Dividends A Focus For Investors

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Dividends have been the focus for investors this year and nothing has changed that. The low interest rate environment we have been living in has traders and investors alike scrambling to find returns and where are they looking? At high yield dividend stocks. To get an idea of what to expect in the realm of dividends for the rest of 2015 and 2016 we have to start with where they are now.

According to data from Factset there were a total of $375.9 billion paid out in dividends in 2014, a record high that represents an 11.9% year-over-year increase in payments for S&P 500 companies. We have been in a five year uptrend in dividends that has set record highs in many of the metrics used to measure dividend strength including dividends per share, the number of dividend payers in the market and the number of dividends that are on the rise. On a per share basis 10 out 10 S&P 500 sectors are showing growth over the past 5 years with 6 of them posting double digit growth this year and these trends are expected to continue. The projected dividend growth rate for the broad market for 2015 is 8.2%, slightly below the 2014 rate but still quite substantial and that goes up in 2016. Looking out to next year all ten sectors are expected to post dividend growth with the industrials and financials expected to lead with growth of 10.0% and 12.8% respectively.

One concern for high-yield investors is the upcoming FOMC interest rate hike. There is a lot of fear it will upset the market and diminish returns among high yielding investments. The correlation between bonds and high-yield bond proxies like MLP's and REIT's is well documented but does not negate the fact there is a tidal wave of dividends crashing over the market. While a concern, it is not reason to stay out of the market. Not all high yield investments are tied to bonds, you just have to be careful where you put your money. One way to gain exposure to this group is through funds and ETF's, which target these types of companies but mitigate risk through diversification and hedging strategies.

Value, Return And Growth

Finding value, high returns and the prospect of growth can be tough enough without the specter of rising interest rates looming over us. The current market environment is choppy to say the least and will likely continue to be so up to and until we see the first rate hike. One place to find this combination is in the Miller Howard High Income Equity Fund (HIE). This fund is managed by the Miller Howard Investments, Inc. and is the culmination of their decades of experience. They employ several strategies in their portfolios and have combined them into one super-strategy here in HIE.

*"Dividend growth is highly significant for this portfolio because among higher-yielding stocks the price of the asset is in large part a function of the income that's provided. As income rises, an investor may expect the asset price to increase commensurately (though other factors may enter into this equation from time to time). Thus we seek companies that not only pay a high dividend or distribution now but are also likely, in our view, to increase the dividend in the future." **(shareholder letter)***

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HIE targets high yielding stocks from among 10 sectors including MLP's and REITs. Energy and financials represent the largest holdings, in the range of 15% each, but because MLP's are mostly energy related that sector is upped to near 30% of portfolio. Many of REITs held in the portfolio operate in the healthcare sector, upping that sector's weight within the portfolio. The strategy seeks to filter out undervalued issues with positive cash flow, cash flow growth, steady dividend payments and the chance for dividend growth to create a high yielding fund that pays a high return and captures capital appreciation through value investing and dividend cycle momentum. At last check, dividend yield of $1.39 annually was a little over 8% of stock price.

In addition to dividends the fund also employs cash flow producing options strategies from time to time. These strategies, primarily short puts and covered calls, add a significant stream of cash flow to the fund and a level of protection from some of the higher risk holdings within the portfolio.

*"We are enhancing the income in our portfolio through the sale of options, primarily through the sale of puts on companies we hold, if we determine that we would be content to hold more of the stock in the event there is a decline and the stock is put to us. Through April 30 we have sold 18 put positions and successfully collected the premium on all of them, with no stocks put to us. We also sold calls on two partial positions that had rallied, and these stocks were called away – though we had significant gains on the stocks and also received the call premiums." **(shareholder letter)***

High Income Equity Fund Positioned For Growth

The fund is well positioned for growth. The top holdings, plus the

SECTOR ALLOCATIONS [5] as of June 30, 2015

REITS	19.40%
Energy	16.31%
Financials	14.32%
MLPs	12.49%
Industrials	9.71%
Utilities	7.90%
Telecom	6.88%
Technology	4.42%
Consumer Discretionary	3.73%
Health Care	3.53%
CASH	1.30%

TOP 5 HOLDINGS [5] as of June 30, 2015

Holding	Sector
Williams Cos Inc	Energy
Kinder Morgan Inc	Energy
Blackstone Group LP	Financials
Pattern Energy Group Inc	Utilities
AT&T Inc	Telecom

> The bottom line is that earnings growth, while sluggish this year, is expected to return in spades and bring another round of dividend growth with it.

energy, financials and healthcare sectors, are expected to be market leaders into the next several quarters presenting the most likely areas to see increased dividend distributions. The energy sector is perhaps the most notable. Earnings in this sector are not good this year, due mainly to the free-fall we saw in oil prices at the end of last year, but are expected to improve in 2016. Growth in that sector is expected to come in at a pace greater than 30% making it a prime candidate for significant dividend increases and explains why holdings in this sector were increased to 16% from 11.3% over the course of the last quarter. Other top sectors are in an even better position and have seen their weight in the portfolio increase as well. The financials are growing earnings at a pace greater than 15% in 2015 and are expected to continue double-digit growth in 2016.The healthcare sector is growing at a pace greater than 12% in 2015 and is expected to increase that rate in 2016. The industrials are growing at a rate close to 3.5% in 2015 and up that to greater than 10% next year.

Fund managers have this to say:

"Looking forward, we believe overall economic conditions continue to be supportive of our strategy. In a world of low income yields, we believe our portfolio stands out for both its intrinsic yield and the potential of the stocks we hold to grow their dividends, as well as their principal value."

The Bottom Line

The bottom line is that earnings growth, while sluggish this year, is expected to return in spades and bring another round of dividend growth with it. Impending interest rate hikes, which the FOMC has indicated could come at any time, are a concern but do not negate the fact that dividend distributions are at record levels and on the rise. Capturing those returns is a must for investors who want to outperform the market. The question is where to put your money in order to capture that yield, benefit from dividend cycle momentum and protect your capital from potential damage due to interest rate hikes. My answer is the Miller/Howard High Income Equity Fund.

SCHEDULED DISTRIBUTIONS TO SHAREHOLDERS [2]

Declaration	Ex-Date	Record	Payable	Amount per Share
July 2, 2015	July 21, 2015	July 23, 2015	July 31, 2015	$0.116
July 2, 2015	August 19, 2015	August 21, 2015	August 31, 2015	$0.116
July 2, 2015	September 18, 2015	September 22, 2015	September 30, 2015	$0.116