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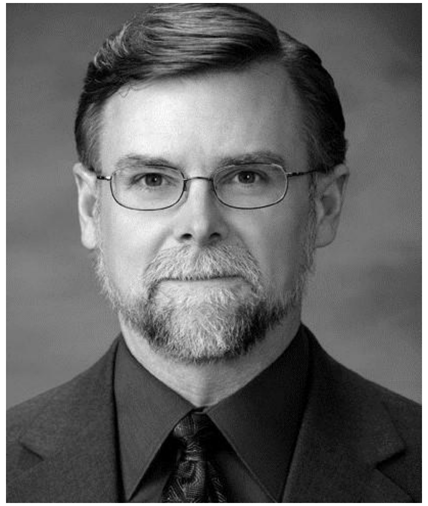
The case for high dividend stocks

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

The case for high dividend stocks

The case for value, in general and right now

↔

High dividend stocks as a best possible expression of value

- Current income
- Zombie filter
- Sustainability
- Profitability
- Growing income
- Tangibles vs intangibles

Conventional wisdom

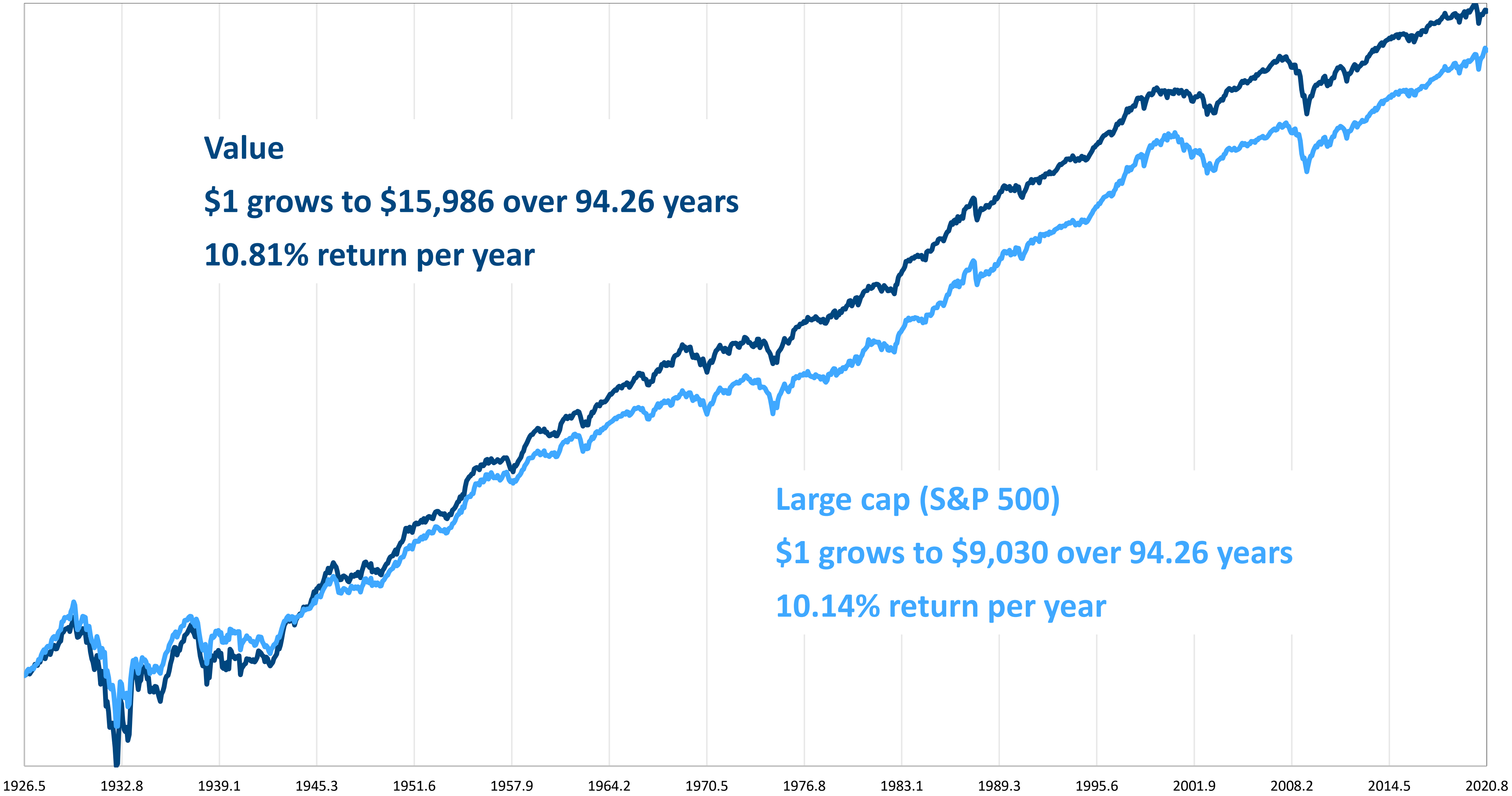
- Conventional wisdom prescribes a permanent fixed tilt towards value
- This conclusion is based on the following assumptions about the value risk premium
  - Sufficient size
  - Sufficient consistency
  - Some diversification benefit
- Convention wisdom is wrong
- It lacks even the slightest degree of consistency, and instead is painfully episodic

Sufficient size

YES

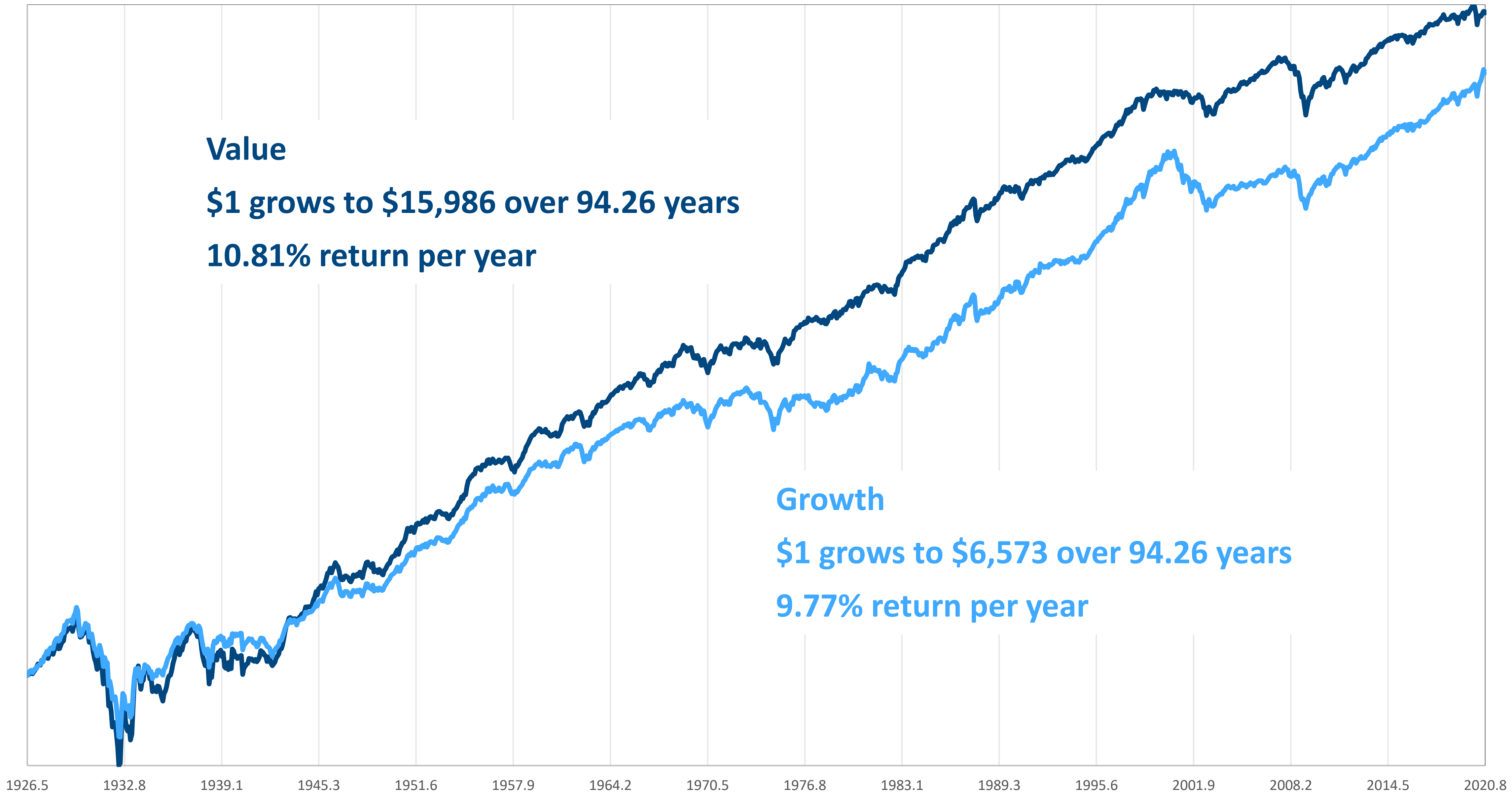
The origins of conventional wisdom's mistaken beliefs

Value premium of 0.67% per year over the last 94.26 years



The origins of conventional wisdom's mistaken beliefs, continued

Value premium of 1.04% per year over the last 94.26 years

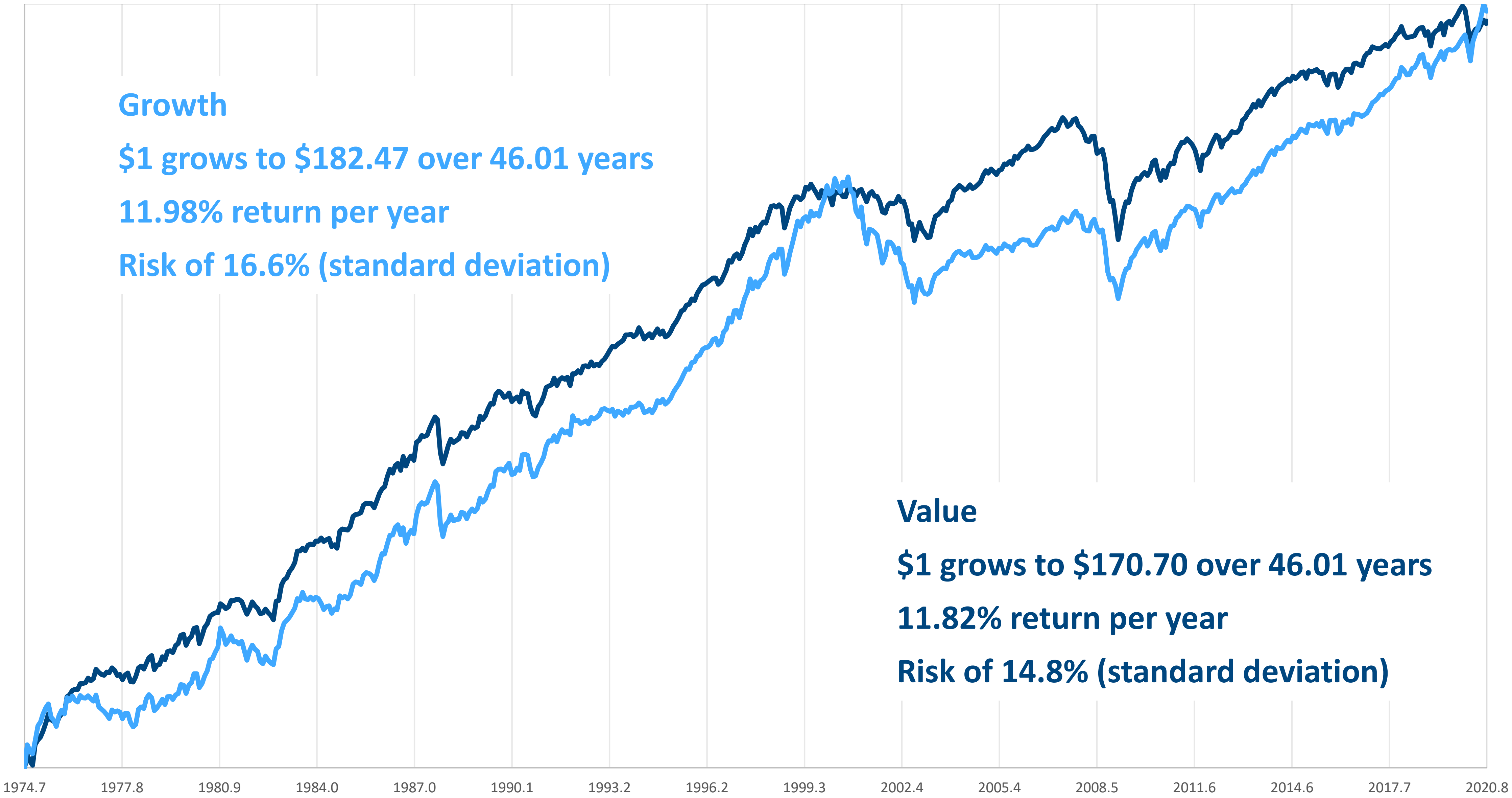


Sufficient consistency

NO

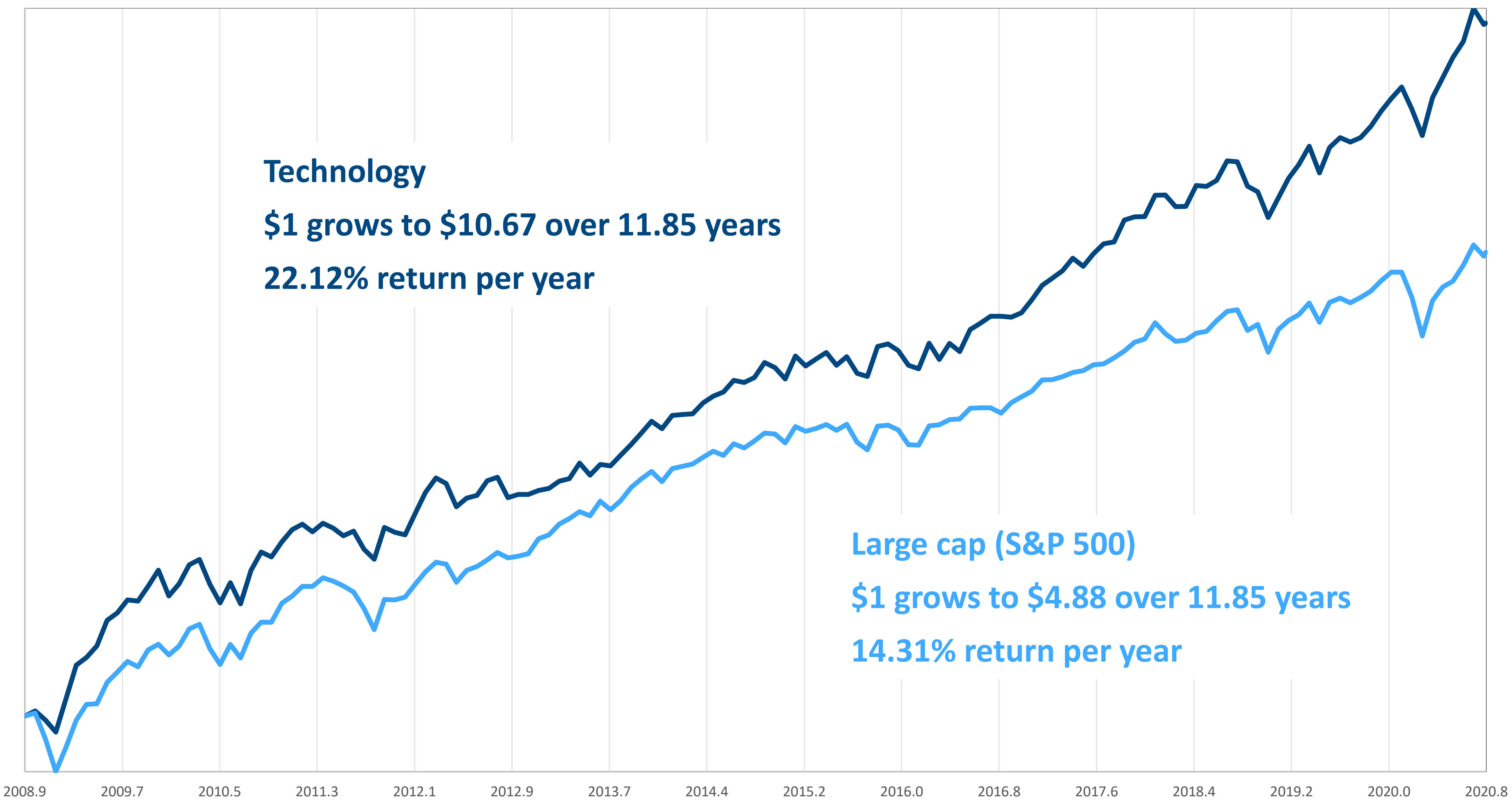
Conventional wisdom closed its eyes to the last 46+ years

Value premium of -0.16% per year over the last 46.01 years



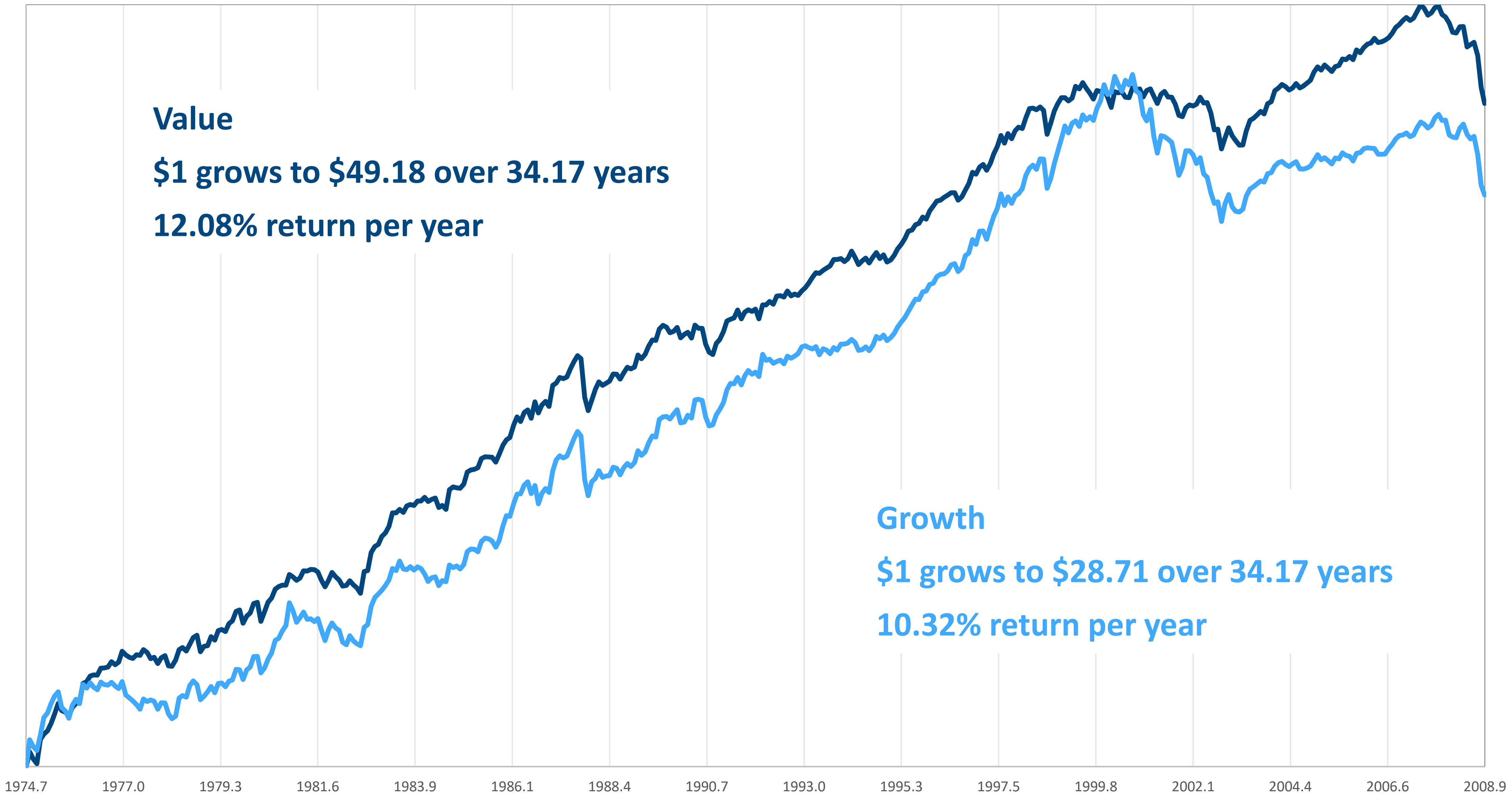
Is recent value disappoint just due to the recent 12-year tech rally

History making technology rally began Nov 30, 2008



MAYBE - but to assume so, probably misleads

After removing the 11.85-year tech rally, value's premium returned to 1.75%

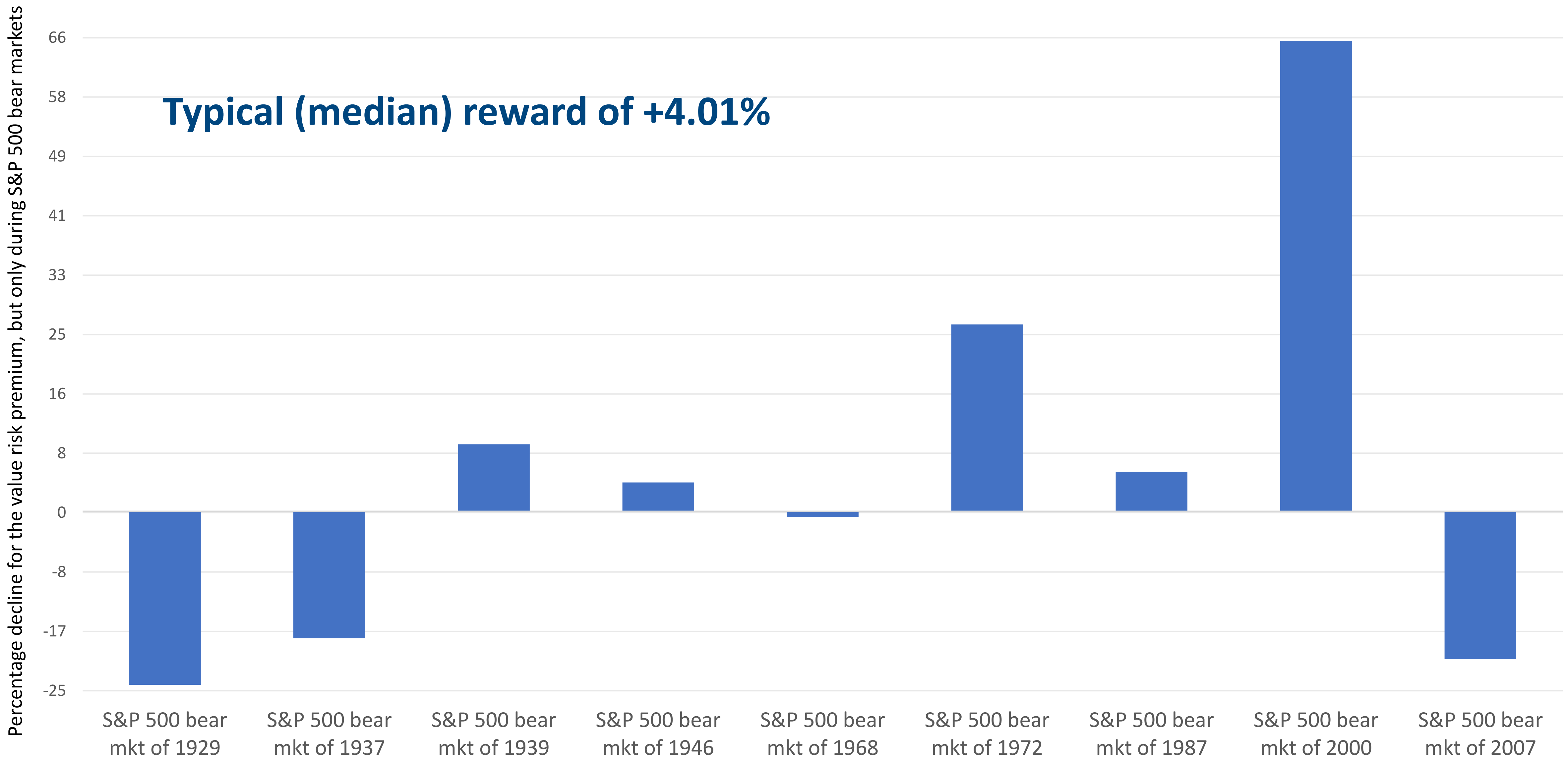


Some diversification benefit

NO, remarkably inconsistent

Diversification benefits are remarkably inconsistent

Value risk premium is random (noisy) during S&P 500 bear markets

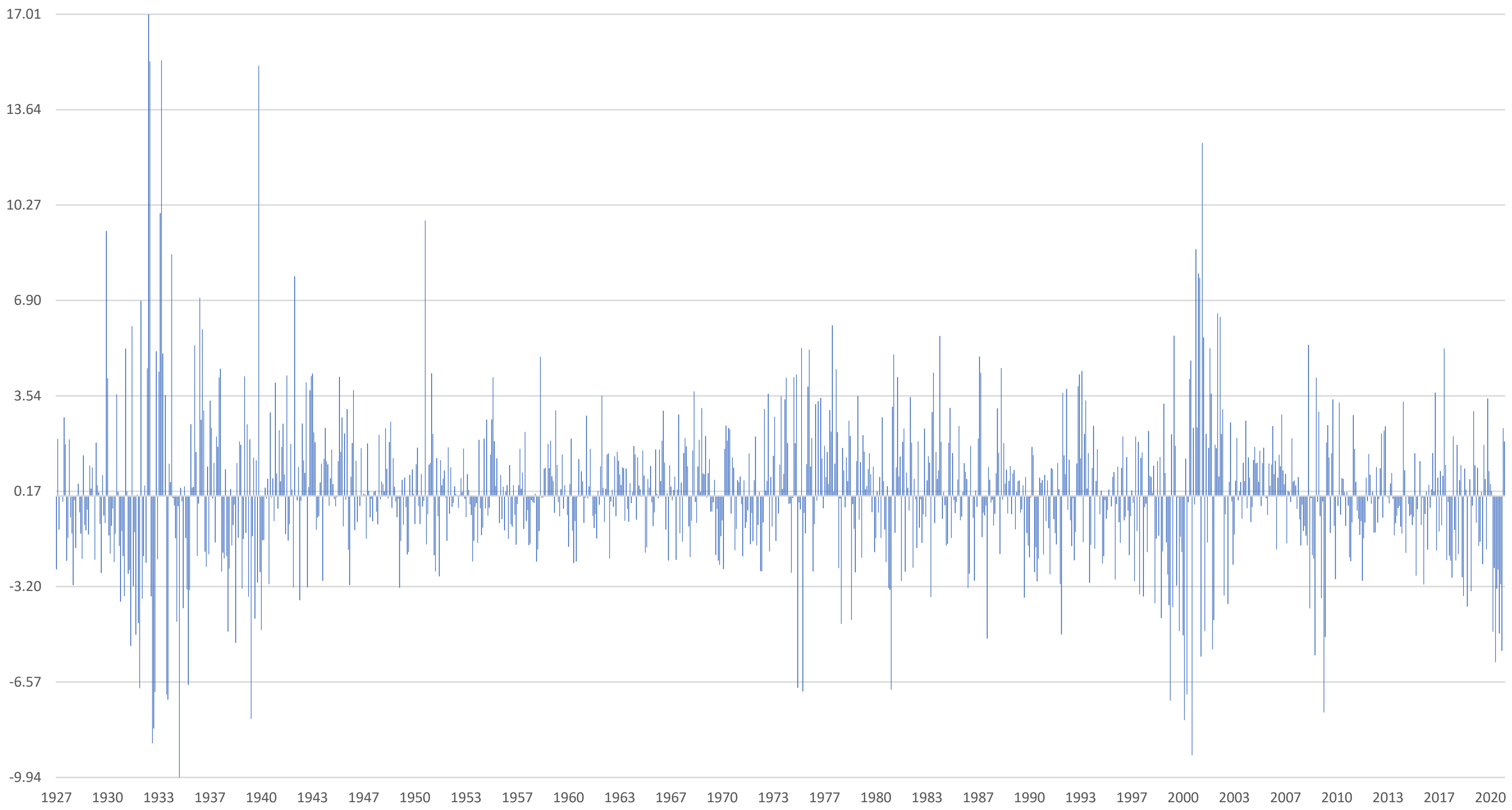


How consistent is the value risk premium?

Is it episodic?

Month-by-month value risk premium

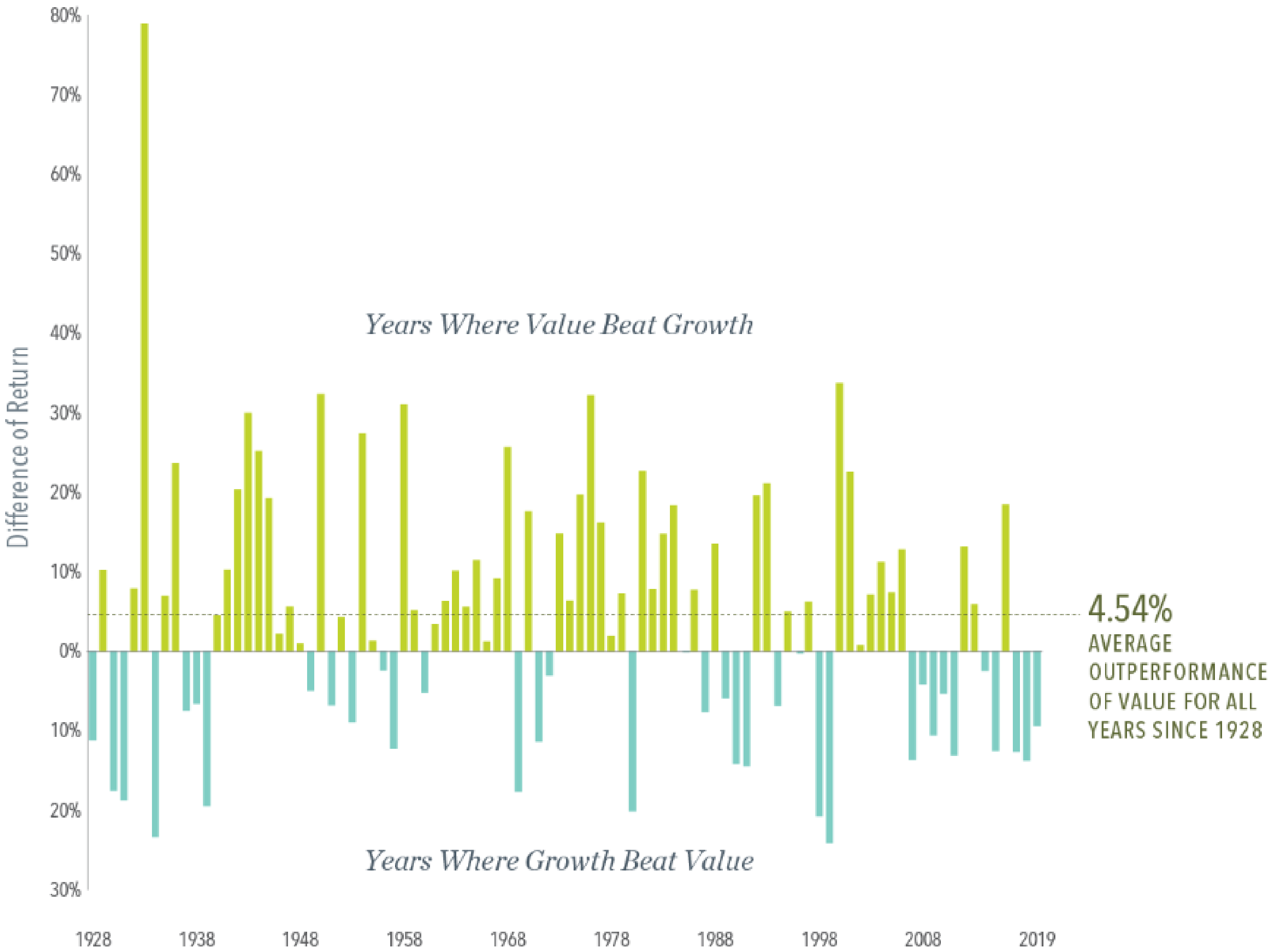
Monthly value risk premium has varied significantly over time



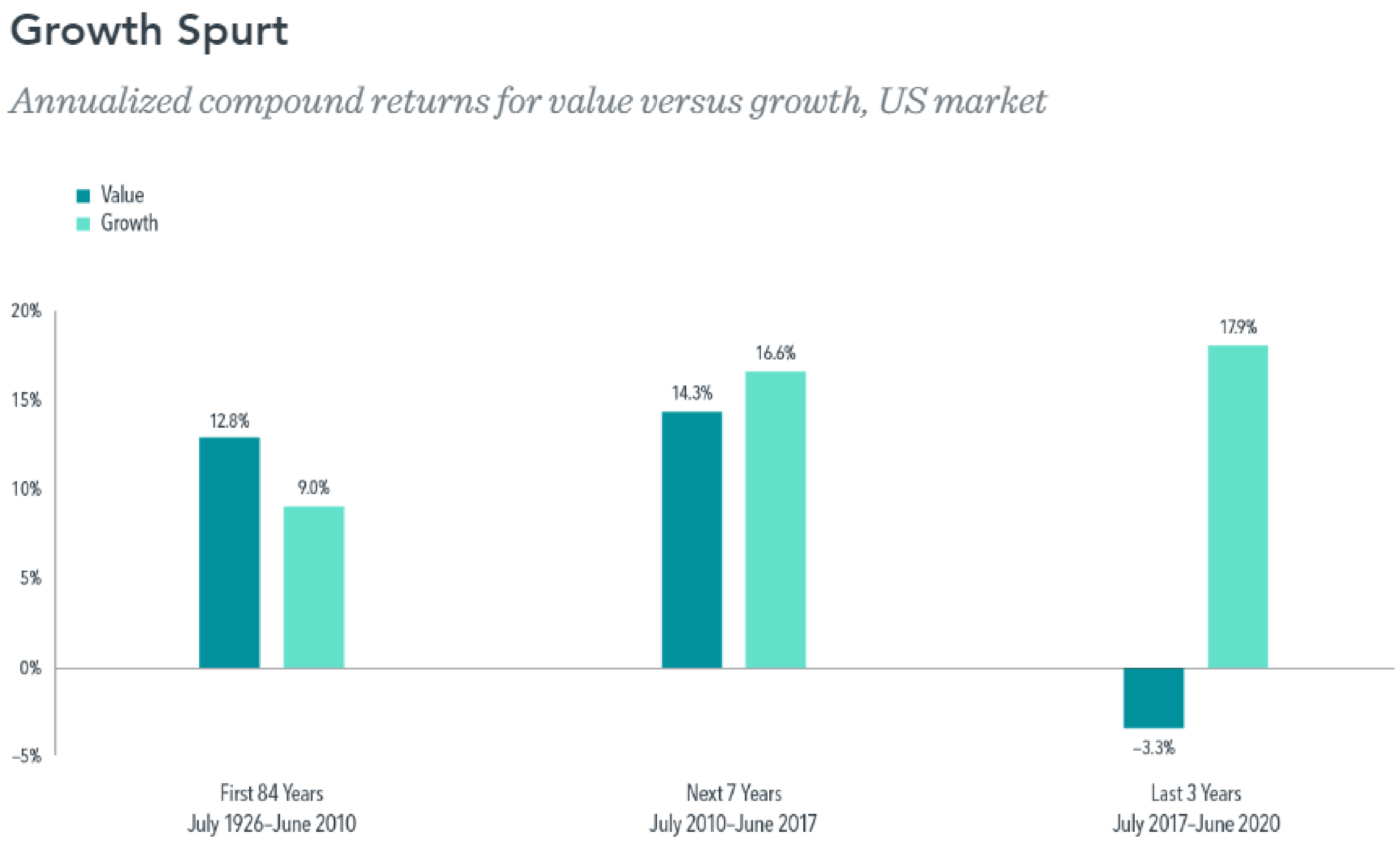
Games played with the data, be careful what you believe

Value Add

Yearly observations of premiums: value minus growth in US markets, 1928–2019



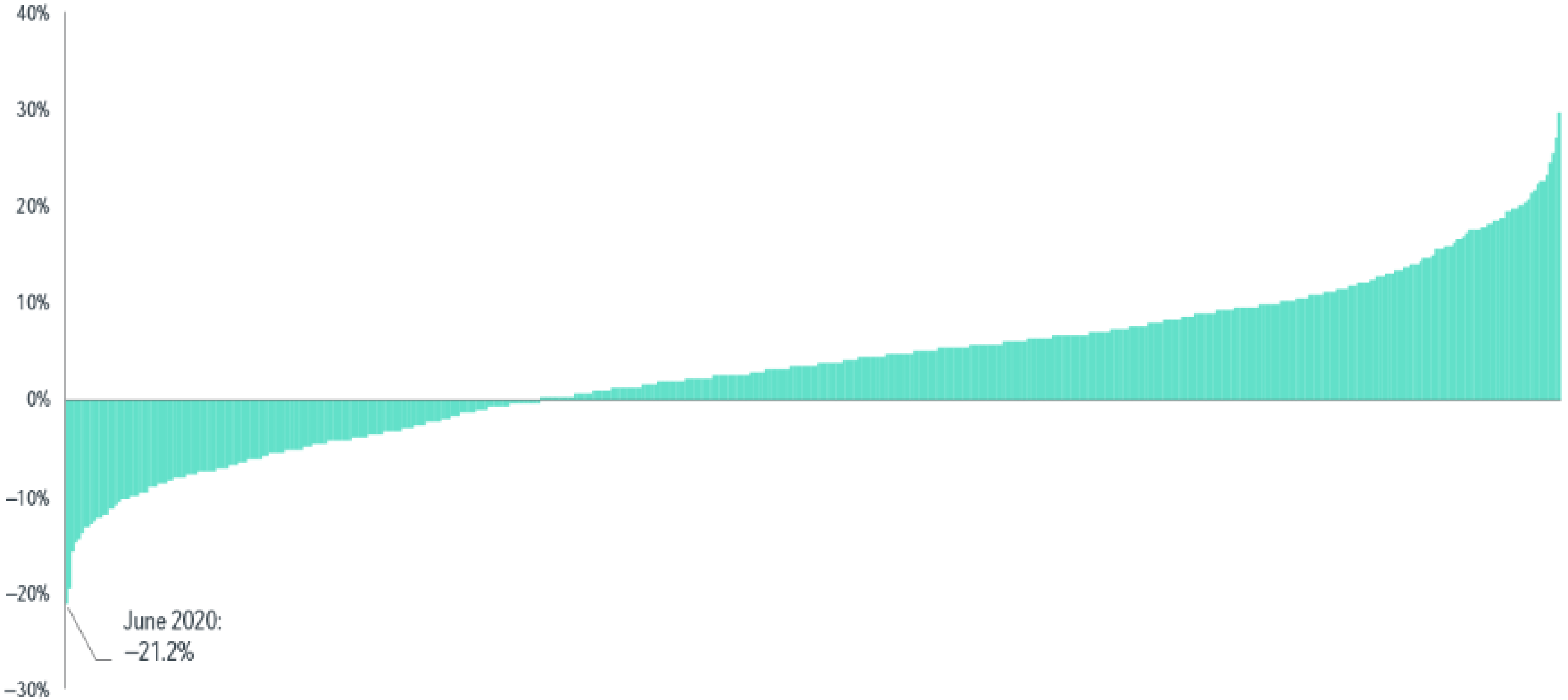
Games played with the data, continued



Games played with the data, more games

Back of the Pack

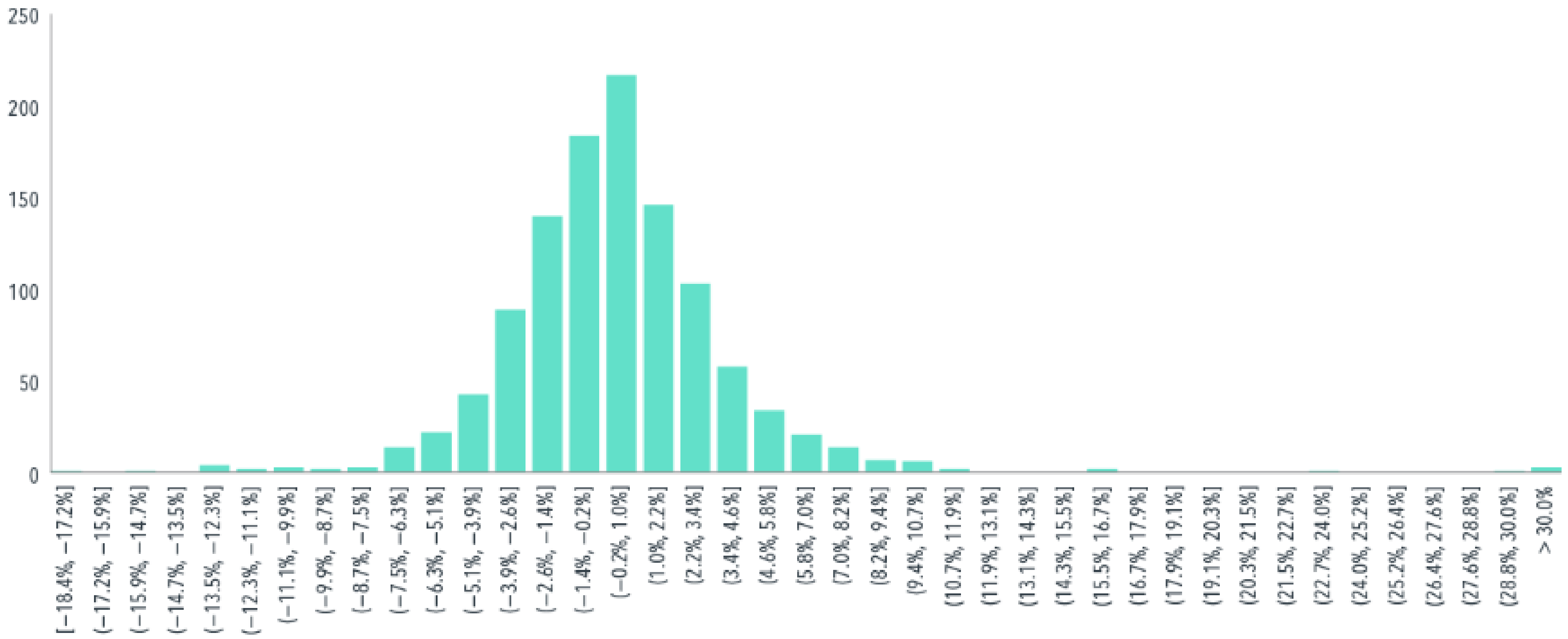
Rolling 3-year annualized return differences for value versus growth, US market, June 1929–June 2020



Games played with the data, a last game

Monthly Statement

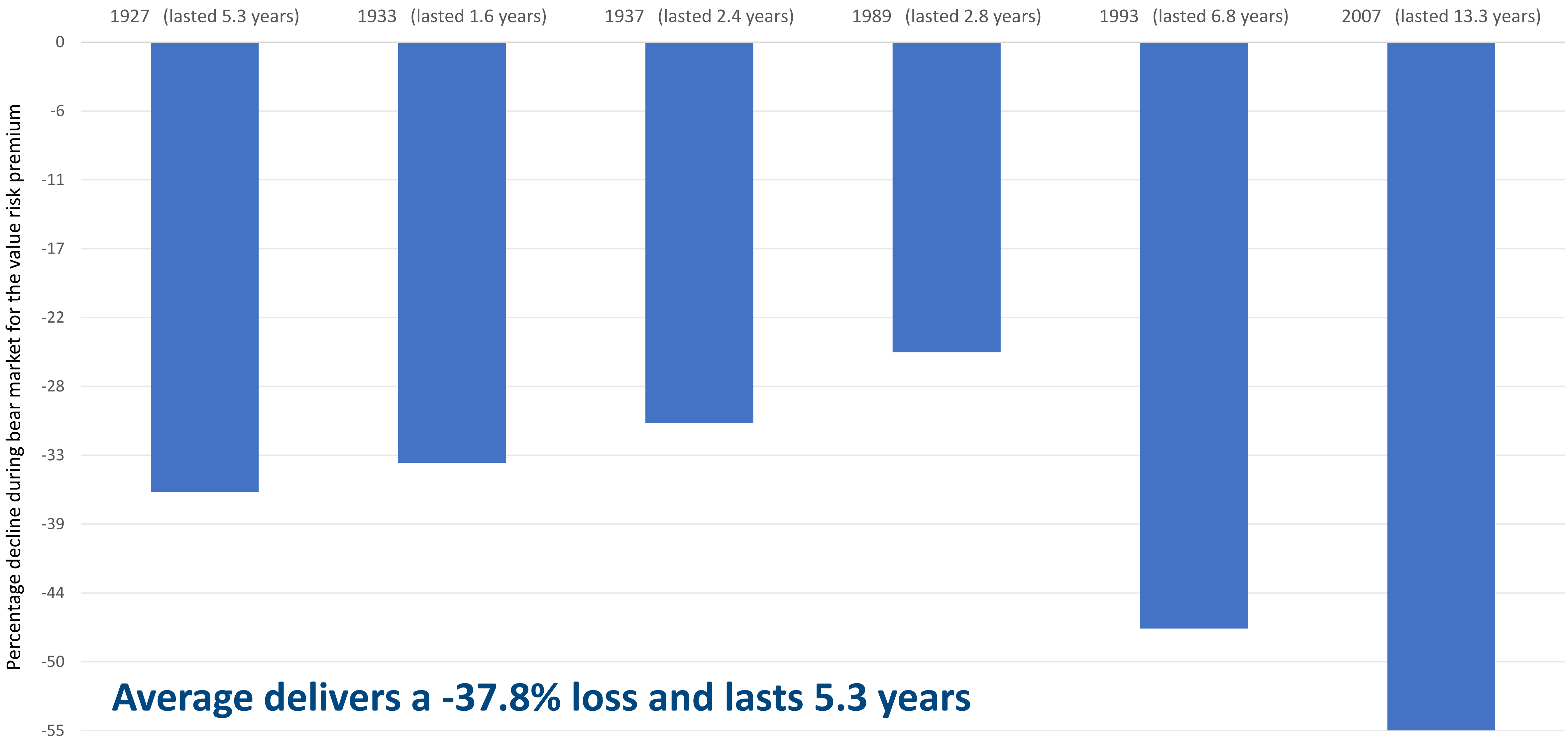
Distribution of monthly return differences for value versus growth, US market, July 31, 1926–June 30, 2020



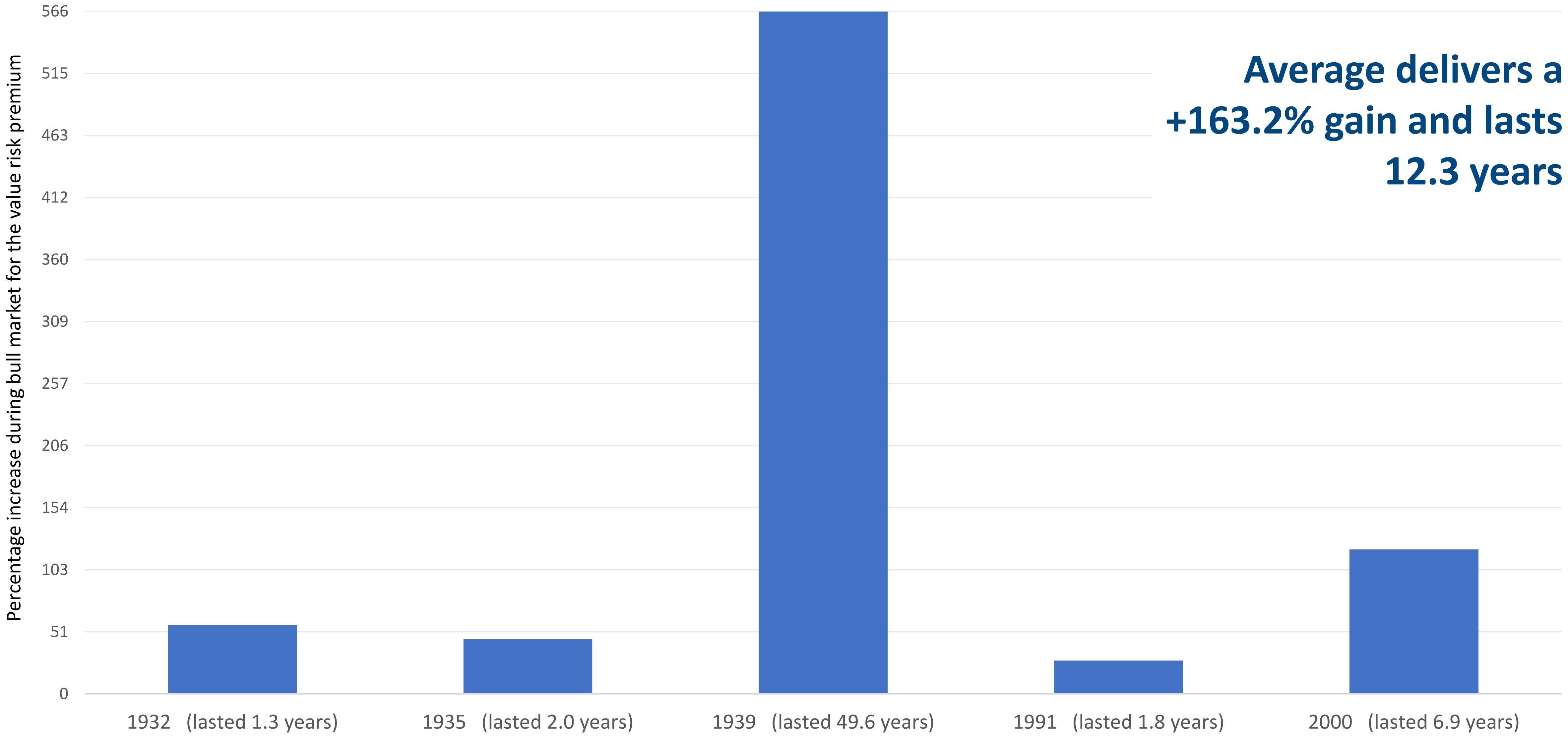
The real story

The value risk premium is remarkably episodic

Bear markets for the value risk premium have been both severe and long-lasting

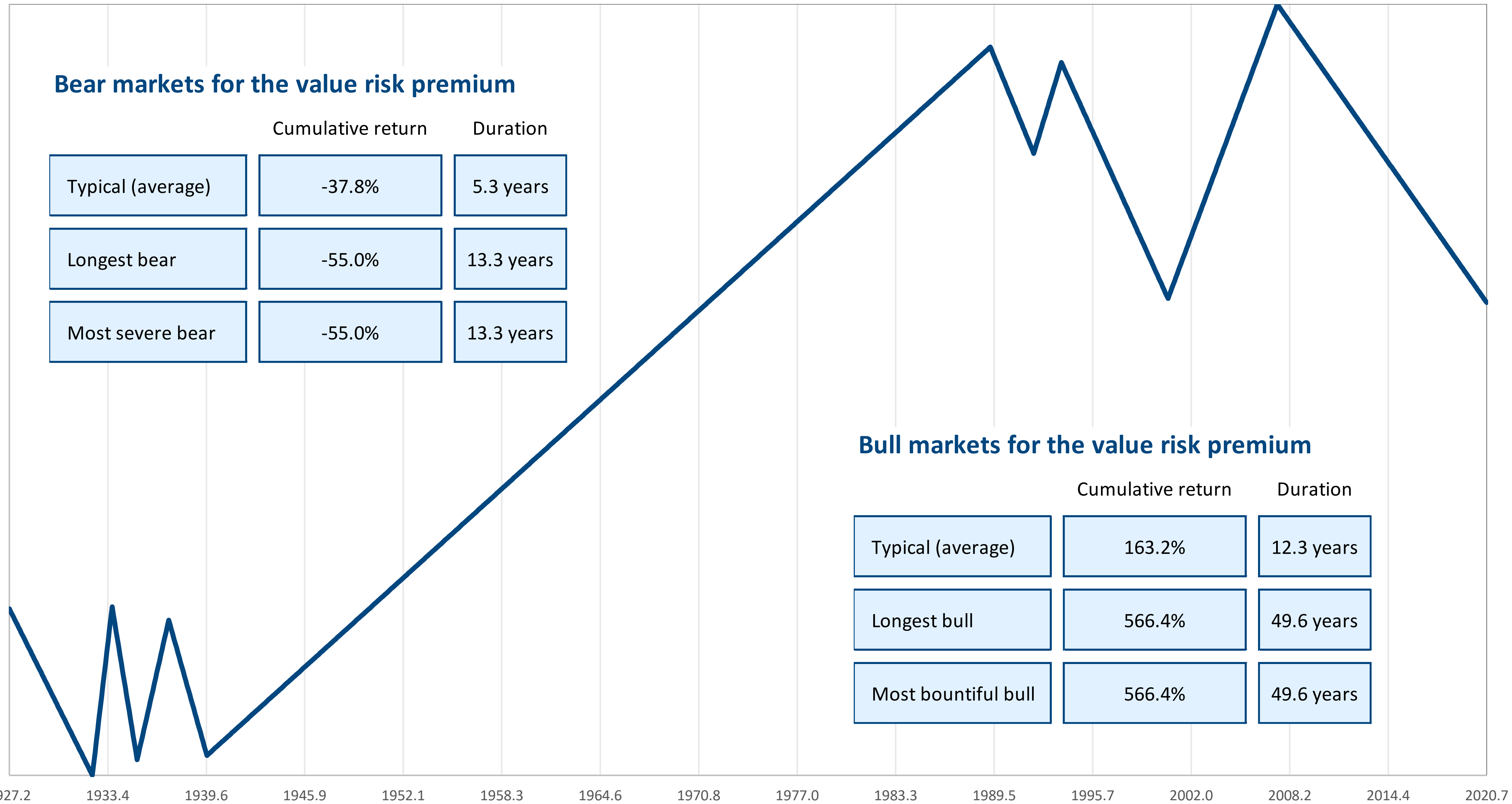


Bull markets for the value risk premium have been both bountiful and long-lasting



Episodic nature of the value risk premium

History of bear & bull markets for the value risk premium since 1926



Bear markets for the value risk premium

	Cumulative return	Duration
Typical (average)	-37.8%	5.3 years
Longest bear	-55.0%	13.3 years
Most severe bear	-55.0%	13.3 years

Bull markets for the value risk premium

	Cumulative return	Duration
Typical (average)	163.2%	12.3 years
Longest bull	566.4%	49.6 years
Most bountiful bull	566.4%	49.6 years

Episodic nature of the value risk premium, continued

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But, why now

Valuations

Comparative fundamental valuations

	Growth (large cap)	Value (large cap)
Weighted Average PE Ratio	39.2	18.91
Weighted Average Price to Sales Ratio	5.767	1.537
Weighted Average Price to Book Ratio	8.547	2.162
Weighted Median ROE	30.55%	19.62%
Weighted Median ROA	10.90%	5.15%
Forecasted Dividend Yield	0.79%	3.17%
Forecasted PE Ratio	38.19	17.04
Forecasted Price to Sales Ratio	5.317	1.398
Forecasted Price to Book Ratio	6.975	1.978

Statistics as of August 31, 2020

Comparative fundamental valuations, continued

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	Growth (large cap)	Value (large cap)
Price/earnings ratio	25.8	16.4
Price/book ratio	4.6	2.0
Return on equity	22.4%	16.4%
Earnings per share growth rate	19.1%	12.5%
PEG ratio (P/E divided by earnings growth)	1.35	1.31
Dividend yield	0.68%	2.82%
Technology weighting	24.0%	10.7%

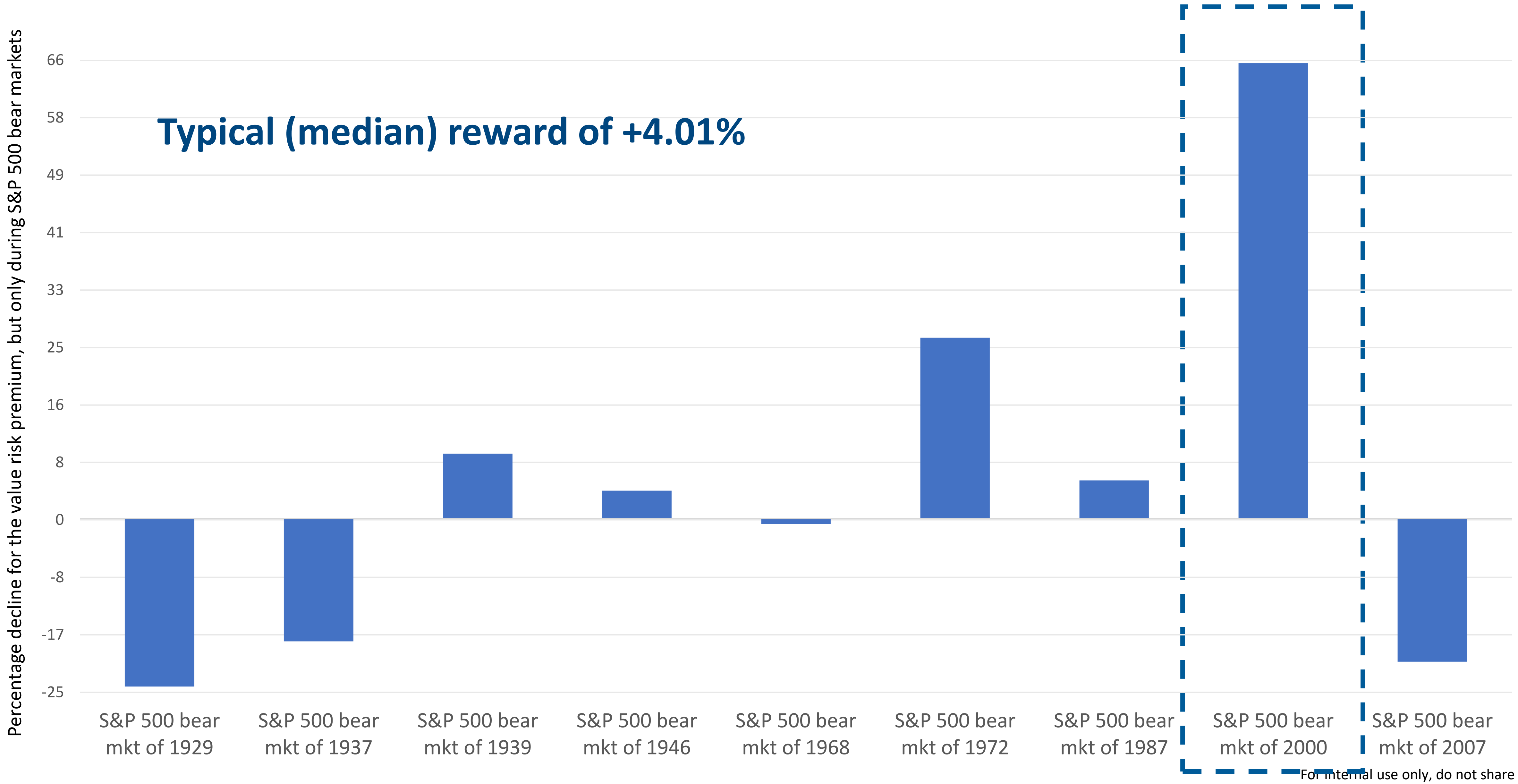
Statistics as of September 30, 2020

But, why now

Technology, very similar to the 2000 bear market

Tech wreck of 2000 and the small cap risk premium

Value risk premium is random (noisy) during S&P 500 bear markets



Growth is remarkably over-weighted to technology

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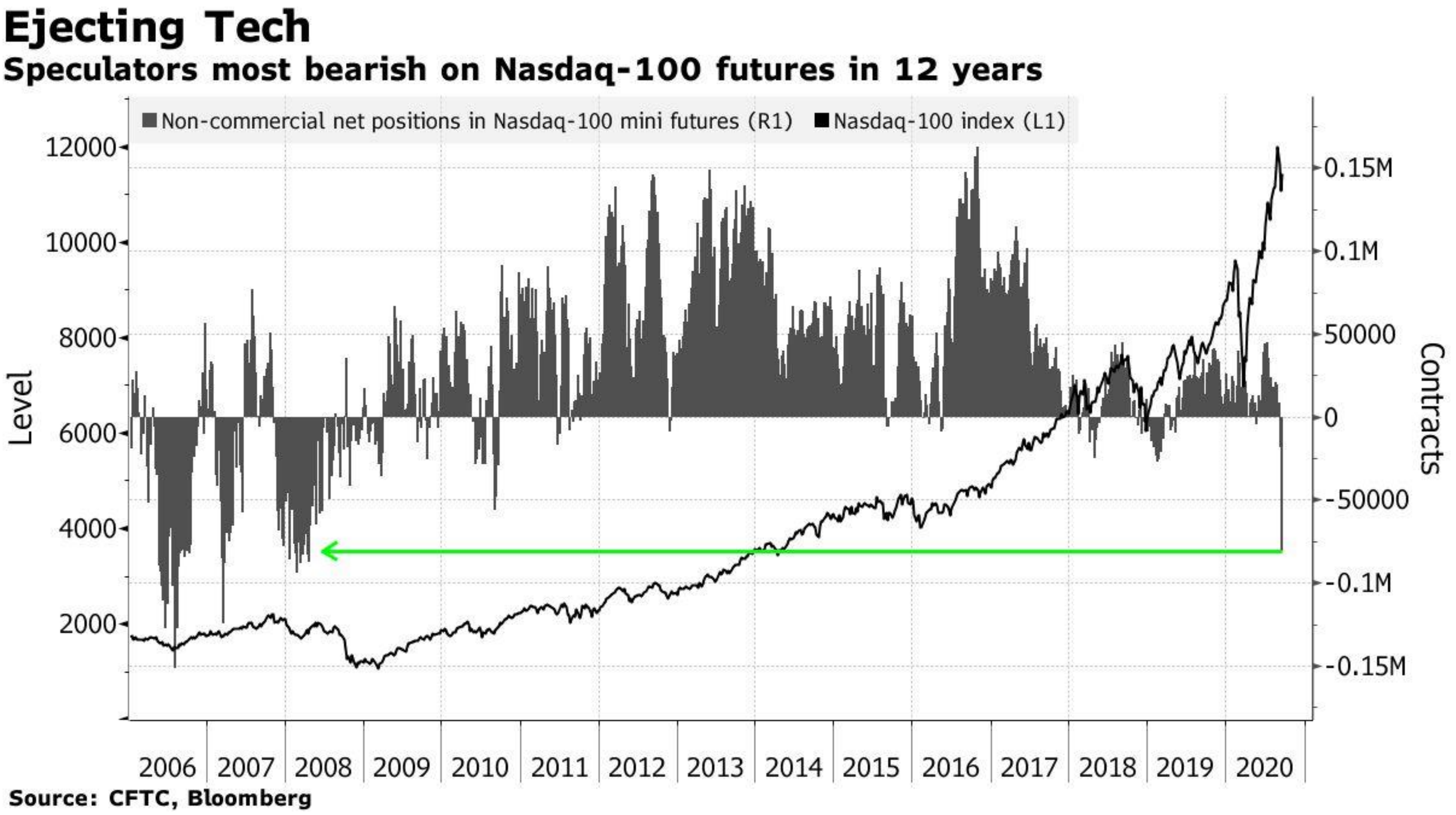
Statistics as of September 30, 2020

Recognition of technology's over-valuation building

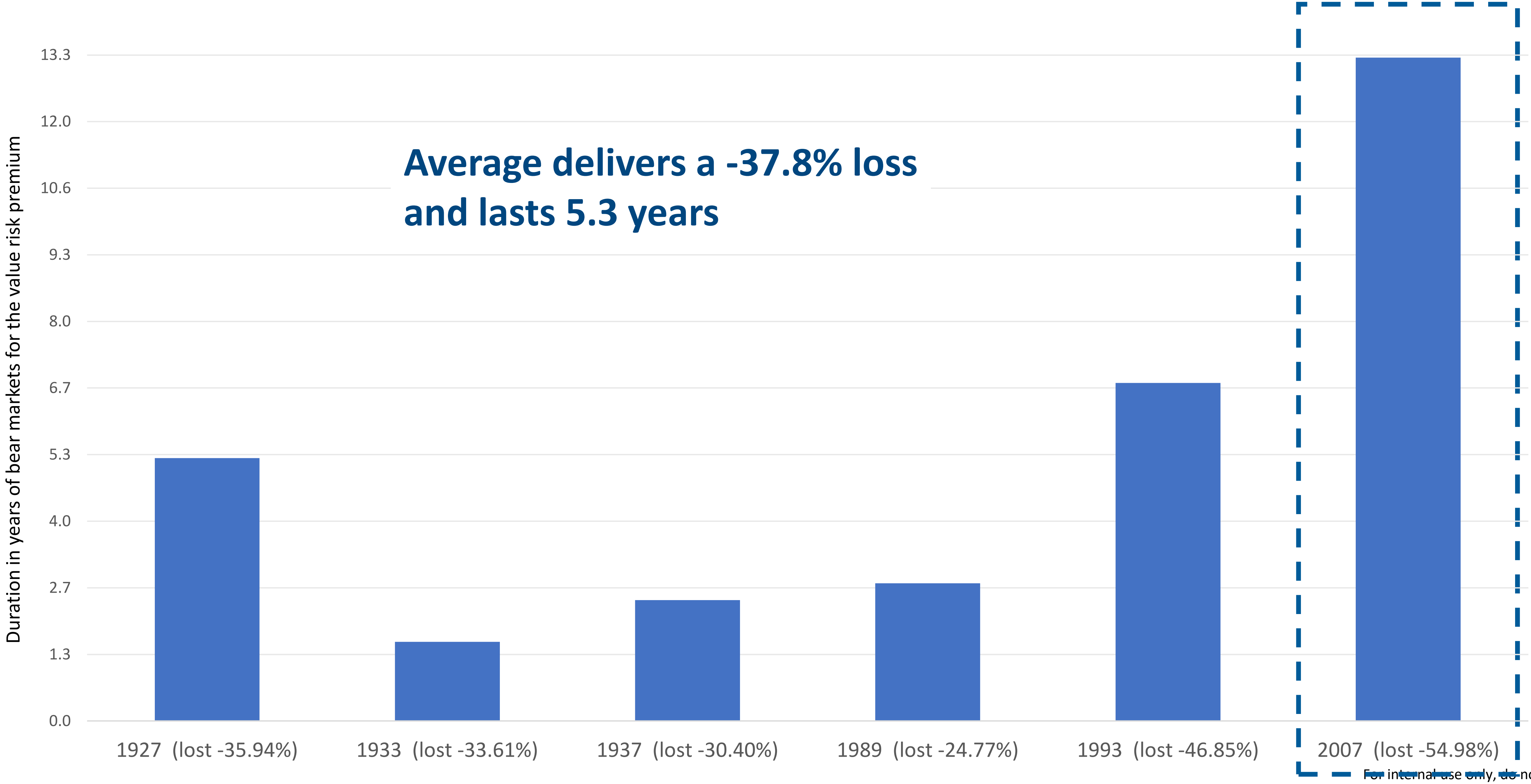


But, why now

The current value bear market is long in the tooth

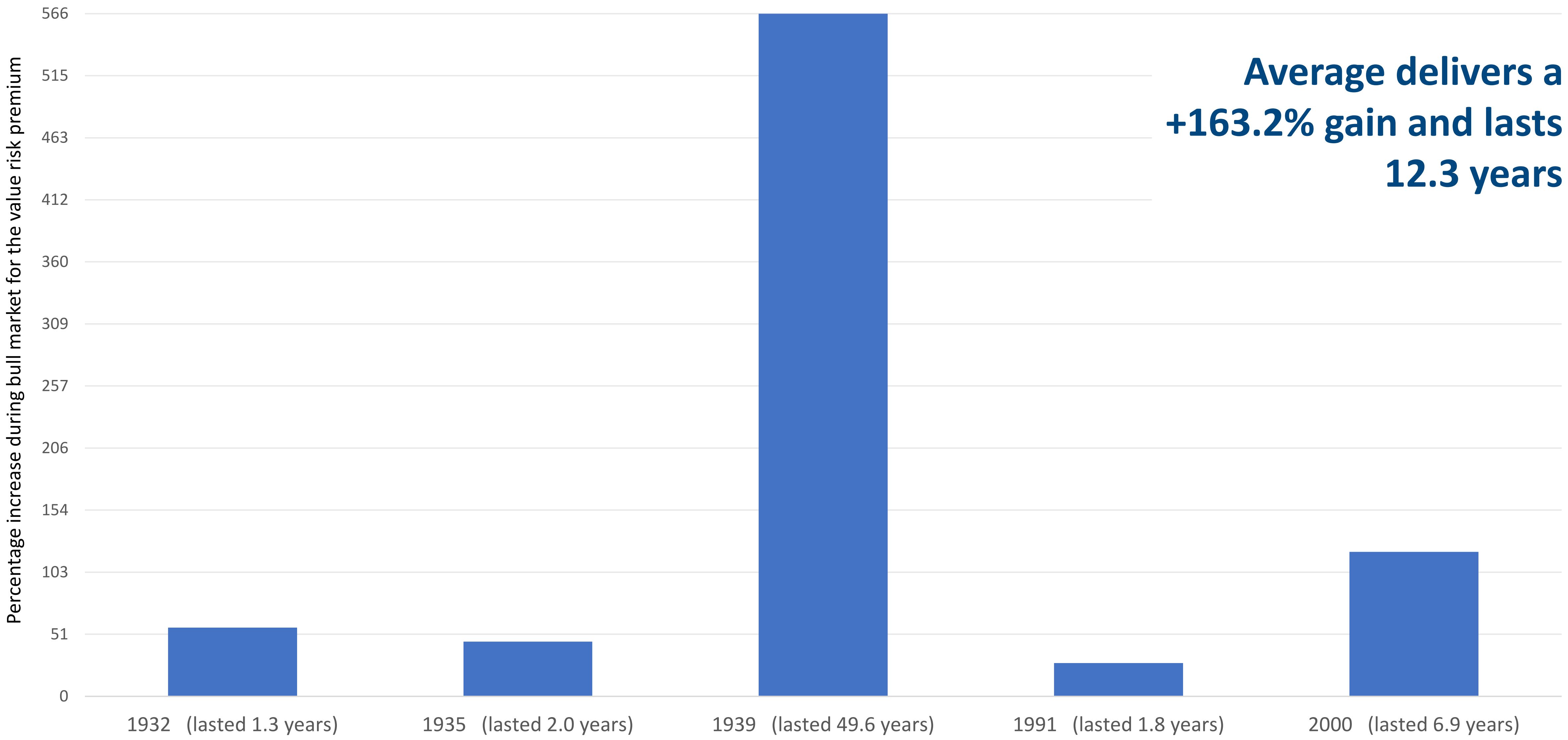
Current bear market for the value risk premium is long in the tooth

Bear markets for the value risk premium have been both severe and long-lasting



The reward is large during value risk premium bull markets

Average bull market delivers an extra +163% return over and above the return on growth



But, why now

The ten largest names in the S&P 500 Index are 82% technology

82% of the ten largest S&P 500 names are technology (by weight)

Apple	**Berkshire Hathaway**
Microsoft	**Johnson & Johnson**
Amazon	**Procter & Gamble**
Alphabet	**Visa**
Facebook	**NVIDIA**

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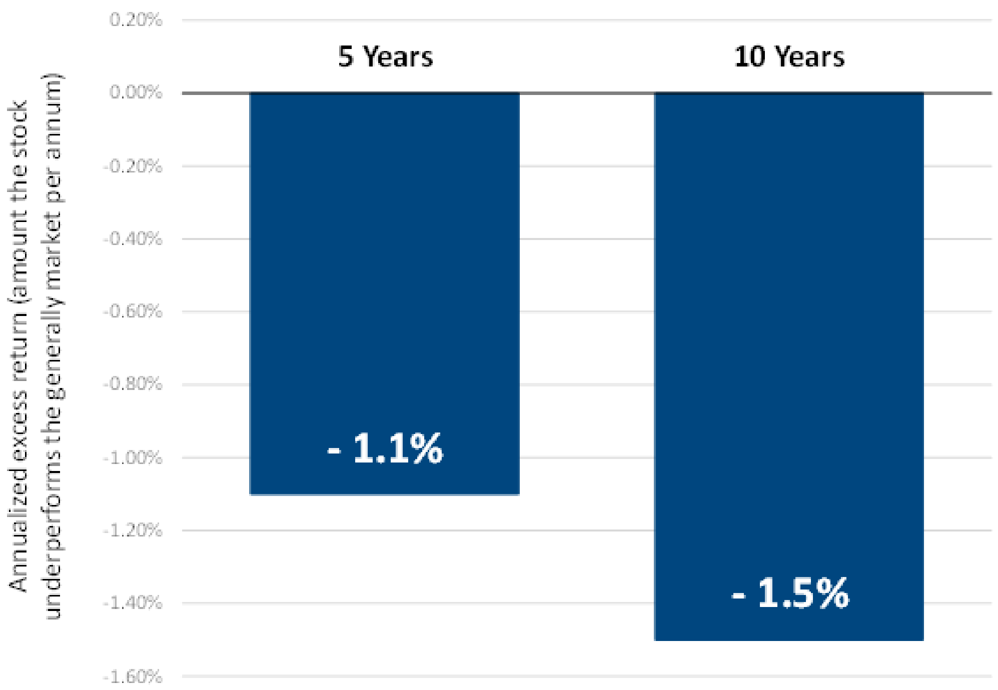
Excluding the largest companies on a global basis

Just leaving out the single largest company has historically added **+0.22%** per year[7] over and above the relevant index fund. If instead, one excluded the ten largest companies, the resulting portfolio outperformed by **+0.46%** per year[7]. In contrast, if one excluded the single largest company in each country, the resulting portfolio outperformed the comparable index fund by **+0.35%** per year[7].

Just here in the U.S.

In the U.S., once a company becomes one of the ten largest, its future performance underperforms by a wide margin[8].

Periods after a company first became one of the ten largest stocks



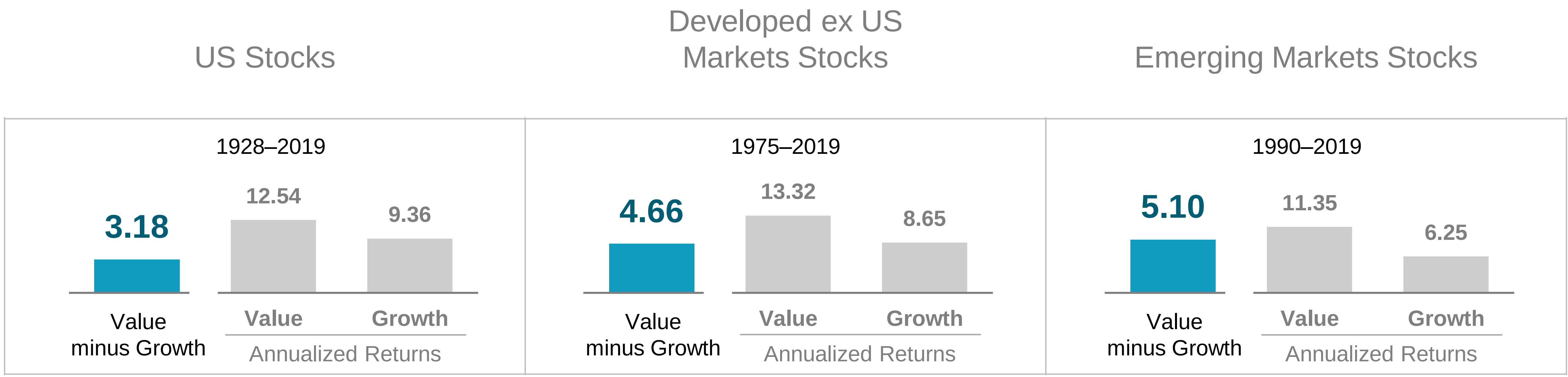
Value risk premium spans all geographies

But, the data must be carefully interpreted

Value risk premium across different geographies

Relative Price

Relative performance of value stocks vs. growth stocks (%)



But, the data must be carefully interpreted

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INDEX DESCRIPTIONS

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Friday, Oct 16th at 11am Eastern

The general . . . dealing with sectors and the dividend-continuation factor

The specific . . . Julex, a superior approach to value exposure

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- Current income
- Zombie filter
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- Tangibles vs intangibles

Tangibles vs intangibles

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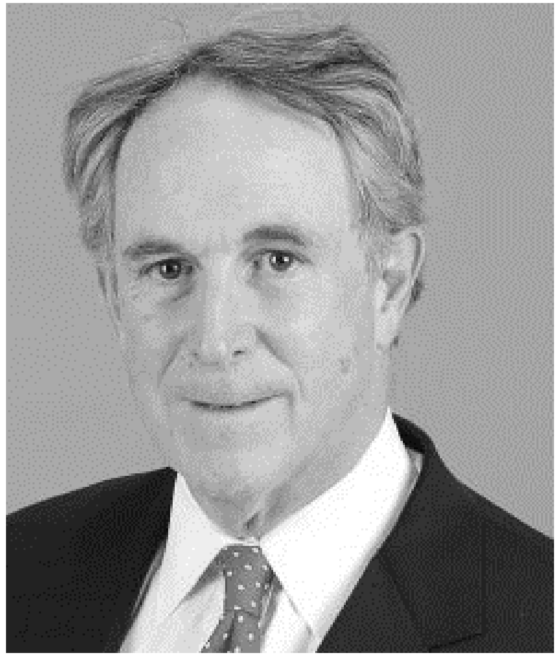
- Campbell R. Harvey

- Report of Value's Death May Be Greatly Exaggerated
- SSRN working paper, August 2020
- Harvey, Arnott, Kalesnik, Linnainmaa

For more information contact



Jeff Megar, CFA
Email jeff.megar@julexcapital.com
Office 781-772-1378

Brian Phelan
Email brian.phelan@julexcapital.com
Cell 508-527-1431

Bob Peatman
Email bob.peatman@julexcapital.com
Cell 617-875-9316

Important Disclosures

All data and statistics provided by Global Financial Data, Inc. at www.globalfinancialdata.com Large cap stocks are represented by the S&P 500. Small cap stocks are represented by the Russell 2000 index and before its inception by the Fama French small cap index (market cap weighted) for the smallest 30% of the market. Technology is defined by ticker symbol XLK. Dimensional Fund Advisors, LLC provided the comparative historical returns across different geographies.

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

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