Dividend Growth Portfolio

Sizemore Capital
Management

Investing in a World of Uncertainty

For a generation of investors accustomed to seeing consistent capital gains, the past decade has been unpleasant, to put it mildly. In the fourth quarter of 2012, the S&P 500 index sits at levels first seen in 1999—meaning that investors have waited thirteen years to see a profit on their original investment.

Thirteen years is a long time to go without seeing returns, and it has forced many Americans to rethink their retirement goals. Some have called the 2000s the "Lost Decade" for investors, but the story is actually much worse than that. More than simply suffering through a long period of bad results, their belief in the capital markets as a source of long-term returns has been shattered.

Not all asset classes fared poorly, however. Investments that depended purely on capital appreciation and on "paper" earnings saw negative returns. But many asset classes that paid consistent streams of income in the form of dividends and other distributions performed quite well over the past thirteen years. Even in the case of the S&P 500—which was flat on a price basis—investors would have enjoyed cumulative returns of nearly 30% by reinvesting their dividends.

Dividend-paying stocks, real estate investment trusts ("REITs") and master limited partnerships ("MLPs") have all performed exceptionally well since 2000. The Dividend Achievers Index, which includes only companies with at least 10 consecutive years of rising dividends, enjoyed total returns of over 60% since 2000. *The Dow Jones Equity REIT Index enjoyed total returns of 345% and the Alerian MLP Index enjoyed total returns of a staggering 741%.*

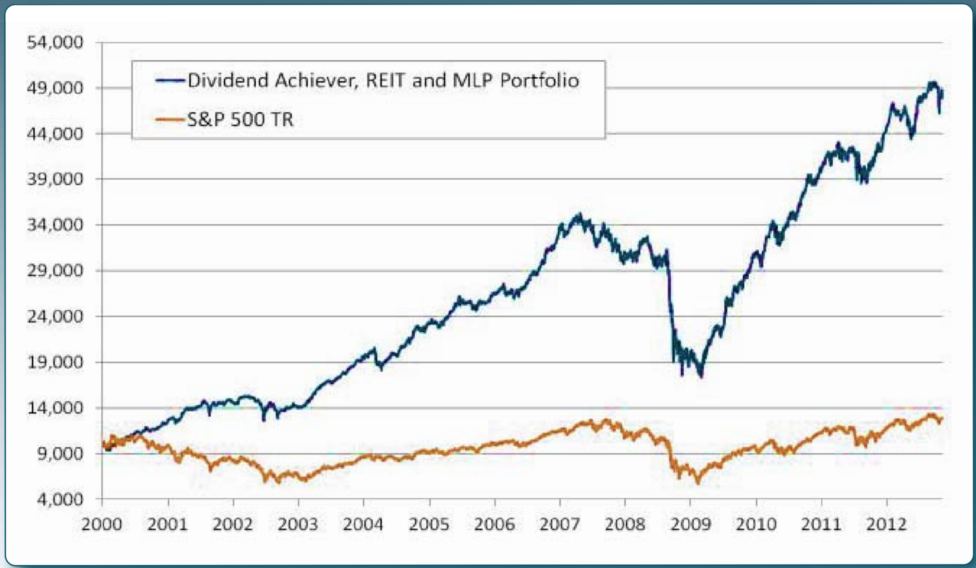
We should note that these are returns of broad indexes of securities, not individual stocks. Investors who selected the best-performing securities within each index enjoyed much higher returns.

Dividend Growth Investing vs. Traditional Investing: Growth of $10,000 Jan 2000 – November 2012

Source: Bloomberg

Fig 1

Dividend Growth, REIT & MLP vs. Traditional Investing: Growth of $10,000 Jan 2000 – November 2012



Source: Bloomberg

Fig 2

Figure 1 represents the performance of the Dividend Achievers Index vs. the performance of the traditional S&P 500. Figure 2 represents the returns of a portfolio consisting of one-third Dividend Achievers, one-third real estate investment trusts and one-third master limited partnerships.

Why Dividend Growth Investing Works

Most investors instinctively understand why dividend-focused investing makes sense. Reported earnings are subject to arcane accounting rules that can distort the true health of a company. Dividends are paid in cold, hard cash, which cannot be distorted with creative accounting.

And in any event, when you depend purely on capital gains, your returns are held hostage to the prevailing market sentiment at that time. When we experience long bear markets—as we have for much of the past thirteen years—you depend on the volatile moods of other investors to realize a return. When your returns are instead focused on dividends and other cash distributions, the whims of the market matter much less and the fundamentals of the businesses matter much more.

We understand the value of being paid a current dividend. But dividend growth investing is so much more than searching for stocks with high current yields. In fact, an exceptionally high dividend yield can be the sign of a company is distress—and exceptionally high dividend yields often times come back down to earth via painful dividend cuts.

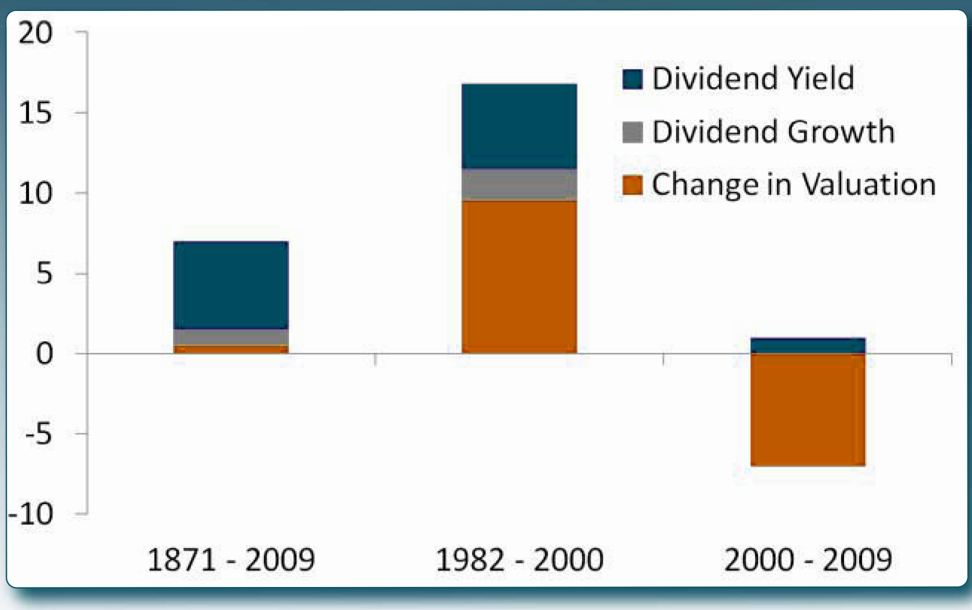
This is why Sizemore Capital Management focuses on dividend *growth* investing rather than simply chasing high yields. When a company raises its cash dividend, it sends a powerful message to the investing public: this is a healthy company and one that management believes has room to grow. In fact, management is so confident in its ability to grow that it is comfortable returning more of its current cash hoard to investors. Companies with a recent history of raising their dividends are generally companies with a bright future.

For these reasons, Sizemore Capital Management uses the Dividend Achievers Index in our modeling. The Dividend Achievers Index is limited to companies that have raised their dividend for a minimum of ten consecutive years. Think about that for a moment. A company that was able to raise its dividend over the past ten years of economic chaos and market upheaval is a company that can survive Armageddon. Because figuratively speaking, they already have.

Varying estimates have suggested that dividends and dividend reinvestment may represent as much as 50% to 90% of the total returns experienced by most investors over long periods of time. Over the past thirteen years, this has certainly been the case for most investors.

Historical research by James Montier of GMO found that over a five-year horizon 80 percent of equity returns are driven by dividend yields and by dividend growth. Taken over the very long term, that figure rises to 90 percent. It was only during the "cult of equity" era of 1982 to 2000 when capital gains became such a large part of investors' total return. So, the focus today on dividend investing is really nothing more than a return to the basics.

S&P 500 Returns by Source



Source: James Montier, "A Man From a Different Time," August 2010

Fig 3

The Dividend Growth Portfolio

The Sizemore Capital Dividend Growth Portfolio seeks to generate consistent returns for investors by putting these insights on dividend investing to work. The portfolio has a target allocation of 30-35% in equities that pay a respectable dividend that Sizemore Capital Management expects will grow over time. Another 30% is allocated to stable, conservative real estate investment trusts with underlying real estate investments that

Sizemore Capital Management believes are well suited given current economic conditions and demographic shifts. Master limited partnerships consisting primarily of conservative oil and gas pipelines comprise an additional 30% of the target allocation, and the final 5-10% is reserved for special income opportunities that do not fit into one of the categories above. Sizemore Capital Management will change the targeted allocations as market conditions warrant, but we believe that this presents a well-diversified mix of the best and highest-quality income producing investments currently available to investors.

While Sizemore Capital Management does not try to aggressively time the movements of the stock market, we do believe that there are times when it is prudent to put less capital at risk. During times of macro instability or capital market turbulence, it may make sense to go partially or entirely to cash. The same is true of periods of overvaluation. Every investment has a reasonable price, and when market prices exceed what we consider to be reasonable, we prefer to remain in cash.

An International Perspective

In today's capital markets, national borders are increasingly meaningless. Company operations spread across continents, as does investment capital. Sizemore Capital Management believes that this creates opportunity, particularly for what we consider an "Emerging Markets Lite" strategy.

We expect economic growth in the United States and Europe to be modest in the decade ahead, but we expect to see robust growth from many emerging markets. Countries in Latin America, East Asia, the Middle East and Africa are quickly climbing the global ranks of wealth and development.

Unfortunately, directly investing in emerging markets can be exceptionally risky. Sizemore Capital Management will periodically invest directly in emerging markets, but our preferred way to get access to emerging market growth is indirectly—through American and European companies with a strong presence in emerging markets. This international focus is an important part of our investment methodology.

About Sizemore Capital Management

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Sizemore Capital Management is a Registered Investment Advisor ("RIA") located in Dallas, Texas. The firm specializes in managing globally diversified portfolios with a strong emphasis on current income and managing risk.

Charles Lewis Sizemore, CFA is the Principal and Chief Investment Officer of Sizemore Capital Management. Mr. Sizemore is also the founder and editor of *The Sizemore Investment Letter*, a monthly newsletter dedicated to finding superior investments backed by powerful macro trends.

Mr. Sizemore has been a repeat guest on Bloomberg TV and Fox Business News, has been quoted in *Barron's* magazine, *The Wall Street Journal* and *The Washington Post*, is a contributor to *Forbes* Moneybuilder, and has been featured in numerous publications and well-reputed financial websites, including MarketWatch, TheStreet.com, InvestorPlace, MSN Money, Seeking Alpha, The Daily Reckoning, Benzinga and Minyanville.

He is also the co-author, along with Douglas C. Robinson, of *Boom or Bust: Understanding and Profiting from a Changing Consumer Economy* (iUniverse, 2008).

Mr. Sizemore holds a master's degree in Finance and Accounting from the London School of Economics in the United Kingdom and a Bachelor of Business Administration in Finance with an International Emphasis from Texas Christian University in Fort Worth, Texas, where he graduated Magna Cum Laude and as a Phi Beta Kappa scholar.

Mr. Sizemore maintains the **Chartered Financial Analyst (CFA)** designation in good standing.

Prior to founding Sizemore Capital Management, Mr. Sizemore worked alongside best-selling financial author and economic strategist Harry S. Dent, Jr. in creating original research on the effects of changing global demographics on asset returns and economic growth and was a regular contributor to the *HS Dent Forecast* monthly newsletter.

Ethics & Standards

Sizemore Capital has adopted the CFA Institute Asset Manager Code of Conduct, which outlines the ethical and professional responsibilities of firms that manage assets on behalf of clients.

The CFA Institute's mission is to lead the investment profession globally by setting the highest standards of ethics, education, and professional excellence. To foster this culture of ethics and professionalism, CFA Institute offers this voluntary code of conduct. Additionally, firm personnel are expected to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Disclaimer:

The information in this report is for general informational purposes only and should not be considered specific investment advice or as a solicitation to buy or sell any security. Investors should consult with their financial or investment advisor before implementing any of the strategies outlined in this report. Some strategies my not be appropriate for all investors.

Sizemore Capital Management manages its portfolios with strict risk management processes, but the risk of loss is present with any investment in the capital markets. The standard warning applies: past performance is not a guarantee of future returns. In addition to assuming the usual risks associated with investment in the U.S. capital markets, Sizemore Capital Management is an active participant in foreign capital markets. When investing in foreign markets, currency and political risks are present.

As a Registered Investment Advisor, Sizemore Capital Management does not collect sales commissions on any securities or products purchased or sold. The firm earns a management fee calculated as a percentage of assets managed. Sizemore Capital Management may partner with other Registered Investment Advisory firms or with non-RIA financial advisors. In these cases, any relevant referral arrangements will be fully disclosed to clients.