# Dividend Equity Strategy – Third Quarter Review

Since the markets bottomed on March 6, stock prices have moved steadily higher based on better economic data and improved investor confidence. Early in the market recovery investors made a "risk-bet" and lower-rated stocks jumped 60-100% during the months of April and May. Investors continued this strategy during the third-quarter of 2009 and there appears to no shift into higher-quality names as the fourth-quarter gets underway.

The Strategy posted a 20.53% return during the third-quarter (500 basis points above its benchmark) and is now up 6.18% during the past twelve months and 28.84% in 2009. The Strategy's yield is currently at 4.25%, which is also higher than its benchmark and the S&P 500. In comparison, most dividend stocks have well underperformed the general markets during the past two years. In fact, the Merrill Lynch Dividend Stock model (+3% dividend yield) has posted a -3% year-to-date return through September 30.

While the bulk of the Strategy's holdings are classified as fairly conservative, there are a few names in the portfolio that have participated in the "risk-bet" during the first few weeks of the market recovery and again during the third-quarter. Stocks such as CBS (+81% in 2nd Quarter; +73% in 3rd Quarter), RR Donnelley (+62%;+84%), Tupperware (54%; 50%), and Lubrizol (48%; 46%) paced the Strategy during the second and third quarters of 2009. Their respective performance since that market bottom on March 6 is even more impressive: RR Donnelley (+299%), CBS (+292%), Tupperware (+254%), and Lubrizol (+181%).

The Strategy's performance during the third quarter was broad based and outperformed the S&P 500 in 9 of the 10 economic sectors. For example, the Strategy's holdings in the Industrial sector rose 42% during the quarter versus a 20% sector return for the S&P 500. The Strategy also posted a sizable outperformance with its holdings in the Consumer Discretionary sector (+36%) versus the S&P 500 at +18%. Similar to the second quarter, performance in the more defensive sectors (Health Care, Energy, Telecom, and Utilities) lagged in both the Strategy and the S&P 500. For the time being, investors are clearly willing to accept a higher risk/reward trade-off versus more conservative, blue-chip stocks. This attitude will have to change if the market rally is to continue into 2010.

Our optimism for the future direction of stock prices is slightly more reserved than it was three-months ago. Valuations have risen to the point where it is hard to find bargains in today's market. Our Strategy includes a strict guideline that any new holding must include a 3% dividend yield on the day it is added to the portfolio. The combination of a dramatic market recovery and dearth of any dividend increases has reduced our universe of names that qualify for the Strategy. As a result, we currently hold a 7.5% weighting in cash. This will continue until we can find attractive stocks that meet our dividend yield requirement and are positioned correctly for the next market cycle.

**Recognitions in 2009:**

**Morningstar Database of Investment Managers**

#3 of 429 Large-Cap Value Managers (1yr returns)
#1Ranked Dividend-Focused Manager (YTD and 1yr returns)
(as of August 31, 2009)

**Informais Investment Solutions**

"Top Gun" Manager (1yr returns)

.