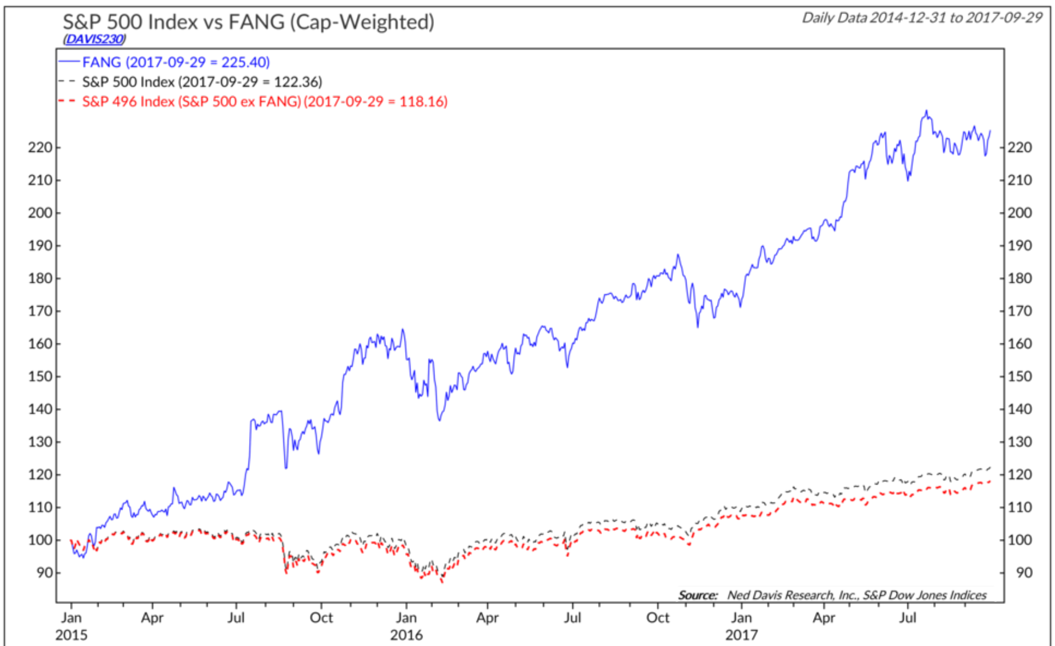
D E A R B O R N

P A R T N E R S

**Third Quarter 2017 Commentary** **Carol M. Lippman, CFA**

## Same Song, Yet Another Verse

In our First and Second Quarter 2017 Commentaries, we discussed how few stocks were responsible for a considerable portion of the broad market's return. That theme continued in the third quarter. As Ned Davis Research shows in its graph titled "The S&P 500 Index vs FANG (Cap-Weighted)", from January 1, 2015 through *September 30,* 2017, four stocks (Alphabet, Netflix, Amazon and Facebook) have been responsible for 1.3% of the 7.6% annualized gain of the entire S&P 500 Index. On their own, those companies have averaged a 34% gain per year over the same period. Because those four companies do not pay dividends, they do not meet our disciplined criteria for inclusion in our portfolios.




| Ticker | Name |
|---|---|
| FB | Facebook |
| AMZN | Amazon.com |
| NFLX | Netflix |
| GOOGL | Alphabet |

| Index (Cap-Weighted) | Gain/Annum % 2014-12-31 to 2017-09-29 | YTD % 2016-12-30 to 2017-09-29 |
|---|---|---|
| FANG | 34.41 | 31.72 |
| S&P 500 Index | 7.62 | 12.53 |
| S&P 496 Index (S&P 500 ex FANG) | 6.26 | 11.25 |

**Excerpts from "36 Obvious Investment Truths"**

Ben Carlson, CFA is a portfolio manager at Ritholtz Wealth Management. He writes a blog called "A Wealth of Common Sense." On September 5, 2017 he posted "36 Obvious Investment Truths." Here we excerpt some of the 36.

> This is fairly simple, and some would say obvious, advice on the markets but sometimes investors need to be reminded of the simple and obvious. I like to remind myself of the following obvious investment truths on a regular basis:
>
> 1. If you need to spend your money in a relatively short period of time it doesn't belong in the stock market.
> 2. If you want to earn higher returns you're going to have to take more risk.
> 3. If you want more stability you're going to have to accept lower returns.
> 5. The stock market goes up and down.
> 7. Risk can change shape or form but it never really goes away.
> 9. No investor is right all the time.
> 10. No investment strategy can outperform at all times.
> 11. Almost any investor can outperform for a short period of time.
> 14. "I don't know" is almost always the correct answer when someone asks you what's going to happen in the markets.
> 16. If you invest in index funds you cannot outperform the market.
> 17. If you invest in active funds there's a high probability you will underperform index funds.
> 19. For buy and hold to truly work you have to do both when markets are falling.
> 20. Proper diversification means always having to say you're sorry about part of your portfolio.
> 23. There is no signal known to man that can consistently get you out right before the market falls and get you back in right before it rises again.
> 25. Compound interest is amazing but it takes a really long time to work.
> 28. Reasonable investment advice doesn't really change all that much but most of the time people don't want to hear reasonable investment advice.
> 29. The best investment process is the one that fits your personality enough to allow you to see it through any market environment.
> 32. Don't be surprised when we have bear markets or recessions. Everything is cyclical.
> 36. Predicting the future is hard.

*36 Obvious Investment Truths (http://awealthofcommonsense.com/2017/09/36-obvious-investment-truths/ )*

**"Big Down Days" Update**

The broad market has continued to be amazingly buoyant. In past Commentaries we have reviewed that our generally conservative, defensive strategy tends to hold up better than the benchmark on what we call "big down days" when the S&P 500 declined 1% or more. In the third quarter of 2017, the seemingly complacent, one-way-up broad market declined as much as 1% on only two trading days. Here is an update of how our two separately managed accounts (SMAs) have done on "big down days".

Big down days from inception (September 30, 2011) through September 30, 2017:

| | | |
|---|---|---|
| Total Days | 1,515 | |
| Total "Big Down Days" (down more than 1%) | 130 | |
| Total days that the Core Rising Dividend SMA ("CRD") outperformed the S&P 500 on "Big Down Days" | 118 | 90.8% |
| Total days that the High & Rising Dividend SMA ("HRD") outperformed the S&P 500 on "Big Down Days" | 114 | 87.7% |

According to the October 2, 2017 Ned Davis Research Equities note:

> "The S&P 500 Total Return Index has risen for 11 months in a row, the most since 1959. The S&P (price only) has not seen a 5% correction since June 2016, its longest stretch in 21 years. The last 3% decline ended the week before the presidential election. If it can hold on to November 9, it will be the longest streak on record."

We believe that this "gravity-defying," incredibly long, strong market reinforces how important it is to participate in the stock market. We believe that owning stocks of good quality companies that pay potentially increasing dividends is a palatable way to participate in the market at all times. History would tell us that these strong upward markets will not last forever, but we have no idea when they will end. Even though leadership remained narrow—we did not own four of the greatest contributors to the benchmark's return—and we tend to hold up better in challenging markets, which have not occurred for months, we feel that our results in the third quarter were respectable and provide a way to participate at all times.

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## How Did We Do?

Here are the performance results of our two Dearborn Partners SMAs and the S&P 500 Composite Index ("S&P 500," the benchmark against which we compare our portfolios) for the quarter as well as longer term results through year ended September 30, 2017.

**Third Quarter 2017 Total Returns (%) as of September 30, 2017[1]**

| | Gross | Net |
|---|---|---|
| Core Rising Dividend SMA | 2.5 | 2.1 |
| High & Rising Dividend SMA | 4.0 | 3.6 |
| S&P 500[2] | 4.5 | |

**Total Returns Annualized (%) as of September 30, 2017**

| | 1- year | | 3- year | | 5- year | | Since Inception (9/30/11) | |
|---|---|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| Core Rising Dividend SMA | 9.3 | 7.6 | 10.2 | 8.4 | 11.9 | 10.1 | 13.7 | 11.9 |
| High & Rising Dividend SMA | 10.4 | 8.7 | 10.3 | 8.7 | 12.4 | 10.8 | 14.1 | 12.5 |
| S&P 500 | 18.6 | | 10.8 | | 14.2 | | 16.7 | |

## A Premise for our Strategy

An objective of our strategy is to reduce vulnerability. Among the ways that we attempt to achieve that objective are to include in our portfolios companies that are in strong financial condition with little or no debt, that we believe are capable of increasing dividends at rates above the historic average annual 3% rate of inflation regardless of the economic environment, and to diversify properly across and within the sectors. We further believe that rising dividends offer the potential to reduce vulnerability in challenging markets.

The broad market has not presented many challenges for nearly a year. It is our experience, however, that markets have not remained complacent and on an uptrend forever. When that trend ends, we believe that the solid companies in our portfolios are likely to not only survive but continue to pay dividends with the potential to increase with regularity. Successful investing typically requires patience. Every company in our portfolios pays us while we patiently hold.

[1] Returns are presented on a pure gross and net basis and include the reinvestment of all income. Pure gross returns do not reflect the deduction of any expenses, including trading costs, and are supplemental to net returns. Net of fee performance was calculated using actual fees, which include wrap fees, management fees and trading commissions. The Dearborn management fee schedule is 1.00% on the first $1 million and 0.75% on amounts over $1 million, but actual fees may vary.

[2] The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered to be representative of the U.S. stock market. Inclusion of this index is for illustrative purposes only. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

## Cumulative Income Summary

Here is the cumulative gross (before fees) dividend income from an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolios) through September 30, 2017 in each of:

| | Current Yield | Cumulative Income* |
|---|---|---|
| Core Rising Dividend SMA | 2.5% | $46,660 |
| High & Rising Dividend SMA | 3.3% | $60,660 |
| S&P 500 | 1.9% | $42,104 |

**The S&P 500 dividend income in the table above is calculated by creating hypothetical investable "share units" by dividing the assumed initial $200,000 investment by the price of the index (1131.42) on September 30, 2011 (the inception date of our Rising Dividend SMA portfolios), resulting in 176.77 share units. The dividends per share unit of the index, provided by S&P Dow Jones Indices, are applied to the calculated units on a quarterly basis. The total represented in the table is the sum of those quarterly dividends per share unit, from December 31, 2011, through September 30, 2017.*

## Dividend Increases

Core Rising Dividend SMA portfolio:

In the third quarter of 2017, 12 of the 49 companies in our Core Rising Dividend SMA portfolio announced dividend increases averaging about 8.6% more than those particular companies paid a year before their latest dividend increase announcement date. One company in this portfolio has already announced three dividend increases so far this year.

Special Dividend:

On September 11, 2017, Core portfolio holding Glacier Bancorp, Inc.'s board of directors declared a special dividend of $0.30 per share. The Company has declared 130 consecutive quarterly dividends and has increased the quarterly dividend 41 times. This is the 14th special dividend that Glacier Bancorp has declared reflecting the Company's strong performance and capital ratios. The special dividend was paid on September 29, 2017 to owners of record on September 22, 2017. According to FactSet, Glacier paid $0.13 per quarter from October 2007 through October 2012. The company never cut its dividend during the financial crisis and never took TARP money.

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High & Rising Dividend SMA portfolio:

In our High & Rising Dividend SMA portfolio, 6 of the 25 companies in the portfolio announced dividend increases in the third quarter averaging about 6.3% more than those particular companies paid a year before their latest dividend increase announcement date. One company in this portfolio has already announced three dividend increases so far this year.

**Dearborn Partners Rising Dividend Separately Managed Account Portfolios**
**Average Calendar Year Dividend Increases**

| | Core Rising | High & Rising | CPI* |
|---|---|---|---|
| 2012 | 13.0% | 9.6% | 1.9% |
| 2013 | 12.2% | 8.7% | 1.7% |
| 2014 | 12.2% | 7.4% | 1.6% |
| 2015 | 9.7% | 7.5% | 2.1% |
| 2016 | 8.0% | 6.5% | 2.1% |
| YTD 3Q 2017 | 7.4% | 5.2% | 1.7% |

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. First three quarters (3Q) 2017 CPI through August.*

*On the date that a company in our SMA portfolios announces a dividend increase, we calculate the percentage difference from the dividend the company paid a year earlier. We are excluding any special or accelerated dividends paid. We then calculate the average of all those year-over-year increases. However, if a company announces a dividend increase more than once a year, we use the average of that company's multiple increases to be considered in the year-over-year comparison.*

*Past performance is no guarantee of future results. Dividends are not guaranteed and must be authorized by the company's board of directors.*



Thank you for your interest in our Dearborn Partners Rising Dividend Strategy.

Research assistance provided by Jackson Finks, CFA and Matthew Guttosch, CFA.