

## **Dividend Growth & Income Investing Strategy**

### **Investment Philosophy Statement**

Dividend growth and income investing focuses on companies that we believe will provide consistent annual dividend growth over a long-term investment horizon. Our objective is to provide a broad list of high quality, industry leading companies from which we can assemble a well-diversified portfolio. Through consistent dividend growth, our goal is to help investors stay ahead of the wealth eroding effects of inflation.

#### **Primary Objectives:**

- 1) Potentially provide a higher stream of income over time. With a diversified basket of stocks that we believe have the potential to raise their dividends with regularity, conservative income and growth oriented equity investors should have the potential to keep up with the rising cost of living. To help achieve this goal of a growing income stream, we recommend that investors plan to hold these stocks for an extended period, typically a minimum period of 5 years to better be able to withstand the changes that occur within a full business cycle.
- 2) Help to modify risk through diversification. A well-constructed portfolio typically contains stocks from different market sectors. Studies have shown that stocks in as few as six sectors with different investment characteristics can help reduce a portfolios risk, as measured by standard deviation, to roughly that of the marketplace in which the stocks are traded. (standard deviation measures the volatility of stock prices)
- 3) Keep you informed about these stocks.  
We will notify you at times when the companies announce dividend changes, and if we add a stock or delete a stock from our strategy.

#### **Investment Criteria:**

We utilize a disciplined philosophy and methodology that focuses upon finding companies that:

- 1) Appear fundamentally sound (in solid financial condition with investment grade debt-bonds that have a relatively low risk of default- if they have debt),
- 2) have historically paid dividends well covered by free cash flow,
- 3) operate generally mature, defensive business (providing products or services that customers tend to patronize in all kinds of economic environments ) and
- 4) most importantly, offer the potential to consistently raise their annual dividends.

We prefer companies that have historically paid cash dividends out of after tax earnings. Rarely are we attracted to companies that have maintained or increased their dividends using money generated from activities outside the company's primary business of producing goods and services. We look for companies that, in addition to a history of increasing their earnings year after year have also generated growth in "free" cash flow, or more cash than is required by the company to pay its bills and employees, invest in its business, maintain its facilities and equipment, etc. dividends are paid (and increased) out of free cash flow.

We intend to add only what we believe are the highest quality companies with the potential for consistent annual dividend growth, and then to patiently hold them for an extended period of time, throughout economic and market cycles, selling if the fundamental characteristics of the company have changed materially, and presumably for the worse.

#### **Investment and Insurance Products are:**

- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

Consequently, we are not likely to include every stock within a particular market sector that meets the basic criteria for inclusion on our list. We aim to include only those companies that are clearly industry leaders, and those with the strongest financial condition and outlook for sustainable dividend growth.

**“Dividend Growth and Income Investing Strategy” is appropriate for many investors:**

The “dividend growth and income investing strategy” portfolio is considered appropriate for conservative investors seeking some income and growth from their equity portfolios. It may also be appropriate for more aggressive investors who prefer to keep a portion of their portfolios in more conservative equity securities.

**Summary:**

History has shown that investing in stocks of high quality companies over long periods of time has been a successful strategy to help investors build wealth over time, although there is no guarantee that this will be the case going forward. Receiving cash dividends up to four times a year with the prospect of dividend increases at least once a year from a properly diversified portfolio should help investors get in and stay in the market to participate in the wealth building potential of the stock market, even in uncertain and volatile times. The Dividend Growth and Income strategy emphasizes owning pieces of what we feel are great businesses, many of which sell products or services that we know and patronize, and that have the potential to pay growing dividends while waiting for stock prices to reflect the direction of earnings (and dividends) over the long term.

**Communication:**

In addition to monthly statements, Wells Fargo Advisors provides you with written performance evaluations on a quarterly basis. These evaluations will include a comparison of your portfolio to an index as well as a review of your asset allocation and historical performance.

You will always have direct access to me should you have any questions or concerns. By maintaining open communication, I believe I may be able to help you avoid reflexive or reactive decisions during downward market cycles.

**Howard Adler**

**Managing Director – Investment Officer**

Senior PIM Portfolio Manager

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Dividends are not guaranteed and are subject to change or elimination.

As each Private Investment Management (PIM®) program account is individually managed, construction and ongoing management of portfolios may vary from those discussed in this Philosophy Statement.

Past performance is not indicative of future results, and there is no assurance that any investment strategy will be successful. All investing involves risk, including the possible loss of principal.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

The PIM program is not designed for excessively traded or inactive accounts, and may not be appropriate for all investors. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services. The minimum account size for this program is \$50,000. Since no one investment program is appropriate for all types of investors, this information is provided for informational purposes only. You should review your investment objectives, risk tolerance and liquidity needs before selecting an appropriate investment program.

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