

HAVERFORD

QUALITY INVESTING

THE HAVERFORD TRUST COMPANY

WOMEN'S SPEAKER SERIES 2011

“THE POWER OF DIVIDENDS”

Presented by

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Agenda

1. What is a Dividend?
2. Why are Dividends Important?
3. Dividends' Prospects for 2011
4. Summary and Q&A

What is a Dividend?

Sum of money paid regularly (usually quarterly) by a company to its shareholders out of its profits.

Glossary of Financial Terms

Annualized Return - An annualized rate of return is the return on an investment over a period other than one year (such as a month, or two years) multiplied or divided to give a comparable one-year return.

Asset Allocation - An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon.

Balance Sheet – A Financial Statement that summarizes a company's assets (what the company owns), liabilities (what a company owes) and shareholders' equity (the amount invested by the shareholder) at a specific point in time. (Assets = Liabilities + Shareholders' Equity)

Bear Market - The prices of securities are falling along with, widespread pessimism. A downturn of 20% or more in multiple broad market indexes, such as the Dow Jones Industrial Average (DJIA) or Standard & Poor's 500 Index (S&P 500), over at least a two-month period, is considered an entry into a bear market.

Bull Market - The prices of securities are rising or are expected to rise. Bull markets are characterized by optimism, investor confidence and expectations that strong results will continue.

Dividend – A portion of a publicly-traded company or fund's earnings that is distributed to shareholders.

Dividend Yield - A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows:

$$= \frac{\text{Annual Dividends per Share}}{\text{Price per Share}}$$

Earnings - The amount of profit that a company produces during a specific period. Earnings typically refer to after-tax net income.

Earnings Per Share (EPS) – The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Equity - A stock, or other security, representing an ownership interest in a publicly traded corporation.

Financial Strength – Measures the safety, stability, and overall financial health of a company from the shareholder's perspective based upon earnings and a combination of dividends and balance sheet information.

Fixed Income - An investment that provides income in the form of fixed periodic payments and the eventual return of principal at maturity. Unlike a variable-income security, in which payments change on the basis of an underlying measure such as short-term interest rates, the

payments of a fixed-income security are known in advance and do not change. Price changes in a fixed-income security are caused primarily by changes in long-term interest rates.

High-Yield Bond - A bond with a low rating. Bonds rated less than Baa3 by Moody's or BBB- by S&P or Fitch are considered high-yield bonds. They have higher yields because they have a higher risk of default on the part of the issuer. High-yield bonds are considered sufficiently high-risk that the law does not allow banks to invest in them. They are also called low-grade bonds, and, informally, junk bonds.

Index - An index reports changes up or down, usually expressed as points and as a percentage, in a specific financial market, in a number of related markets, or in an economy as a whole. Each index -- and there are a large number of them -- measures the market or economy it tracks from a specific starting point. Indexes are often used as performance benchmarks against which to measure the return of investments that resemble those tracked by the index. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly.

Large Cap - A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization".

Payout Ratio - The amount of earnings paid out in dividends to shareholders. Equal to:

$$= \frac{\text{Dividends per Share}}{\text{Earnings per Share}}$$

Price Appreciation - An increase in the value of an asset over time. This is the opposite of depreciation, which is a decrease over time.

P/E Ratio – Stock price divided by earnings per share (EPS). P/E ratio measures how much investors are willing to pay for stock ownership per dollar of the company's earnings.

Reinvestment - Using dividends, interest and capital gains earned in an investment, to purchase additional shares rather than receiving the distributions in cash.

Returns - The gain or loss of a security in a particular period.

Shareholder - Any person, company, or other institution that owns at least one share in a company. A shareholder may also be referred to as a "stockholder".

Standard Deviation – A common measure of risk. The more a portfolio's returns vary from its average, the higher the standard deviation (higher risk).

Total Return – The annual return on an investment including price appreciation, dividends/interest, and other distributions.

S&P 500 Index - The benchmark Standard & Poor's 500 Index, widely referred to as the S&P 500, tracks the performance of 500 widely held large-cap US stocks in the industrial, transportation, utility, and financial sectors.

S&P 400 Index - The benchmark Standard & Poor's mid-cap 400 Index, provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

S&P 600 Index - The benchmark Standard & Poor's small-cap 600 Index covers approximately 3% of the domestic equities market. Measuring the small cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable.

DJ U.S. REIT Index - The benchmark Standard & Poor's 500 Index, widely referred to as the S&P 500, tracks the performance of 500 widely held large-cap US stocks in the industrial, transportation, utility, and financial sectors.

Treasury Note - A saleable U.S. government debt security with a fixed interest rate and a maturity between one and 10 years. Treasuries are considered to be a low-risk investment because they are backed by the full faith and credit of the U.S. government, which includes the government's authority to raise taxes to cover its obligations.

Treasury Yield - The return on investment on the debt obligations of the U.S. government.

Valuations - Valuation is the process of estimating the value, or worth, of an asset or investment.

Volatility - A statistical measure of the dispersion of returns for a given security or market index. Commonly, the higher the volatility, the riskier the security.

Sources:

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