

LARGE CAP DIVIDEND ETFS

	FUND	NAME OF FUND	M* CATEGORY	NUMBER OF HOLDINGS	AVE MKT CAP (MIL)	EXPENSE RATIO	YIELD	PROSPECTIVE P/E	5 YR UP/DOWN CAPTURE	STANDARD DEVIATION	BETA	CORRELATION TO SPY	2008	2013
1	DVY	iShares Select Dividend	Mid-Cap Value	100	\$15,435	0.40%	3.10%	15.73	87.25/64.32	9.89	0.98	83%	-32.64%	28.85%
2	SCHD	Schwab US Dividend Equity ETF	Large Blend	100	\$97,467	0.07%	2.85%	16.03	New	New	New	93%	New	32.89%
3	SDY	SPDR S&P Dividend ETF	Large Value	95	\$19,713	0.35%	2.27%	18.82	89/71.49	10.42	0.83	90%	-22.91%	30.07%
4	VDC	Vanguard Consumer Staples ETF	Consumer Defensive	106	\$54,435	0.14%	2.17%	19.07	73.09/34.54	9.83	1.00	76%	-16.71%	28.01%
5	VIG	Vanguard Dividend Appreciation ETF	Large Blend	163	\$52,709	0.10%	1.98%	17.71	87.23/86.23	11.14	0.86	95%	-26.63%	28.87%
6	VTV	Vanguard Value ETF	Large Value	311	\$72,893	0.09%	2.24%	15.18	99.50/101.86	12.19	0.96	97%	-35.87%	30.08%
7	VYM	Vanguard High Dividend Yield ETF	Large Value	392	\$88,471	0.10%	2.83%	15.90	92.56/80.48	10.05	0.84	94%	-32.10%	26.76%
8	FVD	First Trust Value Line Dividend ETF	Large Value	209	\$20,750	0.70%	2.49%	16.97	86/68	10.20	0.74	90%	-24.00%	26.76%
	SPY	SPDR S&P 500	Large Blend	500	\$69,078	9.00%	1.83%	17.40	100/100	12.23	1.00	100%	-36.81%	32.31%
<p>This report has been prepared for educational purposes only. The information in it is believed to be reliable, but no representation is made as to its accuracy and completeness. Values shown should only be used as a general guide and may vary from the actual values today. The information in this report should not be relied upon for tax reporting, accounting or valuation purposes. Past performance is no guarantee of future results.</p> <p>All information is from Morningstar, except correlation to SPY, which is from Quantext Portfolio Planner</p> <p>Securities offered through LPL Financial Member FINRA/SIPC</p>														



Offering Complete Wealth Management Services

Steve H. Hornstein, Esq., CPA, LL.M., CFP[®], LPL Financial Advisor
Evan Press, LPL Financial Advisor
20335 Ventura Blvd., Suite 203 Woodland Hills, CA 91364
Office: (818) 887-9401 Toll-free: (888) 280-8100 Fax: (818) 887-7173
Steve.Hornstein@LPL.com Evan.Press@LPL.com
www.HornsteinInvestmentGroup.com

Speaker Notes:

At our last meeting you requested a presentation on Dividend Stocks. When investing in for dividends with individual stocks it is hard to diversify properly. Instead I thought I would look at a few ETFs that are designed to pay dividends by investing in Dividend-Paying Stocks.

So take a look at the chart I passed out. Let's go through it column-by-column.

The first column is the symbol for the fund and the second column is the name of the fund. Note that there probably are dozens of funds that tilt toward higher-dividend-paying stocks. I chose these funds because upon first glance they appear to be comparable to the S&P 500, and I own one of them myself.

The last fund on the list is SPY, the S&P 500, to use as a point of reference. It is a capitalization-weighted index. Meaning that the larger the company, the higher % of the S&P 500 that is given to its shares. So the index tends to be skewed toward the largest companies. As a company grows, it will make up a higher percentage of the index.

In contrast, the first eight funds may weight the amount of a company's shares it owns by the dividends the company pays. Companies paying a larger dividend (either absolute or as a percentage of their price) will be weighted more heavily in the fund (or index).

The third column is the Morningstar Category for the fund.

The fourth column is the number of holdings. Note that this number varies from just less than one hundred to almost 400.

The fifth column is the average market capitalization in millions of dollars. Here again there is quite a spread from less than \$16 Billion to close to \$100 Billion, even larger than the S&P fund.

These two columns show a clear difference in how different funds define "large."

The sixth column is the expense ratio. How much you will pay annually to own the fund. None of them are particularly expensive. A few are downright cheap. I generally try to find standard US Equity and Bond ETFs with an expense ratio under .50% and mutual funds with an expense ratio under 1.00%. Specialized funds and those that invest overseas may run a little over these parameters.

The seventh column is the yield. Here you see that the eight funds pay anywhere from just .1% more than the S&P 500 to 1% more. But do not just pick the highest yield. Dig a little deeper to see why. Look at the holdings for the fund. Do some companies pay an inordinately large dividend that they probably can't sustain?

The eighth column is the Prospective Price to Earnings ratio. This is the best guess on total future earnings of the fund versus the best guess on the future price of the fund. Generally a lower number is better. It means you are paying less for each dollar of earnings.

But there is a step between earnings and dividends actually paid. This is the payout ratio—how much of the earnings are paid as dividends. Generally a higher ratio is better, but a company could be paying a lower ratio because it is making investments in new capital that it believes will pay off in the future. A rapidly growing company probably pays a lower % of its earnings as dividends than an old-line well-established large cap company.

The ninth column is the 5-year upside -- downside capture ratio. According to Morningstar, it tells you

“whether a given fund has outperformed--gained more or lost less than--a broad market benchmark during periods of market strength and weakness, and if so, by how much.”

“Upside capture ratios for funds are calculated by taking the fund's monthly return during months when the benchmark had a positive return and dividing it by the benchmark return during that same month. Downside capture ratios are calculated by taking the fund's monthly return during the periods of negative benchmark performance and dividing it by the benchmark return.”

“An upside capture ratio over 100 indicates a fund has generally outperformed the benchmark during periods of positive returns for the benchmark. Meanwhile, a downside capture ratio of less than 100 indicates that a fund has lost less than its benchmark in periods when the benchmark has been in the red. If a fund generates positive returns, however, while the benchmark declines, the fund's downside capture ratio will be negative (meaning it has moved in the opposite direction of the benchmark). All stock funds' upside and downside capture ratios are calculated versus the S&P 500, whereas bond and international funds' ratios are calculated relative to the Barclays Capital U.S. Aggregate Bond Index and MSCI EAFE Index, respectively. For some context, we also show the category average upside/downside capture ratios for those same time periods.”

The tenth column is the Standard Deviation. Simply, it tells you how much above or below its average a fund is likely to move. For example, if a fund's average return is 10% and it has a

Standard Deviation of 15%, then about 65% of the time its yearly performance will be between plus 25% and minus 5%. A smaller Standard Deviation generally means less volatility. It is easier on your stomach.

You can see that these funds all have Standard Deviations that are less than SPY. They should be less volatile. And I stress should. No guarantees.

The eleventh column is Beta. This is a comparison between volatility of the fund and the volatility of its benchmark index, in this case against the Morningstar Category. So if a fund has a Beta of 1, it moves pretty much in lockstep with its benchmark index. If it is .5, then it moves half as much – both up and down. If it is above 1, it will move more than its benchmark index.

Again, you can see how closely the funds follow their benchmark indexes. Of particular note is FVD, with a Beta of .74.

The twelfth column is the fund's correlation to SPY, our proxy for the S&P 500. As you can see, most of these follow the S&P 500's movements fairly closely. Note that VDC is the least correlated to SPY.

You can use these last few measures to moderate the volatility of your portfolio and/or diversify away a little from the S&P 500.

Finally, the last two columns show the individual fund's performance under extreme pressure in 2008 and during a market boom in 2013. This is just another way of looking at how a fund might perform in the future. No guarantees. Generally, those that lost the most in 2008 gained the most in 2013. A few lost much less in 2008, but gained less in 2013. There is no right answer on which is best for you.

Summary

The point is to know what to expect. If you know what you are buying and how it is likely to perform in the future, you should be better prepared for the next time the market misbehaves.

So, set your expectations carefully, and buy a fund that matches your expectations. Know how much you can take when the market turns down – emotionally and in actual dollars. If you do so, you are less likely to panic and sell at the worst time—locking in otherwise temporary losses.

On the flip side, if you know how much your fund has gone up in the past relative to the S&P 500 and it suddenly does much better, that might be a sign that it is taking more risk than it has in the past.

That is what this is all about -- building a portfolio that you can stick to when the weather gets nasty, and collecting dividends along the way.

Are there any questions or comments?