

# Sell Strategy: Income Trade-off

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OLLI Investment Forum  
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# Sell Strategy: Income Trade-off

Discussion on Ludwig Benner's 29 April  
Investment Forum talking point:

*“Track prices, and sell when price gains exceed expected dividend returns for your personal time horizon.”*

# A Few Caveats . . .

- Stocks under discussion part of a Dividend Growth Income (DGI) portfolio – not unlike the one appearing each month in Morningstar's Dividend Investor newsletter.
- Focus on income from dividends – more importantly dividends that historically grow each year.
- Personal DGI portfolio currently holds 36 stocks.
- All trades are executed within an IRA – so tax consequences are not a concern until RMD or other distributions are made.

# Testing the Benner “theorem”

- Acknowledge first that stocks rise and fall like a tide. Goal is to generate a safe and growing dividend income stream from solid S&P companies with a history of dividend growth.
- So what if one or more of your stocks has a significant profit?
- Snapshot of 3 stocks in personal DGI portfolio
  - Focus is on PM: 28% growth since late November (\$7,374 just sitting)
  - Scenario: re-deploy some of the 28% gain versus having regrets later.
  - 300 shares generate \$1,248 annual dividends; PM yield is 3.68%\*

Ticker▲	Shares Owned	Cost per Share	Last Price	% of Portfolio	Dividend Safety	Dividend Growth	Cost Basis	Market Value	Change Since Purchase	% Gain or Loss	Yield on Cost	Dividend Yield	Annual Income
x PM <a href="#">edit</a>	300.00	\$88.61	\$113.19	5.2%	81	26	\$26,583.00	\$33,957.00	\$7,374.00	27.7%	4.69%	3.68%	\$1,248.00
x VZ <a href="#">edit</a>	700.00	\$49.32	\$48.43	5.2%	93	15	\$34,524.00	\$33,901.00	(\$623.00)	-1.8%	4.68%	4.77%	\$1,617.00
x T <a href="#">edit</a>	800.00	\$39.36	\$40.60	5.0%	96	27	\$31,488.00	\$32,480.00	\$992.00	3.2%	4.98%	4.83%	\$1,568.00

\* Market close 4/5/17

3-stock total dividends:

\$4,433.00

# Testing the Benner “theorem”

- Question 1: Can \$7,374 be of better use in higher-yielding stocks?
  - VZ dividend yield is 4.77%\*; current shares generates \$1,617/yr
  - T dividend yield is 4.83%\*; current shares generates \$1,568/yr
- Question 2: What will net impact be to annual dividend stream?
  - At PM current market price, \$7,374 represents 65 shares
  - Selling 65 shares would leave 235 shares, still 27.7% gain, still a 3.68% yield
  - Annual dividend would be \$978 vs \$1,248 (drop by \$270/yr, \$2,700 in 10 yrs, etc.)

Ticker ▲	Shares Owned	Cost per Share	Last Price	% of Portfolio	Dividend Safety	Dividend Growth	Cost Basis	Market Value	Change Since Purchase	% Gain or Loss	Yield on Cost	Dividend Yield	Annual Income
× PM edit	235.00	\$88.61	\$113.19	4.1%	81	26	\$20,823.35	\$26,599.65	\$5,776.30	27.7%	4.69%	3.68%	\$977.60

- Question 3: Can we “shave” \$7,374 into higher yielding VZ and/or T, and at least maintain same annual dividend total?
  - Do a simple portfolio “what-if” test, playing with quantity of shares for VZ & T, looking at annual dividend payout
  - “Budget” will support +100 shares of T (\$4,060) and +68 shares of VZ (\$3,293)

\* Market close 4/5/17

# Testing the Benner “theorem”

Ticker▲	Shares Owned	Cost per Share	Last Price	% of Portfolio	Dividend Safety	Dividend Growth	Cost Basis	Market Value	Change Since Purchase	% Gain or Loss	Yield on Cost	Dividend Yield	Annual Income
x PM edit	235.00	\$88.61	\$112.59	4.1%	81	26	\$20,823.35	\$26,458.65	\$5,635.30	27.1%	4.69%	3.69%	\$977.60
x VZ edit	800.00	\$49.32	\$48.43	5.9%	93	15	\$39,456.00	\$38,744.00	(\$712.00)	-1.8%	4.68%	4.77%	\$1,848.00
x T edit	868.00	\$39.36	\$40.60	5.4%	96	27	\$34,164.48	\$35,240.80	\$1,076.32	3.2%	4.98%	4.83%	\$1,701.28

3-stock total dividends: \$4,526.88

- Can \$7,374 be put to better use in higher-yield stocks? Definitely.
  - 100 add'l VZ shares: annual dividend increased from \$1,617 to \$1,848
  - 68 add'l T shares: annual dividend increased from \$1,568 to \$1,701
  - PM continues to show ~27% gain, with still >\$5K current profit
- Net impact to annual dividend stream?
  - In the black, with higher yields better working the \$7,374 re-investment
- Conclusion: Benner “theorem” is useful to monitor growth in portfolio, and shave profits to work elsewhere at higher yields.

# Some Dividend History for VZ, T, PM

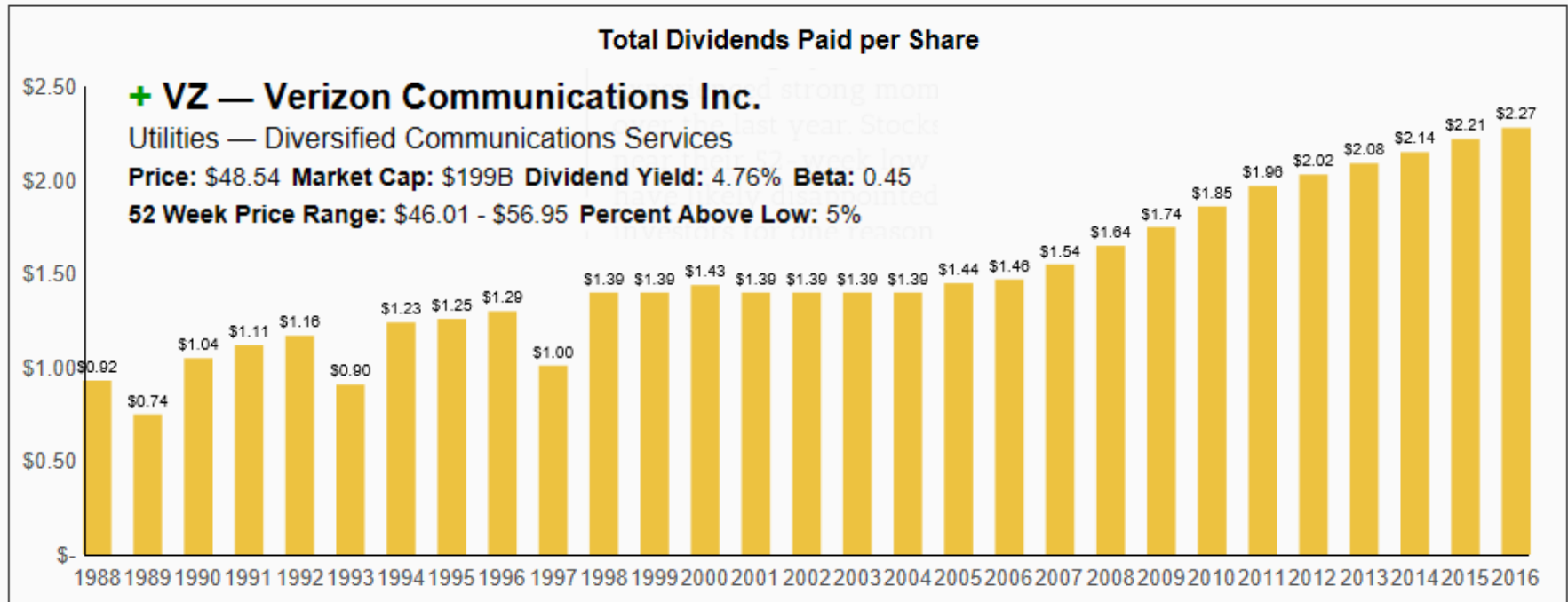
# Verizon (VZ) Dividend History

## Dividend Information

Dividend Yield	Annual Payout	EPS Payout Ratio	FCF Payout Ratio	Ex-Dividend Date	Pay Date	Payment Frequency
4.71%	\$2.31	71%	165%	2017-04-06	2017-05-01	Quarterly

## Historical Dividend Growth

Dividend Growth Streak	1-Year Growth	3-Year CAGR	5-Year CAGR	10-Year CAGR	20-Year CAGR
10+ Years	2.6%	3.1%	3%	4.5%	2.9%





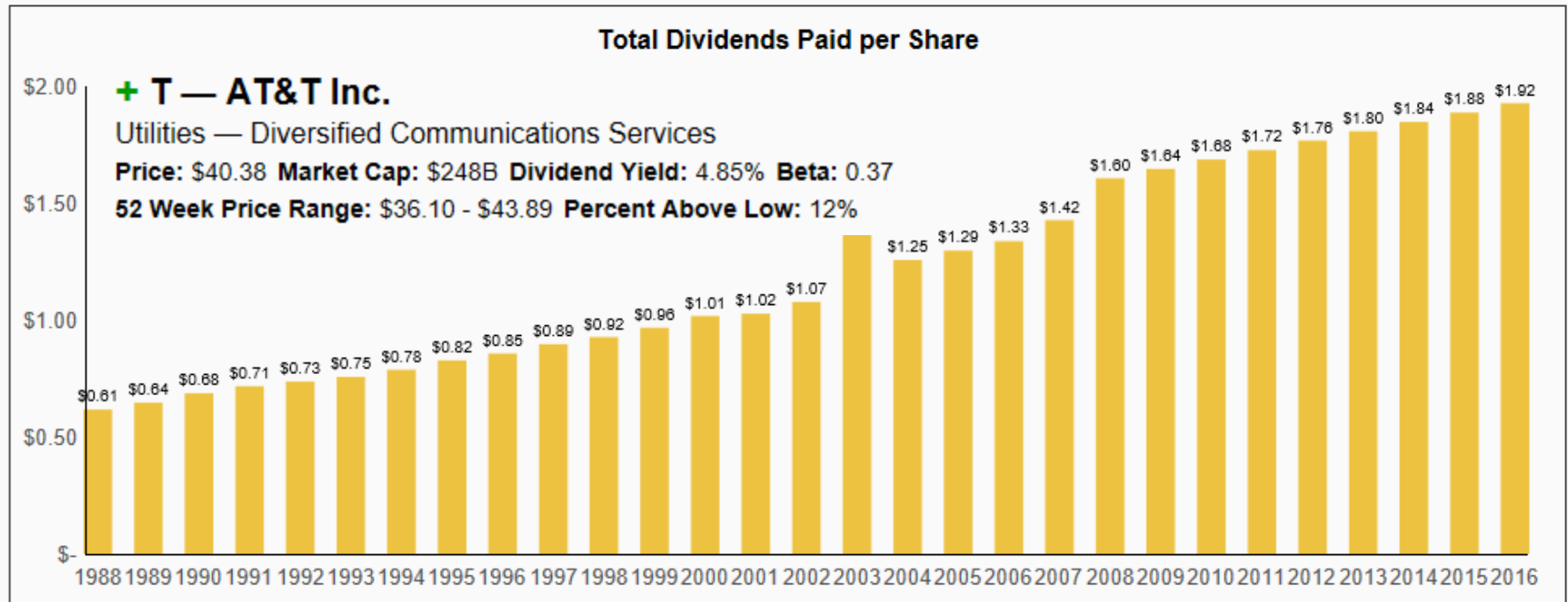
# AT&T (T) Dividend History

## Dividend Information

Dividend Yield	Annual Payout	EPS Payout Ratio	FCF Payout Ratio	Ex-Dividend Date	Pay Date	Payment Frequency
4.72%	\$1.96	92%	67%	2017-04-06	2017-05-01	Quarterly

## Historical Dividend Growth

Dividend Growth Streak	1-Year Growth	3-Year CAGR	5-Year CAGR	10-Year CAGR	20-Year CAGR
20+ Years	2.1%	2.2%	2.2%	3.7%	4.2%



# Philip Morris (PM) Dividend History

## Dividend Information

Dividend Yield	Annual Payout	EPS Payout Ratio	FCF Payout Ratio	Ex-Dividend Date	Pay Date	Payment Frequency
3.69%	\$4.16	92%	93%	2017-03-21	2017-04-11	Quarterly

## Historical Dividend Growth

Dividend Growth Streak	1-Year Growth	3-Year CAGR	5-Year CAGR	10-Year CAGR	20-Year CAGR
5+ Years	2%	4.8%	7.9%	N/A	N/A

