

# Quantitative Research

## High Yield, Low Payout

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- **High Yield and Low Payout**

What is the optimal combination of dividend yield and payout ratio for the investors? We tested companies within the S&P 1500 and found that investors should look for companies with a high yield and low payout ratio for their portfolios. The high dividend yield and low pay out ratio basket of stocks had the best performance in our backtest since 1990. (See Exhibit 1.)

- **Dividend Yield**

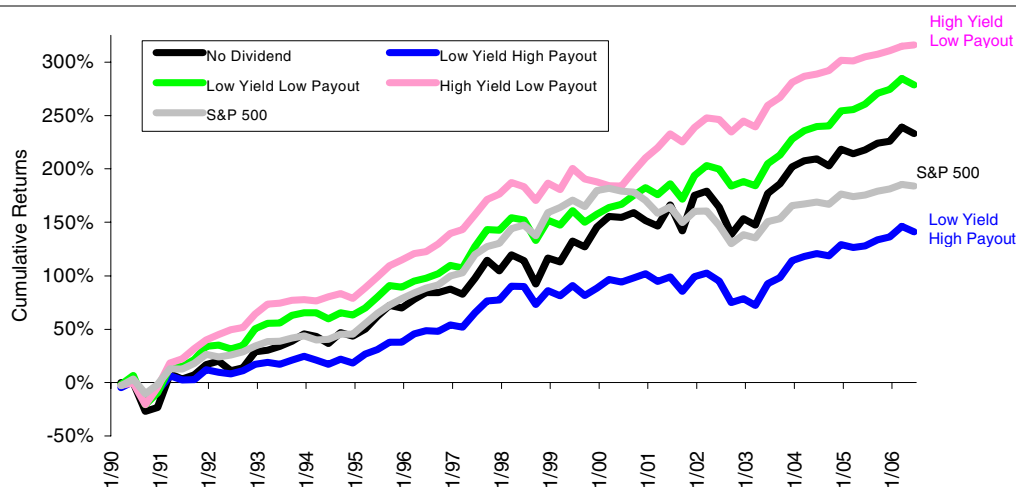
How has the plain dividend yield strategy worked over the years? Stocks with high yields generally outperform those with low yields. The highest-dividend-yielding stocks were not overall leaders. Stocks ranking in decile eight had the best performance. (See Exhibit 7.)

- **Return Contribution of Dividends**

Dividend contribution to total returns was more than 40% from 1926 to 1990. The 2003 tax reduction on dividends has encouraged companies to increase their dividends; dividends' contribution to total return has risen and will continue to rise in coming years. (See Exhibit 9.)

**Exhibit 1: Dividend Yield and Payout Ratio**

Equal-weighted performance from January 1990 to June 2006, quarterly rebalance



Source: Credit Suisse Quantitative Equity Research.

**ANALYST CERTIFICATIONS AND INFORMATION ON TRADING ALERTS AND ANALYST MODEL PORTFOLIOS ARE IN THE DISCLOSURE APPENDIX. FOR OTHER IMPORTANT DISCLOSURES, visit [www.credit-suisse.com/researchdisclosures](http://www.credit-suisse.com/researchdisclosures) or call +1 (877) 291-2683** U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Credit Suisse in the United States can receive independent, third party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.credit-suisse.com/ir](http://www.credit-suisse.com/ir) or call 1 877 291 2683 or email [equity.research@credit-suisse.com](mailto:equity.research@credit-suisse.com) to request a copy of this research.

# Dividend Yield and Payout Ratio

Payout ratio as an adjunct factor

We looked at the performance of companies with different levels of payout ratios within each dividend yield bucket. We define the dividend payout ratio as the ratio that we arrive at when we divide dividends by earnings.

Backtest methodology

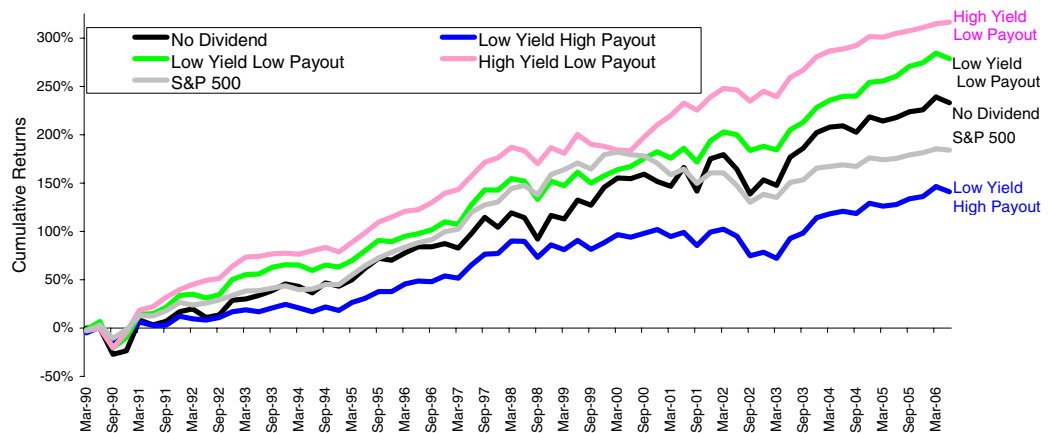
Specifically, we took a two-stage process of first creating three dividend yield baskets by yield, then within each of these three baskets, categorizing stocks by payout ratio: low, medium, and high. Equal-weighted portfolios of these baskets were created based on dividend yields and payout ratio as of each quarter end. We repeat the process each quarter. Our back test for this analysis is from January 1990 to June 2006. We use S&P indexes as our universe.<sup>1</sup>

Below, we show cumulative return obtained in our back test of each dividend yield and payout ratio portfolios. We find that companies with low payout ratios tended to perform better than companies with high or negative payout ratios. Portfolios of companies with high dividend yields and low payout ratios have the best returns.

### Exhibit 2: Dividend Yield and Payout Ratio

Equal-weighted performance from January 1990 to June 2006, quarterly rebalance

High yields and low payout ratios have the best returns



Source: Credit Suisse Quantitative Equity Research.

<sup>1</sup> Universe: S&P 500 from 1990, S&P 400 and S&P 500 from December 1991 and S&P 1500 from June 1994 to 2005.

# Dividend Yield and Payout Ratio

Here we show annual return on all nine buckets. Annualized returns for companies that did not pay dividends during this period were 14.1%, while the S&P 500 annualized returned was 11.16%. For a complete chart from 1995 to 2006, please see Appendix A.

The high yield and low payout portfolios generated an annualized return of 19.2% versus 11.16% for the S&P 500

**Exhibit 3: Portfolio Buckets**

		Payout Ratio		
		High/Negative	Low	
Dividend Yield	Low	Low Yield High Payout	Low Yield Medium Payout	Low Yield Low Payout
		Medium Yield High Payout	Medium Yield Medium Payout	Medium Yield Low Payout
	High	High Yield High Payout	High Yield Medium Payout	High Yield Low Payout

**Exhibit 4: Annualized Returns**

From January 1990 to June 2006

		Payout Ratio		
		High/Negative	Low	
Dividend Yield	Low	8.6%	14.7%	16.9%
		11.2%	13.1%	17.6%
	High	11.0%	13.5%	19.2%

Source: Credit Suisse Quantitative Equity Research.

Source: Credit Suisse Quantitative Equity Research.

**Exhibit 5: Dividend Yield and Payout Ratio Strategy Rankings**

Equal-weighted performance from January 2001 to June 2006, quarterly rebalance

	2001	2002	2003	2004	2005	2006	1990 - 2006
High Yield Low Payout	High Yield Low Payout	High Yield Low Payout	No Dividend	Medium Yield Low Payout	Low Yield Low Payout	Low Yield Medium Payout	High Yield Low Payout
No Dividend	No Dividend	Medium Yield Low Payout	High Yield High Payout	Low Yield Low Payout	Medium Yield Low Payout	No Dividend	Medium Yield Low Payout
Medium Yield Low Payout	Medium Yield Low Payout	High Yield Medium Payout	Low Yield Low Payout	High Yield Low Payout	Low Yield Medium Payout	Medium Yield Low Payout	Low Yield Low Payout
High Yield Medium Payout	High Yield Medium Payout	Medium Yield Medium Payout	Medium Yield Low Payout	Medium Yield Medium Payout	High Yield Low Payout	High Yield High Payout	Low Yield Medium Payout
High Yield High Payout	High Yield High Payout	Low Yield Low Payout	High Yield Low Payout	Medium Yield High Payout	Medium Yield Medium Payout	High Yield Low Payout	No Dividend
Low Yield Low Payout	Low Yield Low Payout	Low Yield Medium Payout	Low Yield High Payout	Low Yield Medium Payout	No Dividend	Medium Yield Medium Payout	High Yield Medium Payout
Medium Yield Medium Payout	Medium Yield Medium Payout	High Yield High Payout	Medium Yield High Payout	No Dividend	Low Yield High Payout	Low Yield High Payout	Medium Yield Medium Payout
Low Yield Medium Payout	Low Yield Medium Payout	Medium Yield Medium Payout	Low Yield Medium Payout	High Yield Medium Payout	High Yield Medium Payout	Low Yield Low Payout	Medium Yield High Payout
Medium Yield High Payout	Medium Yield High Payout	Low Yield High Payout	High Yield Medium Payout	Low Yield High Payout	Medium Yield High Payout	High Yield Medium Payout	High Yield High Payout
Low Yield High Payout	Low Yield High Payout	No Dividend	Medium Yield Medium Payout	High Yield High Payout	High Yield High Payout	Medium Yield High Payout	Low Yield High Payout

Source: Credit Suisse Quantitative Equity Research.

Year to date, companies with low yields and medium payout ratios have had the best performance

In year 2003 companies with no dividend had the best performance

Avoid companies with low yield and high payout

## High Yield and Low Payout

High yield and low payout  
stocks from S&P 1500  
universe (backtest screen)

### Exhibit 6: High Yield and Low Payout Bucket

Data as of August 11, 2006. Credit Suisse coverage within the S&P 1500, sorted by sector and dividend yield

Ticker	Company Name	Dividend Yield (%)	5 Yr Avg Dividend Yield (%)	Dividend Payout Ratio (%)	5 Yr Avg Dividend Payout Ratio (%)	Sector
FBN	Furniture Brands Intern. Inc.	3.5	1.0	43.0	17.9	Consumer Discretionary
VFC	VF Corp.	3.3	2.3	45.6	36.7	Consumer Discretionary
BLC	Belo Corp.	3.1	1.5	43.9	31.0	Consumer Discretionary
LEE	Lee Enterprises Inc.	3.0	1.8	44.7	41.1	Consumer Discretionary
MAT	Mattel Inc.	2.8	1.6	35.0	25.2	Consumer Discretionary
CCL	Carnival Corp.	2.7	1.4	37.7	25.7	Consumer Discretionary
SWK	Stanley Works	2.6	2.4	39.2	51.7	Consumer Discretionary
HAS	Hasbro Inc.	2.6	1.0	41.0	24.1	Consumer Discretionary
TRB	Tribune Co.	2.4	1.3	52.9	53.2	Consumer Discretionary
MEG	Media General Inc.	2.4	1.3	34.4	38.8	Consumer Discretionary
LTD	Limited Brands Inc.	2.3	3.2	34.1	47.0	Consumer Discretionary
GIS	General Mills Inc.	2.6	2.4	45.9	48.7	Consumer Staples
K	Kellogg Co.	2.4	2.7	46.7	57.1	Consumer Staples
CVX	Chevron Corp.	3.1	3.3	28.4	84.9	Energy
NCC	National City Corp.	4.4	4.0	53.4	41.8	Financials
C	Citigroup Inc.	4.1	2.5	47.3	34.5	Financials
CMA	Comerica Inc.	4.1	3.7	45.5	48.7	Financials
MCY	Mercury General Corp.	3.9	2.8	48.5	51.4	Financials
WFC	Wells Fargo & Co.	3.2	2.7	47.1	42.5	Financials
STI	SunTrust Banks Inc.	3.1	2.8	41.8	37.1	Financials
MRBK	Mercantile Bankshares Corp.	3.0	2.7	47.5	45.0	Financials
CINF	Cincinnati Financial Corp.	2.9	2.4	23.7	48.0	Financials
CBSS	Compass Bancshares Inc.	2.7	3.0	45.9	42.0	Financials
LNC	Lincoln National Corp.	2.6	3.1	29.6	77.8	Financials
BK	Bank of New York Co.	2.6	2.5	43.3	46.8	Financials
ALL	Allstate Corp.	2.5	2.2	41.7	36.5	Financials
MAS	Masco Corp.	3.3	2.2	43.6	53.5	Industrials
WMI	Waste Management Inc.	2.6	1.0	43.3	17.4	Industrials
DOW	Dow Chemical Co.	4.2	3.5	34.9	48.1	Materials
LYO	Lyondell Chemical Co.	3.9	5.1	37.0	176.0	Materials
EMN	Eastman Chemical Co.	3.5	4.0	35.2	92.7	Materials
PPG	PPG Industries Inc.	3.1	3.0	43.5	57.5	Materials
LPX	Louisiana-Pacific Corp.	3.1	1.1	15.8	6.2	Materials
ROH	Rohm & Haas Co.	3.0	2.3	41.6	57.9	Materials
BMS	Bemis Co. Inc.	2.5	2.2	45.2	39.3	Materials
AT	Alltel Corp.	0.9	2.6	14.5	43.3	Telecomm Services
ETR	Entergy Corp.	2.8	3.0	47.2	46.2	Utilities
CEG	Constellation Energy Group Inc.	2.6	2.6	46.7	46.2	Utilities
TXU	TXU Corp.	2.6	4.3	38.6	190.4	Utilities
EIX	Edison International	2.6	1.1	32.4	36.5	Utilities
SRE	Sempra Energy	2.6	3.4	30.5	32.2	Utilities
UNS	UniSource Energy Corp.	2.5	2.5	41.6	44.0	Utilities
EQT	Equitable Resources Inc.	2.5	2.1	44.9	31.8	Utilities

Source: Credit Suisse Quantitative Equity Research.

## Dividend Yield

Dividends yield a useful factor, but do not bet on just highest dividend yield stocks

Highlights of our historical simulation

Dividend yield is not sufficient by itself

We believe investors should focus on dividend yields, as the reduction in taxes on dividends by The 2003 Act has created an historic opportunity to earn extra after-tax return. Along with tax advantages, dividend selection strategy helps investors to stay with high-earnings-quality companies, as companies that consistently grow dividends tend to signal sound financial health.<sup>2</sup> (See Appendix B: Earnings Persistence and Dividends.)

Has the dividend yield strategy worked over the years?

We ran a simulation of a dividend yield strategy. We restricted the universe to the S&P 500, and ran the simulation from January 1980 to June 2006. Equal-weighted decile baskets were created based on dividend yields as of each month-end.

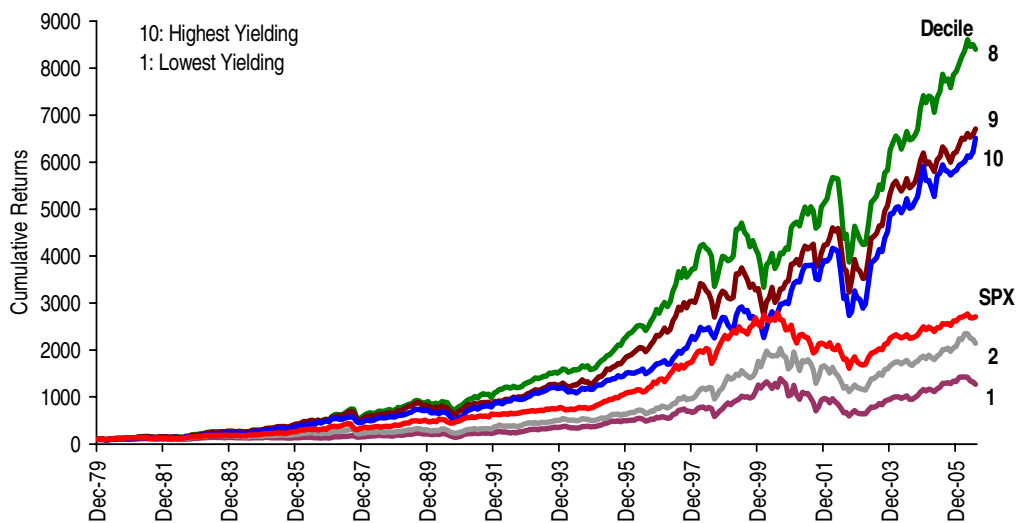
Based on this analysis, we arrived at the following conclusions:

- Stocks with higher dividend yields generally outperformed those with low dividend yields.
- The highest-yielding stocks were not the overall leaders. As Chart 7 indicates, deciles 8 and 9 outpaced decile 10 (the highest-yielding decile).

Hence, while analyzing dividend yields is useful, we need additional information for the strategy to be stable.

### Exhibit 7: Dividend Yield Strategy

Equal-weighted decile performance from January 1980 to July 2006 (universe: S&P 500)



Source: Credit Suisse Quantitative Equity Research.

<sup>2</sup> John Campbell and Glen Taksler note that equity could be “viewed as junior debt, where a dividend is paid only when the firm does not default.” For further details, please refer to a working paper entitled “Equity Volatility and Corporate Bond Yields” (May 2002) by these authors.

## Stocks with Dividends

### Exhibit 8: Highest Dividend-Yielding Credit Suisse “Outperform” Rated Companies

Credit Suisse outperform rated companies with the highest current dividend yield, data as of August 11, 2006.

Ticker	Company Name	Dividend Yield (%)	5 Yr Avg Dividend Yield (%)	Dividend Payout Ratio (%)	5 Yr Avg Dividend Payout Ratio (%)	Sector
ETM	Entercom Communications Corp.	6.7	0.0	104.8	0.0	Consumer Discretionary
RGC	Regal Entertainment Group	6.4	15.7	222.2	414.5	Consumer Discretionary
AXL	American Axle & Manu. Holdings Inc.	3.8	0.9	57.1	13.6	Consumer Discretionary
DHI	D.R. Horton Inc.	2.9	0.9	12.3	6.3	Consumer Discretionary
DJ	Dow Jones & Co. Inc.	2.8	2.3	58.8	79.1	Consumer Discretionary
TRB	Tribune Co.	2.4	1.3	52.9	53.2	Consumer Discretionary
AVP	Avon Products Inc.	2.5	1.6	57.9	34.6	Consumer Staples
K	Kellogg Co.	2.4	2.7	46.7	57.1	Consumer Staples
DFR	Deerfield Triarc Capital Corp.	11.7	4.7	120.6	55.6	Financials
CSE	CapitalSource Inc.	8.7	3.7	134.2	61.3	Financials
MPG	Maguire Properties Inc.	4.5	3.6	179.8	432.4	Financials
BAC	Bank of America Corp.	4.4	3.7	54.1	45.0	Financials
C	Citigroup Inc.	4.1	2.5	47.3	34.5	Financials
DLR	Digital Realty Trust Inc.	3.8	2.8	530.0	398.5	Financials
REG	Regency Centers Corp.	3.8	5.1	250.5	131.8	Financials
WFC	Wells Fargo & Co.	3.2	2.7	47.1	42.5	Financials
JPM	JPMorgan Chase & Co.	3.1	4.0	40.4	102.0	Financials
ARE	Alexandria Real Estate Equities Inc.	3.0	4.1	125.0	116.3	Financials
CINF	Cincinnati Financial Corp.	2.9	2.4	23.7	48.0	Financials
LNC	Lincoln National Corp.	2.6	3.1	29.6	77.8	Financials
BK	Bank of New York Co.	2.6	2.5	43.3	46.8	Financials
WSH	Willis Group Holdings Ltd.	2.5	1.2	45.1	19.0	Financials
ALL	Allstate Corp.	2.5	2.2	41.7	36.5	Financials
STA	St. Paul Travelers Companies Inc.	2.4	2.2	32.3	38.0	Financials
BVF	Biovail Corp.	3.2	0.4	26.2	8.1	Health Care
LLY	Eli Lilly & Co.	2.9	2.1	54.8	63.3	Health Care
RAMS	Aries Maritime Transport Ltd.	10.0	4.0	189.1	81.3	Industrials
GE	General Electric Co.	3.1	2.4	54.3	49.4	Industrials
MMM	3M Co.	2.7	1.9	40.6	47.1	Industrials
AVY	Avery Dennison Corp.	2.6	2.4	50.6	53.3	Industrials
WMI	Waste Management Inc.	2.6	1.0	43.3	17.4	Industrials
ETN	Eaton Corp.	2.4	1.9	26.9	40.1	Industrials
ADI	Analog Devices Inc.	2.4	0.3	51.6	8.3	Information Technology
PKG	Packaging Corp. of America	4.5	1.5	192.3	74.1	Materials
DOW	Dow Chemical Co.	4.2	3.5	34.9	48.1	Materials
LYO	Lyondell Chemical Co.	3.9	5.1	37.0	176.0	Materials
FOE	Ferro Corp.	3.6	2.4	120.8	80.2	Materials
ROH	Rohm & Haas Co.	3.0	2.3	41.6	57.9	Materials
T	AT&T Inc.	4.4	4.4	79.2	69.0	Telecomm Services
BLS	BellSouth Corp.	2.9	3.2	67.4	56.1	Telecomm Services
TE	TECO Energy Inc.	4.9	6.0	59.8	69.1	Utilities
ATG	AGL Resources Inc.	4.1	3.9	54.6	55.7	Utilities
ETR	Entergy Corp.	2.8	3.0	47.2	46.2	Utilities
TXU	TXU Corp.	2.6	4.3	38.6	190.4	Utilities
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Source: Credit Suisse Quantitative Equity Research.

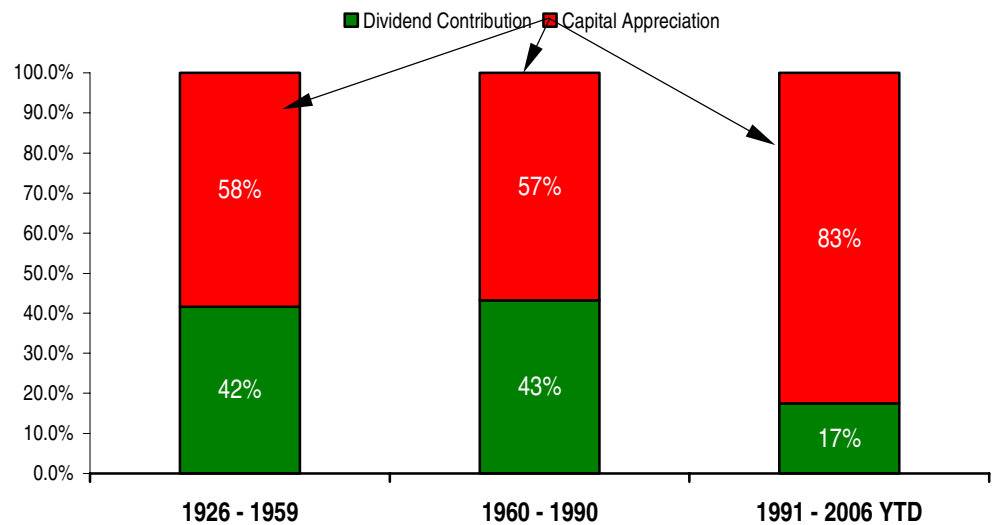
## The Dividend Factor

In the next few pages we take a look at dividends from the following five angles: return contributions, relationship between earnings and dividends, trends in percentage of companies paying dividends, dividend yield and payout ratio, and dividend yield and long-term bond yield.

Dividend contribution to total returns was more than 40% from 1926 to 1990. Changes in the tax code in 1986 discouraged dividend payouts: contribution of dividends to total returns from 1991 to 2006 was a paltry 17%. Recent reductions in taxes on dividend income should encourage companies to increase dividends. We believe the contribution of dividend returns to total returns will rise in the coming years.

**Exhibit 9: Dividend Contribution to Total Return**

Dividend contribution to total return declined in the 1990s



Source: Credit Suisse Quantitative Equity Research.

## Earnings and Dividends

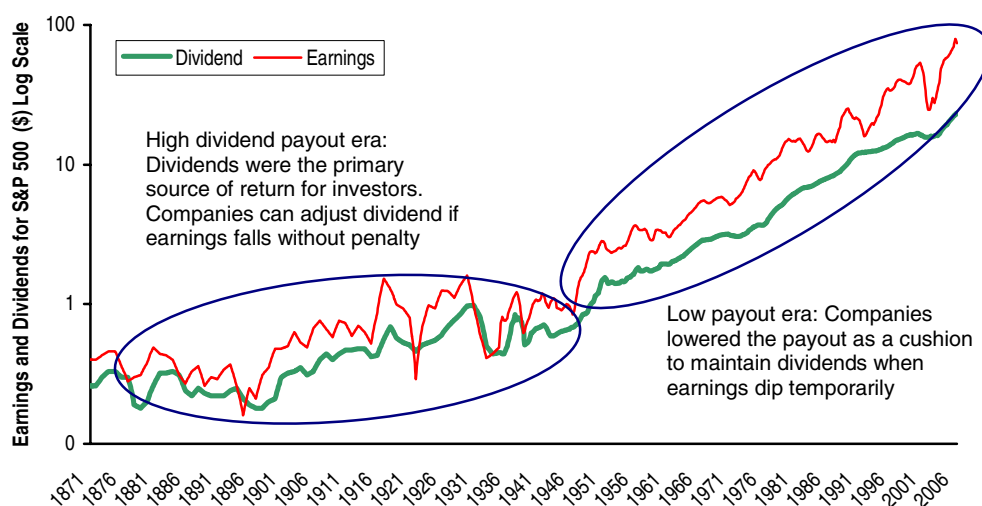
We studied aggregate earnings and dividends from 1870 to the present. We observe two distinct periods: from 1871 to 1945, dividend policy was to focus on payout ratio; after 1945 companies started managing the amount of dividends paid and were slow to increase dividends as earnings increased, effectively reducing the payout ratio. The payout ratio dropped to a historical low in 2006. (See Exhibit 12.)

- **Dividend Yield and Payout Strategy for Investors**

What is the optimal combination of dividend yield and payout ratio for the investors? We test S&P 1500 companies and find that investors should look for high yields and low payout ratios companies for their portfolio.

### Exhibit 10: Dividends and Earnings

Log scale, S&P Composite companies aggregate, 1870–2006



Source: [www.econ.yale.edu/~shiller/data.htm](http://www.econ.yale.edu/~shiller/data.htm), Credit Suisse Quantitative Equity Research.



# Decline in the Dividend Payout Ratio

A downward trend in the payout ratio over the past 50 years

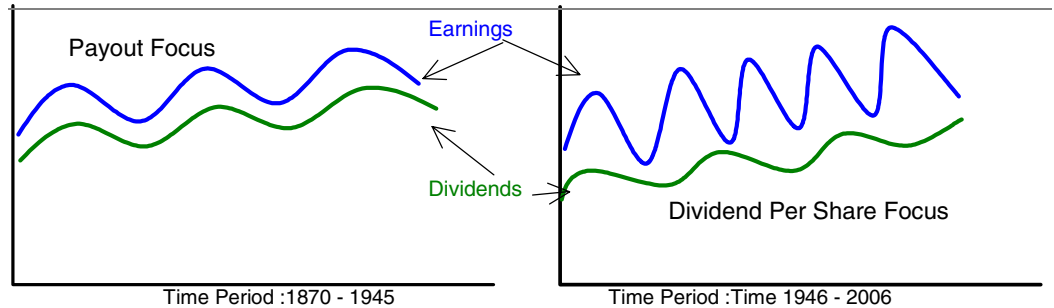
The aggregate dividend payout ratio has declined from around 70% during the 1870-1945 period to roughly 50% in 1946-2005. (See Exhibit 12.) We believe that the reduction in the payout ratio is primarily due to the desire of corporate management to maintain dividend levels during cyclical downturns. Dividends variability has decreased dramatically from the high payout ratio era to the low payout ratio era. Meanwhile, earnings variability has fluctuated and remains relatively high.

Over the past 50 years, firms lowered rather than increased dividend payout ratios during periods of high earnings. Firms targeted their dividend level lower so that they would be able to keep their dividends constant even during periods of depressed earnings, as the market generally punished companies unable to maintain dividends.

## Exhibit 11: During the Low Dividend Payout Era, Dividends and Earnings Variation Diverge

Graphical representation highlighting earnings and dividends at aggregate level

Dividends are no longer a reflection of earnings

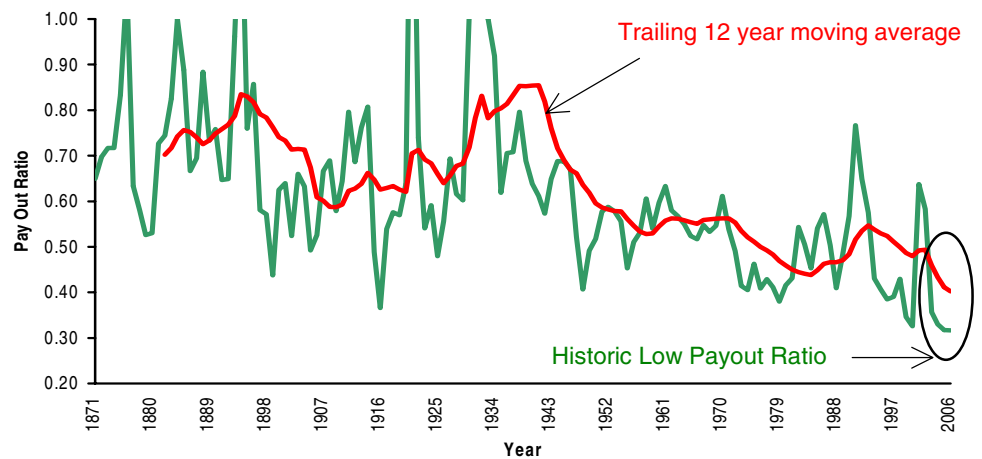


Source: Credit Suisse Quantitative Equity Research.

## Exhibit 12: Aggregate Payout Ratio

S&P Composite aggregate, 1870–2006

Dividend payout ratio at a historic low



Source: Credit Suisse Quantitative Equity Research, <http://www.econ.yale.edu/~shiller/data.htm>.

## Earnings and Dividends

To study the relationship between the earnings and dividends we focus on five distinct U.S. economic periods from 1871 to the present.

The Gilded Age,  
1871–1900

During this period, the U.S. experienced rapid industrial expansion, as the output of factories and farms increased dramatically. Governing bodies such as the SEC did not exist; hence, company management signaled the quality of earnings through dividends by paying most of the earnings as dividends. The aggregate dividend payout ratio was roughly 75%. The annual variations in dividends and earnings were 15.5% and 22.4%.

Boom Times,  
1901–1929

As the industrial expansion continued to accelerate after the end of World War I, the accompanying economic boom and excesses could not be sustained. The stock market crashed in 1929, triggering the Great Depression. High growth during this period resulted in a high degree of variation in corporate earnings. The dividend payout ratio at this time declined slightly to just over 64%.

The New Deal and  
World War II,  
1930–1945

The Great Depression, the New Deal, and World War II marked this period. The New Deal created government agencies like the SEC, FDIC, and others to regulate the U.S. equity market. World War II boosted the economy, as factories were converted to production of war equipment. Corporate earnings volatility remained relatively high, while companies distributed more than 80% of earnings as dividends.

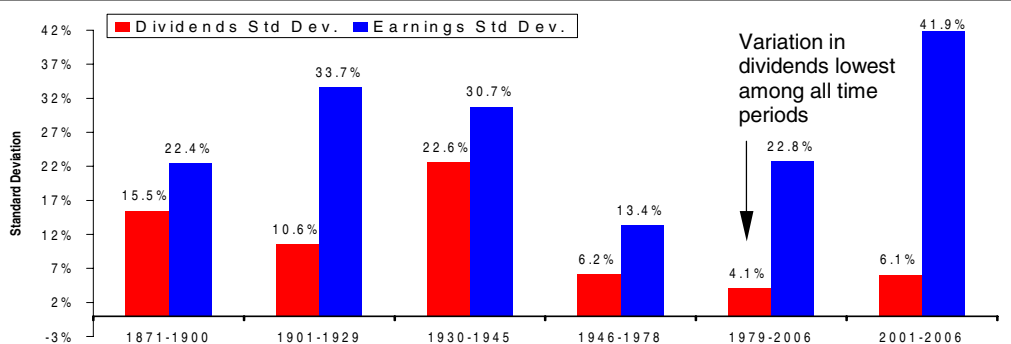
Height of the Cold War,  
1946–1978

The beginning of the Cold War also marked the beginning of the low dividend payout era. The payout ratio dropped to about 50% as companies became increasingly conscious about cutting dividends during periods when earnings were temporarily depressed. The variation in dividends dropped considerably during this period, both in absolute terms and relative to the variation in earnings.

Past 26 years,  
1979–2006

As the dividend payout ratio has hovered below 50% since 1979, the trend in the variation in earnings and dividends has diverged. Earnings variation increased, while dividend variation further decreased, as dividends became much stickier during this period. The dividend payout ratio dropped to a record low of 31% in 2006.

**Exhibit 13: Annual Variation in Dividends and Earnings**  
Standard Deviation ( $\sigma$ ) of annual changes



Source: Credit Suisse Quantitative Equity Research, [www.econ.yale.edu/~shiller/data.htm](http://www.econ.yale.edu/~shiller/data.htm)

# Reversing Trends

Percentage of companies paying dividends declining

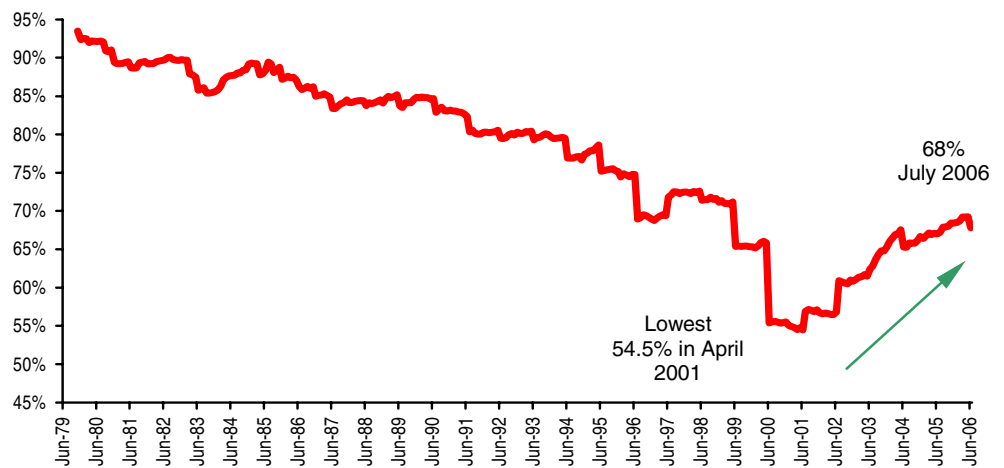
Reversing trend in past five years

The number of companies in the Russell 1000 index paying dividends has been declining since the peak in 1985 when 89% paid dividends. In fact, there was a sudden drop in the percentage of companies paying dividends during the bubble period. For example, the percentage of companies paying dividends in 1999 and 2000 dropped by 5.2% and 10.2%, respectively.

The trend is reversing slowly; for example, in 2006, the number of companies paying dividend has increased to 67.8%. We expect this trend to continue further, as dividend and capital gains are treated the same under the 2003 Tax Act.

### Exhibit 14: Percent of Russell 1000 Companies Paying Dividends

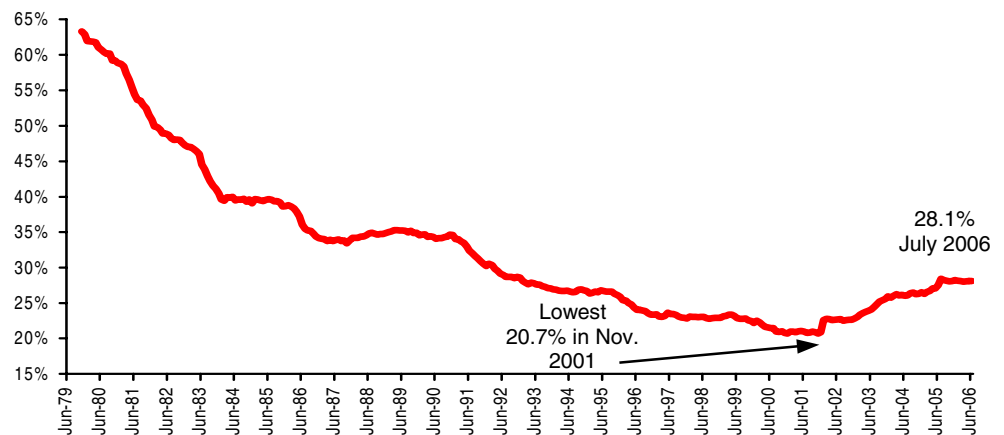
Russell 1000 Index, December 1979 to July 2006



Source: Credit Suisse Quantitative Equity Research, Frank Russell Co.

### Exhibit 15: Percent of Nasdaq Companies Paying Dividends

All Nasdaq traded companies, December 1979 to July 2006



Source: Credit Suisse Quantitative Equity Research, Nasdaq.

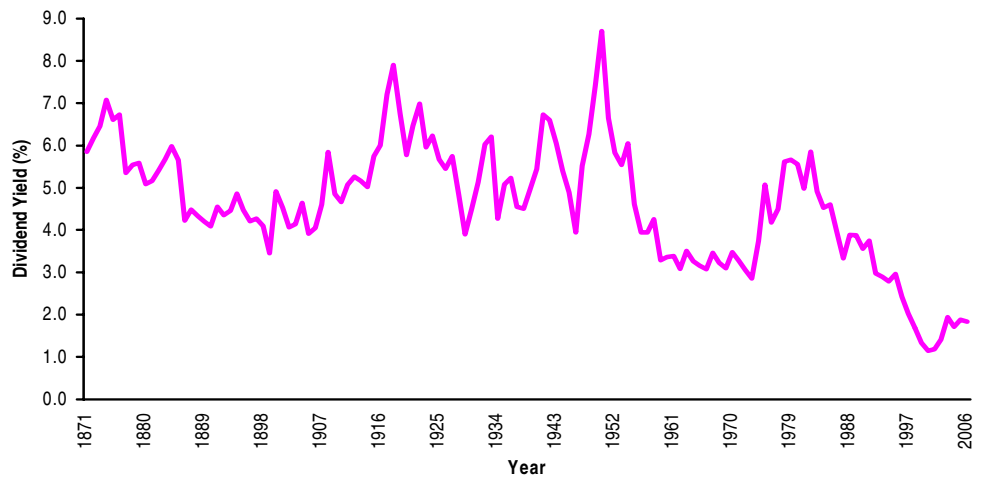
## Dividend Yield and Bond Yield

Almost 300 companies increased their dividends in the past 12 months

A record number of companies in the S&P 500 have introduced or hiked dividend this year. The dividend-paying companies are up about 4.3%, while the companies not paying dividends are down 3.9% in first seven months of the year. Dividend yield is steadily inching up and is stable after hitting its lowest level in the year 2000. We expect more and more companies to increase dividends and many more to initiate dividends in the coming months. In the past 12 months 299 S&P 500 companies have increased dividends while only 7 companies decreased dividends during same time period.

Dividend payers are up about 4.3% and non dividend payers are down about 3.9% in 7 months of 2006

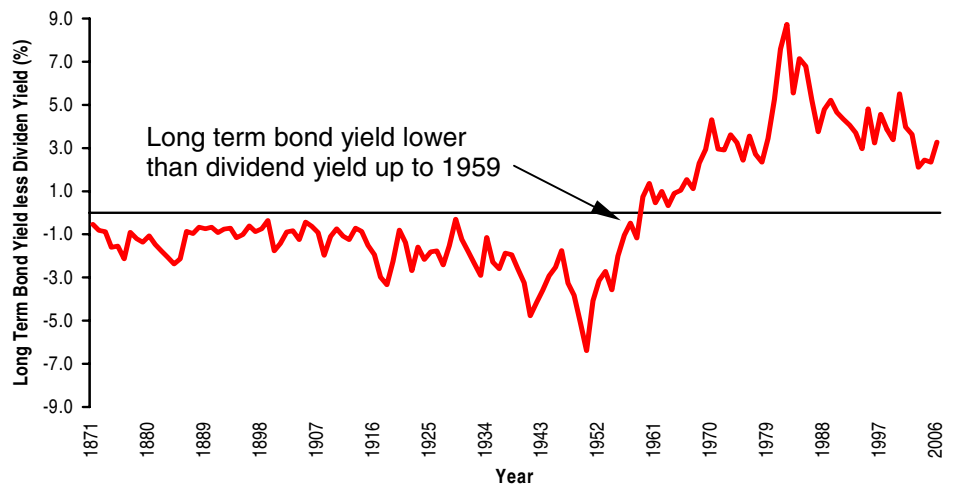
**Exhibit 16: Annual Dividend Yield**  
S&P Composite aggregate, 1870–2006



Source: Credit Suisse Quantitative Equity Research, <http://www.econ.yale.edu/~shiller/data.htm>.

**Exhibit 17: Long-Term Bond Yield versus Dividend Yield**  
S&P Composite aggregate, 1870–2006, long-term bond 10 year.

Long-term bond yield was lower than dividend yield until 1959



Source: Credit Suisse Quantitative Equity Research, <http://www.econ.yale.edu/~shiller/data.htm>

## Companies with the Highest Dividends

Below we list the top 31 Russell 1000 companies with the highest current annual indicated dividends. We calculate the estimated payout ratio using indicated dividends and IBES consensus fiscal year-one earnings estimates.

### Exhibit 18: Large-Cap Companies with the Highest Current Indicated Annual Dividend

Data as of August 07, 2006; indicated dividend calculated as annualized latest dividend paid

Ticker	Company	Total Indicated Annual Dividend (\$mil)	Estimated Dividend Payout Ratio (%)	Sector
GE	General Electric Co.	10,323	50.4	Industrials
C	Citigroup Inc.	9,690	45.8	Financials
BAC	Bank of America Corp.	9,052	43.5	Financials
XOM	Exxon Mobil Corp.	7,610	20.1	Energy
PFE	Pfizer Inc.	7,034	48.0	Health Care
MO	Altria Group Inc.	6,699	60.2	Consumer Staples
T	AT&T Inc.	5,166	59.8	Telecomm Services
JPM	JPMorgan Chase & Co.	4,721	37.9	Financials
VZ	Verizon Communications Inc.	4,696	63.3	Telecomm Services
CVX	Chevron Corp.	4,572	26.0	Energy
JNJ	Johnson & Johnson	4,388	40.7	Health Care
PG	Procter & Gamble Co.	4,069	41.3	Consumer Staples
WFC	Wells Fargo & Co.	3,771	45.1	Financials
MSFT	Microsoft Corp.	3,622	24.8	Information Technology
MRK	Merck & Co. Inc.	3,308	61.7	Health Care
WB	Wachovia Corp.	3,243	43.4	Financials
KO	Coca-Cola Co.	2,905	53.6	Consumer Staples
WMT	Wal-Mart Stores Inc.	2,792	22.9	Consumer Staples
COP	ConocoPhillips	2,373	13.9	Energy
USB	U.S. Bancorp	2,346	50.5	Financials
INTC	Intel Corp.	2,307	50.4	Information Technology
BMJ	Bristol-Myers Company	2,203	94.7	Health Care
BLS	BellSouth Corp.	2,106	50.2	Telecomm Services
WM	Washington Mutual Inc.	1,990	54.3	Financials
PEP	PepsiCo Inc.	1,978	40.2	Consumer Staples
IBM	International Business Machines Corp.	1,826	20.5	Information Technology
LLY	Eli Lilly & Co.	1,809	51.0	Health Care
ABT	Abbott Laboratories	1,803	47.0	Health Care
AIG	American International Group Inc.	1,559	10.7	Financials
DOW	Dow Chemical Co.	1,439	35.7	Materials
MMM	3M Co.	1,386	41.1	Industrials

Source: Credit Suisse Quantitative Equity Research, Compustat, IBES.

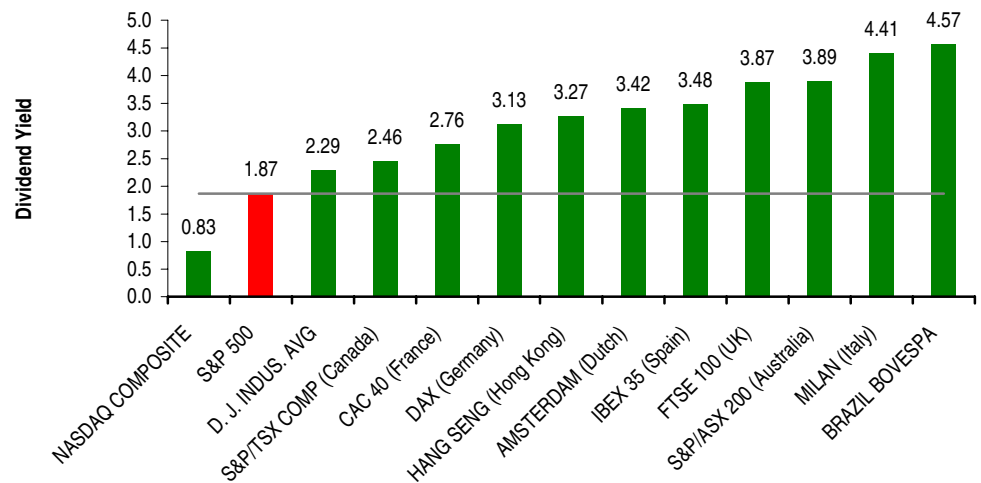
These 31 companies will pay 50% of total dividends paid by all companies in Russell 1000 index

## Dividends in Developed Markets

We compare equity dividend yields among major international markets. Yield in the North America (United States and Canada) is lowest among major equity markets. The reduction in taxes on dividends by The 2003 Act has narrowed the gap between the United States and other developed markets. In most of the developed markets, dividends are taxed at a lower rate than regular income by providing tax relief or tax credits.

### Exhibit 19: Dividend Yields in Major International Equities Markets

As of August 11, 2006



Source: Credit Suisse Quantitative Equity Research.

# Appendix A: Dividend Yield and Payout Ratios

## Exhibit 20: Dividend Yield and Payout Ratio Strategy Backtest

Equal-weighted performance from January 1995 to June 2006, quarterly rebalance, universe S&P Indices

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	High Yield Low Payout	Medium Yield Low Payout	Medium Yield Low Payout	Low Yield Medium Payout	No Dividend	Low Yield Low Payout	High Yield Low Payout	High Yield Low Payout	No Dividend	Medium Yield Low Payout	Low Yield Low Payout	Low Yield Medium Payout
	Medium Yield Low Payout	High Yield Low Payout	High Yield Low Payout	No Dividend	Low Yield Low Payout	High Yield Medium Payout	No Dividend	Medium Yield Low Payout	High Yield High Payout	Low Yield Low Payout	Medium Yield Low Payout	No Dividend
	High Yield Medium Payout	Medium Yield Medium Payout	High Yield Medium Payout	High Yield Low Payout	Medium Yield Low Payout	High Yield Low Payout	Medium Yield Low Payout	High Yield Medium Payout	Low Yield Low Payout	High Yield Low Payout	Low Yield Medium Payout	Medium Yield Low Payout
	No Dividend	Low Yield Low Payout	Low Yield Low Payout	Medium Yield Medium Payout	Medium Yield High Payout	Medium Yield Medium Payout	High Yield Medium Payout	Medium Yield Medium Payout	Medium Yield Low Payout	Medium Yield Medium Payout	High Yield Low Payout	High Yield High Payout
	Medium Yield High Payout	Low Yield Medium Payout	Medium Yield Medium Payout	Low Yield Low Payout	Low Yield Medium Payout	Low Yield Medium Payout	High Yield High Payout	Low Yield Low Payout	High Yield Low Payout	Medium Yield High Payout	Medium Yield Medium Payout	High Yield Low Payout
	Low Yield Low Payout	Medium Yield High Payout	Low Yield Medium Payout	Low Yield High Payout	Low Yield High Payout	Medium Yield High Payout	Low Yield Low Payout	Low Yield Medium Payout	Low Yield High Payout	Low Yield Medium Payout	No Dividend	Medium Yield Medium Payout
	Medium Yield Medium Payout	No Dividend	Medium Yield High Payout	High Yield Medium Payout	High Yield High Payout	Low Yield High Payout	Medium Yield Medium Payout	High Yield High Payout	Medium Yield High Payout	No Dividend	Low Yield High Payout	Low Yield High Payout
	Low Yield Medium Payout	Low Yield High Payout	High Yield High Payout	Medium Yield Low Payout	High Yield Low Payout	Medium Yield Low Payout	Low Yield Medium Payout	Medium Yield High Payout	Low Yield Medium Payout	High Yield Medium Payout	High Yield Medium Payout	Low Yield Low Payout
	Low Yield High Payout	High Yield Medium Payout	Low Yield High Payout	High Yield High Payout	Medium Yield Medium Payout	High Yield High Payout	Medium Yield High Payout	Low Yield High Payout	High Yield Medium Payout	Low Yield High Payout	Medium Yield High Payout	High Yield Medium Payout
	High Yield High Payout	High Yield High Payout	No Dividend	Medium Yield High Payout	High Yield Medium Payout	No Dividend	Low Yield High Payout	No Dividend	Medium Yield Medium Payout	High Yield High Payout	High Yield High Payout	Medium Yield High Payout

Source: Credit Suisse Quantitative Equity Research, Compustat.

## Appendix: B

## Earnings Persistence and Dividends

Strong relationship between earnings and dividends

We ran a cross-sectional regression as shown in Exhibit 5 to explore the relationship between earnings and dividends at the firm level. If dividend-paying companies have high earnings persistence, we would expect  $a_2$  and  $a_3$  to be positive and statistically significant.

### Exhibit 21: Earnings Persistence Test Regression

$$ROA_{(T+1)} = a_0 + a_1DP_T + a_2ROA_T + a_3DP * ROA_T + e_T$$

Where:

$ROA_{(T+1)}$  = Return on Assets at time t+1.

DP = dummy variable for dividends payment;; 1 = dividend paying company ; 0 = no dividend

ROA = Earnings Before Extraordinary Items (adjusted for interest Income/expense)/Total Assets

$a_2$  = Earnings Persistence Coefficient

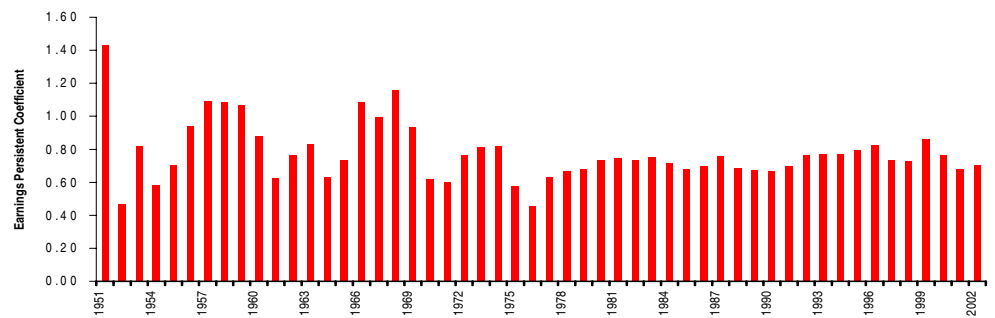
Source: Credit Suisse Quantitative Equity Research.

Dividend paying companies have high earnings persistence

### Exhibit 22: Earnings Persistence Coefficient $a_2$ , 1951–2002

Cross-sectional regressions

For 1951 through 2002, we find that  $a_2$  and  $a_3$  are statistically significant with average values of 0.77 and 0.17. This indicates that for dividend-paying companies, earnings have been highly persistent since the 1950s.

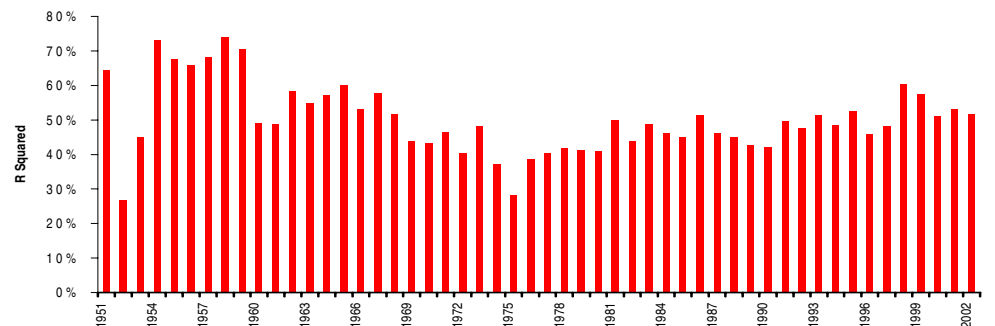


Source: Credit Suisse Quantitative Equity Research, Compustat.

### Exhibit 23: R-Squared Values (Average Value 50.6%), 1951–2002

Cross-sectional regressions

Dividends explains more than 50% of future earnings



Source: Credit Suisse Quantitative Equity Research, Compustat.



**Appendix C:****Earnings Persistence and Dividends**

(continued)

Results of the earnings persistence cross-sectional regressions from 1951 to 2002 follow.

**Exhibit 24: Earnings Persistence Test Regression**

$$ROA_{(T+1)} = a_0 + a_1 DP_T + a_2 ROA_T + a_3 DP * ROA_T + e_T$$

Where:

$ROA_{(T+1)}$  = Return on Assets at time t+1.

DP = dummy variable for dividends payment;; 1 = dividend paying company ; 0 = no dividend

ROA = EBEX (adjusted for interest Income/expense)/Total Assets, capped =+/-100%.

$a_2$  = Earnings Persistence Coefficient

Source: Credit Suisse Quantitative Equity Research.

**Exhibit 25: Earnings Persistence Test**

		Mean	t Statistics
Intercept	$A_0$	0.0116	-0.41
Dividend	$a_1$	-0.0018	24.96
Return On Assets	$a_2$	0.7753	31.72
Dividend and Return on Assets	$a_3$	0.1740	6.04
R-Squared Average	0.5059		

Source: Credit Suisse Quantitative Equity Research, Compustat.

## References

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Professor Robert J. Shiller's Web site: <http://www.econ.yale.edu/~shiller/data.htm>.

(Aggregate data used in this report were from Professor Shiller's Web site.)

Credit Suisse Quantitative Equity Research Studies

*Quantitative Research: Dividends and Earnings, July 29, 2005*

*Quantitative Research: Earnings Quality and Dividends, May 18, 2004*

*Quantitative Research: Sizing UP S&P 500 Dividend Payers, March 25, 2004*

*Quantitative Research: Myth Dividends Are Disappearing, March 31, 2004*

*Quantitative Research: Dividend Foiled? (For Now), October 30, 2003*

*Quantitative Strategy: Wrinkle in the Yield Strategy, September 5, 2002*

*Quantitative Strategy: Analyze Those Dividends, December 17, 2002.*

**Companies Mentioned** (Price as of 14 Aug 06)

3M (MMM, \$68.62, OUTPERFORM, TP \$88.00, MARKET WEIGHT)  
 Abbott Laboratories (ABT, \$47.96, NEUTRAL, TP \$50.00, MARKET WEIGHT)  
 AGL Resources Inc. (ATG, \$35.65, OUTPERFORM, TP \$41.00, MARKET WEIGHT)  
 Alexandria Real Estate Equities, Inc. (ARE, \$93.95, OUTPERFORM, TP \$100.00, MARKET WEIGHT)  
 Allstate Corporation (ALL, \$56.42, OUTPERFORM, TP \$65.00, MARKET WEIGHT)  
 Alltel Corp. (AT, \$55.15, NEUTRAL, TP \$53.00, OVERWEIGHT)  
 Altria Group, Inc. (MO, \$80.56)  
 American Axle & Manufacturing Holdings Inc. (AXL, \$15.76, OUTPERFORM, TP \$17.00, OVERWEIGHT)  
 American International Group Inc. (AIG, \$61.70, OUTPERFORM, TP \$75.00, MARKET WEIGHT)  
 Analog Devices Inc. (ADI, \$27.59, OUTPERFORM, TP \$38.00, MARKET WEIGHT)  
 Aries Maritime Transport Limited (RAMS, \$11.60, NEUTRAL, TP \$12.00, MARKET WEIGHT)  
 AT&T Inc. (T, \$29.99, OUTPERFORM, TP \$34.00, OVERWEIGHT)  
 Avery Dennison Corp. (AVY, \$59.17, OUTPERFORM, TP \$67.00, MARKET WEIGHT)  
 Avon Products, Inc. (AVP, \$28.09, OUTPERFORM, TP \$32.00, MARKET WEIGHT)  
 Bank of America Corp. (BAC, \$51.13, OUTPERFORM, TP \$57.00, UNDERWEIGHT)  
 BellSouth Corporation (BLS, \$39.16, OUTPERFORM, TP \$45.00, OVERWEIGHT)  
 Belo Corp. (BLC, \$16.02, NEUTRAL, TP \$20.00, MARKET WEIGHT)  
 Bemis Company, Inc. (BMS, \$30.42, NEUTRAL, TP \$33.00, MARKET WEIGHT)  
 Biovail Corporation (BVF, \$15.59, OUTPERFORM, TP \$20.00, OVERWEIGHT)  
 Bristol-Myers Squibb (BMY, \$20.41, NEUTRAL, TP \$20.00, MARKET WEIGHT)  
 CapitalSource Inc. (CSE, \$22.47, OUTPERFORM, TP \$27.00, MARKET WEIGHT)  
 Carnival Corp. (CCL, \$36.74, NEUTRAL, TP \$37.00, MARKET WEIGHT)  
 Chevron Corp. (CVX, \$67.05, NEUTRAL, TP \$73.00, OVERWEIGHT)  
 Cincinnati Financial Corporation (CINF, \$46.47, OUTPERFORM, TP \$52.00, MARKET WEIGHT)  
 Citigroup (C, \$47.72, OUTPERFORM, TP \$55.00, MARKET WEIGHT)  
 Coca-Cola Company (KO, \$43.99)  
 Comerica (CMA, \$57.31, RESTRICTED, UNDERWEIGHT)  
 Compass Bancshares (CBSS, \$57.72, NEUTRAL, TP \$59.00, UNDERWEIGHT)  
 ConocoPhillips (COP, \$66.82, NEUTRAL, TP \$81.00, OVERWEIGHT)  
 Constellation Energy Group Inc. (CEG, \$58.25, RESTRICTED, UNDERWEIGHT)  
 Deerfield Triarc (DFR, \$13.07, OUTPERFORM, TP \$15.00, MARKET WEIGHT)  
 Digital Realty Trust (DLR, \$28.11, OUTPERFORM, TP \$30.00, MARKET WEIGHT)  
 Dow Chemical Company (DOW, \$36.28, OUTPERFORM, TP \$49.00, OVERWEIGHT)  
 Dow Jones and Company (DJ, \$35.80, OUTPERFORM, TP \$45.00, MARKET WEIGHT)  
 DR Horton (DHI, \$20.00, OUTPERFORM, TP \$25.00, MARKET WEIGHT)  
 Eastman Chemical (EMN, \$50.35, NEUTRAL, TP \$53.00, OVERWEIGHT)  
 Eaton Corporation (ETN, \$63.00, OUTPERFORM, TP \$83.00, OVERWEIGHT)  
 Edison International (EIX, \$42.32, OUTPERFORM, TP \$49.00, UNDERWEIGHT)  
 Eli Lilly (LLY, \$54.42, OUTPERFORM, TP \$64.00, MARKET WEIGHT)  
 Entercor Communications (ETM, \$22.95, OUTPERFORM, TP \$28.00, UNDERWEIGHT)  
 Entergy Corporation (ETR, \$78.05, OUTPERFORM, TP \$83.00, UNDERWEIGHT)  
 Equitable Resources (EQT, \$35.27, NEUTRAL, TP \$40.00, MARKET WEIGHT)  
 ExxonMobil Corporation (XOM, \$69.25, NEUTRAL, TP \$78.00, OVERWEIGHT)  
 Ferro (FOE, \$16.27, OUTPERFORM, TP \$26.00, MARKET WEIGHT)  
 Furniture Brands International (FBN, \$18.67, NEUTRAL, TP \$19.50, UNDERWEIGHT)  
 General Electric (GE, \$32.82, OUTPERFORM, TP \$39.00, MARKET WEIGHT)  
 General Mills (GIS, \$53.35, NEUTRAL, TP \$52.00, MARKET WEIGHT)  
 Hasbro, Inc. (HAS, \$18.70, NEUTRAL, TP \$20.00, MARKET WEIGHT)  
 Intel Corporation (INTC, \$17.87, RESTRICTED [V], MARKET WEIGHT)  
 International Business Machines (IBM, \$76.68, OUTPERFORM, TP \$90.00, MARKET WEIGHT)  
 Johnson & Johnson (JNJ, \$63.91, UNDERPERFORM, TP \$58.00, MARKET WEIGHT)  
 JPMorgan Chase & Co. (JPM, \$43.89, OUTPERFORM, TP \$50.00, MARKET WEIGHT)  
 Kellogg Company (K, \$49.60, OUTPERFORM, TP \$49.00, MARKET WEIGHT)  
 Lee Enterprises (LEE, \$24.18, UNDERPERFORM, TP \$30.00, MARKET WEIGHT)  
 Limited Brands, Inc. (LTD, \$26.21, NEUTRAL, TP \$23.00, MARKET WEIGHT)  
 Lincoln Natl (LNC, \$57.11, OUTPERFORM, TP \$64.00, MARKET WEIGHT)  
 Louisiana-Pacific Corporation (LPX, \$19.46, UNDERPERFORM, TP \$19.00, MARKET WEIGHT)  
 Lyondell Chemical Company (LYO, \$23.29, OUTPERFORM, TP \$28.50, OVERWEIGHT)

Maguire Properties (MPG, \$36.40, OUTPERFORM, TP \$39.00, MARKET WEIGHT)  
 Masco (MAS, \$26.20, NEUTRAL, TP \$29.00, MARKET WEIGHT)  
 Mattel, Inc. (MAT, \$17.74, NEUTRAL, TP \$19.00, MARKET WEIGHT)  
 Media General, Inc. (MEG, \$36.98, NEUTRAL, TP \$44.00, MARKET WEIGHT)  
 Mercantile Bankshares Corp (MRBK, \$36.87, NEUTRAL, TP \$34.00, UNDERWEIGHT)  
 Merck & Co. (MRK, \$40.88, NEUTRAL, TP \$30.00, MARKET WEIGHT)  
 Mercury General (MCY, \$49.27, NEUTRAL, TP \$58.00, MARKET WEIGHT)  
 Microsoft Corporation (MSFT, \$24.53, NEUTRAL, TP \$24.00, OVERWEIGHT)  
 National City (NCC, \$35.43, NEUTRAL, TP \$35.00, UNDERWEIGHT)  
 Packaging Corp. of America (PKG, \$22.29, OUTPERFORM, TP \$25.00, MARKET WEIGHT)  
 PepsiCo, Inc. (PEP, \$63.95)  
 Pfizer (PFE, \$26.08, NEUTRAL, TP \$26.00, MARKET WEIGHT)  
 PPG Industries, Inc. (PPG, \$61.93, NEUTRAL, TP \$68.00, OVERWEIGHT)  
 Procter & Gamble Co. (PG, \$59.76)  
 Regal Entertainment Group (RGC, \$18.68, OUTPERFORM, TP \$25.00, MARKET WEIGHT)  
 Regency Centers Corporation (REG, \$63.05, OUTPERFORM, TP \$65.00, UNDERWEIGHT)  
 Rohm and Haas Company (ROH, \$44.00, OUTPERFORM, TP \$61.00, OVERWEIGHT)  
 Sempra Energy (SRE, \$46.93, NEUTRAL, TP \$47.00, UNDERWEIGHT)  
 St. Paul Travelers Companies Inc (STA, \$43.09, OUTPERFORM, TP \$52.00, MARKET WEIGHT)  
 Stanley Works (SWK, \$45.60, NEUTRAL, TP \$50.00, MARKET WEIGHT)  
 SunTrust Banks Inc. (STI, \$76.55, NEUTRAL, TP \$74.00, UNDERWEIGHT)  
 TECO Energy (TE, \$15.58, OUTPERFORM, TP \$17.00, UNDERWEIGHT)  
 The Bank of New York Company, Inc. (BK, \$33.75, OUTPERFORM, TP \$38.00, MARKET WEIGHT)  
 Tribune Company (TRB, \$29.78, OUTPERFORM, TP \$40.00, MARKET WEIGHT)  
 TXU Corporation (TXU, \$64.72, OUTPERFORM, TP \$69.00, UNDERWEIGHT)  
 U.S. Bancorp (USB, \$31.99, NEUTRAL, TP \$32.00, UNDERWEIGHT)  
 Unisource Energy Corp (UNS, \$33.81, NEUTRAL, TP \$36.00, UNDERWEIGHT)  
 Verizon Communication (VZ, \$33.92, NEUTRAL, TP \$37.00, OVERWEIGHT)  
 VF Corporation (VFC, \$67.86, NEUTRAL, TP \$70.00, OVERWEIGHT)  
 Wachovia (WB, \$54.16, NEUTRAL, TP \$61.00, UNDERWEIGHT)  
 Wal-Mart Stores, Inc. (WMT, \$45.00, OUTPERFORM, TP \$55.00, MARKET WEIGHT)  
 Washington Mutual Inc. (WM, \$42.66, NEUTRAL, TP \$45.00, MARKET WEIGHT)  
 Waste Management (WMI, \$34.10, OUTPERFORM, TP \$44.00, OVERWEIGHT)  
 Wells Fargo & Company (WFC, \$34.65, OUTPERFORM, TP \$38.00, UNDERWEIGHT)  
 Willis Group Holdings Ltd (WSH, \$36.12, OUTPERFORM, TP \$41.00, MARKET WEIGHT)

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**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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