

EquityCompass  
**Quality Dividend Strategy**

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Creating a focused, diversified portfolio using high-quality, high-yielding stocks

**August 2010**

# EC Quality Dividend Strategy

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## Overview

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- ◆ EC Quality Dividend Strategy seeks to generate attractive current income and long-term capital appreciation by efficiently managing a focused and diversified portfolio of high-quality higher-dividend paying stocks
- ◆ Meant to be a satellite strategy designed to provide income-seeking investors a superior alternative to investing in bonds

## Portfolio Manager

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Larry Baker, CFA

- ◆ More than 25 years of investment experience
  - ◆ Managing Director and Security Analyst in the industrial sector - Legg Mason
  - ◆ Vice President and Security Analyst - Dillon, Read & Co.
  - ◆ Vice President and Security Analyst - E. F. Hutton
- ◆ Award-Winning Stock Picker
  - ◆ Three-time member of Institutional Investor's All-American Research Team
  - ◆ Forbes/StarMine All-Star Analyst
  - ◆ The Wall Street Journal *Best on the Street*
- ◆ Education
  - ◆ B.S. - United States Military Academy
  - ◆ Masters in Finance - Sloan School of Management, Massachusetts Institute of Technology

## Availability to Stifel Financial Advisors

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- ◆ Stifel Quality Dividend Portfolio available via the Score platform

Stifel Quality  
Dividend Portfolio

Score  
Research-Driven Portfolios

## I The Case for High-Yield Equity Dividend Portfolios

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Outperforms Non-dividend Equities

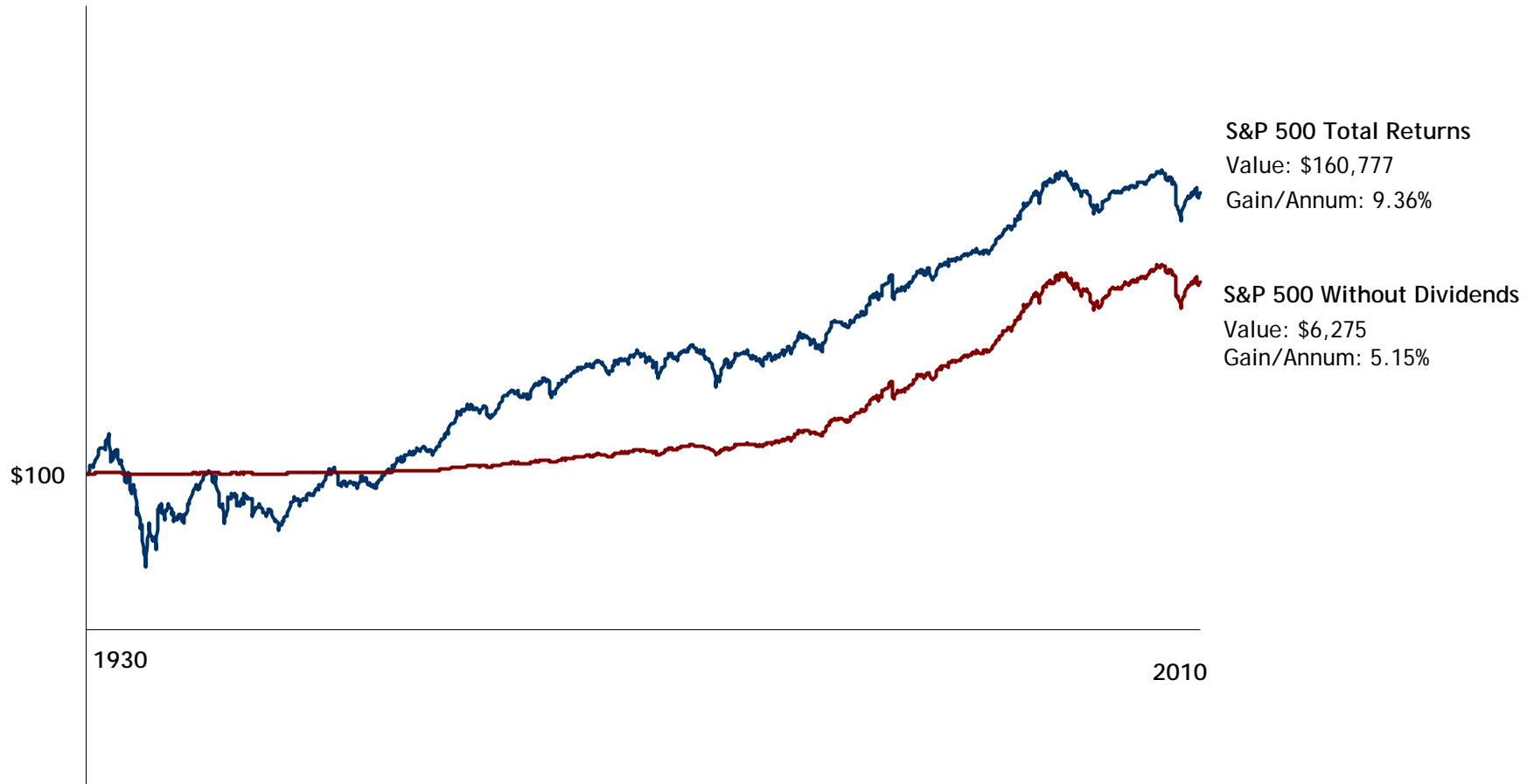
Outperforms Low-dividend Equities

Outperforms Fixed Income

# Dividend Paying Stocks have Outperformed Non-Dividend Stocks

## Growth of \$100 : S&P 500 Returns With and Without Dividends over 80 Years

12/31/1929 - 07/30/2010 | Monthly Data | Log Scale

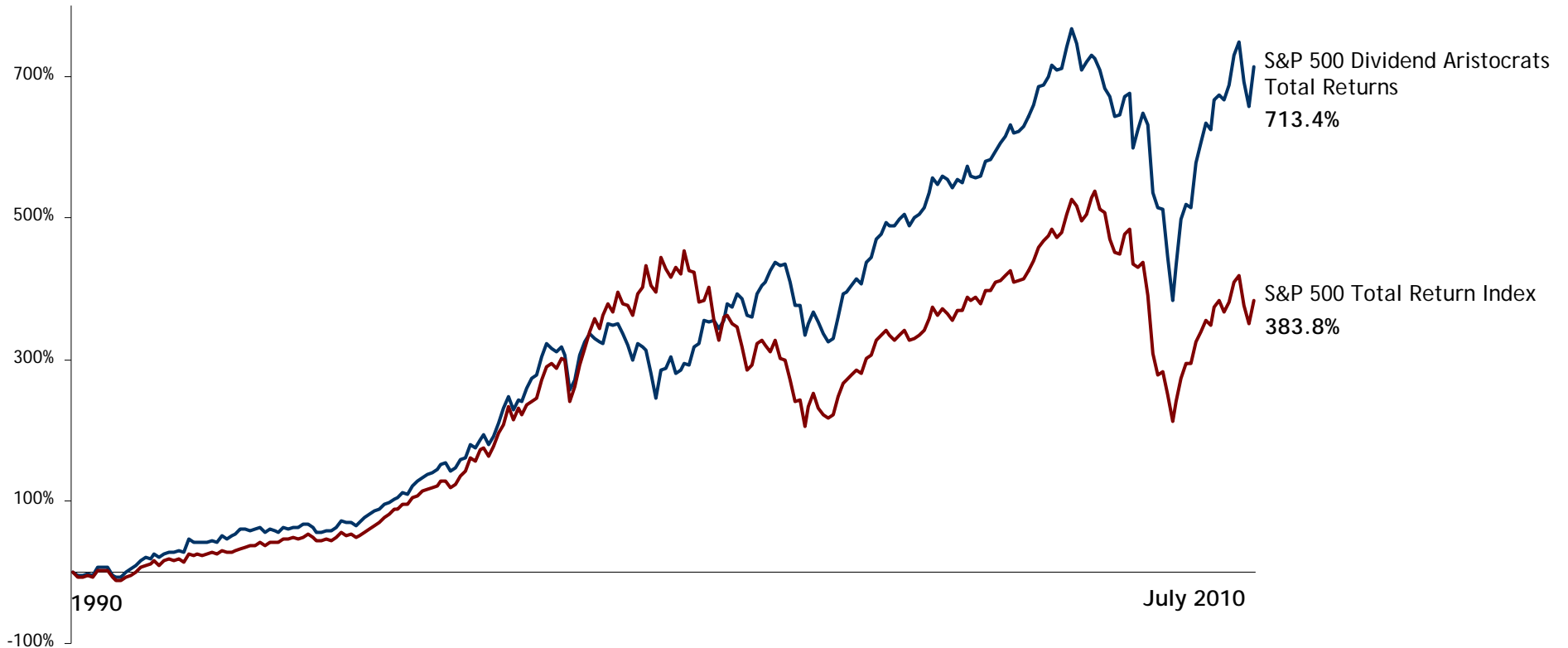


Source: Ned Davis Research

# Performance Advantage of High-Dividend Stocks

## Total Returns Over the Past 20 Years : High-Dividend Stocks vs. All Stocks

12/31/1989 - 07/30/2010 | Monthly Data



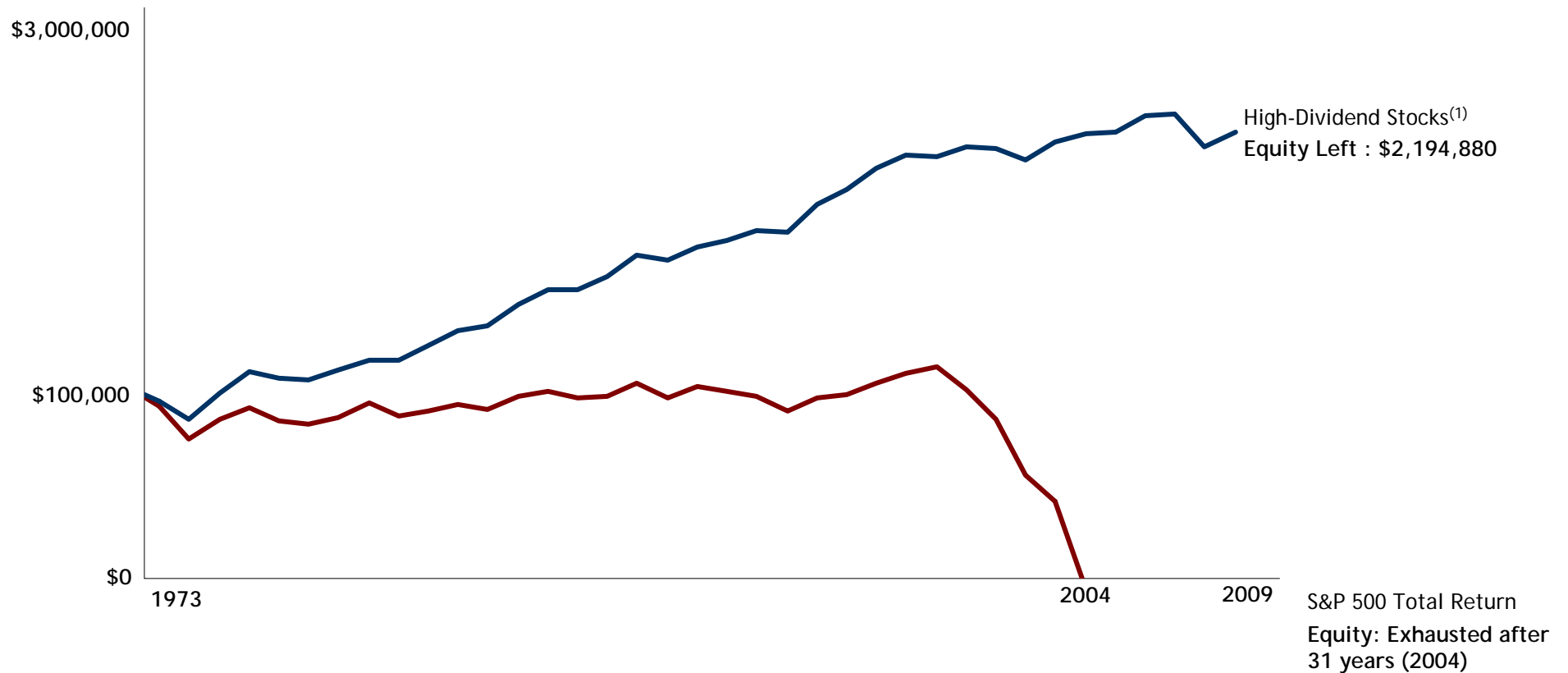
(1) Top 50% of S&P 500 Dividend Payers  
Source: Ned Davis Research

# High-Yield Stocks Performed Better in the De-accumulation Period

Crucial feature for investors making regular withdrawals from their portfolio - such as retirees

## Performance of \$100,000 with Annual Withdrawals

12/31/1972 - 12/31/2009 Assumes yearly withdrawals, starting at 4.5% and increasing with Inflation



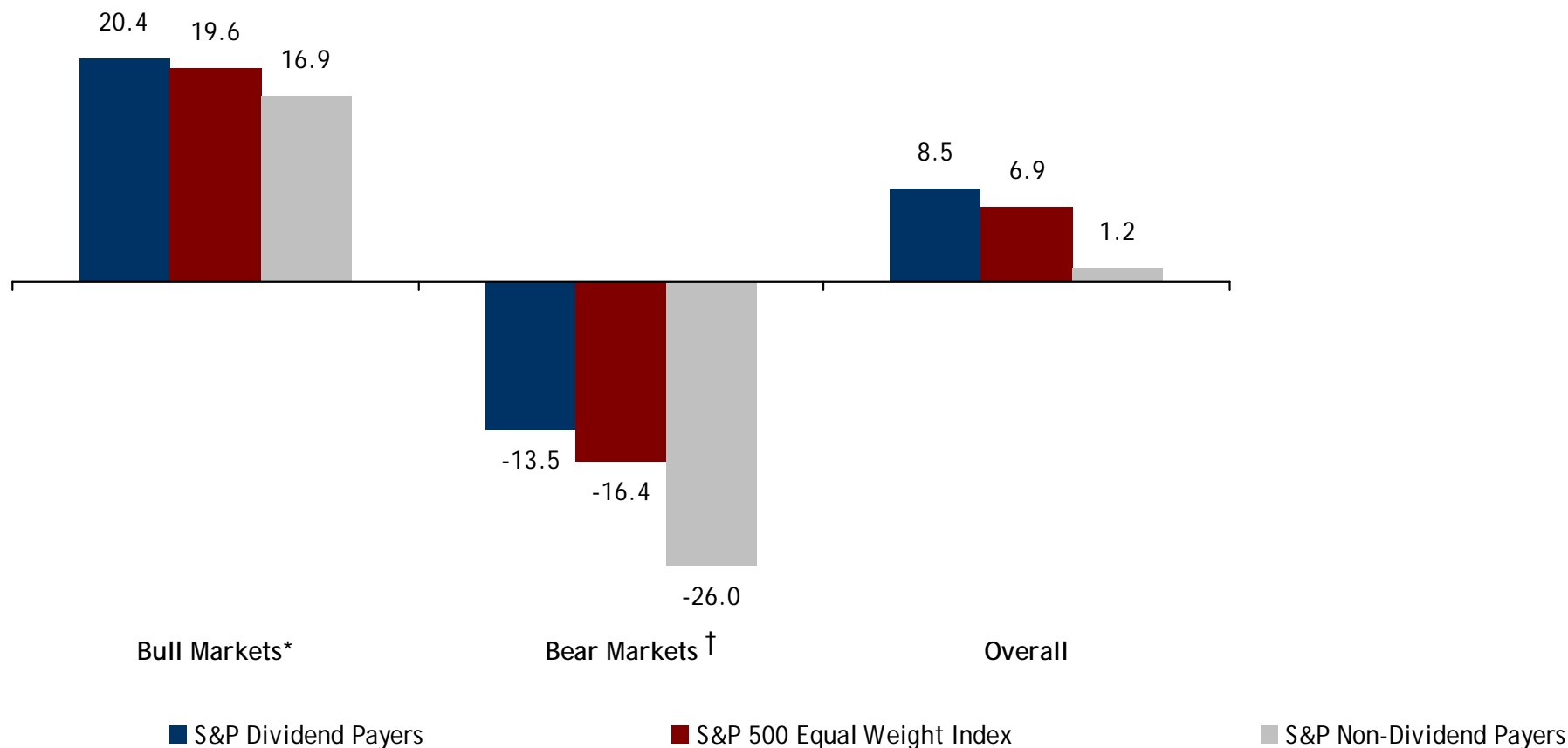
(1) Top 50% of S&P 500 Dividend Payers  
Source: Ned Davis Research

# Dividend-Paying Stocks : Performance Advantage

Dividend-Paying Stocks Historically Have Weathered Market Cycles Well

% Average Annual Total Return From 1/31/72 to 1/31/10

01/31/1972 - 01/31/2010 | Monthly Data



Source: Ned Davis Research. Past performance does not guarantee future results. Bull and bear markets as defined by Ned Davis Research. From 1/31/72-1/31/10

\* Bull markets: 1/31/72-1/10/73; 12/7/74-9/20/76; 3/1/78-9/7/78; 4/22/80-4/26/81; 8/13/82-11/28/83; 7/25/84-8/24/87; 10/20/87-7/15/90; 10/12/90-7/16/98; 9/1/98-1/13/00; 9/22/01-3/18/02; 10/10/02-10/8/07; and 3/10/09-9/30/09.

† Bear markets: 1/11/73-12/6/74; 9/21/76-2/28/78; 9/8/78-4/21/80; 4/27/81-8/12/82; 11/29/83-7/24/84; 8/25/87-10/19/87; 7/16/90-10/11/90; 7/17/98-8/31/98; 1/14/00-9/21/01; 3/19/02-10/9/02; and 10/9/07-3/9/09.

# When Dividend-Paying Stocks Underperformed

12/31/1972 - 12/31/2009

In 14 of the past 37 years, high dividend stocks underperformed the S&P 500

Year	Annual Returns	
	S&P 500	High Dividend Stocks <sup>(1)</sup>
1978	6.4%	3.9%
1980	32.2%	20.0%
1987	5.1%	4.4%
1989	31.3%	30.6%
1991	30.4%	21.4%
1994	1.2%	0.7%
1996	22.8%	21.4%
1997	33.3%	32.1%
1998	28.5%	17.4%
1999	21.0%	-1.1%
2003	28.5%	24.5%
2005	4.8%	3.7%
2007	5.4%	4.6%
2009	26.9%	18.7%

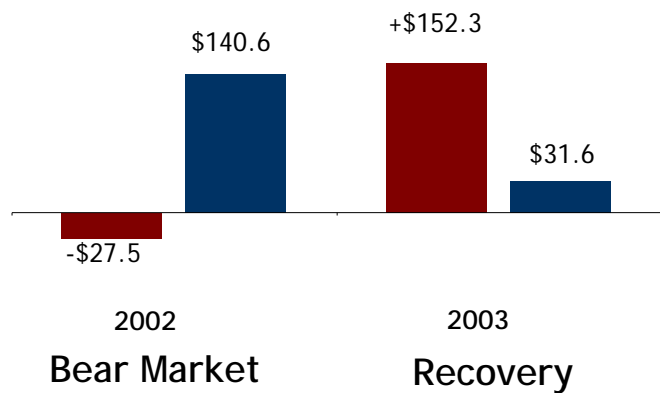
(1) Top 50% of S&P 500 Dividend Payers  
Source: Ned Davis Research

# Is there a Bond Bubble?

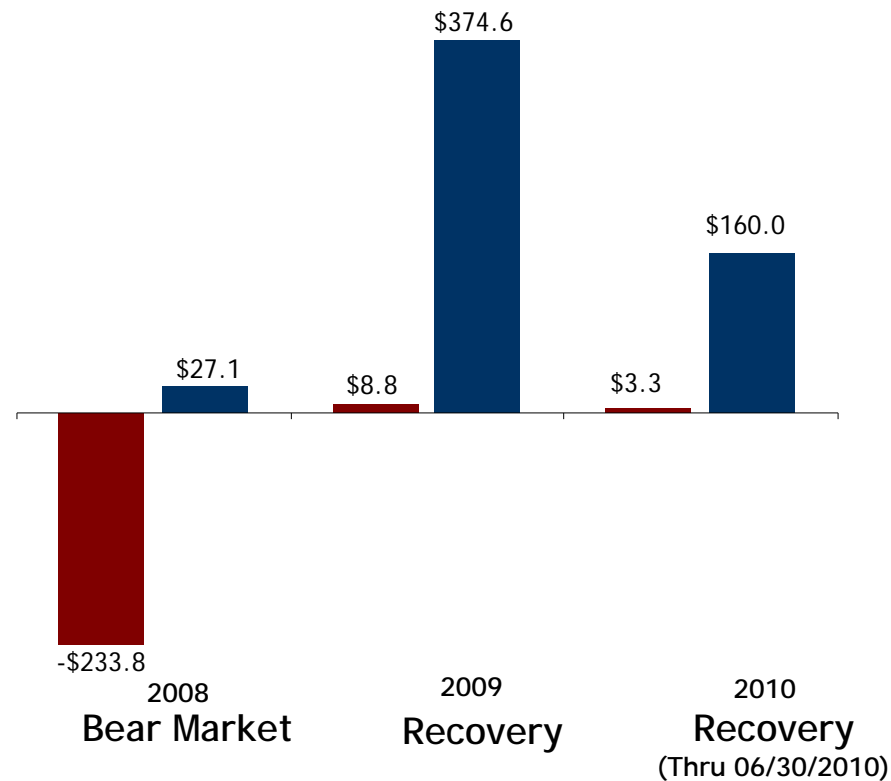
Unlike in the past, Investors heavily favored bonds over stocks in the post-2008 bear market period

## Post-2008 Bear Market: Unprecedented Inflow into Bonds

Net Capital Flows Stocks vs. Bonds (\$ Billions)  
2002-2003



Net Capital Flows Stocks vs. Bonds (\$ Billions)  
2008-2010



■ Stock Mutual Funds ■ Bond Mutual Funds

Source: Investment Company Institute

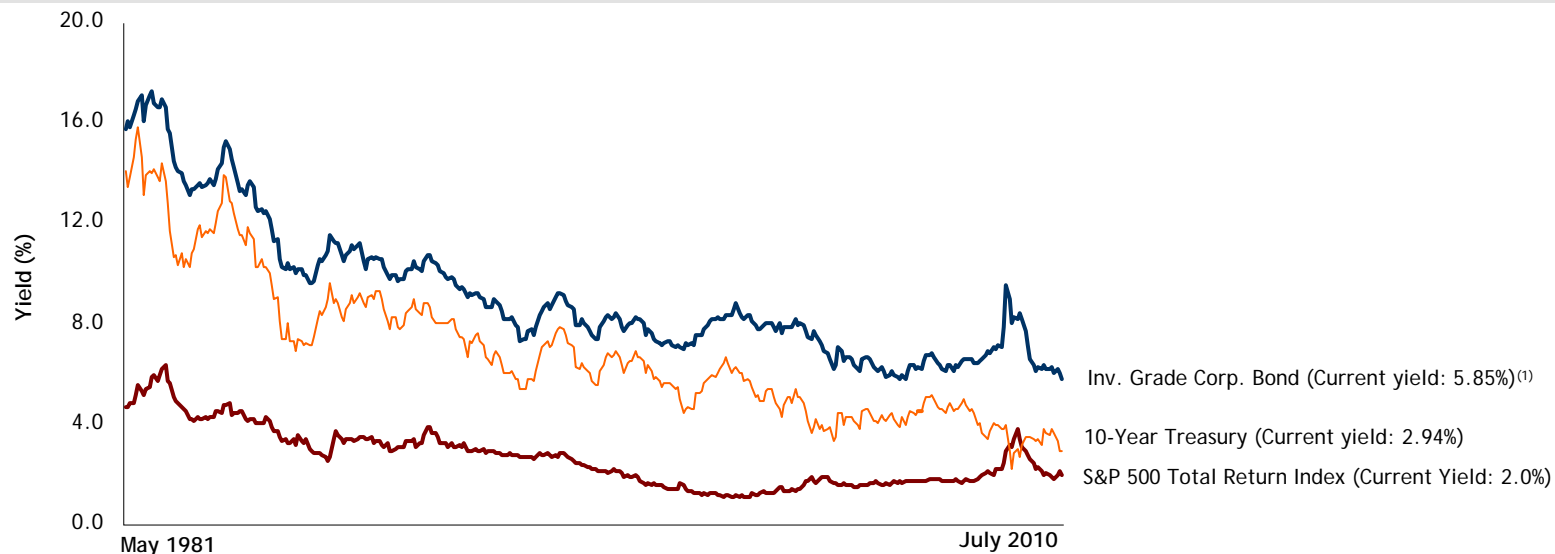
# Is there a Bond Bubble?

## Bonds in 2010: Lower Yields; Overvalued

### Narrowing Yield Spread - Bonds vs. Stocks

04/30/1981 - 07/30/2010 | Monthly Data

Bond yields are near historical lows



### At current valuations, bonds are overvalued

As of 07/30/2010

Yield Ratio	Historical	Current
10-year Treasury Bond / S&P 500 Total Return Index	2.7	1.5
Investment Grade Corp. Bond <sup>(1)</sup> / S&P 500 Total Return Index	3.7	2.9

(1) Assumes a Baa rating or higher and a maturity of 10 years  
Source: Ned Davis Research, EquityCompass

# High-Yield Stocks as an Alternative to Bonds

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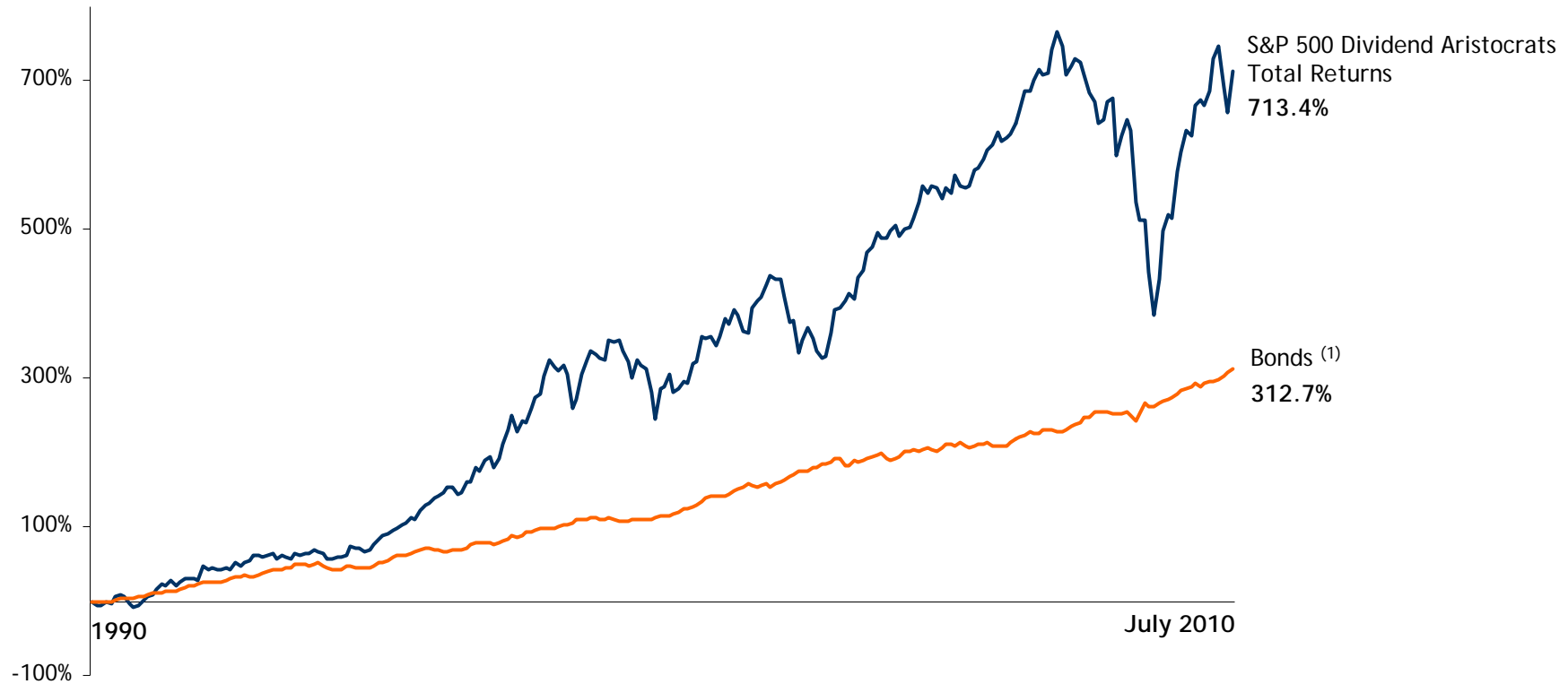
**Bill Gross**  
Founder and Co-CIO, PIMCO

- ◆ Comments on December, 2009
  - ◆ “As a result of lower growth prospects and increased government regulation, investors buying the market will get slow growing stocks similar to Utilities, but with only a 2% dividend yield.”
  - ◆ “Therefore, investors should just buy Utilities, getting the same growth in earnings with a 5%-6% dividend yield rather than the 2% yield of the market.”
- ◆ Comments on August, 2010
  - ◆ “Its and uncertain world tipping towards deflation...”
  - ◆ Under these conditions investors should “...cash flows that are relatively certain, such as dividends and interest from stocks and bonds of quality companies.”

# High-Yield Stocks have Performed Better than Bonds

## Total Return Comparison : High-Dividend Stocks vs. Bonds

12/31/1989 - 12/31/2009 | Monthly Data



(1) Barclays Aggregate Bond Index  
Source: Ned Davis Research

# High-Yield Stocks are Better in a Rising Interest Rate Environment

## Impact of Interest Rate Increase on Bond Values <sup>(1)</sup>

Hypothetical example for illustrative purposes only

### Yields (08/04/10)<sup>(2)</sup>

	Current Yield
3 Month T-Bills	0.15%
5-Year Treasury	1.60%
10-Year Treasury	2.94%
30-Year Treasury	4.05%
Corp. Bonds (Inv. Grade) <sup>(3)</sup>	5.85%

### Estimated Interest Rate Increase

	0.5%	1.0%	1.5%	2.0%
3-mos. T-Bill	-0.2%	-0.3%	-0.5%	-0.6%
5-Yr. Treasury	-2.2%	-4.4%	-6.5%	-8.5%
10-Yr. Treasury	-3.9%	-7.7%	-11.3%	-14.7%
30-Yr. Treasury	-7.8%	-14.8%	-21.0%	-26.5%
Corp. Bond (Inv. Grade) <sup>(3)</sup>	-3.8%	-7.3%	-10.8%	-14.0%

- ◆ The prospect of further growth in earnings and dividends should help an equity yield portfolio withstand moderate interest rate increases
  - ◆ Avg. annual dividend growth for the S&P 500 has exceeded 4% over the past 40 years

(1) Assumes par value: \$1000.0, Coupon : 5%, Yield: current yield for each security as of 01/26/10

(2) Changes in bond prices are calculated based on differences in the present value of cash flows

(3) Assumes a Baa rating or higher and a maturity of 10 years

Source: Ned Davis Research, EquityCompass



# EquityCompass Quality Dividend Strategy

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## Objective

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- ◆ Seeks to generate attractive current income and long-term capital appreciation by efficiently managing a focused and diversified portfolio of high-quality higher-dividend paying stocks.
- ◆ Seeks to provide the highest possible dividend yield within the constraints of quality and diversification.

# Strategy Features

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- ◆ Invests 100% of the assets in dividend-paying U.S. equities or ADRs
- ◆ Investment Process combines quantitative and qualitative approaches
  - ◆ EC quantitative models select a pool of stocks that meet criteria evaluating quality, fundamentals, momentum, valuation and over-/underreaction
  - ◆ Portfolio manager review that leverages fundamental research looking at payout, dividend growth etc.
- ◆ Focused portfolio with equal-weight positions in 25 high-quality, high-yielding stocks
  - ◆ We believe expanding the portfolio to 30 or 35 stocks would dilute the yield without increasing diversification
- ◆ Portfolio construction and maintenance processes seek to optimize portfolio yield and downside protection
  - ◆ Diversified across 10 industry sectors with a sector maximum of 20%
  - ◆ Liquidity and size requirements create a natural bias towards large cap stocks
  - ◆ Targets low-turnover for tax-efficiency

# Model Portfolio Statistics

As of 08/04/2010

## Key Statistics

Number of Holdings	25
Market Cap (\$Billion)	\$39.0
Annual Dividend Yield	5.4%
Price / Earnings (12-Month Forward)	11.7
Beta	0.7
Payout Ratio	67.0%
Moody's Debt Rating	100% Investment Grade
Dividend Growth (5 year)*	6.0%
% of holdings increasing dividends in the last year	0.6
Long-term Earnings Growth	9.0%

## Sector Allocation

Financials	20%
Utilities	20%
Energy	20%
Telecom	16%
Health Care	16%
Consumer Staples	4%
Industrials	4%
Materials	4%

## Recent Changes

Addition	Removal
5/5/2010 TransCanada Corp. (TRP)	BP PLC ADS (BP)
8/4/2010 Merck & Co (MRK)	Total SA (TOT)

## Current Holdings

Ticker	Name	Dividend Yield
CTL	CenturyLink Inc.	8.14%
OHI	Omega Healthcare Investors Inc.	6.55%
VZ	Verizon Communications Inc.	6.54%
T	AT&T Inc.	6.48%
SNH	Senior Housing Properties Trust	6.39%
PBI	Pitney Bowes Inc.	5.98%
PGN	Progress Energy Inc.	5.89%
NYB	New York Community Bancorp Inc.	5.79%
CINF	Cincinnati Financial Corp.	5.74%
BCE	BCE Inc.	5.51%
LLY	Eli Lilly & Co.	5.51%
MRK	Merck & Co Inc	4.41%
ED	Consolidated Edison Inc.	5.16%
RDSA	Royal Dutch Shell PLC (ADS CI A)	5.15%
BMY	Bristol-Myers Squibb Co.	5.14%
EXC	Exelon Corp.	5.02%
TE	TECO Energy Inc.	5.02%
SCG	SCANA Corp.	4.96%
NHP	Nationwide Health Properties Inc.	4.81%
SE	Spectra Energy Corp.	4.81%
AZN	AstraZeneca PLC ADS	4.78%
TRP	TransCanada Corp.	4.45%
KMB	Kimberly-Clark Corp.	4.12%
DD	E.I. DuPont de Nemours & Co.	4.03%
COP	ConocoPhillips	3.98%
<b>Average</b>		<b>5.37%</b>

Source: EquityCompass

# Summary

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- ◆ High-Quality Portfolio
  - ◆ Uses EquityCompass quantitative models to identify high-quality stocks
- ◆ Focused approach that helps maximize total returns and downside protection
  - ◆ The focus on only 25 stocks provides adequate diversification without diluting the portfolio yield
  - ◆ Average current portfolio yield of more than twice the S&P 500 average and better than the 10-year Treasury yield
  - ◆ Combination of higher dividend-paying equities and equities with positive dividend-growth rates provides opportunity to expand income over time
- ◆ Professional Management Plus “Quant” Models
  - ◆ Experienced portfolio management team
    - ◆ Investment team is led by Larry Baker, who has more than 25 years of investment experience
    - ◆ Combines fundamental oversight to EquityCompass’ quantitative approach to investment management

## EquityCompass Strategies

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Mortgage-backed securities represent an investment in a pool of mortgage loans; thus, the yield and average life will fluctuate depending on the rate at which mortgage holders prepay the underlying mortgages. Asset-backed Securities are backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt. Corporate bonds are considered higher risk than government bonds. High-yield bonds have greater credit risk than higher quality bonds. Tactical asset allocations are determined by technical assumptions. The effectiveness of the hedging technique relies on the baseline assumptions that could differ significantly from market returns or expected hedge returns. The risk of loss in trading commodities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains. When investing in real estate, it is important to note that property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. Exchange Traded Funds (ETFs) represent a share of all of the stocks in their respective index held in a trust. Therefore, ETFs are subject to market risk, including the possible loss of principal. The value of the portfolio will fluctuate with the value of the underlying securities. ETFs trade like stocks, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. Investors should consider an ETF's investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

The Ibbotson Long-Term Government Bond Index is a total return index of all public organizations of the U.S Treasury except flower bonds and foreign-targeted issues and has a maturity near 20 years. All bonds have maturities of at least 10 years or more. The returns are weighted by market value including accrued interest. The bonds represented in this index are backed by the U.S. Government, yet involve risk of principal loss if sold prior to maturity. The Barclays Capital U.S. Government Bond Total Return Index is a market-weighted index designed to reflect the performance of the total universe of investment-grade fixed income securities issued by the United States government or its agencies. Barclays Capital Aggregate Bond Index is a market capitalization-weighted index that represents most U.S. traded investment grade bonds. The index includes treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S. This index is used as a benchmark to measure relative performance of bond funds. The maturities of the bonds in the index are more than one year. The S&P 500 Index is a broad market index that tracks the performance of 500 stocks from major industries of the U.S. economy. This index is generally considered representative of the U.S. large capitalization market. A total return index tracks both the capital gains of a group of stocks over time, and assumes that any cash distributions, such as dividends, are reinvested back into the index. Looking at an index's total return displays a more accurate representation of the index's performance. By assuming dividends are reinvested, you effectively have accounted for stocks in an index that do not issue dividends and instead, reinvest their earnings within the underlying company. A total return index does not include adjustments for brokerage, custodian and advisory fees. Indices are unmanaged, and it is not possible to invest directly in an index.

### Additional Information Available Upon Request

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