WINTER 2019/2020

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VERITY
INVESTMENT PARTNERS

VANTAGE POINT | Q1

A Bonus and a Raise

Our youngest daughter, Hannah, started her first full-time job as a Digital Marketing Strategist early last year, and at year-end she shared the good news that she had received both a bonus and a raise. After many pats on the back, we discussed the fact that the raise increases her pay on an ongoing basis while future bonuses will depend on her performance as well as the firm's performance each year. In other words, the bonus is great but can't be counted on every year, while the pay raise sets a new level of compensation that is ongoing and can be factored into her budget. Even more importantly, the raise is a "leading indicator" that Hannah is viewed to be a valuable member of the team. *While we are very proud of Hannah, we share her story as an analogy to help illuminate how years like 2019 fit into our dividend growth investment approach. —Will Verity*

A BONUS IN 2019

When it comes to investing, years like 2019 certainly feel like a bonus. Investors understand that average total returns over time have been in the 8% to 10% range, so anything above that feels like a bonus and anything below that feels more like a loss. In reality, and as 2019 demonstrated, annual investment returns almost never fall within the average range. Over the past 30 years, the S&P 500 has produced annual returns below 8% in 12 of those years, including 6 years when returns were negative. The index has produced returns above 10% in 18 of the last 30 years, including 10 years when returns were in excess of 20%. The message here is that to achieve long-term investment success, you need to stay invested so that you can benefit from "bonus" years like 2019.

Sadly, one of the most noteworthy aspects of 2019 is that so many people missed getting their "bonus" for just that reason -- they did not stay invested. You may recall that this time last year the media was hyping the headline that December of 2018 was the "Worst December since the Great Depression". This headline (and the market downturn it was trumpeting) had its predictable effect. According to the Wall Street Journal, as of December 8th, 2019, approximately $135.5 billion had been pulled from U.S. stock-focused funds and ETFs during 2019. These were the biggest withdrawals on record, according to Lipper, which tracked the data back to 1992.

The volatility of the markets, both above average and below average, and the related hype from the news media can make it difficult for investors to remain calm, stay invested and keep a long-term perspective. In our view, one of the best ways to maintain a long-term investment perspective is to keep your focus on annual dividend growth.

A RAISE EVERY YEAR

We've emphasized the fact that dividend payments are not correlated with market prices; that you can spend the dividends without depleting your savings; and that if you don't need the dividend income to fund expenses, it can be reinvested as additional savings. We have also emphasized that investing in dividend growth companies can enable you to grow the amount of dividend income you receive each year, even in years when market valuations are lower, which can help you stay calm when markets are down and significantly increase your purchasing power over time.

Another important benefit of focusing on dividend growth is that it is an excellent leading indicator. One way in which annual dividend growth functions as a leading indicator is what it tells you about management's confidence in the future. When a board of directors decides to raise the dividend, they are electing to increase the amount of income they are going to pay their shareholders on an ongoing basis. This is a tangible vote of confidence by management and the board (the folks who know most about the company's prospects) in the company's ability to continue to prosper and grow earnings over the longer-term.

We believe that dividend growth is also an excellent leading indicator of long-term appreciation potential. Dividends come from earnings, ***and dividend growth generally comes from earnings growth***. In the long-term, earnings growth is what drives valuations upward. As a result, companies that consistently grow their earnings and dividends tend to provide very attractive levels of capital appreciation over time, though this may be hard to accurately measure in any given year because of the inherent short-term volatility of equity markets.

INVESTMENT RETURNS BY DIVIDEND POLICY

Analysis by Ned Davis Research demonstrates how a track record of dividend growth can be a leading indicator for identifying companies that are likely to provide attractive long-term capital appreciation. They divided the S&P 500 into four "buckets" based on dividend policy and assessed their performance from December 31, 1999 through December 31, 2019. ***If you invested $10,000 in each of these four buckets on December 31, 1999, here is what the value of your investment would be today:***

S&P 500 Returns by Dividend Policy (1999 to 2019)*	1999 Value	2019 Value	Annualized Return
Dividend cutters and eliminators	$10,000	$32,682	6.10%
Non-dividend paying stocks	$10,000	$45,080	7.82%
Dividend payers with no change in dividends	$10,000	$49,634	8.34%
Dividend growers and initiators	$10,000	$70,018	10.22%

Source: Ned Davis Research *Dividend policy indices are equal-dollar-weighted with monthly rebalancing.

As an investor, you are unlikely to get a bonus every year, but if you invest in companies that give you a pay raise every year in the form of a dividend increase, then you will receive a growing stream of dividend income in the short-term, and we believe you will be well positioned to benefit from attractive capital appreciation over the longer-term -- including periodic bonus years like we experienced in 2019.

The chart below shows the pay raises that our portfolio companies announced in the form of dividend increases in 2019 (please note that each individual client portfolio contains a sub-set of these companies).

2019 Dividend Growth Summary

DIVIDENDS PAID PER SHARE Company	2018	2019	Annual "Pay Raise"
3M	$5.44	$5.76	5.9%
Abbott Laboratories	$1.16	$1.32	13.8%
AbbVie	$3.95	$4.39	11.1%
Accenture	$2.66	$2.92	9.8%
Aflac	$1.04	$1.08	3.8%
Altria Group	$3.00	$3.28	9.3%
Ameriprise Financial	$3.53	$3.81	7.9%
Amgen	$5.28	$5.80	9.8%
Apple	$2.82	$3.04	7.8%
Archer Daniels Midland	$1.34	$1.40	4.5%
Arthur J Gallagher Co	$1.64	$1.72	4.9%
AT&T	$2.01	$2.05	2.0%
BCE	$2.33	$2.39	2.5%
Becton Dickinson&Co	$3.02	$3.10	2.6%
Broadcom	$7.00	$10.60	51.4%
Chevron	$4.48	$4.76	6.2%
Cisco Systems	$1.28	$1.38	7.8%
Coca-Cola	$1.56	$1.60	2.6%
Colgate-Palmolive	$1.66	$1.71	3.0%
Consolidated Edison	$2.86	$2.96	3.5%
Corning	$0.72	$0.80	11.1%
Cracker Barrel Old	$4.90	$5.10	4.1%
Cummins	$4.44	$4.90	10.4%
Digital Realty Trust	$4.04	$4.32	6.9%
Dominion Energy	$3.34	$3.67	9.9%
El Paso Electric	$1.42	$1.52	7.1%
Enbridge	$2.07	$2.22	7.4%
Enterprise Prods Partners	$1.72	$1.76	2.3%
Eversource Energy	$2.02	$2.14	5.9%
Exxon Mobil	$3.23	$3.43	6.2%
First Horizon National	$0.48	$0.56	16.7%
Genuine Parts	$2.88	$3.05	5.9%
Gilead Sciences	$2.28	$2.52	10.5%
Hasbro	$2.52	$2.72	7.9%
IBM	$6.21	$6.43	3.5%
Illinois Tool Works	$3.56	$4.14	16.3%
Intel	$1.20	$1.26	5.0%
J.M. Smucker	$3.26	$3.46	6.1%
Johnson & Johnson	$3.54	$3.75	5.9%

DIVIDENDS PAID PER SHARE Company	2018	2019	Annual "Pay Raise"
JPMorgan Chase	$2.72	$3.40	25.0%
KeyCorp	$0.57	$0.71	25.7%
Lamar Advertising	$3.65	$3.84	5.2%
Leggett & Platt	$1.50	$1.58	5.3%
Lockheed Martin	$8.20	$9.00	9.8%
Lowe's	$1.78	$2.06	15.7%
Magellan Midstream Prtnrs	$3.79	$4.04	6.4%
Medtronic	$1.92	$2.08	8.3%
MetLife	$1.66	$1.74	4.8%
Microsoft	$1.76	$1.94	10.2%
MSC Industrial Direct	$2.37	$2.76	16.5%
National Retail Ppt	$1.95	$2.03	4.1%
Novartis	$2.80	$2.85	1.8%
OGE Energy	$1.40	$1.51	7.9%
Omnicom	$2.40	$2.60	8.3%
ONEOK	$3.25	$3.53	8.8%
Oracle	$0.76	$0.91	19.7%
PepsiCo	$3.59	$3.79	5.7%
Pfizer	$1.38	$1.46	5.8%
Philip Morris	$4.49	$4.62	2.9%
PPG Industries	$1.86	$1.98	6.5%
PPL	$1.64	$1.65	0.6%
Procter & Gamble	$2.84	$2.95	4.0%
Prudential Financial	$3.60	$4.00	11.1%
Raytheon Co	$3.47	$3.77	8.6%
Southern	$2.38	$2.46	3.4%
Starbucks	$1.32	$1.49	12.9%
Target	$2.52	$2.60	3.2%
Texas Instruments	$2.78	$3.34	20.1%
TJX	$0.74	$0.89	19.4%
Truist Financial	$1.52	$1.71	12.9%
Tyson Foods	$1.35	$1.59	17.8%
U.S. Bancorp	$1.34	$1.58	17.9%
United Parcel Service	$3.64	$3.84	5.5%
Verizon Communications	$2.39	$2.44	2.1%
VF	$1.89	$1.93	2.1%
Walmart	$2.07	$2.11	1.9%
WP Carey	$4.09	$4.14	1.2%

QUARTERLY FINANCIAL PLANNING TIPS

2019 SECURE Act Impact on Retirement Plans

In December, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law and took effect on January 1, 2020. Here is a summary of the changes that are expected to have the most impact on individual and company retirement accounts:

Required Minimum Distribution Age Increased to 72

Prior to the SECURE ACT, IRA owners were required to begin taking minimum distributions from their IRAs (and thus create taxable income) beginning at age 70.5. Now IRA account holders who did not reach age 70.5 in 2019, have until age 72 to begin required distributions. This gives account holders more time to delay taxable income and explore strategies such a Roth Conversions (realize income now and convert IRA to after tax funds).

If you reached age 70.5 in 2019 and started your RMD but will not be age 72 in 2020, you still must proceed with taking a required distribution in 2020. Qualified Charitable Distributions up to $100,000 per year are still allowed from IRAs beginning at age 70.5.

Limitation of "Stretch IRA" Provision for Non-Spouse IRA Beneficiaries

Before the SECURE ACT, non-spouse IRA beneficiaries could maintain the inherited account as an "Inherited IRA" and take annual required minimum distributions for the duration of their lives ("stretching the IRA"). This provision has been eliminated, and the IRA balance must now be fully distributed within 10 years of the death of the original owner. ***(All Inherited IRAs opened before 2020 will be grandfathered in and keep the historical distribution rules allowing to stretch out distributions).***

This abbreviated distribution timeline increases distributions and taxable income to the beneficiary. Exceptions to this new rule are beneficiaries who are spouses, minor children (until they reach age of majority), disabled individuals and people less than 10 years younger than the decedent.

These new rules complicate naming a trust as a beneficiary of an IRA. Conduit trusts are often used as beneficiaries of IRAs, allowing the IRA to make required distributions based on the oldest beneficiary of the trust. Based on the new rules, there will not be required distributions until the 10th year, requiring you to distribute the balance of the IRA and create taxable income at that time. One of the primary reasons people use trusts as the beneficiary of IRAs is to protect minor children. It is unclear how the IRS would treat these cases given that minors are exceptions to the rule when outright beneficiaries. If you have named a trust as the beneficiary of your IRA, you should review the intention and discuss with your estate attorney whether this strategy is still best.

Other Provisions (not all-encompassing)

Contributions to Traditional IRA accounts after age 70.5
Individuals may now contribute to individual retirement accounts at any age, as long as they have earned income.

Penalty Free withdrawals for birth/adoption expenses
New parents may now withdraw up to $5,000 from an IRA or company sponsored retirement plan to pay for birth/adoption expenses and avoid the 10% early withdrawal penalty. Income taxes are still due on the distribution.

Long-term part-time employees can participate in 401(k) plans
Employees who work at least 500 hours in at least three consecutive years are eligible to participate in their company's 401(k) plan. Employers would not be required to make matching contributions.

Assets in 529 Savings Plans may now be used to repay up to $10,000 in student loans

Increase in Tax Credit for establishing a Small Business Retirement Plan
The Tax credit was increased from $500 for 3 years to the greater of $500 or $250 times the number of non-highly compensated employees eligible to participate in the plan (limited to $5,000) for three years.

If you have questions or need assistance, Andrew is always available to assist with any financial questions or to help you in putting together a comprehensive financial plan. Andrew Jones (andrew@verityvip.com or 843-379-6661).

Economic Indicators

Below is a summary of the key economic indicators that we track on an ongoing basis to help inform our investment decisions.

Economic Indicators	Reported	Current	Y/Y Δ	Last Year	10 YR AVG
BUSINESS					
Real Gross Domestic Product (q/q%)	9/30	2.1%	-80 bps	2.9%	2.3%
ISM Manufacturing	11/29	48.1	-18.2%	58.8	54.4
ISM Non-Manufacturing	11/29	53.9	-10.8%	60.4	55.7
Industrial Production	11/29	109.7	-0.8%	110.5	102.4
Corporate Profits Before Tax	9/30	2,078.0	-1.2%	2,104.2	1,964.1
SENTIMENT					
Consumer Confidence	12/31	126.5	-0.1%	126.6	91.3
Consumer Sentiment	12/31	99.3	1.0%	98.3	85.4
NFIB Small Business Optimism	11/29	104.7	-0.1%	104.8	96.6
CEO Confidence	12/31	6.6	2.3%	6.4	6.2
LABOR MARKET					
Unemployment Rate, U-3, SA (%)	11/29	3.5%	-20 bps	3.7%	6.3%
Labor Force Participation Rate, SA (%)	11/29	63.2%	30 bps	62.9%	63.3%
Nonfarm Payrolls (monthly Δ, 000s)	11/29	266.0	71.6%	155.0	162.2
Real Average Hourly Earnings	10/31	$9.47	2.2%	$9.27	$9.01
INFLATION					
Producer Price Index (PPI) (y/y%)	11/29	1.1%	-160 bps	2.7%	1.4%
Core PPI (y/y%)	11/29	1.3%	-145 bps	2.7%	1.7%
Consumer Price Index (CPI) (y/y%)	11/29	2.0%	-15 bps	2.2%	1.8%
Core CPI (y/y%)	11/29	2.3%	6 bps	2.3%	1.8%
Personal Consumption Expenditures (PCE) (y/y%)	11/29	2.4%	-62 bps	3.0%	2.4%
Core PCE (y/y%)	11/29	1.6%	-35 bps	2.0%	1.6%
Breakeven Inflation Rate (%)	12/31	1.77%	6 bps	1.71%	1.99%
CAPITAL COSTS					
10Y Treasury	12/31	1.92%	-77 bps	2.69%	2.41%
10Y-2Y Treasury Spread	12/31	0.34%	13 bps	0.21%	1.44%
Federal Funds Rate Target	12/31	1.75%	-75 bps	2.50%	0.73%
30 Year Fixed-Rate Mortgages	12/31	3.72%	-92 bps	4.64%	4.10%
New Car Loan, 48-month	9/30	5.27%	22 bps	5.05%	4.97%

As always, we look forward to your comments and suggestions
and thank you for your continued trust and support.