



There are infinite studies of the stock market, and yet remarkably few people invest well, relative to the multitudes that try. Book stores are full of ‘epistles’ on beating the market, yet even the authors are rarely rich!?!

We thought that the following two studies were worthwhile, and clearly in tune with Georgian Capital disciplines:

### **STUDY I – Financial Analysts Journal**

“Boring, low volatility stocks are good”.

- January 1968 – December 2008: 1,000 largest U.S. stocks
- Concluded:
  - Lowest volatility / risk stocks: \$1 became \$59.55
  - Highest volatility / risk stocks: \$1 became \$0.10

Why do people like high volatility stocks (usually implying high growth potential)?

1. Attempt / preference for lottery like payoffs; BUT large potential gain = low probability.
2. Tendency to focus on the few high risk plays that work – ignoring / forgetting most that don’t!
3. Many have exaggerated sense of forecasting prowess!

### **STUDY II – RBC.DS “Dividends are big winners in Canada”**

a) December 1986 – February 2011

	<u><b>Total Compound Return</b></u>
Companies Raising Dividends	12.6%
Companies with Stable Dividends	10.8
S&P / TSX Index	7.3
Companies Reducing Dividends	3.2
Companies with no Dividends	2.4

Note: Listing tracked each year, rebalanced annually.

1. Seems to impose discipline on management use of cash flow.
2. Seems to signal that the business is healthy.

b) December 1995 – December 2010 (compound returns)

**Energy** High Yield 19.3% vs. Low Yield 12.9%

**Financial** High Yield 18.7% vs. Low Yield 11.8%

**Materials** High Yield 12.0% vs. Low Yield 8.4%

c) Final note: Similar in the U.S.

Source S&P: January 1926 – March 2011

S&P Compound return = 10.04%

\*44% from dividends!

BORING + DIVIDENDS GROWING = A winning formula. DISCIPLINE is good. We are not in the 1980's and 1990's any more – the two largest equity decades in a century. We don't even have business cycles, as taught in Samuelson!

The Georgian Capital Income Growth Portfolio is the best NEW REALITY.

David Knight  
**Georgian Capital Partners**  
Scotia Plaza  
40 King Street West, Suite 3405  
Toronto, ON M5H 3Y2

Tel: (416) 640-4100  
[www.georgiancapital.ca](http://www.georgiancapital.ca)

April 12, 2011