

Looking for Dividends in Sector Investing

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Standard & Poor's computes 10 sector indexes for its 500 Index and reports earnings per share, dividend per share, and dividend yield for each sector index. If you are looking for an investment designed to provide dividends, you might begin by examining the current yield (calculated as dividend divided by price) of each sector index in relation to the S&P 500 as displayed in the table below:

| SECTOR | YIELD (AS OF 9/30/11) |
|------------------------|--------------------------|
| Telecommunications | 5.52% |
| Utilities | 4.23% |
| Consumer Staples | 3.35% |
| Health Care | 2.27% |
| Industrials | 2.65% |
| Materials | 2.67% |
| S&P 500 Index | 2.30% |
| Energy | 2.17% |
| Financials | 1.91% |
| Consumer Discretionary | 1.78% |
| Information Technology | 1.11% |

Past performance is no guarantee of future results.

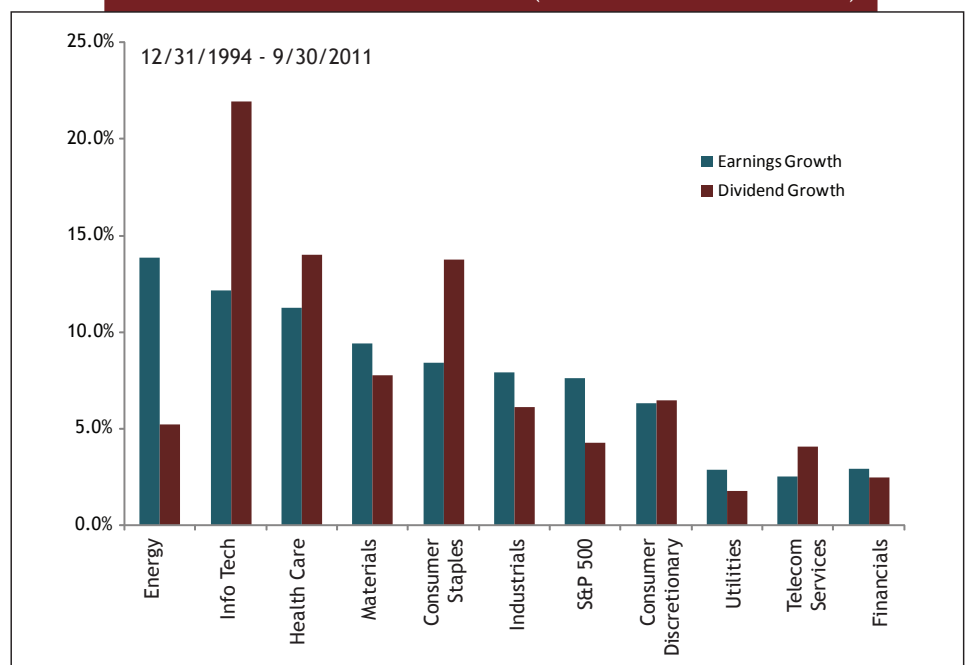
Energy has had the fastest growing earnings since 1994, but below average growth with respect to dividends. The profitable Energy sector companies are either re-investing for growth or accumulating cash. At the other extreme, companies in the Utilities and Telecommunication Services sectors have the highest current yield, but very slow growth potential. Dividends have not kept pace with earnings in the Utilities sector while Telecommunication Services has demonstrated the opposite trend, with dividends outpacing earnings. Companies within the Healthcare and Consumer Staples sectors stand out as above average in EPS growth and show a willingness to grow dividends faster than companies in every other sector except Information Technology.

The next graph shows the dividend payout rate (the percent of earnings paid out in dividends) for the S&P 500, Energy, and Utilities Indexes. For the broad index, the rate dropped until 2001, then leveled off. The brief uptick in 2008 and 2009 is due to earnings dropping during the recession along with the attempt to hold dividends steady. The payout rate for Energy dropped in the 1990s, but, unlike the broad index, the Energy payout rate continued to decline while Energy earnings surged between 2003 and 2007. The payout for Utilities dropped like the others in the 1990s but rebounded and settled slightly above 50% from 2001 on.

Telecommunication Services and Utilities stand out at the top, while Information Technology, a sector which has traditionally re-invested for growth, is at the bottom. The Consumer Staples, Industrials, and Materials sectors also produced an above average current yield relative to the S&P 500 Index as of September 30, 2011.

Still, your search for an appropriate income generating investment could extend beyond examining simple current yield. You may also want to consider growth, stability, and the importance company management places on paying out dividends. The next graph shows the annual rate of growth in earnings per share and dividend per share back to December 31, 1994 for each sector and the broad market index.

ANNUAL GROWTH IN EPS & DPS (12/31/1994 - 9/30/2011)



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Dividend payout rates for the Healthcare and Consumer Staples sectors are shown in the next chart and reveal a different priority from the broad market and other sectors. They both increased payout rates in the 1990s. Healthcare leveled off last decade slightly below 30% while Consumer Staples continued to increase its payout rate.

The Financials sector is interesting. During and following the S&L and bank crisis of 1990 and the recession of 2008, that sector paid out more dividends than it had earnings. In 2008, earnings were negative and dividends actually increased over the prior year. We can only speculate that perhaps financial institutions view image and risk perception as being extremely important and hope that a stable dividend disguises underlying earnings problems. It would seem that the alternative strategy of cutting the dividend and preserving cash might reduce risk in the eyes of investors and regulators.

SUMMARY
 Investors searching for income may want to look at more than just current yield. Growth, stability, and management efficiency are complements which generally contribute to quality, dividend paying companies. Different sectors often reveal different general cash flow priorities and may run counterintuitive to one's expected dividend distribution. Equities with a history of high dividend payouts will not necessarily continue with their same payout trend, and thus a deeper company analysis and active selection of equities may benefit portfolios seeking income. ☺

Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will consistently lead to successful results. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment.

The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. The unmanaged Standard & Poor's (S&P) 500 Sector Indexes track the performance of sectors that comprise the S&P 500 Index. Total returns for the unmanaged index include the reinvestment of dividends and capital gain distributions but do not reflect the costs of managing a mutual fund. Individuals cannot invest directly in an index.

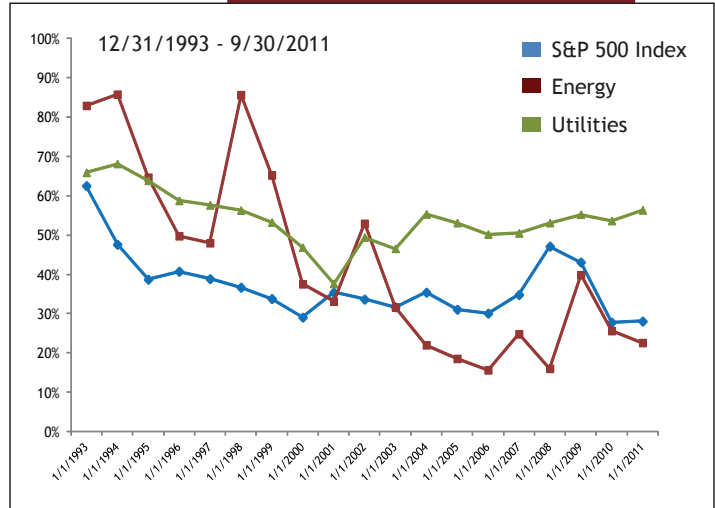
Earnings per share (EPS): Earnings from ongoing operations; earnings per share equals total earnings divided by the number of shares outstanding.

Dividends per share (DPS): The sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

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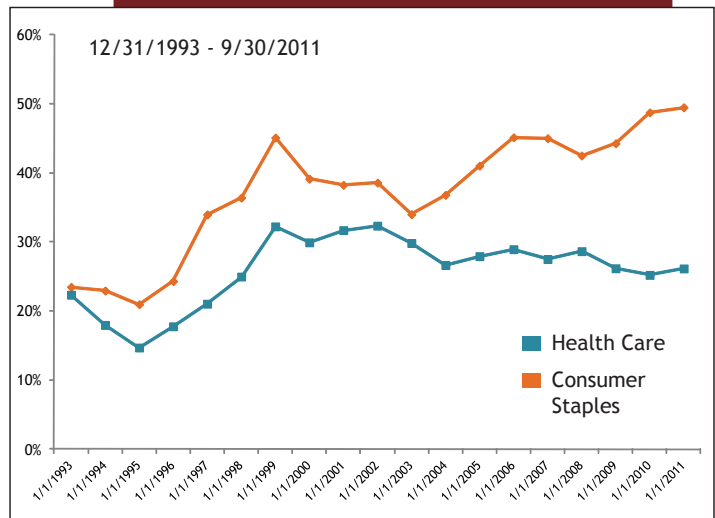
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