

Osher Lifelong Learning Institute

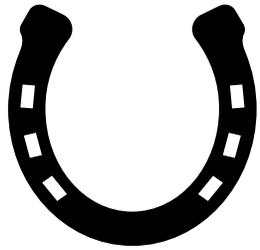
Investment Seminar

Dividend Growth and Quality-Oriented ETFs

June 30, 2021

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Smuzynski Stakes



(Formerly,
Omaha Steaks)



To be run at

Uppson Downs

Entrants:

<i>Name</i>	<i>Symbol</i>	<i>Sponsor</i>	<i>Color</i>
Dividend Appreciation Index Fund ETF	VIG	Vanguard	Red
US Quality Dividend Growth ETF	DGRW	Wisdom Hill	Yellow
High Dividend Yield ETF	VYM	Vanguard	Green
US Dividend Equity ETF	SCHD	Schwab	Purple
iShares Select Dividend ETF	DVY	Blackrock	Orange
S&P 500 Quality ETF	SPHQ	Invesco	Black
iShares MSCI USA Quality Factor ETF	QUAL	Blackrock	Blue

Seven similar ETFs, all focused on dividends and quality, but differing in style and focus. Why look at these now? Two reasons come to mind:

1) We are likely entering, or in, the mid-cycle period. This is characterized by

- Rotation among sectors and styles

- Consumer confidence but moderating growth

- Corrections occur most frequently in this phase

- Mid-cycle the hardest in identifying sectors that will outperform/underperform

THUS – Some defensiveness advisable (corrections); curated ETFs and better mutuals can help in navigating sector and style rotations

2) There are persistent fears of inflation. Corporations with ***pricing power*** will have an advantage in being able to raise prices without disproportionately losing business.

How identify these?

One way -- Do they have wide “moats”?

There is a strong correlation between wide moats and ETF’s that focus on dividend growth and/ or quality.

Five of the seven ETFs featured here have more than 50% of their investments in wide-moat companies, and one misses with only 48%.

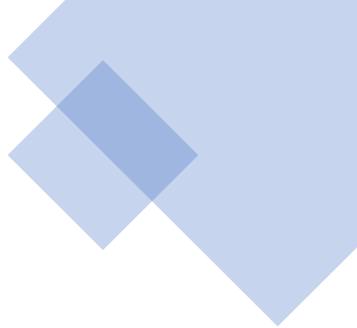
- **More Detail on the Entrants:**

- **VIG** -- Focuses on the growth potential of the dividend, rather than simply on high dividends. Looks at companies that have increased their dividends for 10 or more years.

- **DGRW** -- Tracks an index that invests in large and midcap dividend-paying stocks with growth characteristics. Not as focused on past dividend performance as future expectations.

- **VYM** – Vanguard fund more focused on high dividends than growth potential. Leans toward larger, more stable firms.

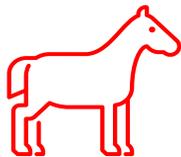
- **SCHD** – Tracks DJ US Dividend 100 index, which includes a factor addressing financial health and profitability.
- **DVY** – Tracks DJ Select Dividend Index, focused on higher-yielding performers. Stocks weighted by indicated dividend yield rather than market cap. Heavier in utilities than most.
- **SPHQ** -- Follows S&P 500 Quality Index, targeting 100 stocks with strong profitability and balance sheets. Does not try to factor in valuations.
- **QUAL** – Tracks an MSCI USA sector-neutral quality index, scoring firms on measures of quality, including return on equity, debt-to-equity, and earnings per share variability.



Evaluation Criteria:

- 1. Expense
 - 2. Dividends Paid (12-mo. Yield)
 - 3. Long-Term Performance (Growth of 10K over 10 years)
 - *Double Credit given*
 - 4. Consistency (Quadrant Placement, rev. annually)
 - 5. Momentum (Total Return YTD)
 - 6. Returns over Benchmark Expectations (Alpha)
 - 7. Returns over Risk-Free Rate (Sharpe ratio)
 - 8. Volatility (Standard Deviation)
 - 9. Performance in Up-Down Markets (Capture Ratios)
 - 10. Valuation 1 (P/E ratios)
 - 11. Valuation 2 (Price/Cash Flow)
 - 12. Return on Investment (ROIC)
 - 13. Resistance to Competition (Moat Sizes)
 - 14. Morningstar Analysis on Future Performance Characteristics
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VIG



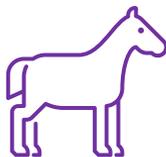
DWGR



VYM



SCHD



DVY



SPHQ



QUAL



PLACE YOUR BETS!

1. Expenses

VIG -- 0.06% DGRW – 0.28% VYM – 0.06% SCHD – 0.06% DVY – 0.39% SPHQ – 0.15% QUAL – 0.15%

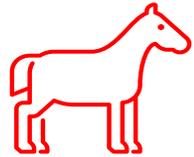
2. Dividend (12-month yield)

VIG -- 1.50% DGRW – 1.76% VYM – 2.82% SCHD – 2.72% DVY – 2.92% SPHQ – 1.34% QUAL – 1.35%

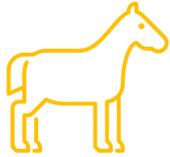
3. Long-Term Performance (Growth of \$10,000 over 10 years) Double Factor

VIG -- \$36580 DGRW – \$28296 VYM – \$34878 SCHD – \$40933 DVY – \$34664 SPHQ – \$41812 QUAL – \$29460

VIG



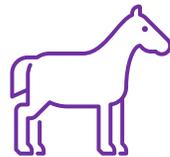
DGRW



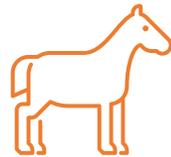
VYM



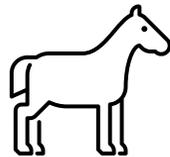
SCHD



DVY



SPHQ



QUAL



4. Consistency

(Performance Relative to Peers in Quad Ratings since 2015)

VIG -- 3,2,1,1,3,3,4 DGRW – 2,2,1,2,3,3,4 VYM – 1,2,2,1,3,3,3

SCHD – 1,2,1,1,2,1,2 DVY – 1,1,2,2,4,4,1 SPHQ – 1,1,3,3,1,2,2 QUAL – 2,1,1,3,1,2,3

5. Momentum

Total Return Year to Date (as of 6/19)

VIG – 6.95% DGRW – 8.48% VYM – 12.93 %

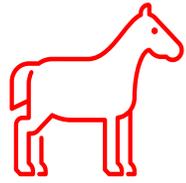
SCHD – 16.14% DVY – 20.67% SPHQ – 11.84% QUAL – 10.91%

6. Returns over Benchmark Expectations (Alpha)

VIG -- 1.57 DGRW – (-0.94) VYM – (-4.04)

SCHD – 2.19 DVY – (-5.18) SPHQ – 0.80 QUAL (-0.42)

VIG



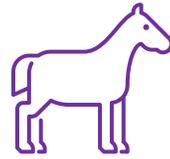
DWGR



VYM



SCHD



DVY



SPHQ



QUAL



7. Return over Risk-Free Return (Sharpe Ratio)

VIG -- 0.99 DGRW – 0.85 VYM – 0.65

SCHD – 0.99 DVY – 0.57 SPHQ – 0.95 QUAL – 0.89

8. Volatility (Standard Deviation)

VIG – 16.34 DGRW – 17.50 VYM – 17.98

SCHD – 18.83 DVY – 20.57 SPHQ – 17.37 QUAL – 18.65

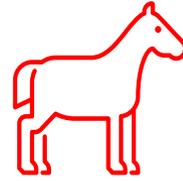
9. Performance in Up/Down Markets (Capture Ratios)

VIG -- 89% Up 83% Down DGRW – 94% Up 99% Down

VYM – 85% Up 101% Down SCHD – 102% Up 95% Down DVY – 87% Up 106% Down

SPHQ – 95% Up 94% Down QUAL -- 100% Up 103% Down

VIG



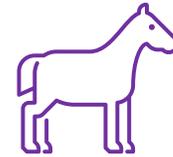
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VYM



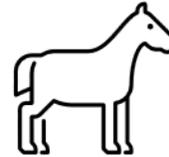
SCHD



DVY



SPHQ



QUAL



10. Valuation 1 (Price/Earnings Ratio)

VIG -- 20.99 DGRW – 18.07 VYM – 15.38

SCHD – 15.68 DVY – 14.13 SPHQ – 22.73 QUAL – 23.39

11. Valuation 2 (Price/Cash Flow)

VIG – 16.34 DGRW – 17.50 VYM – 17.98

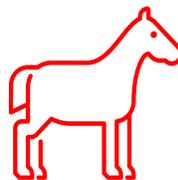
SCHD – 18.83 DVY – 20.57 SPHQ – 17.37 QUAL – 18.65

12. Return on Invested Capital

VIG -- 15.26 DGRW – 16.36 VYM – 11.28

SCHD – 17.92 DVY – 6.7 SPHQ – 20.67 QUAL – 21.68

VIG



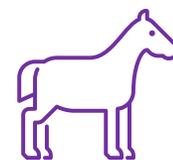
DWGR



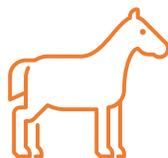
VYM



SCHD



DVY



SPHQ



QUAL



13. Resistance to Competition (“Moat”)

VIG -- 65% Wide Moat 25% Narrow Moat 3% No Moat

DGRW – 60 / 30/ 4 VYM – 48/ 37/ 8 SCHD – 54/ 28/ 10

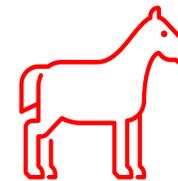
DVY – 16/ 48/ 19 SPHQ – 55/ 37/ 5 QUAL – 55/ 29/ 10

14. Morningstar Analysis on Future Performance Characteristics

VIG – Gold DGRW – Neutral VYM – Gold

SCHD – Silver DVY – Neutral SPHQ – Silver QUAL – Silver

VIG



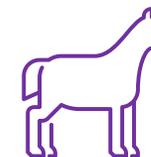
DWGR



VYM



SCHD



DVY



SPHQ



QUAL



Results, with Comparison to Morningstar Star Rating

1) US Dividend Equity ETF	SCHD	Schwab	5 Stars
2) S&P 500 Quality ETF	SPHQ	Invesco	4 Stars
3) Dividend Appreciation Index Fund ETF	VIG	Vanguard	3 Stars
4) High Dividend Yield ETF	VYM	Vanguard	4 Stars
5) US Quality Dividend Growth ETF	DGRW	Wisdom Hill	3 Stars
6) iShares MSCI USA Quality Factor ETF	QUAL	Blackrock	3 Stars
7) iShares Select Dividend ETF	DVY	Blackrock	4 Stars

Current Portfolios (Top Ten) of SCHK and SPHQ

SCHK

1) Home Depot	4.33%
2) IBM	4.26%
3) Pfizer	4.23%
4) Pepsico	4.14%
5) Texas Instruments	4.11%
6) Cisco	4.10%
7) Blackrock	4.05%
8) Broadcom	4.03%
9) Coca-Cola	3.98%
10) Amgen	3.95%

SPHQ

1) NVIDIA	6.17%
2) Microsoft	5.35%
3) Apple	4.70%
4) Johnson & Johnson	4.69%
5) Proctor & Gamble	4.27%
6) Visa	3.91%
7) Mastercard	3.03%
8) Merck	2.83%
9) Adobe	2.70%
10) Abbott Labs	2.59%

Reversion to Mean?

DVY, which finished in last place, has the highest Year-to-Date Return at 20.67%



Other Voices (favorable to SCHD)

Seeking Alpha (thanks to Bob Baker) ran articles on June 15 and June 16 favorable to SCHD, calling it “The Gold Standard of Dividend Growth ETFs.”

Quick Summary:

- Over 5 years has performed even with S&P 500 but has outrun it in past year
 - Ran a comparison against VIG, SDY (SPDR S&P Dividend ETF), VYM, and DVY, with it being favored over each.
 - Sound performance has generated inflow of new investment funds.
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Thank

