

**Election Dividends  
Carne Capital  
By Sean Bonner  
November 17, 2012**

How much of the recent sell off is driven by the fear of a new tax regime in the US? Ordinary income, Long-term capital gains and Dividend tax rates are all set to rise significantly unless Congress acts before the end of the year. Spending cuts to the Department of Defense with diminished sales to its suppliers, and regulatory pressures on the energy industry have also pressured the equity market. These concerns, as well as the election and the standoff over the Fiscal Cliff, have been the catalysts of a 5 plus % sell off in the S&P 500 since the election.

Dividends have been a big reason to own equities, with the yield on the S&P 500 much higher than the U.S. 10 year Treasury. The possible jump in rates could be dramatic -- from 15% to ordinary income tax rate levels, coupled with close to a 4% rise for Obama Care. This means that, for tax payers making \$250,000 or more, Dividends would be taxed at close to 40% at the Federal level.

Many sectors have felt direct pressure since the election, including Energy and Defense. Looking at their respective ETFs (XLE & XAR), they have underperformed. The XLE and XAR are down 5.64% and 6.00% respectively. Higher tax rates have dominated much of the coverage of the Fiscal Cliff and dividends are in the cross hairs of those looking to raise revenues. High dividend payers are not the domain of any one sector and owning a portfolio of high paying dividend stocks should provide some sector diversification. However, since most Mutual Funds' tax years have concluded already it appears that individual investors and Hedge Funds are selling dividend stocks ahead of a possible rise in tax rates.

Since the close on Election Day, 11/06/12, until the close on 11/15/12 the S&P 500 is down 5.09% on a total return basis. We compared this to the total returns of the 50 stocks from the S&P 500 with the highest dividend yields for last 12 months as seen in the table below. This group was down an average of 5.75% over the same time period, a 0.66% underperformance. Yet when looking at the top 10 dividend yield stocks over that time frame, the performance was even worse with a negative 7.30% average return. Therefore, owning an equal weighting of the top 10 Dividend yield stocks since the election was expensive, costing investors over 7% in absolute terms, a 2.21% underperformance compared to the S&P500. When looking at the top 50 estimated dividend yielding stocks, as calculated by Bloomberg, the performance story is almost identical with an average return of -5.78% and a top 10 average return of -6.91%. Obviously, there is a great deal of pressure on stocks that return capital to shareholders in the form of dividends.

As the market continues to sell off, these are names to keep an eye on. The performance of high dividend paying stocks can be expected to remain volatile for the near future, both to the upside and downside. The selling may continue to feed on itself, but if a deal on dividend tax rates can be reached these names may at least revert to the mean and outperform the broad market.

When JP Morgan was asked what the stock market will do his response was, "It will fluctuate." That is sage advice for today's market and having a strategy to deal with those fluctuations has a place in every investor's portfolio.

**Yields for Regular and Special Dividends**

Ticker	Name	Div Yield	Total Return
<b>SPX</b>	<b>S&amp;P 500 Index</b>	<b>2.28</b>	<b>-5.09</b>
LYB	LyondellBasell Industries NV	19.16	-9.77
IRM	Iron Mountain Inc	15.64	-6.32
WYNN	Wynn Resorts Ltd	13.87	-6.83
PBI	Pitney Bowes Inc	13.64	-10.82
FII	Federated Investors Inc	13.13	-8.73
WIN	Windstream Corp	12.17	-12.92
FTR	Frontier Communications Corp	11.21	-4.40
RRD	RR Donnelley & Sons Co	10.99	-5.21
LTD	Ltd Brands Inc	8.68	-5.99
CTL	CenturyLink Inc	7.69	-2.03
EXC	Exelon Corp	7.15	-6.46
MUR	Murphy Oil Corp	6.66	-4.39
RAI	Reynolds American Inc	5.75	-4.31
POM	Pepco Holdings Inc	5.72	-3.97
AEE	Ameren Corp	5.51	-9.60
PBCT	People's United Financial Inc	5.48	-4.04
MO	Altria Group Inc	5.48	-4.54
AVP	Avon Products Inc	5.43	-8.70
DO	Diamond Offshore Drilling Inc	5.39	-6.25
TE	TECO Energy Inc	5.37	-6.89
FE	FirstEnergy Corp	5.34	-4.72
NYX	NYSE Euronext	5.32	-7.13
TEG	Integrus Energy Group Inc	5.29	-5.23
ETR	Entergy Corp	5.27	-5.83
T	AT&T Inc	5.27	-4.02
LO	Lorillard Inc	5.26	-2.44
CLF	Cliffs Natural Resources Inc	5.13	-7.36
PPL	PPL Corp	5.12	-3.05
DUK	Duke Energy Corp	5.06	-5.38
HCN	Health Care REIT Inc	5.04	0.19
COP	ConocoPhillips	4.84	-6.23
VZ	Verizon Communications Inc	4.83	-5.87
PEG	Public Service Enterprise Group Inc	4.81	-4.09
MCHP	Microchip Technology Inc	4.72	-10.71
GAS	AGL Resources Inc	4.69	-4.29
MDLZ	Mondelez International Inc	4.62	-5.28
AEP	American Electric Power Co Inc	4.59	-4.39
HCP	HCP Inc	4.57	-0.45
LMT	Lockheed Martin Corp	4.57	-7.68
SO	Southern Co/The	4.57	-3.62
HRB	H&R Block Inc	4.54	-3.61

WM	Waste Management Inc	4.54	-3.94
PCG	PG&E Corp	4.53	-4.15
ED	Consolidated Edison Inc	4.45	-4.74
BMJ	Bristol-Myers Squibb Co	4.41	-7.39
CVC	Cablevision Systems Corp	4.40	-12.01
INTC	Intel Corp	4.34	-7.78
SCG	SCANA Corp	4.33	-4.69
LEG	Leggett & Platt Inc	4.32	-4.60
PNW	Pinnacle West Capital Corp	4.31	-4.71
	<b>Average</b>		<b>-5.75</b>

**Estimated Dividend Yields**

Ticker	Name	Est Div Yield	Total Return
<b>SPX</b>	<b>S&amp;P 500 Index</b>	<b>2.32</b>	<b>-5.09</b>
PBI	Pitney Bowes Inc	13.59	-10.82
WIN	Windstream Corp	12.17	-12.92
FII	Federated Investors Inc	11.39	-8.73
RRD	RR Donnelley & Sons Co	10.98	-5.21
FTR	Frontier Communications Corp	9.20	-4.40
WYNN	Wynn Resorts Ltd	8.85	-6.83
CTL	CenturyLink Inc	7.69	-2.03
EXC	Exelon Corp	7.15	-6.46
CLF	Cliffs Natural Resources Inc	6.37	-7.36
RAI	Reynolds American Inc	5.83	-4.31
POM	Pepco Holdings Inc	5.72	-3.97
MO	Altria Group Inc	5.55	-4.54
AEE	Ameren Corp	5.53	-9.60
PBCT	People's United Financial Inc	5.48	-4.04
AVP	Avon Products Inc	5.44	-8.70
DO	Diamond Offshore Drilling Inc	5.40	-6.25
LO	Lorillard Inc	5.40	-2.44
TE	TECO Energy Inc	5.37	-6.89
FE	FirstEnergy Corp	5.34	-4.72
NYX	NYSE Euronext	5.32	-7.13
T	AT&T Inc	5.29	-4.02
TEG	Integrus Energy Group Inc	5.29	-5.23
ETR	Entergy Corp	5.26	-5.83
PPL	PPL Corp	5.16	-3.05
GAS	AGL Resources Inc	5.12	-4.29
HCN	Health Care REIT Inc	5.05	0.19
DUK	Duke Energy Corp	4.89	-5.38
COP	ConocoPhillips	4.88	-6.23
PEG	Public Service Enterprise Group Inc	4.85	-4.09
MUR	Murphy Oil Corp	4.84	-4.39



ADVISOR PERSPECTIVES

VZ	Verizon Communications Inc	4.84	-5.87
MCHP	Microchip Technology Inc	4.76	-10.71
LMT	Lockheed Martin Corp	4.75	-7.68
AEP	American Electric Power Co Inc	4.60	-4.39
SO	Southern Co/The	4.59	-3.62
WM	Waste Management Inc	4.59	-3.94
HCP	HCP Inc	4.58	-0.45
STX	Seagate Technology PLC	4.57	-10.34
CA	CA Inc	4.57	-4.35
PCG	PG&E Corp	4.55	-4.15
HRB	H&R Block Inc	4.50	-3.61
CME	CME Group Inc/IL	4.48	-4.06
ED	Consolidated Edison Inc	4.45	-4.74
BMJ	Bristol-Myers Squibb Co	4.43	-7.39
DOW	Dow Chemical Co/The	4.41	-8.55
GCI	Gannett Co Inc	4.39	-4.48
CVC	Cablevision Systems Corp	4.39	-12.01
KMI	Kinder Morgan Inc/Delaware	4.38	-6.24
SCG	SCANA Corp	4.35	-4.69
INTC	Intel Corp	4.34	-7.78
	<b>Average</b>		<b>-5.78</b>

Source Bloomberg Financial Data

(c) Carne Capital  
[www.carnecapital.com](http://www.carnecapital.com)