

The Power of Rising Dividends

Everyone is so focused on earnings that we seem to forget that only strong companies with positive future outlook and growing earnings can afford to raise dividends consistently for a 10-year period. That simple but golden idea, combined with a focus on food, energy, healthcare, and finance, enables the Rising Dividend Growth Fund to defy the cyclical nature of the market and to deliver growing income to its investors.

Q: What is the investment philosophy behind the fund?

A: We only invest in stocks that have raised their dividends every single year for at least 10 years by an average of 10% annually. The idea is that dividend growth only comes from companies with pricing power, patents, brands, exclusive products, and good management. The world changes in terms of manufacturing so it is very important to think of companies that have pricing power.

We concentrate on areas where people must have these products to live at present, such as energy, water, finance, defense, healthcare, or food. That has helped us a lot in the up and down phases of the market. We can say to our clients that we don't know what's going to happen tomorrow or the next day, but we know that their income will be going up. For people over 55 years old or for retired people, that's very important.

I believe that no other fund does that. There are other funds with rising dividend strategies but our idea is long-term leveraging of dividends and the earnings in order to increase total return. The fascinating thing of this philosophy is that the further back you go, the bigger the advantage is.

Q: How did you come up with the idea for this fund?

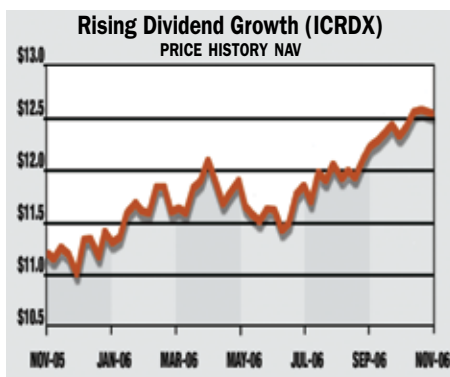
A: It all started in the late 1960s when I was running an investment firm in Philadelphia. I asked our research director whether he knew 10 stocks that had raised the dividend every single year for a period of 10 years. He said he didn't as nobody had ever focused on that. And with that we changed the whole philosophy of our company. Then we bought a small mutual fund with assets of about \$4 million and it grew to about \$3.8 billion. The strategy continues to work today even though the stock market has changed so much.

Our secret is so simple that you probably wouldn't believe it. We're looking at the dividend for each sector in each universe, and there are about 151 companies that have raised their dividend over 10% annually for 10 years. If we see that some companies decide to raise their dividends disproportionately to previous years, we think that the management is telling us what they see in the future.

Corporate managers are sensitive about living up to their earning forecasts. In many cases, if they have to choose between meeting the estimates and starting a new project that will make them an awful lot of money several years from now, but will cost them a lot of money in the meantime, many just won't start the project. They focus more on making sure they meet their estimates because



THOMAS CAMERON is a money manager believed by many to be the first to focus on rising dividend investing—as early as the 1960s. He is currently co-portfolio manager of the Rising Dividend Growth Fund. His contributions have been noted frequently in the financial press. He is chairman of Cameron & Associates and has held senior positions with IJL/Wachovia, Hopper Soliday, and Sovereign Asset Management. He is Chairman of the Trustees Investment Fund of the Philadelphia Stock Exchange. Cameron served in the U.S. Navy during World War II. He is a cum laude graduate of Harvard University with an AB in American National Government and a graduate of Harvard Business School with an MBA.



the stock market these days severely punishes the companies that miss the numbers.

Company managers are exceptionally thoughtful about dividend payments because they know it is a cash layout. Since we believe we are the only ones to focus so much on dividend growth, this has been very helpful for us in picking stocks that have done well.

For example, let's say that Home Depot raised the dividends by 50% this year and averaged 28% annual increases for the last 10 years. Pfizer raises the dividend by 26% this year and Caterpillar by 20%. Those things are very, very exciting to us because they mean that our clients' dividends will be up almost every single quarter of every single year. If these companies follow through with the earnings, then the result will be even better.

Right now it is really interesting to us that everybody hates Home Depot because Mr. Nardelli was so rude to the shareholders. But we also have to look

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at the compound growth rate of the dividends since he got there, the changes he's made, and the fact that he was at least man enough to apologize.

Regarding Pfizer, “everybody” knows that healthcare sector is not good. If they see that Pfizer is selling for less than 12 times earnings, it can't be any good. But when they increased the dividend by 26%, to me they were saying that good things are coming. They have tremendous cash flow, which gives them decision-making power. Despite some patents running out, they will have the money and the stock power to buy any biotech company they want and they can build new product lines without starting from zero in every single direction.

Q: Would you give us examples of stock picks that have worked out for you?

A: I mentioned our interest in water and food stocks and Archer-Daniels-Midland has been one of the better performing stocks this year. Caterpillar is another good performer for us. Our average cost in Caterpillar is less than 50% of what the stock is selling for at present. Roper Industries, a company that is very much involved in water, is up over 40% this year.

Until recently nobody has every heard of ethanol and now everybody is talking about it. Archer-Daniels-Midland produces 29% of the ethanol in this country and is by far the biggest producer. And the global picture is also important. Countries like China and Brazil face serious water problems because of drought or pollution. If they can't grow food because of water shortages, they've got to buy it from somewhere else, so we think that Archer-Daniels will do very well with their earnings, certainly for the next years. Since it is one of dominant companies in grain trading, it has established positions in world markets and will be able to take advantage of the water shortage situation.

Regarding Caterpillar, we all know about the gigantic boom in commodity prices.

It was largely caused by the speculation of hedge funds but the reason for their interest was the expansion of China and India that lead to increased demand for commodities. More copper is being mined and who around the world digs more holes, regardless whether it's in Turkey or Africa? It's Caterpillar. With the price of the dollar going down, the competitive advantage of Caterpillar versus Komatsu is widening, so we think that Caterpillar will continue to do well. It's a cyclical company, but the cycle of earnings has a way to go because of the demand for commodities.

Another example is General Electric. Everybody knows that General Electric sold for \$54 a share 3 or 4 years ago, but now the current P/E ratio is down to 17 from over 40 and they are starting to grow earnings at 17% a year. They had sales of over \$2 billion in water last year and they plan to grow them to \$10 billion in 5 years. They are buying companies, such as a little known company called Ionics, which turns salt water into usable water. They are going to expand in water purification through acquisitions and they have the world sales organization and the financing to handle that.

Power generation is another big topic. The company at the top of supplying power generation equipment in any way undoubtedly is GE. It is number one in wind power and the biggest producer of generators for electricity from oil, gas, or coal. They are building the first and only emission-free generator that uses coal and they are one of the big producers of atomic plants.

GE was so deeply in debt in their finance arm that they could use only 10% of their earnings; the remaining 90% had to be used for paying off the debt. But now that they have paid off much of the debt and gotten rid of one insurance company, they are now able to float the earnings up to 40% to their parent.

They will be able to invest in new products and to build up the other areas if they want to. We think they are growing

in the right direction. Big companies like GE will benefit from the dollar decline and will be able to make more money because they already have networks and plants overseas. That will be much more profitable for them than what they have been making over the last few years.

Q: Because you mentioned the dollar, do you think the government budget policy is likely to change over the long run?

A: If I felt that the United States was the only country with this policy, I would be even more worried. But every country in the world, with a couple of exceptions, is doing the same thing - talking about inflation on the one hand and printing currency on the other. My own view on China is that they can't get along without us and we can't get along without them.

But one topic that's very interesting for us is Energy Master Limited Partnerships. Almost every one of them we own has increased its dividend every single quarter for the last 3 years, which is quite exceptional. They are yielding an average of over 6.5% and 80% of that is tax free as a return of principal.

People keep telling us that if a business is good, competition will increase and results will deteriorate. But there is an interesting point to that argument. Regardless of how rich you are, you cannot build a pipeline to Philadelphia because nobody will let you knock down the houses, the hospitals, and the schools to get it there. If you do have a right of way already, you can put another pipeline next to your present one, but nobody else can.

It is also wrong to think that when the price of oil goes up and down, your profits will go up or down because the government sets the toll they can charge per barrel that they put through the pipelines. So we think that these partnerships are a high-quality investment.

My current favorite is Natural Resources Partners. The company owns more

coal mines than any other enterprise in America. They have been increasing their dividend about 15% a year. They don't mine the coal but they lease the mines to big producers like Peabody, so they don't take the environmental risks and avoid all the other problems that the producers have. They get paid a royalty per ton which continues to rise.


Q: How do you approach researching the companies? Would you give us the size of your universe and the size of your portfolio?

A: From the 151 companies that have been raising dividends 10% or more, you would probably be amazed to learn that 37 companies have increased their dividend by more than 20% a year for 10 years in a row. So there are solid companies that still have an optimistic outlook about their business.

There are over 70 positions with annual dividend increases of more than 15% and the rest are between 10% and 15%. But the list changes slightly every year.

We are holding 42 companies in the fund right now. Our turnover rate is a relatively low 24%. The average increase of the stocks in our fund in both 2005 and 2006 was over 18% per year.

Q: Do you think that it is advisable for the U.S. to not just look for ways to get more oil, but also to cut down consumption? Europe has invested for decades in alternative transport such as railroads, while in the U.S. it's virtually impossible to go from Atlanta to Boston.

A: I could not agree more. Just look at the tax per gallon all over Europe. There is a \$2 per gallon tax on gasoline. It is stupid that we don't do that because that would cut down the consumption. When you go to Europe, you see a lot of little cars, not a lot of big cars. We too must have more cars getting 50 miles a gallon within 2 or 3 years. That's going to cut down oil consumption tremendously. 

Rising Dividend Growth Fund

Symbol	ICRDY
Website	www.dividendgrowthadvisors.com
Address	Dividend Growth Advisors LLC 108 Traders Cross, Suite 105 Bluffton, SC 29910
Tel. No.	866-348-4769
Inception	3/18/2004

PORTFOLIO	
Total Net Assets*	52
Avg Mkt Cap (\$ Weighted)*	74,000
Average Price/Earnings Ratio	16.9x
Average Price/Book Ratio	3.62x
Turnover Ratio	25%

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$250
Min Initial IRA Investment	\$1,000

RISK (AGAINST S&P 500 - SINCE INCEPTION)	
Alpha	N/A
Beta	0.90
R-Squared	N/A
Ann Std Deviation	N/A
Sharpe Ratio	1.61

RETURNS VS. S&P 500 INDEX		
	ICRDY	Index
1 Year (Cum.)	14.70%	14.22%
3 Year (Ann.)	N/A	N/A
5 Year (Ann.)	N/A	N/A

FEES AND EXPENSES	
Max Sales Charge - Front **	5.75%
Max Sales Charge - Deferred	1.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.65%

PORTFOLIO MANAGER	
Thomas Cameron	2004

*millions **for amount less than \$50,000

Data through: 11/30/06

Source: Company Documents; Lipper

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