

## Navigator® High Dividend Equity

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## The Power of Dividends

The final days of the fourth quarter were action packed with news from Washington, D.C. including a U.S.-China trade agreement, the historic USMCA bill and presidential impeachment inquiry. Throughout the year, the trade dispute was foremost in investors' minds until mid-October with the highly anticipated announcement of a Phase One trade deal.

For the quarter, the S&P 500 Index returned +9.07%, fueled by positive trade negotiations, the Federal Reserve decision to maintain an accommodative stance and better than expected 3Q corporate earnings. In 2019, the S&P 500 Index rose 31.5%, the highest return since 2013 as well as the second-best year since 2000. After a dramatic rotation into value stocks in September, large-cap growth stocks ultimately outperformed with the Russell Top 200 Growth Index surging 36.4%.

Bond proxy stocks lagged during the fourth quarter melt-up as the Technology sector rose +14.0%, Healthcare +13.8 and Financials +9.8%. The weakest sectors included Energy rising +4.4, Industrials +5.0% and Materials +5.8%. For the year, it was a broad-based rally across the market with 10 out of 11 sectors gaining at least 18.6% except for Energy, which returned 7.6%.

Throughout the year, not all the data was positive as business investment weakened and the ISM Manufacturing Index contracted with four readings below 50 August through November. Foreign economic growth was anemic with Germany and the U.K. posting contractions in the second quarter. Despite the negative data, the market rose every month in 2019 except for May and August.

Since 1929, the power of compounding dividends is clear with 41.2% of the S&P 500 Index total return derived from income. Dividend stocks played a big part in the U.S. market recovery after the market low on March 9, 2009. From the low through Q3 2019, the S&P 500 Index aggregate revenues, earnings and dividends increased 33%, 240% and 101%, respectively.

Starting in 1959, the S&P 500 Index compound annual growth rate (CAGR) of the trailing four-quarter dividend growth has been between 5-6%. Two examples of quality companies increasing their dividend in the last 5 years are Lockheed Martin Corp, with 5-year annualized dividend growth 10.3% and total return of +148.4%. Apple Computer, Inc. initiated a dividend in 2012, which returned 10.4% annualized dividend growth with a 5-year total return of 201.4%.

At the start of a new decade, the S&P 500 Index trades at a premium with forward 12-month P/E of 19.7x versus the 10-year average of 14.9x. As of Q3, the forward 12-month P/E was 16.8x. The 4Q melt-up may pose a short-term headwind the first half of 2020, if interest rates rise, Middle East tensions persist, or there is a stand-off in U.S.-China negotiations. Acceleration of earnings growth will be necessary after the 2019 estimated growth of 0.3% and revenue growth of 3.8%. Analysts are project-

*Source: Ned Davis, Ed Yardeni  
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ing 2020 organic growth will rebound with earnings growth of 9.6% and revenue growth of 5.4%, reinforcing hopes for higher market returns.

The High Dividend Equity portfolio diversifies across bond proxy sectors like Utilities and Staples as well as growth sectors including Technology and Consumer Discretionary. In 2019, the portfolio benefitted from an overweight in Technology throughout the year and underweight REITs, Utilities and Staples in the fourth quarter. We continue to maintain a larger position in "dividend growers" versus "high yield" dividend stocks, which tend to underperform in an upward trending market or rising rate scenario.

## Stock and Sector Attribution

For the year, the top contributing sectors were Energy, Utilities, and Financials versus the detractors Healthcare, Communication Services and Real Estate. In the fourth quarter, the highest contributors were Healthcare, Energy, Utilities versus the weakest Communications, Staples and Industri-

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

Beta measures volatility, or systematic risk, of an individual stock in comparison to the unsystematic risk of the entire market. In statistical terms, beta represents the slope of the line through a regression of data points from an individual stock's returns against those of the market.

The ISM Manufacturing Index is a widely-watched indicator of recent U.S. economic activity. The index is often referred to as the Purchasing Manager's Index (PMI). Based on a survey of purchasing managers at more than 300 manufacturing firms by the Institute for Supply Management (ISM), the index monitors changes in production levels from month to month. The index is the core of the ISM Manufacturing Report.

The Russell Top 200 Growth Index offers measures the performance of the especially large cap segment of the US equity universe represented by stocks in the largest 200 by market cap.

The price-earnings ratio, also known as P/E ratio or P/E, is the ratio of a company's share price to the company's earnings per share.

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
<b>Top 5 Contributors</b>			
UNH	UnitedHealth Group Incorporated	2.55	0.81
BAC	Bank of America Corp	3.15	0.64
JPM	JPMorgan Chase & Co.	2.73	0.51
AAPL	Apple Inc.	1.75	0.50
CFG	Citizens Financial Group, Inc.	2.49	0.38

Source: Factset. For illustrative purposes only.

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
<b>Top 5 Detractors</b>			
CCEP	Coca-Cola European Partners Plc	1.19	-0.17
PGR	Progressive Corporation	0.70	-0.16
WELL	Welltower, Inc.	1.42	-0.14
CNK	Cinemark Holdings, Inc.	0.93	-0.13
CINF	Cincinnati Financial Corporation	1.07	-0.11

Source: Factset. For illustrative purposes only.

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