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LETTERS TO THE EDITOR

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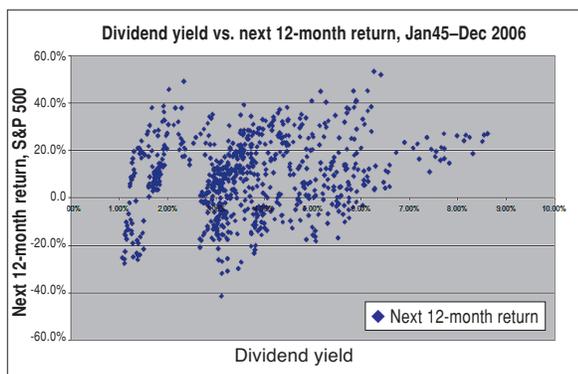


FIGURE 1: SCATTERPLOT: 12-MONTH RETURN VS. DIVIDEND YIELD

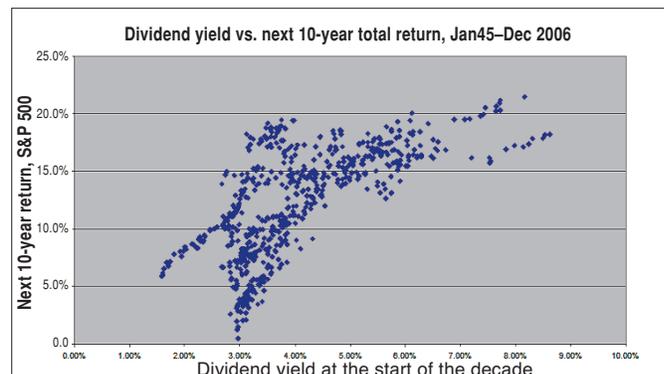


FIGURE 2: SCATTERPLOT: 10-YEAR OBSERVATION PERIOD

- When the dividend yield exceeded 6.04%, there were no subsequent 12-month losing periods in the stock market
- When the dividend yield exceeded 3.82%, there were no S&P 500 declines of 20% or more
- Two clusters of negative returns jump out: at around modestly above-average dividend yields and extremely above-average dividend yields.

This relationship becomes even more clear if the observation period is extended to 10 years (Figure 2). (The return data is annualized.)

A positive relationship between starting dividend yield and subsequent total return is visually apparent, with no dividend yields below 4.32% returning less than 10% a year over the next decade, and no periods beginning with a 3.13% yield or lower seeing subsequent average annual returns of more than 15%. All but one of the 20%-plus decades were preceded by beginning

dividend yields of more than 7.5%. All decades that started with a dividend yield of 2.45% or below had average returns of less than 10%.

It also seems clear that high dividend yields have better positive predictive power than low dividend yields have negative predictive power. In other words, we can have much more confidence that high returns will follow very high dividend yields than

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