WORTH MAGAZINE · W · ESTABLISHED 1992

MAKE
A Plane for Land and Sea; Huffington Post/AOL's Rocky Road; How Partners Make It Work

GROW
The Most Responsible Nonprofits; Changing Your Financial Advisor; Global Investment Hot Spots

LIVE
How to Pick a Bodyguard; Teaching Philanthropy to Kids; Exquisite Gifts for the Holidays

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

NAVIGATING WINDS OF CHANGE—EXPERT ADVICE FOR 2012

WORTH.COM
15
VOLUME 20 | EDITION 06

Delaware Valley | **Leading Wealth Advisor**

The Haverford Trust Company

Binney H.C. Wietlisbach, President; Henry Smith, Chief Investment Officer; John Donaldson, CFA®, Vice President and Director of Fixed Income; Timothy Hoyle, CFA®, Vice President, Research; Jeffrey Bagley, CFA®, Vice President, Portfolio Manager and Senior Research Analyst

"How can a fixed-income investor maintain income as bonds mature in this low-rate environment?"

By The Haverford Trust Company

Investors across the globe are faced with a stark dilemma. Interest rates have fallen dramatically, decreasing fixed-income investors' standard of living and greatly increasing their interest rate risk. Few like the prospect of having to lock up their money for a full 10 years, only to earn 2 percent when investing in a U.S. Treasury note.

At these low rates—especially on an after-tax basis—investors run a great risk of losing purchasing power if inflation trends higher in coming years. If interest rates rise, investors face a loss of principal if they sell their bonds before maturity. Clearly, the risk-reward tradeoff is not all that attractive. Of course, one can consider higher-risk bonds such as those issued by the corporate sector. Yields will be greater, but not by much.

One answer to this dilemma is to consider dividend income from high-quality common stocks. Equities are much more volatile than bonds, to be sure, so one must be comfortable with the added volatility that accompanies an investment in the stock market. But with the bond market at historic highs, and with the stock market at historically low levels of valuation, longer-term equity investors could do very well relative to fixed-income investors.

Comparing the dividend yield on the S&P 500 index to the yield on the 10-year Treasury note is a helpful way to measure the attractiveness of stocks versus bonds. For the past 50 years, it was extremely rare for the stock market's dividend yield to exceed the yield of the Treasury note. As we go to press, the market yields 2.4 percent, a full 50 basis points higher than the Treasury yield of 1.9 percent.

It is important to note the average yield of 2.4 percent includes many stocks that do not pay any dividend, as well as stocks that pay only meager dividends. It is possible to put together a well-diversified portfolio of high-quality stocks that has a much greater yield. For example, as of October 1, Haverford's Quality Dividend Value portfolio was yielding 4.3 percent.

Unlike the interest income on bonds, which is fixed in nature and thus opens investors to the risk of losing purchasing power, we expect the dividend income generated by a portfolio of high-quality stocks to grow each year. This is extremely important as growing dividend payments will likely hedge against future inflation.

Dividend income is tangible evidence of a company's good fundamentals and proof that the company is friendly to shareholders. Furthermore, while past performance is no guarantee of future results, dividend-paying stocks have historically performed better than non-dividend-paying stocks. They have provided better downside protection, and, over time, dividend income has comprised a large portion of the stock market's total return. In this day and age of high-frequency trading in which the fast money trades stock futures and indexes as opposed to individual stocks, companies that favor higher dividend payouts are able to differentiate their stock from the rest of the pack.

In summary, although equity investing entails more risk than bonds, at this juncture high-dividend-paying stocks could well be a good answer for fixed-income investors looking to maintain their standard of living.

The opinions expressed in this article are those of Haverford. Views and security holdings are subject to change at any time based on market and other conditions. This article is for informational purposes only and should not be construed as investment advice or recommendations with respect to the information or specific securities presented. No forecasts are guaranteed and past performance is no guarantee of future results. The S&P 500 is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy. It is not possible to invest directly in an index. Data as of 10/1/11.

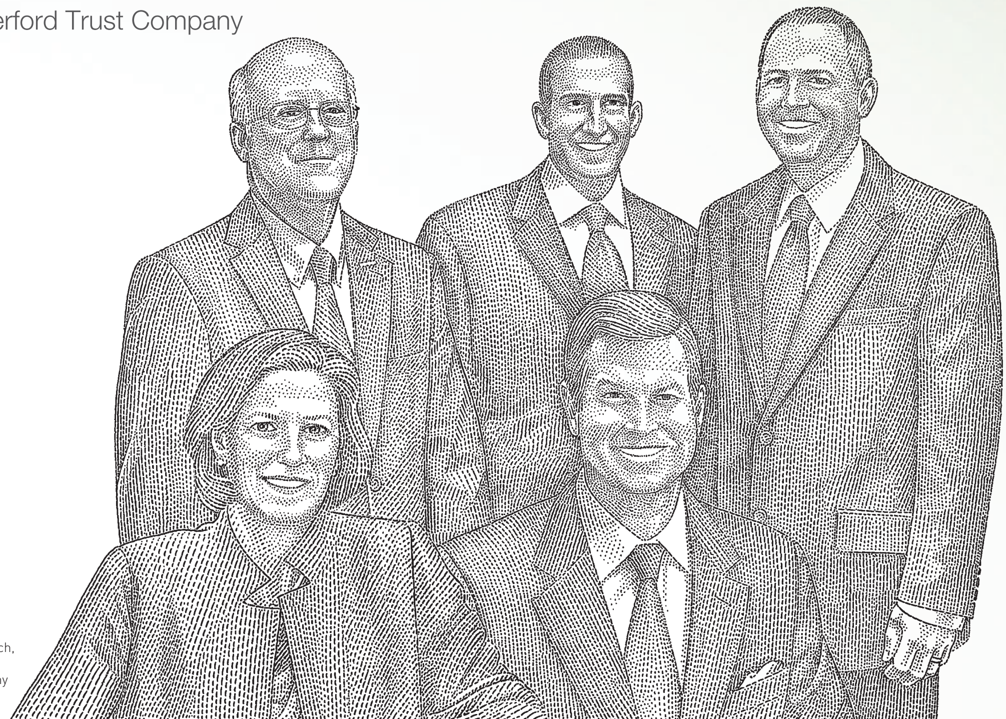
The Delaware Valley region is defined as the following counties: Pennsylvania—Berks, Bucks, Chester, Delaware, Montgomery, Philadelphia; Delaware—New Castle; Maryland—Cecil; and New Jersey—Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, Salem.

"Comparing the dividend yield on the S&P 500 index to the yield on the 10-year Treasury note is a helpful way to measure the attractiveness of stocks versus bonds."

– The Haverford Trust Company

How to reach The Haverford Trust Company

We can be reached at 610.995.8700.



Seated: Binney H.C. Wietlisbach, Henry Smith. *Standing, left to right:* John Donaldson, Timothy Hoyle and Jeffrey Bagley

About The Haverford Trust Company

The Haverford Trust Company provides highly personalized investment management services based on its Quality Investing approach. Refined over three decades, Haverford's Quality Investing strategy is committed to maximizing returns while minimizing risk throughout the entire market cycle. Adhering to this consistent, successful investment philosophy since its inception in 1979 has enabled Haverford's client base and assets under management to continually grow. Today, assets under management exceed $6.25 billion*. The Haverford Trust Company professionals take pride in the fact that the firm is privately owned and believe that independence gives them the flexibility to better serve their many clients, whether individual or institutional.

Assets Under Management
$6.25 billion*

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$1 million

Largest Client Net Worth
$250 million (firm)

Number of Team Members
65

Website
www.haverfordquality.com

Compensation Method
Asset-based fees

Primary Custodian for Investor Assets The Haverford Trust Company

Professional Services Provided Money management and investment advisory services, including: strategy development, written investment policy, asset allocation, asset management, performance reporting and tax-efficient strategies

Association Membership CFA Institute

Email bwietlisbach@haverfordquality.com
hsmith@haverfordquality.com
jdonaldson@haverfordquality.com
thoyle@haverfordquality.com
jbagley@haverfordquality.com

*Including assets under management and advisement for The Haverford Trust Company and Haverford Financial Services as of 10/31//2011.

ILLUSTRATION BY KEVIN SPROULS

The Haverford Trust Company | Three Radnor Corporate Center, Suite 450, Radnor, PA 19087 | 610.995.8700

Henry Smith
Chief Investment Officer

Binney H.C. Wietlisbach
President

John Donaldson, CFA®
Vice President and Director of Fixed Income

Jeffrey Bagley, CFA®
Vice President, Portfolio Manager and Senior Research Analyst

Timothy Hoyle, CFA®
Vice President, Research

The Haverford Trust Company
Three Radnor Corporate Center, Suite 450
Radnor, PA 19087
Tel. 610.995.8700

hsmith@haverfordquality.com
bwietlisbach@haverfordquality.com
jdonaldson@haverfordquality.com
jbagley@haverfordquality.com
thoyle@haverfordquality.com
www.haverfordquality.com

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE