Quarterly Point of View
Diversify the Dividend Stream

July 15, 2013

Investing with an emphasis on dividends has garnered much attention the last few years. A potent combination of factors has led to this development, notably two massive bear markets in the preceding decade that have refocused investors' attention to fundamentals, low interest rates, demographic forces and a supportive tax structure - particularly relative to other income sources. Given these circumstances and the fact that dividend focused investing has been a fundamental, time-tested way to grow wealth over generations, it is understandable then that emphasis here has returned. But like any sector or style of investing that takes on favor and amplified investment, a necessary question needs to be asked - has excessive enthusiasm or complacency that something 'works', created diminished opportunity in one place and enhanced opportunity in others? It is important in our view to make sure that dividend streams are diverse, expanding the purview of options beyond 'traditional' dividend sectors of the market, both on a domestic and international basis.

For the last several years a large disparity in performance has transpired between the markets of the United States and those of much of the rest of the world. This has accelerated in 2013 as can been seen in the chart below, with year to date performance for the G7 developed nations and emerging BRIC countries through the end of the 2nd quarter. Outside of Japan and the U.S., it has not been a good year around the globe.

Country	YTD Performance
Japan	16.55%
United States	13.82%
France	3.23%
Germany	2.89%
United Kingdom	0.27%
Canada	-6.66%
India	-8.01%
Italy	-8.50%
Russia	-13.27%
China	-14.37%
Brazil	-18.16%

Source: MSCI Inc.

This has created opportunity for those willing to look outside the United States. We believe it is particularly important not to be boxed in solely to a domestic strategy, but to maintain flexible exposure to foreign markets in companies that meet defined criteria. For one thing, the diversification benefit through exposure to assets that do not correlate directly is important in limiting volatility over a market cycle, thereby reducing certain kinds of risk. At times it can dilute performance, as it has recently for global portfolios, but over the horizon of a serious investor, the diversification and muted volatility benefits outweigh short term concerns and aid materially in meeting long term goals.

Below we have selected a number of countries to illustrate the current value that can be found investing outside the United States. Through June 30th, you can see these countries are considerably less expensive than the U.S. on a price to earnings basis and exhibit substantially greater dividend yields. We believe this provides fertile ground for dividend focused investments.

Country	Forward P/E	P/E Discount to United States	Dividend Yield	Yield Premium to United States
United Kingdom	11.5	-19%	3.90%	95%
Germany	11.3	-20%	3.40%	70%
France	11.7	-18%	3.80%	90%
Australia	13.4	-6%	4.70%	135%
Canada	13	-8%	3.10%	55%
China	8.3	-42%	3.60%	80%
Brazil	9.7	-32%	4.10%	105%
United States	14.2	-	2.00%	-

Source: Martin Capital Partners LLC, JP Morgan Asset Management.

In addition to more attractive valuations than domestic markets, international bourses make up the vast portion of all global dividend payments. According to the investment firm Wisdom Tree that compiles dividend indices on a global basis, the United States currently produces just over 30% of all dividends paid out on an annual basis, yet accounts for almost 50% of the market value of the world's stocks. If 70% of the world's dividends are paid outside of the United States it seems illogical to limit the universe of dividend investments only to domestic stocks. Certainly there are challenges unique to companies residing outside our borders, but of course there are challenges within our borders as well. The investments we make overseas however, are through American Depositary Receipts (ADR's), which represent shares of foreign firms, traded on U.S. exchanges and denominated in dollars. American Depositary Receipts help limit some of the challenges of foreign investments, but even then, both tax policy and currency fluctuations need to be considered on a case by case investment basis. On the whole, opportunities and benefits of this expanded investment universe outweigh those challenges.

Additionally, foreign markets offer much better yield diversification across economic sectors. In the United States, dividends have historically tended to be clustered in places like Utilities, Telecommunications and Consumer Staples. In fact, only two out of 10 market sectors within the S&P500 now sport aggregate yields above 3%, those being Utilities and Telecom. In contrast, international market dividends are much more broadly distributed - with Europe having 7 sectors with yields exceeding 3%, China 5, Latin American nations averaging 6 and Australia an amazing 9 of 10.

Sector yield diversification and the clustering in the U.S. lead us to a final point on diversification within the domestic sphere. As investors have understandably been seeking reliable companies paying consistent dividends in 'traditional' dividend sectors, they have pushed valuations to the point where it is quite likely more opportunity can be found elsewhere - without having to give up dividend income or financial strength.

Industry Basket	Forward P/E	Price/Cash Flow	Net Debt to Capital	5 Year Div Growth	Dividend Yield
Packaged Foods	18.4	14.7	47%	8%	2.20%
Old Technology	13.5	9.7	17%	15%	3.00%

Source: Martin Capital Partners LLC, Thomson Baseline.

Take for example the packaged foods industry within the S&P500, an area of the market that has historically produced consistent dividends and garnered a healthy flow of funds over the past year. The industry is made up of 12 companies, most of them great American franchises including Campbell Soup, Kellogg, General Mills and Kraft Foods. Then compare it to a basket we'll call 'old technology', comprising Microsoft, Intel, Cisco Systems and Texas Instruments. As the chart above illustrates, the old tech basket is vastly cheaper on price to earnings and cash flow metrics, is burdened with significantly less net debt to capital, yet produces more current dividend income per share - and that income is growing more rapidly as well.

There are plenty of high quality dividend opportunities within the United States currently, but they likely require a greater degree of screening and selection, pushing beyond the 'traditional' sectors. Furthermore a global approach to dividend investing provides attractive dividend yield opportunities, better sector and industry yield distribution, and improved portfolio diversification. The added benefit currently is that many parts of the world outside of the U.S. are unloved and therefore exhibit relative value. As famed global investor Sir John Templeton once said, "Too many investors focus on outlook and trend. Therefore more profit is made focusing on value. In a stock market the only way to get a bargain is to buy what most investors are selling". We think it is wise to diversify our dividend streams into areas representing this value.

Please feel free to call or email with questions you may have regarding our strategies or Martin Capital Partners in general. You can also find information on our website at www.martincp.com.

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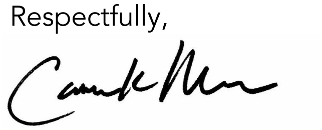
Respectfully,



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