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Investing for Income in a Low Yield Environment

Presented by:

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SVP, Portfolio Manager

FCI Advisors

October 6, 2016



- Who is FCI Advisors?
- The Current Income Investing Landscape – The Challenge with Bonds
- The Benefits of Dividend Paying Stocks
- Potential Threats – Where / When does the Opportunity End?
- Other Options – Complement, Substitute or Avoid
- Summary



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Who is FCI Advisors?

- Founded in 1966
- SEC Registered Investment Advisory Firm
- \$6.7 billion in assets under management (6/30/2016)
- 60 Employees including 30 Investment Professionals
 - 22 Portfolio Managers
 - 16 CFAs
 - 15 MBAs
 - 3 CFPs
 - Investment professionals average more than 20 years experience



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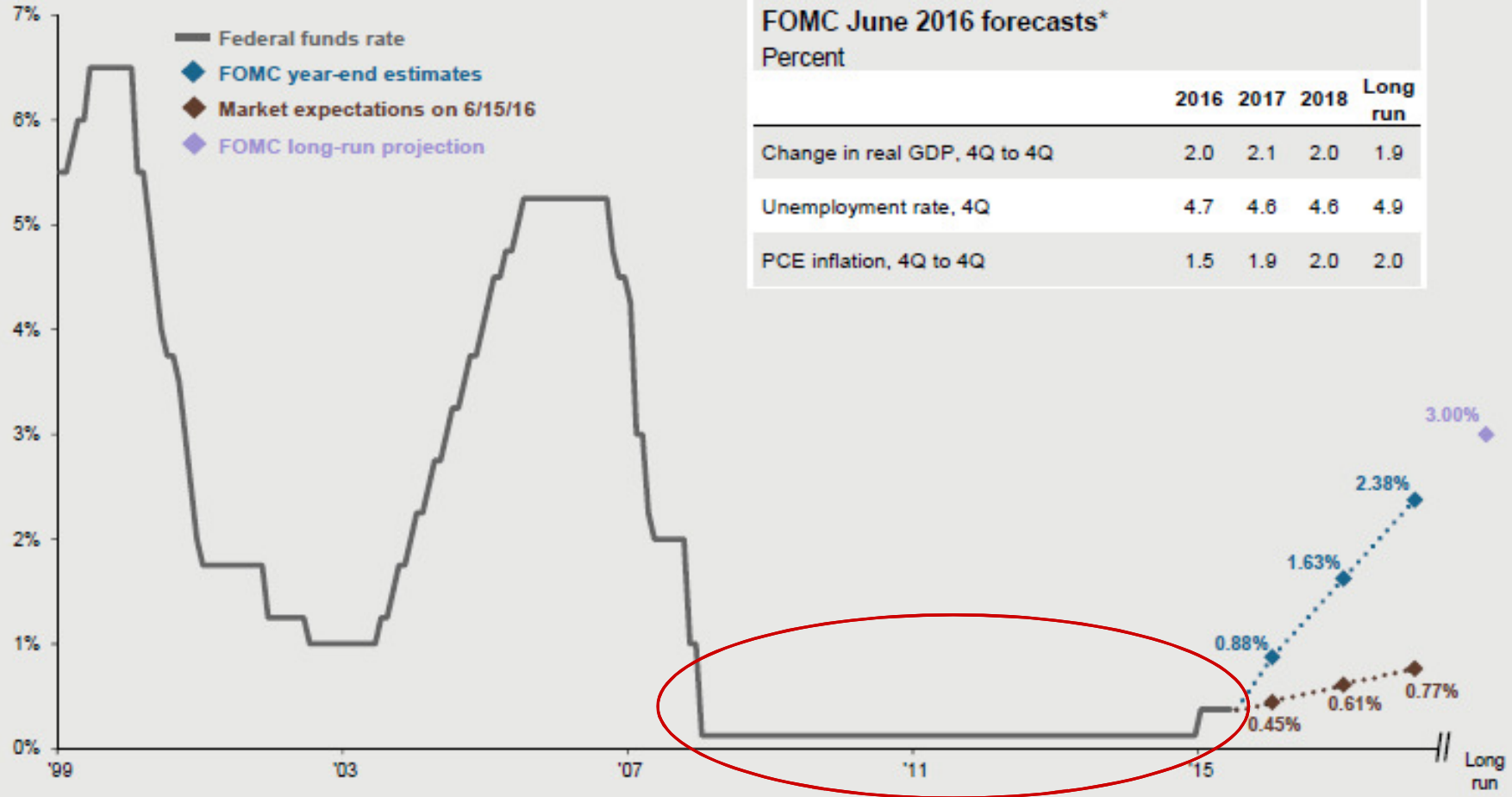
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The Current Fixed Income Landscape



Federal funds rate expectations

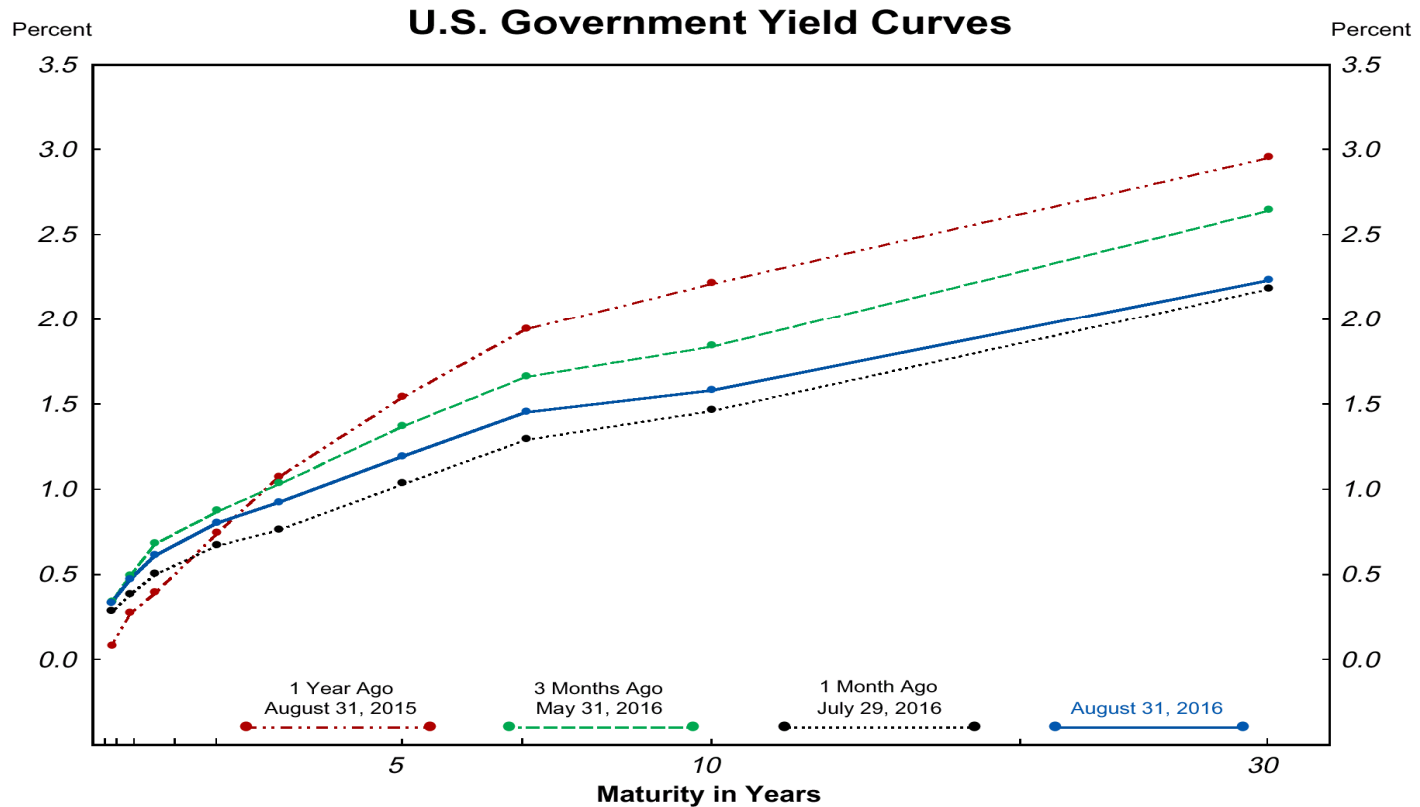
FOMC and market expectations for the Fed funds rate



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are the federal funds rates priced into the fed futures market as of the date of the June 2016 FOMC meeting. *Forecasts of 17 Federal Open Market Committee (FOMC) participants, midpoints of central tendency except for federal funds rate, which is a median estimate.

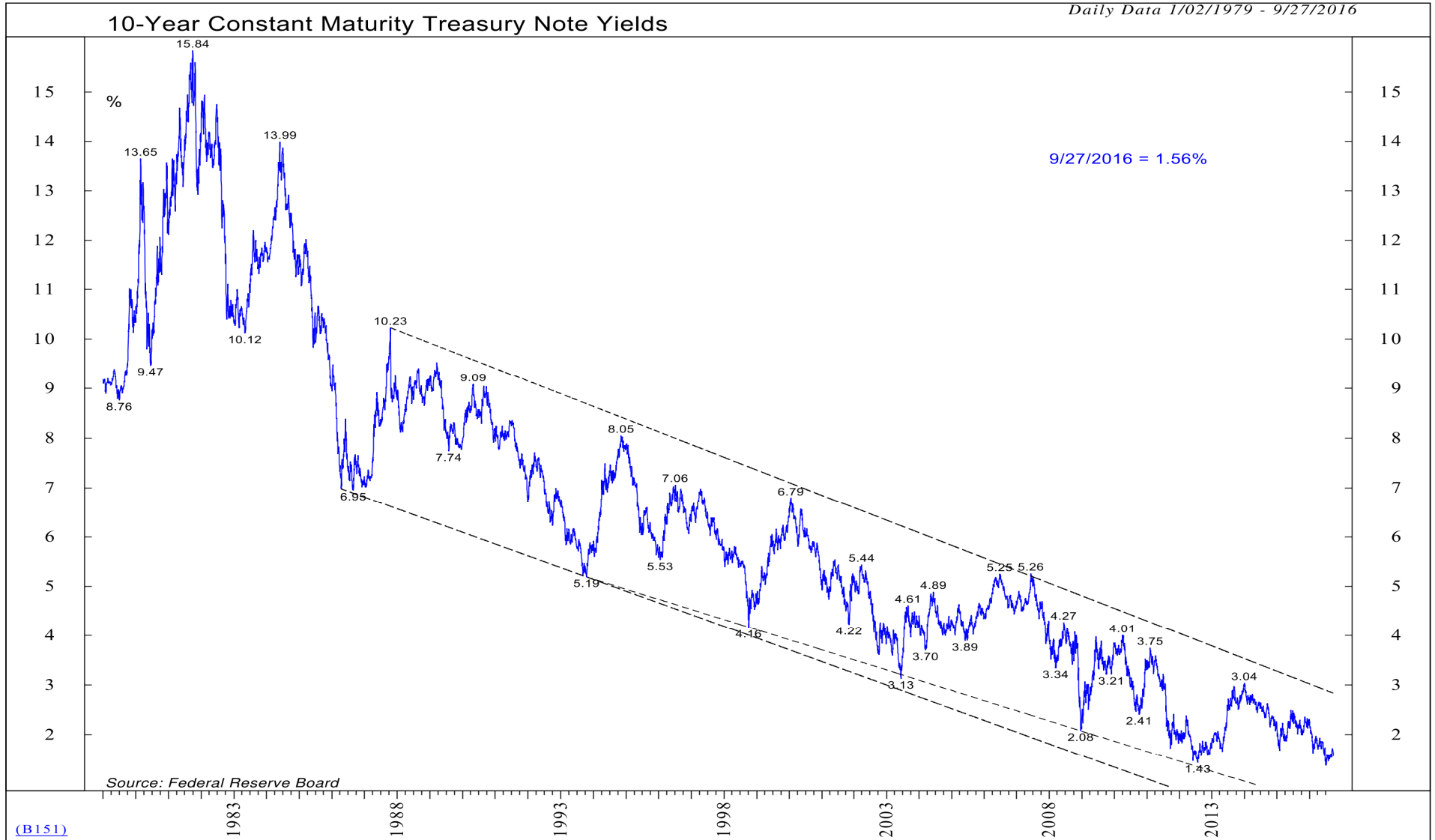
Guide to the Markets – U.S. Data are as of July 31, 2016.



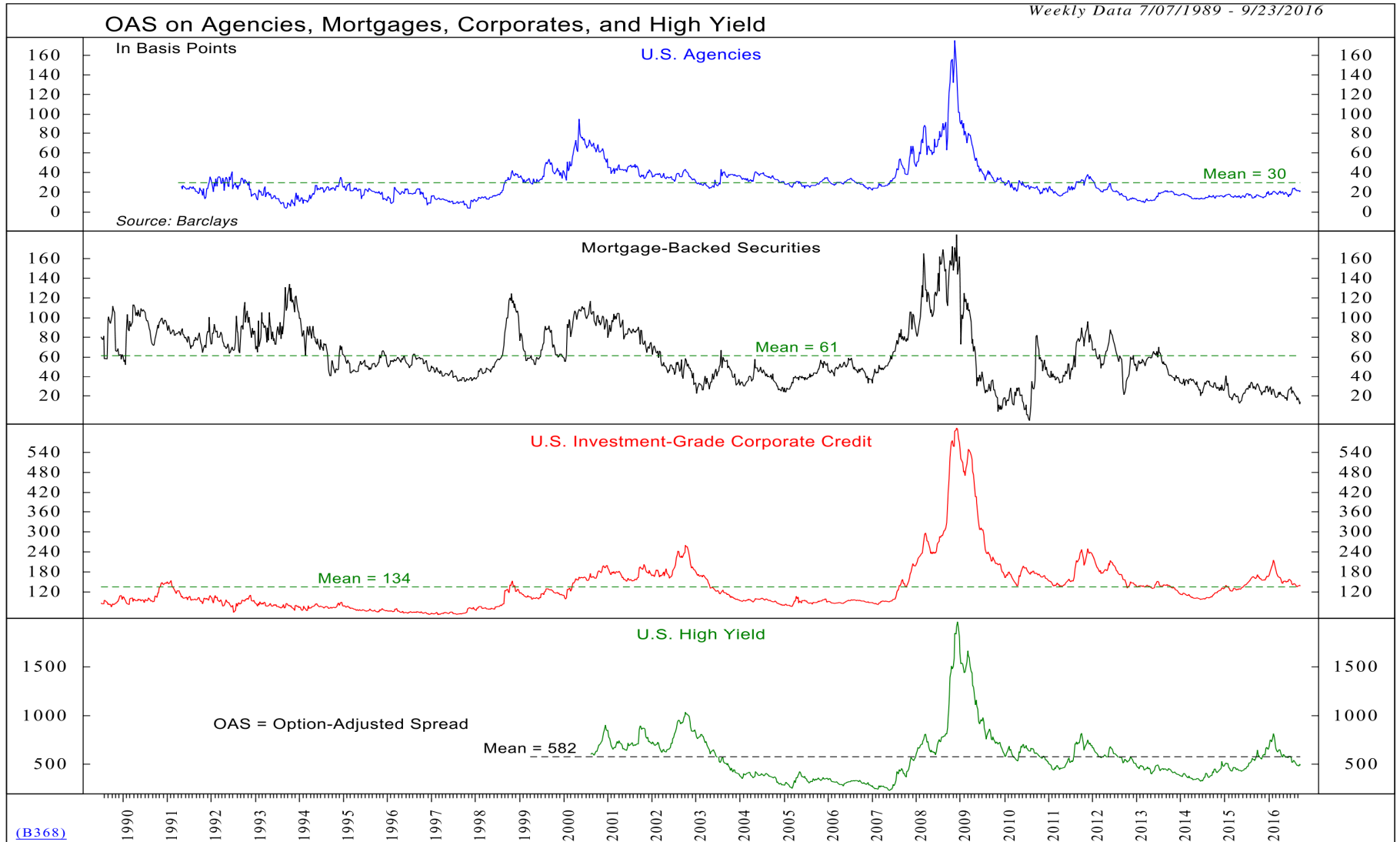
Month end observations: 3 months, 6 months, 1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 30 year
Yield Curves Represent the last Business Day of the Month

Source: Federal Reserve Board • Copyright © 2016 Crandall, Pierce & Company • All rights reserved.

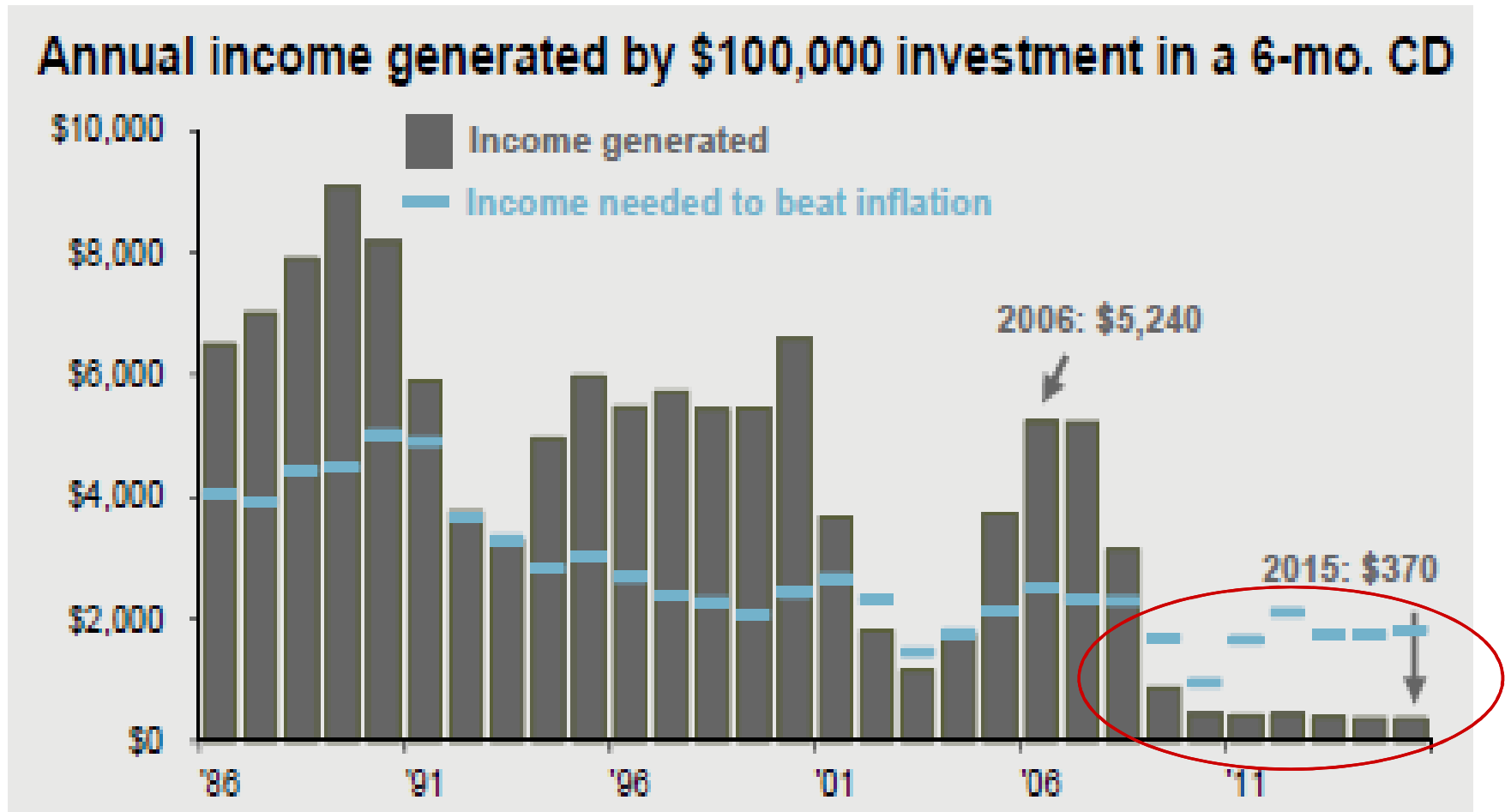
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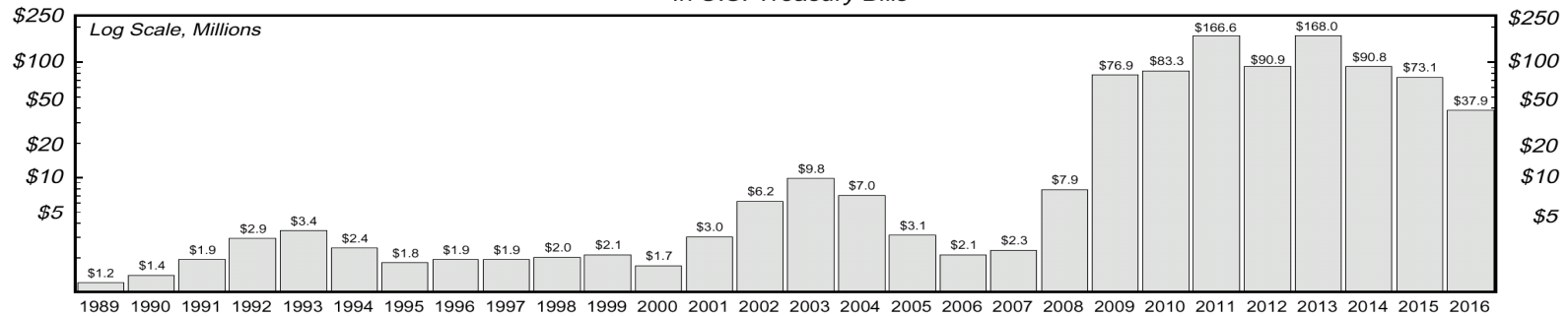
Weekly Data 7/07/1989 - 9/23/2016



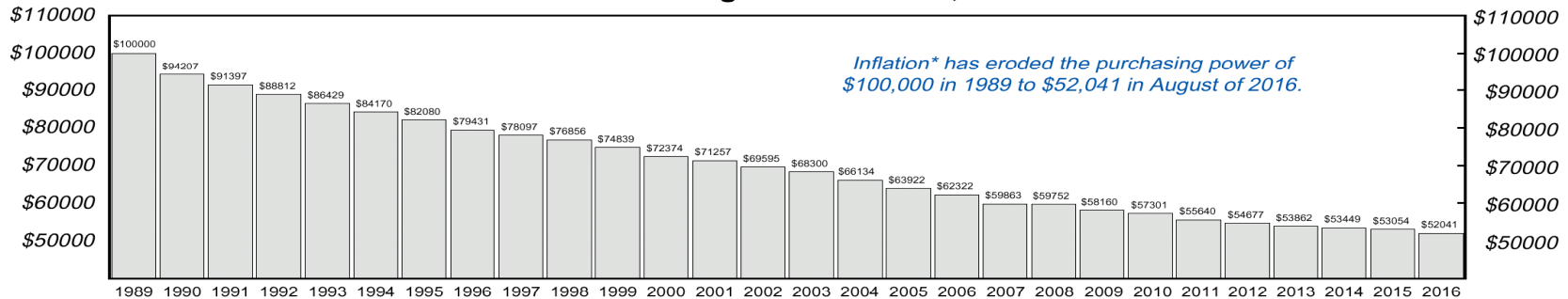
The bull market in bonds and Fed policy has squeezed traditional savers



Investable Funds Required For A \$100,000 Income In U.S. Treasury Bills



Purchasing Power of \$100,000



*CPI data for August is preliminary.

Sources: Bloomberg Finance L.P.; Bureau of Labor Statistics; Ryan Labs, Inc.; Copyright © 2016 Crandall, Pierce & Company • All rights reserved.

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The Benefits of Dividend Paying Stocks





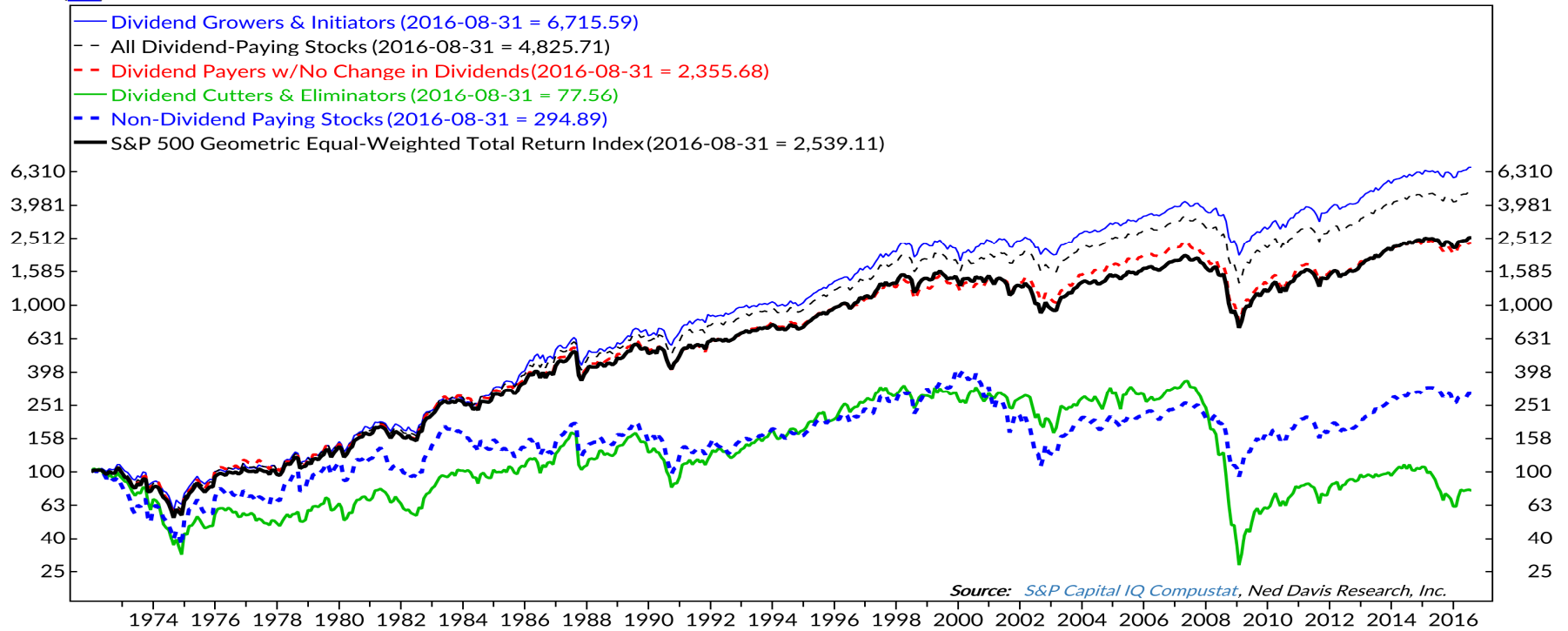
Dividend Payers Capable of Achieving Multiple Investment Objectives

- Potential for Capital Appreciation – Sacrifice Capital Gains for Income?
- Less Volatile than other Equity Investments
- Growth of Dividends – The Ultimate Weapon Against Inflation
- Qualified Dividends subject to favorable tax treatment
- Dividends in favor – expanding payer base offers better diversification

The current investment climate remains attractive for high quality dividend payers

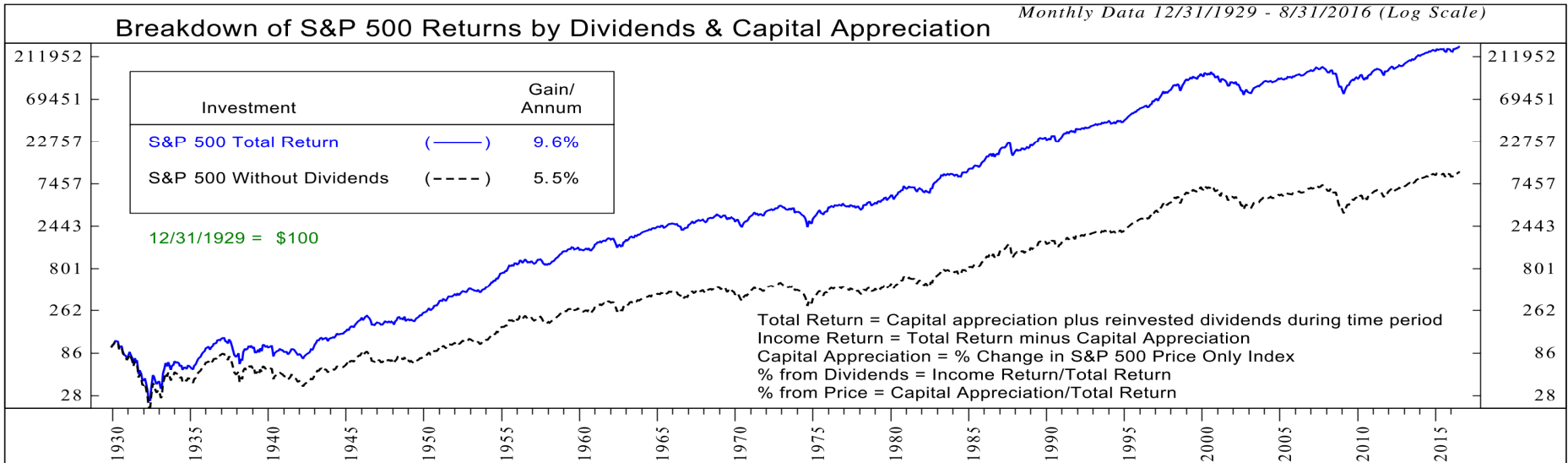
Returns of S&P 500 Stocks by Dividend Policy
(50%)

Monthly Data 1972-01-31 to 2016-08-31



Returns Based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

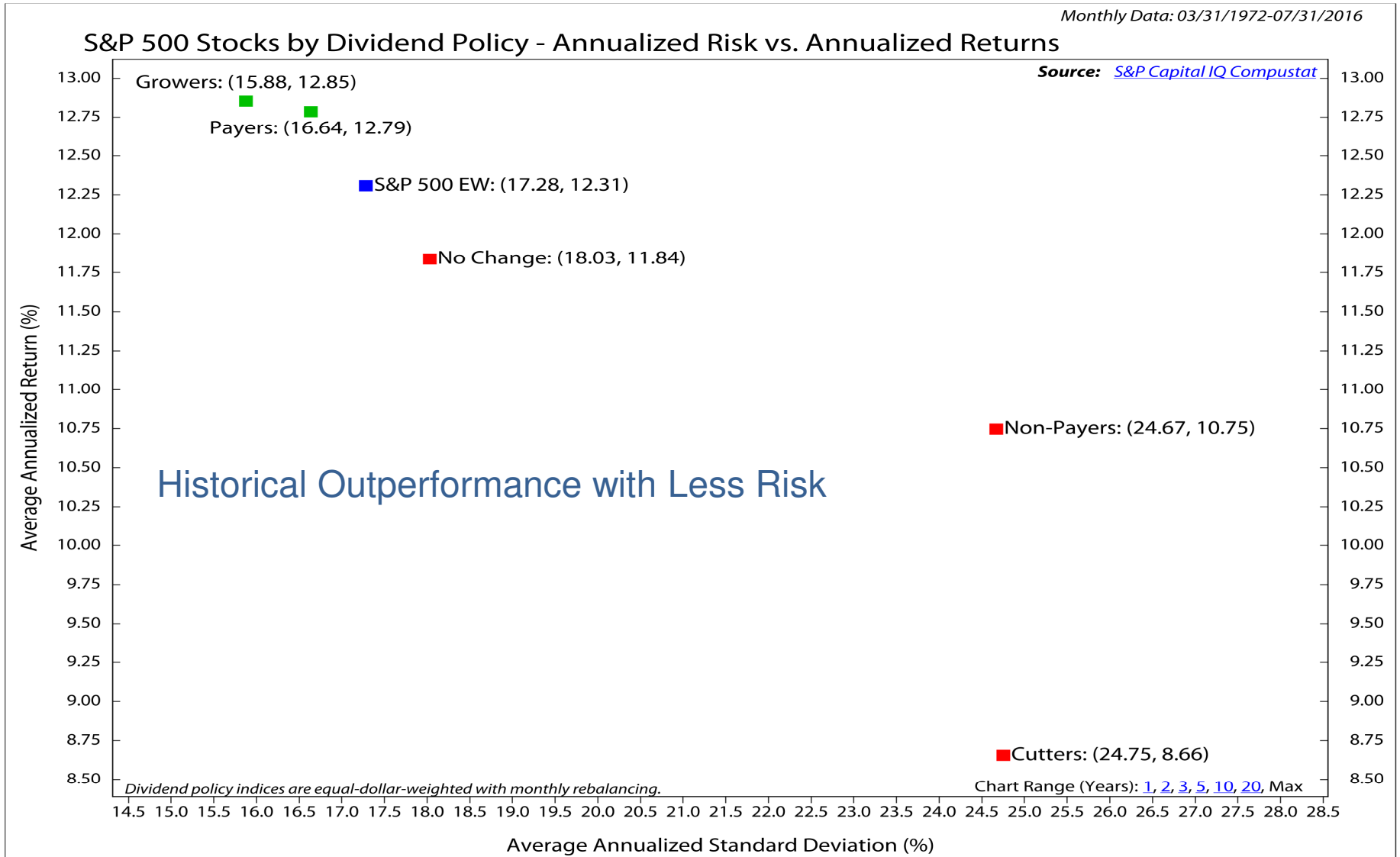
Portfolio Performance Statistics		
Analysis Dates: 1972-01-31 - 2016-08-31		
Portfolio	Gain/Annum %	Growth of \$100
Dividend Growers & Initiators	9.9	6715.6
All Dividend-Paying Stocks	9.1	4825.7
Dividend Payers w/No Change in Dividends	7.3	2355.7
Dividend Cutters & Eliminators	-0.6	77.6
Non-Dividend Paying Stocks	2.5	294.9
S&P 500 Geometric Equal-Weighted Total Return Index	7.5	2539.1



Breakdown of S&P 500 Total Return:

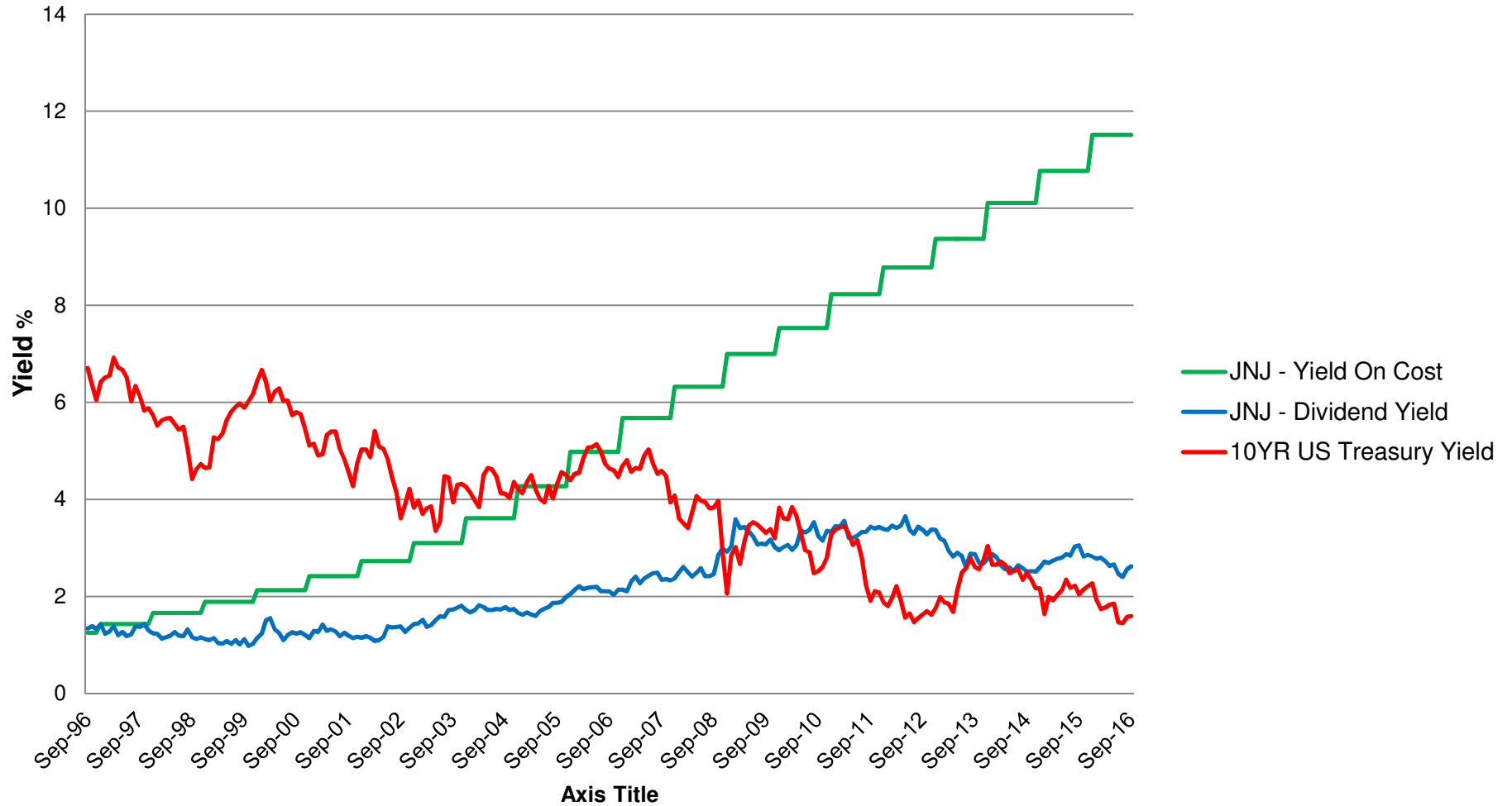
Full Date Range	Total Return	Income Return	Capital Appreciation	Returns as a % of Total Return	
				Dividends	Price
12/31/1929 - 8/31/2016	9.6	4.1	5.5	42.8	57.2
Periods Through Current:					
12/31/1939 - 8/31/2016	10.8	3.9	7.0	35.8	64.2
12/31/1949 - 8/31/2016	11.1	3.5	7.6	32.0	68.0
12/31/1959 - 8/31/2016	9.7	3.2	6.5	32.9	67.1
12/31/1969 - 8/31/2016	10.2	3.2	7.0	31.2	68.8
12/31/1979 - 8/31/2016	11.4	2.9	8.5	25.5	74.5
12/31/1989 - 8/31/2016	9.3	2.2	7.0	24.1	75.9
12/31/1999 - 8/31/2016	4.3	1.9	2.4	44.9	55.1
12/31/2009 - 8/31/2016	12.7	2.2	10.5	17.5	82.5
By Decade:					
12/31/1929 - 12/31/1939	0.3	5.6	-5.3	N/A	N/A
12/31/1939 - 12/31/1949	8.9	6.0	3.0	66.6	33.4
12/31/1949 - 12/31/1959	19.2	5.6	13.6	29.3	70.7
12/31/1959 - 12/31/1969	7.7	3.3	4.4	43.1	56.9
12/31/1969 - 12/31/1979	5.7	4.1	1.6	72.0	28.0
12/31/1979 - 12/31/1989	17.4	4.8	12.6	27.5	72.5
12/31/1989 - 12/31/1999	18.1	2.8	15.3	15.6	84.4
12/31/1999 - 12/31/2009	-1.0	1.8	-2.7	N/A	N/A

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Johnson & Johnson Yield Comparison

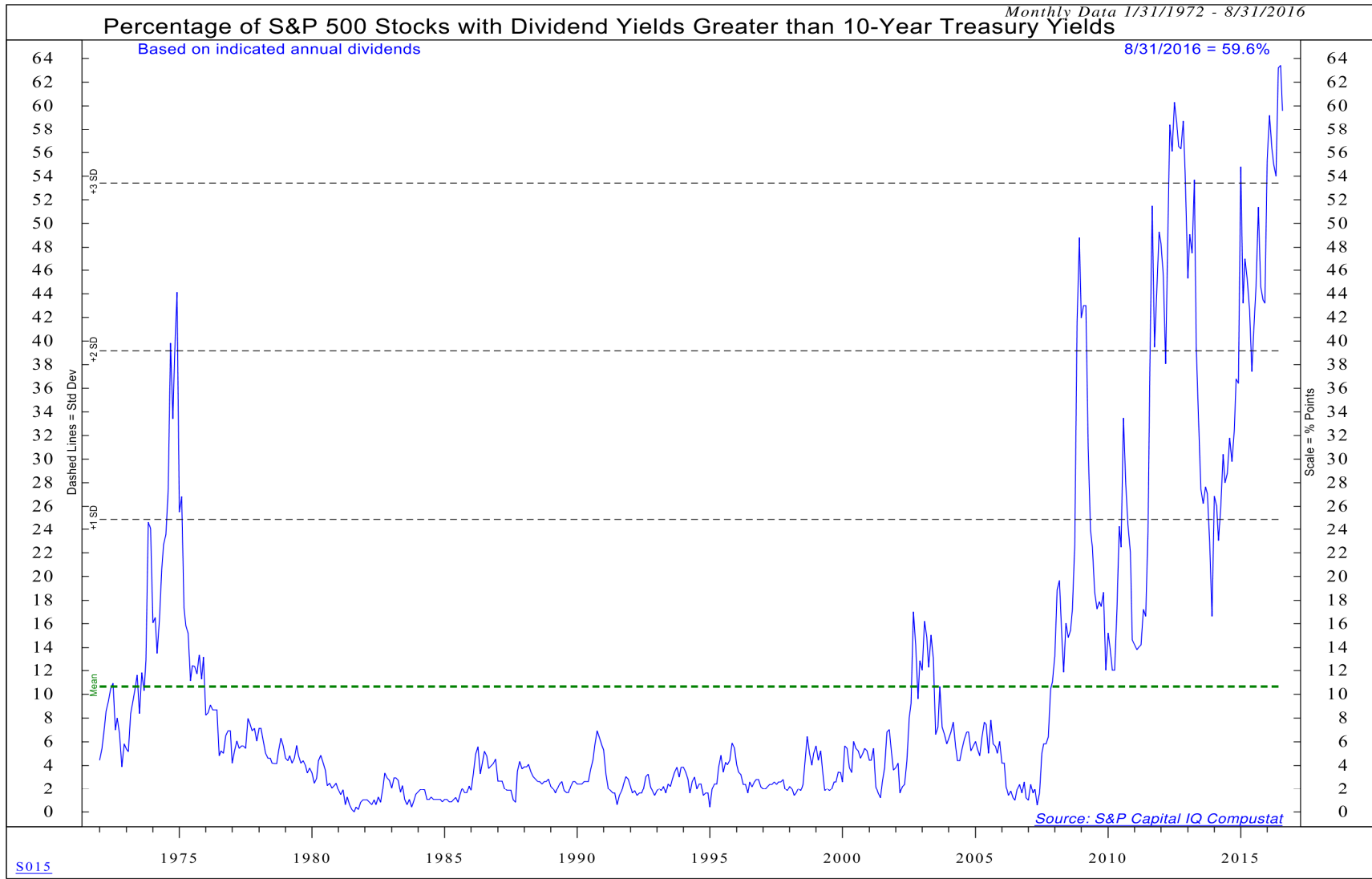


Qualified dividends are subject to preferential tax rates

	8/31 Yield	Tax Rate*	After Tax Yield
S&P 500 Index	2.11%	20%	1.69%
S&P 500 Dividend Aristocrats	2.44%	20%	1.95%
10 Yr. US Treasury	1.57%	39.6%	0.95%
Barclays Aggregate	1.92%	39.6%	1.16%

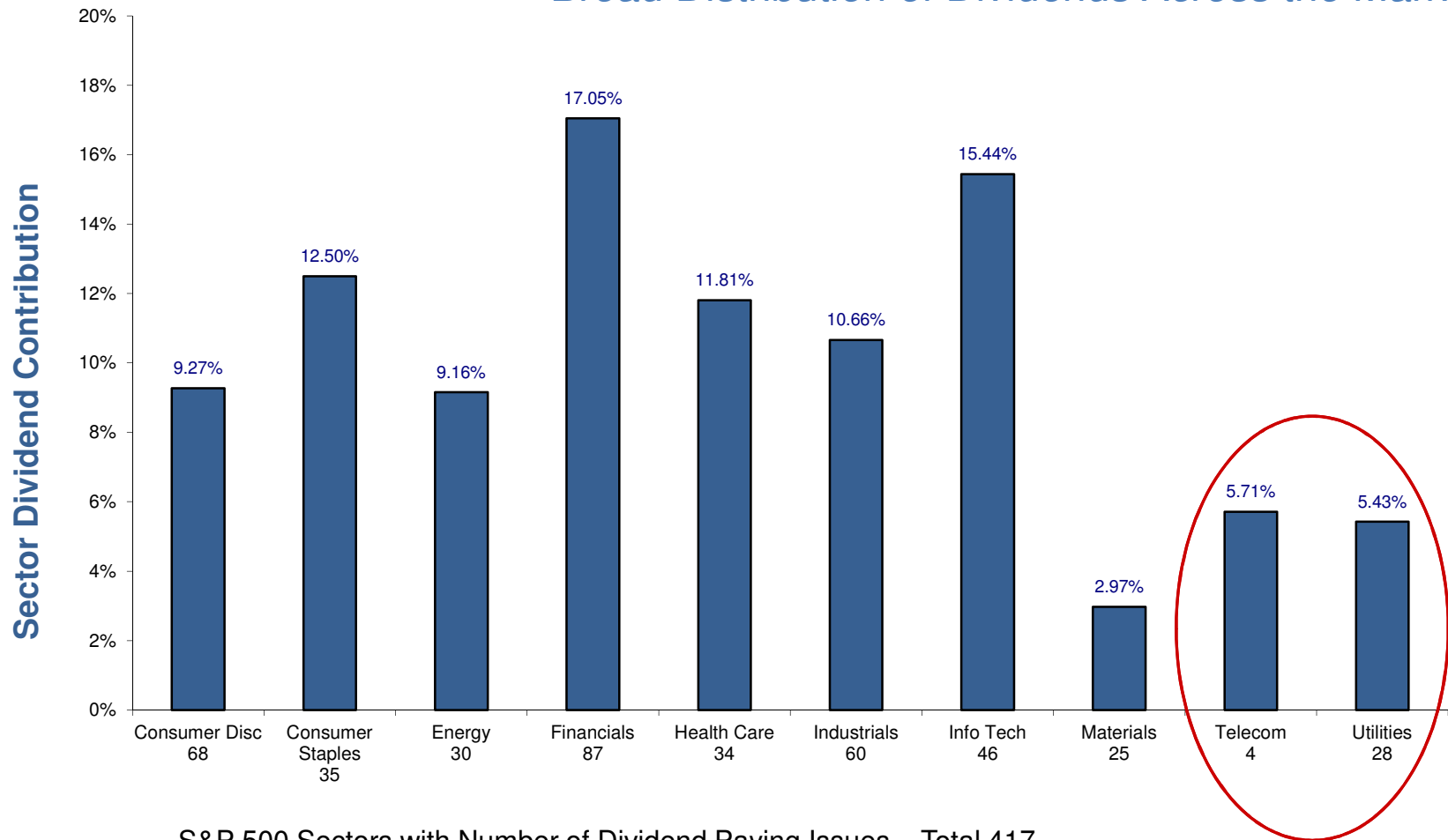
*Tax rates represent maximum rates, excluding 3.8% ACA Medicare surcharge tax

The Benefits of Dividend Paying Stocks



The Benefits of Dividend Paying Stocks

Broad Distribution of Dividends Across the Market



S&P 500 Sectors with Number of Dividend Paying Issues – Total 417

Data as of 8/31/2016.





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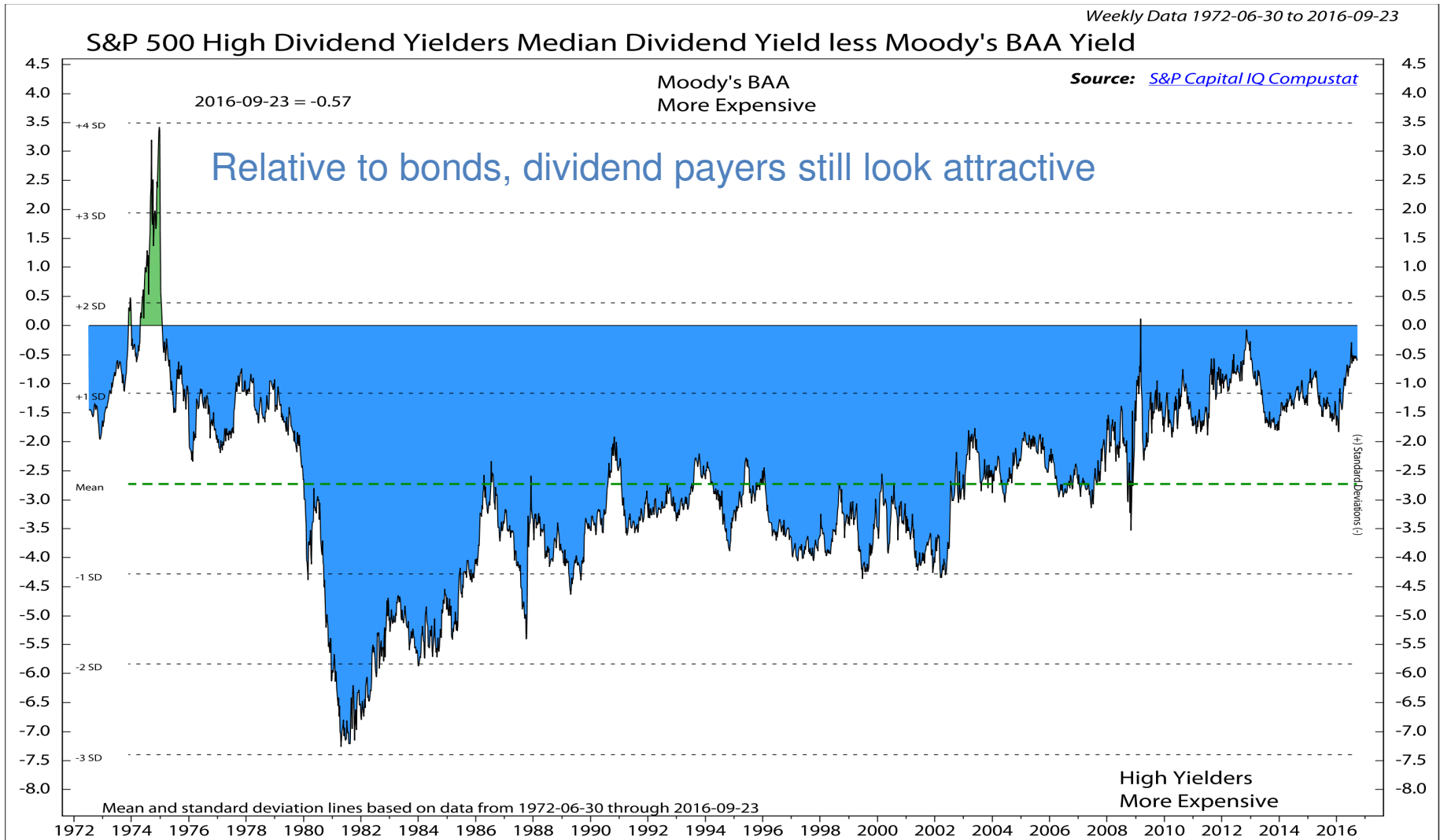
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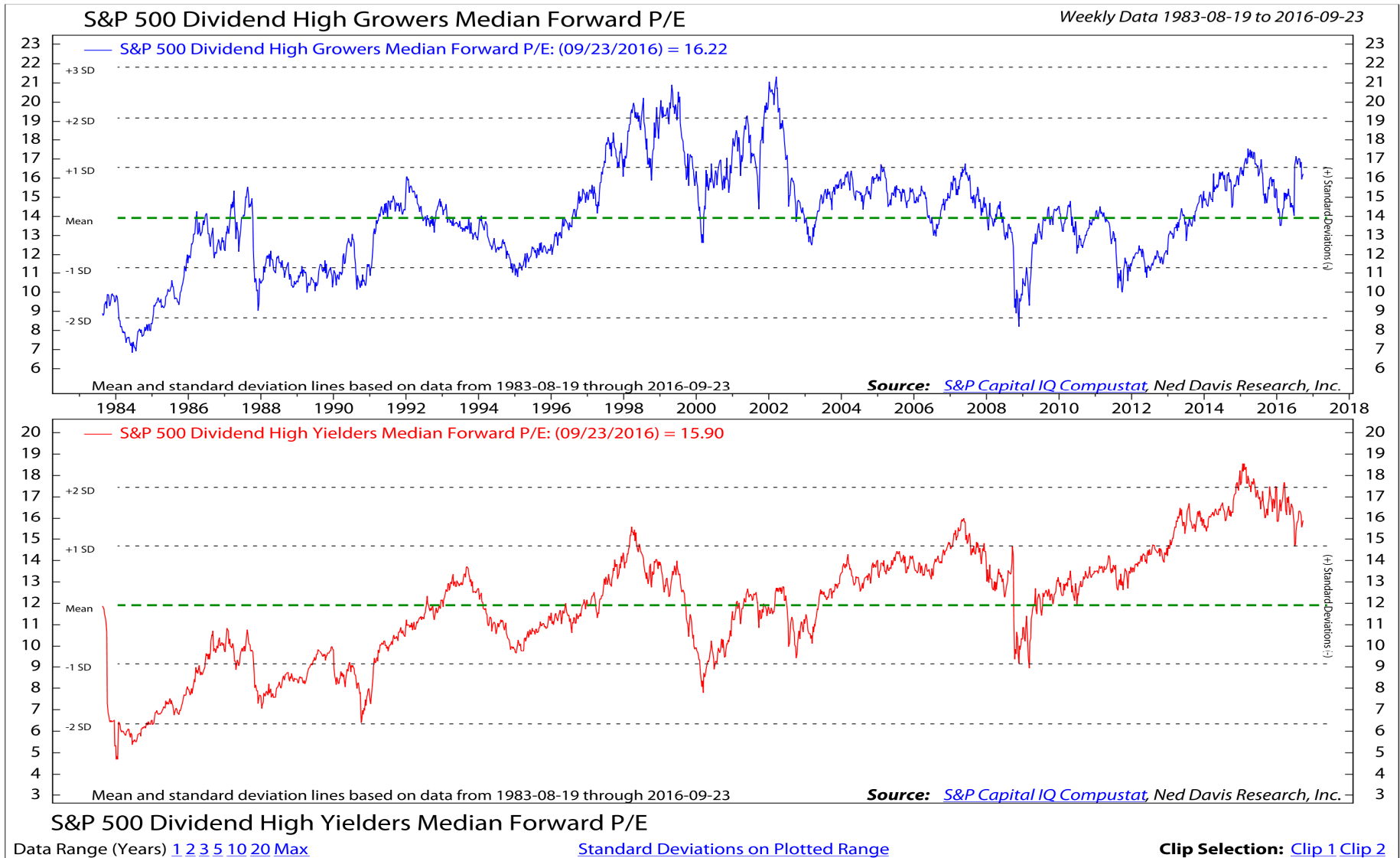
Potential Threats – Where/When does the Opportunity End?



Dividend payers have enjoyed a great run since the financial crisis. Are we in a bubble? What are the risks?

- Rising interest rates
- Economic growth – we eventually reach “escape velocity”
- Changes to tax treatment / rates
- Valuation of high quality dividend payers







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Other Income Opportunities





Other Income Opportunities

- Preferred Stock
- REITs
- MLPs
- Closed End Funds
- Unit Investment Trusts
- Natural Resource Trusts





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In Summary



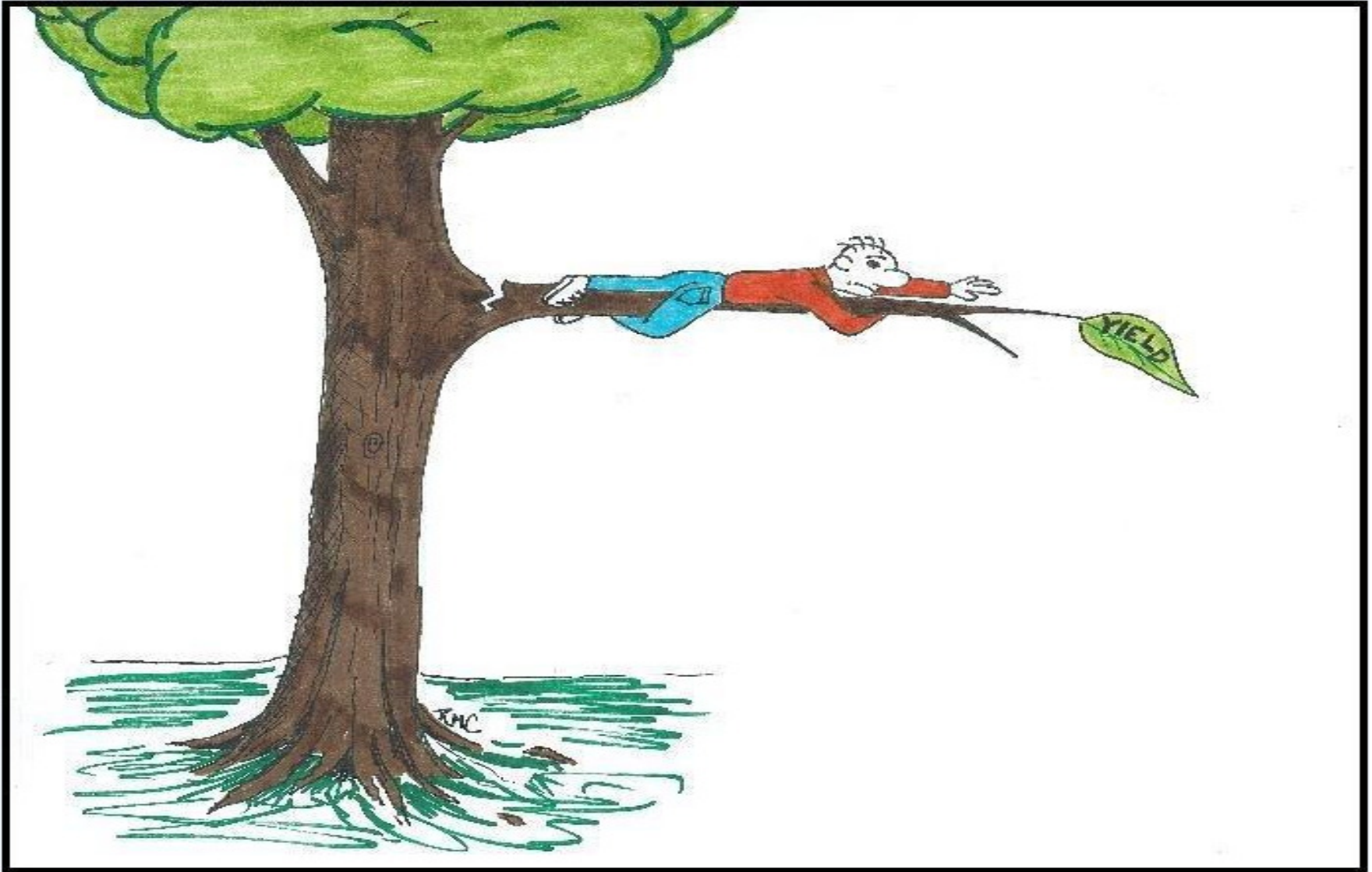
- Fixed Income – Still investable, risk elevated, focus on sector exposure and individual bond issues
- Interest Rates – Lower for longer – Fed’s credibility at stake?
- Dividend Payers – In favor, not cheap, capable of achieving a variety of different investment objectives
- Other Opportunities – Understand the risks: focus on diversification, transparency, liquidity, leverage and taxes





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And Remember, DO NOT...





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Thank you

Benjamin V. Hill, CFA

Senior Vice President, Portfolio Manager

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