The stock market is dynamic and sometimes one type of investment strategy is in favor over another, allowing it to achieve great results. However, nothing last forever, the strategy that was once in favor becomes out of favor and the strategy that was out of favor takes the center stage and performs well. Investing is not about looking at past strategies that did well, but, rather, at strategies that are likely to do well given the current and expected environment. We are going to outline our dividend strategy that we employ at Surevest that we believe is poised to do well going forward. But first, let's review some of the basics.

A term often used but rarely defined is dividends. Many people know some stocks pay dividends while others do not. Some stocks have high dividends while others have low dividends. This week we will take some time to explain why dividends can be an important factor in making your financial plan work. We will also discuss why owning stocks that do not pay dividends can be equally important in making your financial plan work. Yes, that's right, I said financial plan and not portfolio.

We think leading with a financial plan is an important first step. Your financial plan should be comprehensive and cover many different aspects of your life. This can include things like insurance, estate planning, retirement planning, tax planning, income planning, etc. Think of your financial plan as the roadmap to achieving your ideal quality of life. Your investment portfolio is one of the major tools you will likely use to achieve these goals. In general, your financial plan will dictate if your portfolio should be generating income (dividends) or generating growth. More likely than not you will need to have some combination of both. We'll circle back to this shortly.

When you own a company's stock, you are a partial owner of that company. This entitles you, as a shareholder, to the earnings or profit the company generates. Now you might be wondering; why don't all companies pay dividends and, why doesn't my investment distribute more of their earnings? Put simply, the answer to both is growth. When a profit is generated, there are generally two options the company has. The first is to return some of the profit to shareholders, dividends and share buybacks are common ways of doing this. The second option is to reinvest profits back into the business.

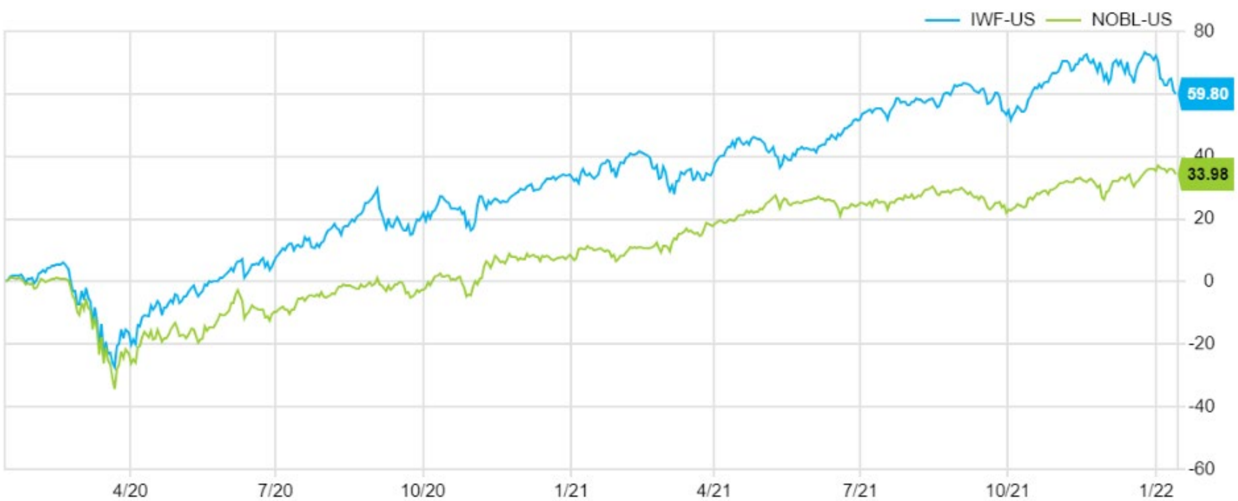
When a high percentage of earnings are reinvested into the business, the quality of management becomes important. Good management will not only ensure the day-to-day operations are running smoothly but, they will also ensure there is a plan to continue growing the company. This can be in the form of strategic acquisitions, starting new ventures, expanding existing business lines into new markets, etc. If management does a good job at this, they will grow the company's profits faster than their peers.

Ultimately, the percentage of profits a company returns to shareholders as a dividend should be determined by the growth opportunity management sees. The more growth opportunities there are, the lower the dividend. This is because growth usually requires money to finance it. It is also why you will typically see more mature companies paying a dividend. This is because they have reached some level of stability in their profits and can thus support a dividend. However, dividends are not guaranteed, and poor management can lead to dividend cuts. Think about IBM's history. For those of you old enough to remember what a typewriter is, this used to be IBMs main source of revenue. However, management saw this was a dying business and, invested in technology to continue growing.

Companies that can manage to continue growing their profits, while paying a dividend, should be able to support a growing dividend. This is where I would like to circle back to your financial plan. As we mentioned above, most financial plans will require some elements of growth and some elements of income. Companies that can strike this balance of growing the business while paying a dividend can be instrumental in achieving your goals. A well-designed portfolio, like Surevest's PASS portfolio, starts with a well-designed financial plan. We then build a portfolio utilizing a mix of stocks that strike the right balance of growth and income. This allows you to whether the storm in volatile markets because you can rely on the continually increasing dividend income of your portfolio. Further allowing you to view down markets as a buying opportunity.

Over the last two years, growth strategies (blue line on the chart) have outperformed dividend paying strategies (green line on the chart) by 68%. However, we don't think this large outperformance will continue as the Federal Reserve is increasing short-term interest rates and long-term interest rates are likely to increase as the Federal Reserve stops their bond buying program. As interest rates increase, it hurts growth stocks more than dividend paying stocks.

Total Return: 14 Jan '20 - 14 Jan '22



Comparable Returns

	Price Change (%)		Total Return (%)		NAV Total Return (%)	
	Cum	Ann (CGR)	Cum	Ann (CGR)	Cum	Ann (CGR)
iShares Russell 1000 Growth ETF	57.56	25.48	59.80	26.37	60.71	26.77
ProShares S&P 500 Dividend Aristocrats...	28.01	13.12	33.98	15.73	34.85	16.15

In our Quarterly Commentary, we will go into more detail, but for now it suffices to say that growth strategies will have a difficult time thriving, while dividend paying strategies are likely to do better in the future.