

Evidence: The Dividend Aristocrats (stocks with 25+ years of rising dividends) have outperformed the S&P500 over the last 10 years by 2.88% per year.

Source: S&P 500 Dividend Aristocrats Factsheet, February 28 2014

Rule # 2 – The Bargain Rule

"Price is what you pay, value is what you get"
– Warren Buffett

Common Sense Idea: Invest in businesses that pay you the most dividends so you can increase your cash flow from your investments.

Financial Rule: Rank stocks by their dividend yield.

Evidence: The highest yielding quintile of stocks outperformed the lowest yielding quintile of stocks by 1.76% per year from 1928 through 2013.

Source: Dividends: A Review of Historical Returns by Heartland Funds

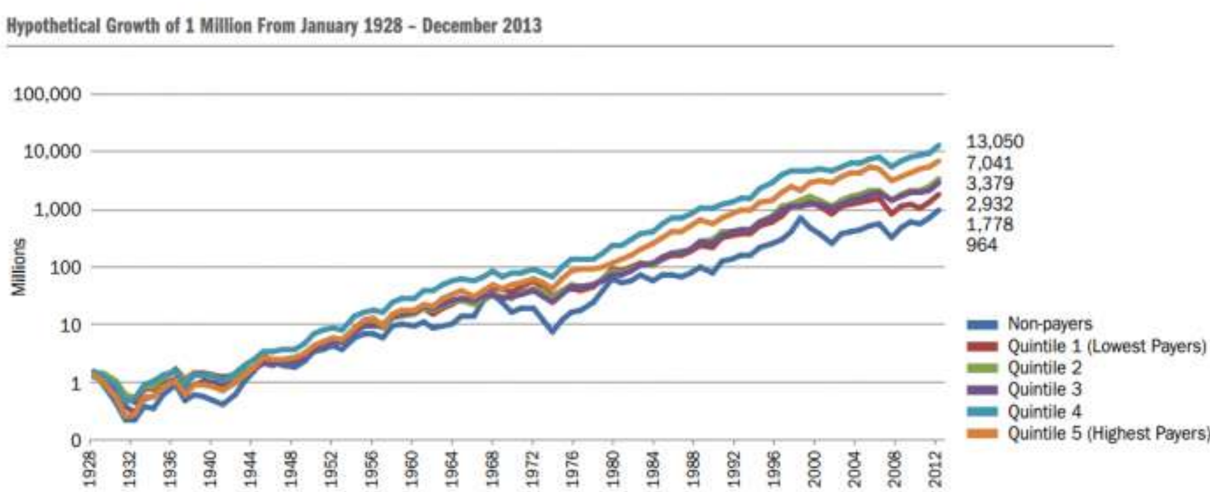


Table 1	Non-Payers	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Average Annual Total Return	8.32%	9.09%	9.91%	9.73%	11.65%	10.85%
Annualized Standard Deviation	33.78	23.03	19.51	20.79	21.42	24.26
Sharpe Ratio	0.14	0.24	0.32	0.30	0.38	0.30

Source: Kenneth R. French© and CRSP, 1/1/1928 - 12/31/2013

Rule # 3 – The Safety Rule

“The secret of sound investment in 3 words; margin of safety”

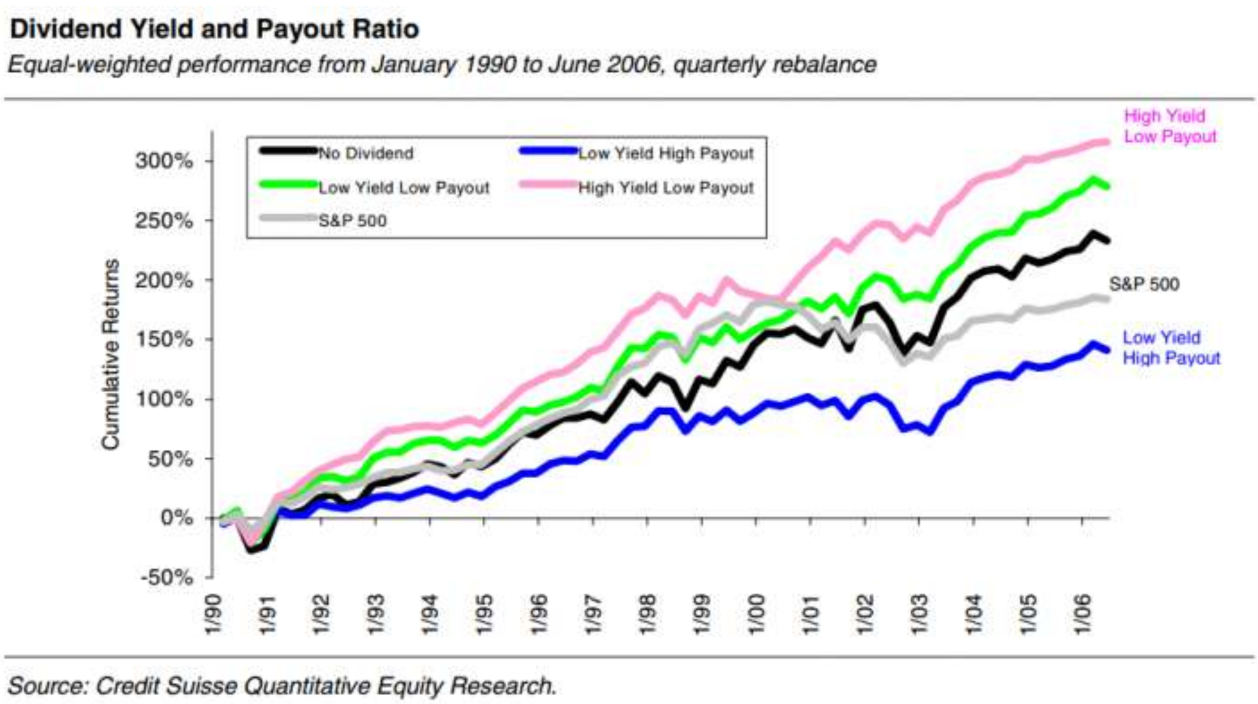
– Benjamin Graham

Common Sense Idea: If a business is paying out all their profits as dividends, they will have nothing left to grow the business. When a downturn in the business occurs, they will have to cut the dividend. Invest in businesses that have much higher profits than they do dividend payments so your dividend payments are secure.

Financial Rule: Rank stocks by their payout ratios.

Evidence: High yield low payout ratio stocks outperformed high yield high payout ratio stocks by 8.2% per year from 1990 to 2006.

Source: High Yield, Low Payout by Barefoot, Patel, & Yao, page 3



Rule # 4 – The Growth Rule

"All you need for a lifetime of successful investing is a few big winners"

– Peter Lynch

Common Sense Idea: Invest in businesses that have a history of solid growth. If a business has maintained a high growth rate for several years, they are likely to continue to do so. The more a business grows, the more profitable your investment will become.

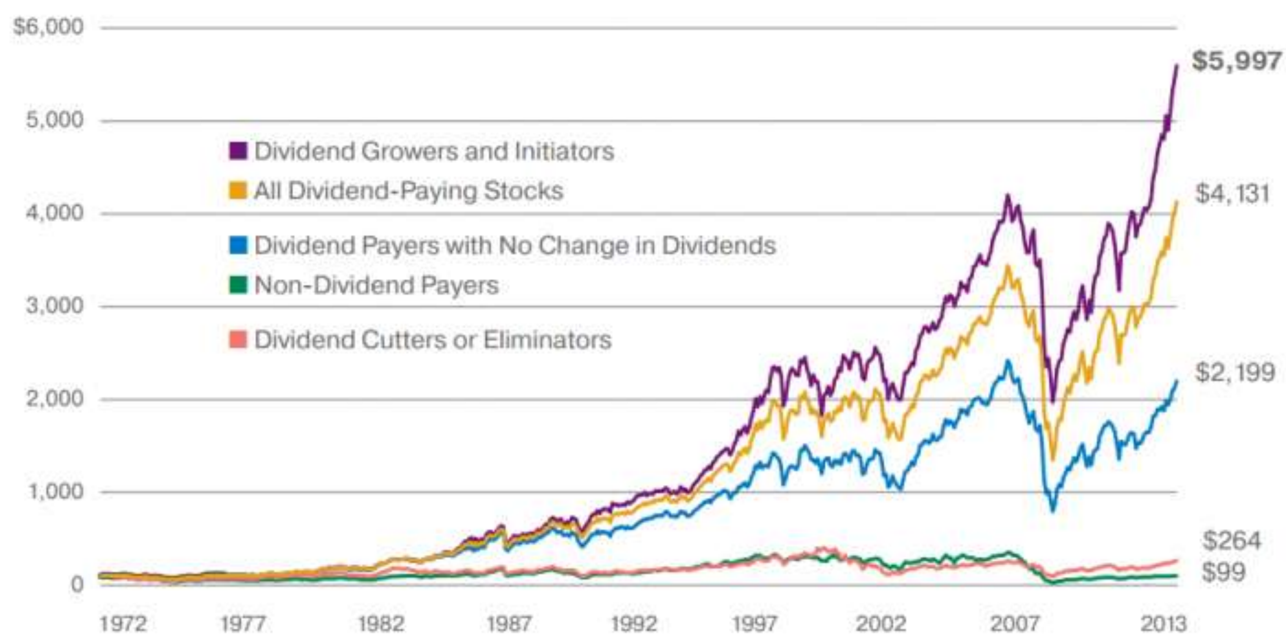
Financial Rule: Rank stocks by their long-term revenue growth.

Evidence: Growing dividend stocks have outperformed stocks with unchanging dividends by 2.4% per year from 1972 to 2013.

Source: Rising Dividends Fund, Oppenheimer, page 4

S&P 500 Index: Dividend Growers Have Outperformed Over Time

Hypothetical performance of $100 invested in each of the five strategies (1972–2013)



Rule # 5 – The Peace of Mind Rule

"Psychology is probably the most important factor in the market – and one that is least understood"

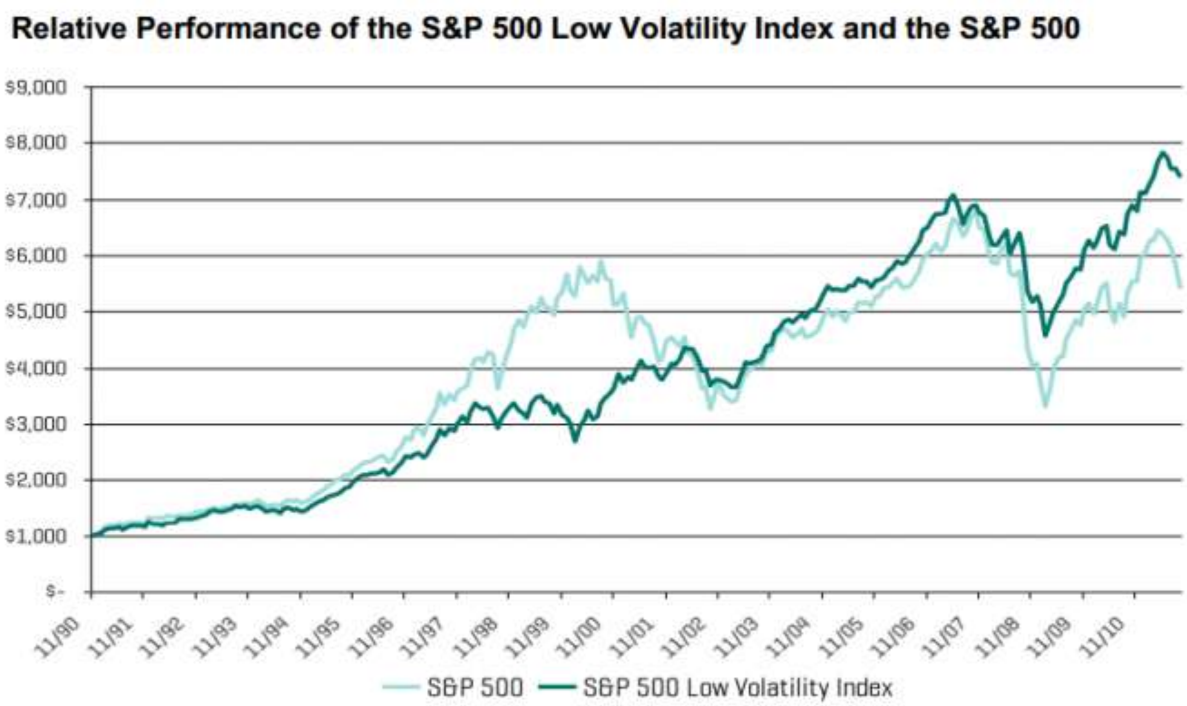
- David Dreman

Common Sense Idea: Look for businesses that people invest in during recessions and times of panic. These businesses will have a relatively stable stock price that will make them easier to hold for the long run.

Financial Rule: Rank stocks by their long-term volatility.

Evidence: The S&P Low Volatility index outperformed the S&P500 by 2.00% per year for the 20 year period ending September 30th, 2011.

Source: S&P 500 Low Volatility Index: Low & Slow Could Win the Race



Rules 6 & 7: When to Sell

Rule # 6 – The Overpriced Rule

"Pigs get fat, hogs get slaughtered"

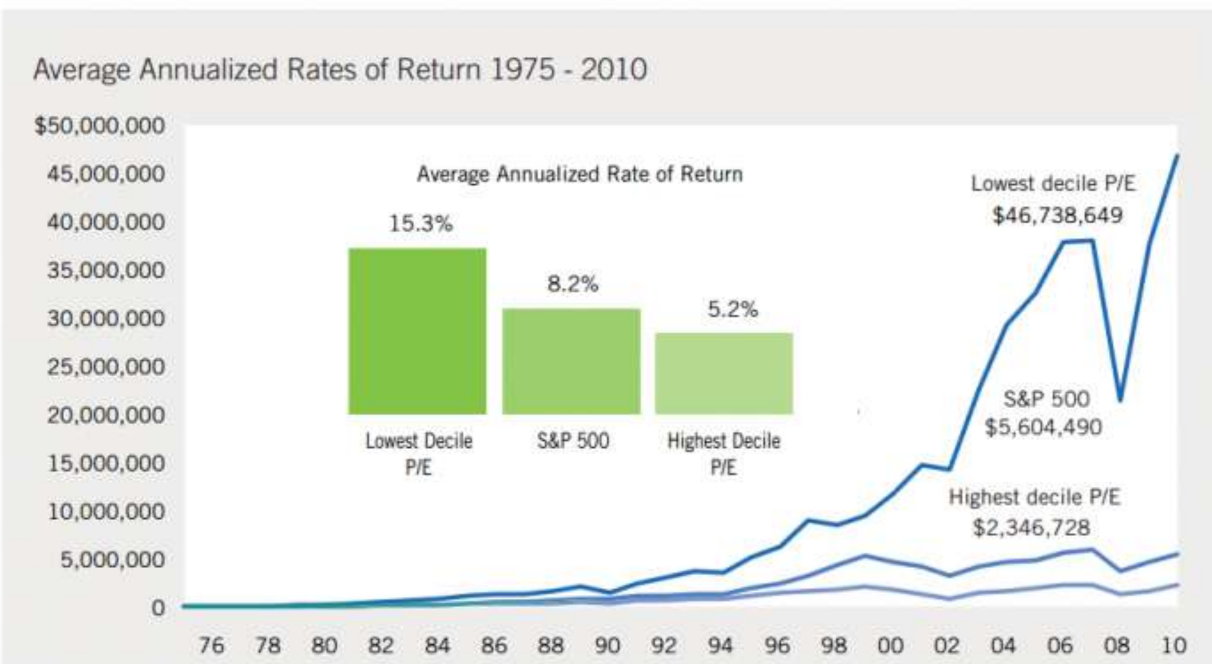
– Unknown

Common Sense Idea: If you are offered $500,000 for a $250,000 house, you take the money. It is the same with a stock. If you can sell a stock for much more than it is worth , you should. Take the money and *reinvest* it into businesses that pay higher dividends.

Financial Rule: Sell when the normalized P/E ratio is over 40.

Evidence: The lowest decile of P/E stocks outperformed the highest decile by 9.02% per year from 1975 to 2010.

Source: The Case for Value by Brandes Investment Partners, Page 2



Source: Compustat via Faceset. Deciles are rebalanced annually. Data as at 12/31/10.

Rule # 7 – The Survival of the Fittest Rule

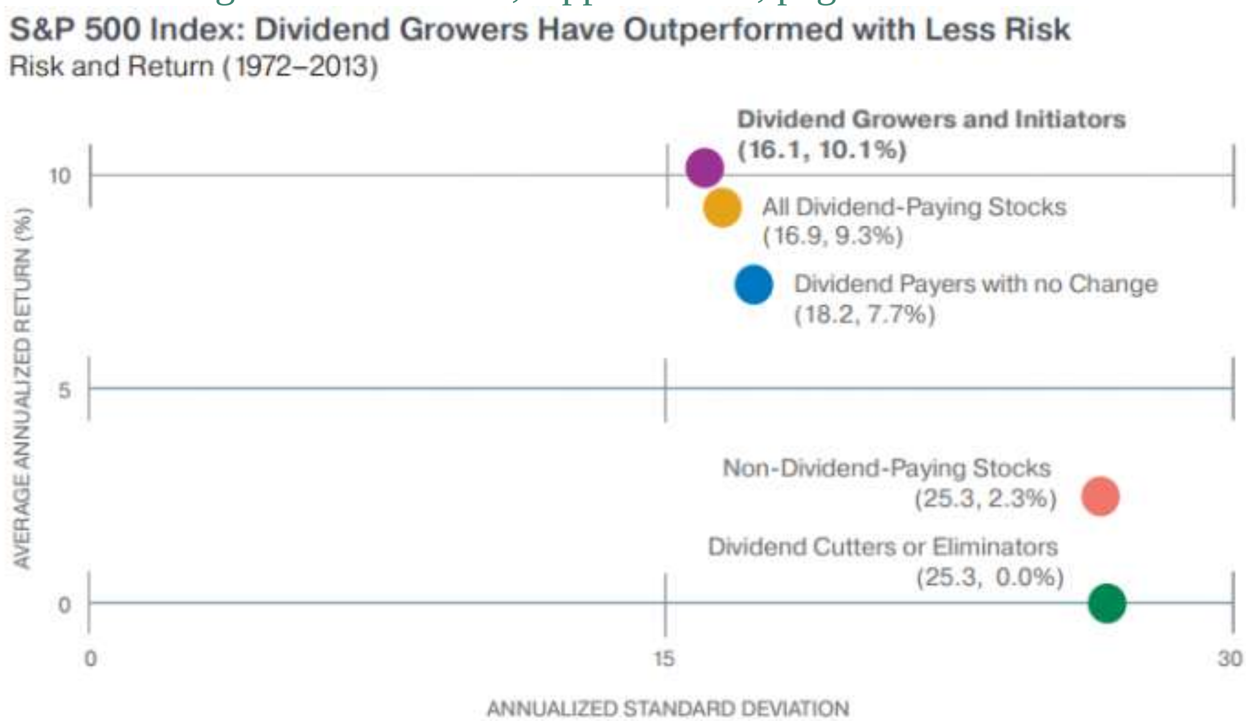
"When the facts change, I change my mind. What do you do, sir?"
– John Maynard Keynes

Common Sense Idea: If a stock you own reduces its dividend, it is paying you less over time instead of more. This is the opposite of what should happen. You must admit the business has lost its safety and reinvest the proceeds of the sale into a more stable business.

Financial Rule: Sell when the dividend payment is reduced or eliminated.

Evidence: Stocks that reduced or eliminated their dividends had a 0% return from 1972 through 2013.

Source: Rising Dividends Fund, Oppenheimer, page 4



Rule 8: Portfolio Management

Rule # 8 – The Hedge Your Bets Rule

"The only investors who shouldn't diversify are those who are right 100% of the time"

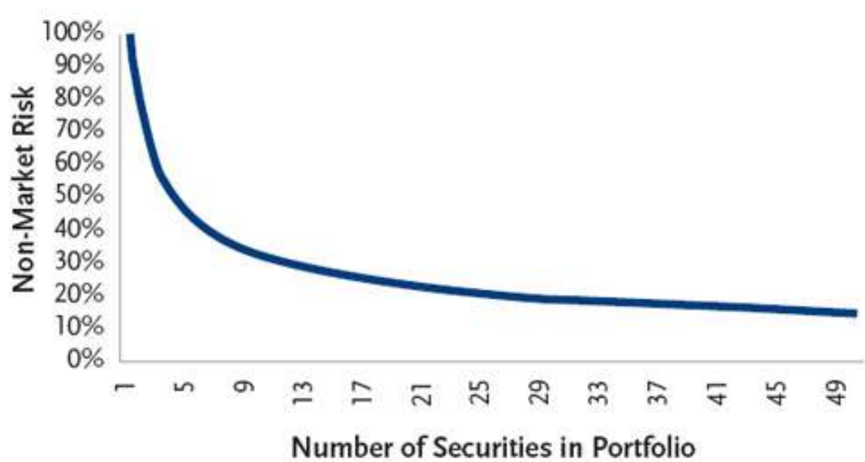
– John Templeton

Common Sense Idea: There are 10 stocks on your list each month. They are ranked *in order*. When you go to invest, buy the highest ranked stock of which you own the least of on the list. You will be spreading your bets over different businesses through time while still be investing in great businesses at fair or better prices.

Financial Rule: Buy the highest ranked stock of which you own the least.

Evidence: 90% of the benefits of diversification come from owning just 12 to 18 stocks.

Source: Frank Reilly and Keith Brown, Investment Analysis and Portfolio Management, page 213



Source: "Risk, Market Sensitivity and Diversification," Financial Analysts Journal, January/February 1972, pp. 74-79