

Financial Foresight

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The Power of Dividend Growth

We are often taught that more risk equals more reward. When it comes to your portfolio most people want the reward but not the risk. What if there were a way to get the returns you want without the higher risk? I believe there is a strategy and its power is in the dividend, more specifically in dividend growth. From 1957-2006 the S&P 500 has gained 10.6% a year. However, if you remove the impact of dividends the return drops to 7.1%. Dividends make up 33% of the total return (source BTN Research). With compounding the numbers become even more impressive. Consider a \$5,000 annual investment earning 7.1%, compounding over 20 years would grow to \$221,942. If the annual return were 10.6% your investment would equal \$339,141.

Lets look at the importance of dividend growth by looking at four separate groups of S&P 500 stocks and their average annual performance from 1972-2005.

Dividend growers & initiators	10.6%
Dividend payers	
with no change in dividends	7.3%
Dividend-cutters or eliminators	5.6%
Non-dividend paying stocks	4.1%

*Ned Davis Research

Here is an example of companies which have increased their dividends in the last 3 months: ADM 15%, Colgate Palmolive 13%, Chubb 16%, Coca-Cola 9.67%, Pfizer 16%, GE 12%, AT&T 6.6%, Bemis 10.5% and Becton Dickinson 13.95%.

In addition to a growing dividend income and stock performance there are other key reasons to own dividend growth stocks. Dividend growers have historically been shown to have a lower beta (risk) than the S&P 500. Also (qualified) dividends are only taxed at a maximum federal rate of 15% for 2007, 5% for taxpayers in the 10-15% tax bracket. In 2008-2010, taxpayers in the 15% tax bracket or lower will pay NO federal tax on (qualified) dividends under current law.

In the US market, out of the 10,000 plus stocks that trade on the North American exchanges, only 2.8% qualify as Dividend Achievers. (Mergent primarily defines a Dividend Achiever as a U.S. company that has increased its annual regular dividend payments for the last ten or more consecutive years.) An even more select group of 66 companies has raised its dividend for at least 25 years. Overseas you would find a group of 81 companies with at least a five year record of paying and raising their dividends*.

The results are pretty clear: Focus your portfolio towards companies that pay a dividend and have a history of raising them. Don't forget to diversify your holdings across various sectors to reduce risk, monitor your selections, and you'll likely reap the rewards in the long run.

Past performance is no guarantee of future results. No investment strategy is guaranteed; your investments could lose value. Stocks listed in this article are not to be construed as a recommendation and are for illustration purposes only.

**Source: www.mergent.com*

Elder Mediation and Long Term Care Planning

By Duncan A. Winton

Family fights over last wills and testaments are notorious. But what if the fight happens while the family member is alive? And instead of the furniture and estate remains, the fight is over where the family member will live – and who will be her caregiver before she passes away? Welcome to an occupation that couldn't have been imagined a generation ago: elder mediation.

The stakes for the elder couldn't be higher: maintaining family harmony (or minimizing anguish) and control over money and destiny as the elder ages. If you are planning your own retirement, taking into consideration

long-term-care needs can help avoid painful and expensive court fights or mediation.

What are the kinds of decisions that might cause someone to seek mediation?

Where should Mom (or Dad) live when children are scattered, and there may be stepfamilies and ties to friends which are stronger than those to family?

Holiday visits: does Mom travel for holidays, or does some or all of the family travel to her?

Should Mom's money be used to pay for private care solutions and/or insurance? Or, should she instead pursue a strategy of divesting assets to rely on public assistance

programs if long-term care is needed? This decision can have tremendous implications on quality of care and Mom's autonomy.

If one child helps out Mom because he lives closer, how should other siblings contribute in a way that the family considers fair?

The issue is receiving national attention. In early January 2007, Carla K. Johnson, a writer with Associated Press, wrote an article "Decisions About Aging Parents Revive Conflicts in Adult Siblings." It was run in many newspapers and online news sites, including The Washington Post and Forbes.com.

What did people do in the past about these issues? Twenty years ago, long term care

options were limited primarily to home care provided by family, or nursing homes. Options such as assisted living, professional home care and continuing care retirement communities weren't widely available. Elders didn't live as long, on average, so any conflict over these decisions didn't usually last many years. In the past, these problems simmered until they resolved themselves or until someone was motivated to seek relief from a court, perhaps involving guardianship.

When elders can't afford to bring the care they need into their homes, hurt feelings and strain among family members often results. Other solutions, such as assisted living or continuing care retirement communities, carry a price tag that would break the budget of the senior or their loving children.

The alternative is clear: by purchasing long term care insurance in advance of the need for care, seniors and their families have a pile of money to rely on when long term care

is needed. This relieves stress and opens the doors to attractive private pay options.

Long term care insurance doesn't fix all the problems of long term care and aging, but the money it provides sure makes things easier.

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Home Improvements that Pay You Back

By Rod Alexander

Purchasing a home is perhaps the most significant investment that many Americans will ever make. One way that millions of Americans are increasing the return and value of their homes is through remodeling. Remodeling is not only a great way to enhance your investment, but it can also provide you with greater satisfaction with your living environment.

Remodeling projects can offer significant rewards whether you are looking to put your house on the market in the immediate future or even if you are not interested in selling for years to come. But before you get started, you need to identify which remodeling projects will increase both the resale value of your home as well as your day-to-day comfort.

Here are some ideas for home improvement projects that pay off.

Kitchens. Kitchen remodels are among the best for recouping the cost of renovations. Modernize with new appliances, counter tops and cabinets.

Bathrooms. Adding a bathroom increases the value of your home. Upgrades such as light fixtures, vanities with plenty of storage, ceramic tile or marble, and a new coat of paint are just some of the ways to improve a bathroom.

Decks. Building a deck enhances your enjoyment of your yard and lets you recover approximately 85 percent of the project costs in added value.

New rooms. Converting an attic into a bedroom or adding a family room are great ways to add value and make your home fit your needs as your family grows.

Painting. One of the most affordable and effective improvements you can make to your home is painting both the interior and exterior. Painting the exterior not only helps maintain the beauty of the home, it also helps prevent damage to the siding.

Enhancing Energy Efficiency. Replacing your old furnace, putting in new windows and doors, and replacing your roof can help you improve your monthly energy costs as well as enhance the resale value of your home. Some states even offer credits for remodeling projects designed to enhance energy efficiency in the home.

So how can you pay for your remodeling projects? According to a recent nationwide study sponsored by GMAC Mortgage, over half of consumers would pay for their remodeling projects with cash from either their checking or savings. However, approximately 29 percent would use a home equity line of credit or home equity loan.

Why are more and more people turning to the home equity option? One reason is that borrowing against the equity in your home is

often cheaper than maxing out credit cards that usually carry higher interest rates. In addition, payments on a home equity loan or home equity line of credit may be tax deductible. How do you decide whether to get a home equity loan or home equity line of credit? Here are some tips to consider:

A home equity loan provides a flat amount of funds that you pay back in fixed monthly payments over a set period of time. If you like the idea of a fixed, non-adjusting rate of interest and a constant monthly payment and you are also certain of your total costs while allowing for some over-budgeting, a home equity loan might make sense for you. The home equity line of credit is like a credit card by nature, with the homeowner accessing cash when they have the need. The interest rate is usually variable, often tied to the fluctuation of the prime rate of interest. You can make minimum payments and allow for month-to-month decisions on cash flow. The home equity line of credit is a revolving line of credit that stays open as long as you haven't used up your credit limit.

Whether you want to increase the resale value of your house or simply make your house more comfortable, now is still a good time to tap into your home equity to get started on your remodeling project.

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