AAII Dividend Investing:

A User's Guide

AAII DIVIDEND INVESTING™

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Chapter One: The AAII Dividend Investing Philosophy and Strategy

Dividends Matter

Since 1926, dividends have accounted for more than 40% of the return realized by investing in large-cap stocks. The oft-touted 9.9% historical annual return for stocks is significantly impacted by the payment of dividends. Ibbotson Associates, which tabulates long-term historical returns, says that if dividends were taken out of the equation, the long-term annual return for stocks would fall to a more mundane 5.5%.

Dividends also create a steady stream of portfolio income. They are cash payments distributed to shareholders periodically. Most dividend-paying companies follow a regular calendar schedule for distributing the payments, typically on a quarterly basis. This gives investors a reliable source of income.

This stream of income helps to boost and protect returns. When stock prices move upward, dividends enhance shareholders' returns. Shareholders get the benefit of a higher stock price and the flow of income; when combined, these elements create total return. Dividend payments provide a minimum rate of return that will be achieved, as long as the company does not alter its dividend policy. This helps cushion the blow of downward market moves.

Dividends are a commitment by a company to distribute a portion of its earnings to shareholders on a regular basis. Once a company starts paying a dividend, it is reluctant to cut or suspend the payments. This commitment puts pressure on corporate executives to make prudent business decisions in order to maintain the stream of dividend payments. As a result, dividends can make companies more shareholder friendly.

The AAII Dividend Investing Strategy

The *AAII Dividend Investing* (DI) portfolio follows a total return strategy. The portfolio invests in stocks that have the potential to rise in price and make larger dividend payments in the future. Rising prices provide the opportunity to realize capital appreciation, which is one part of a stock's total return. Dividends provide an income component, adding a second part to a stock's total return. Price appreciation and dividend payments combined make up the total realized return on an investment, and each part can contribute to increasing it.

For example, assume stock XYZ trades at $20 per share and has an indicated dividend yield of 3%. Over the course of the next 12 months, the stock price rises 10% to $22. During this period, shareholders receive 60 cents in dividends (3% yield times $20 stock price equals 60 cents in dividends). The total return realized by shareholders over this period is 13%. How? The stock price appreciated by $2 (10%) and shareholders received 60 cents in dividends (equivalent to the 3% yield), resulting in a total increase of net worth of $2.60. Dividing the $2.60 total increase at the end of the period by the $20 stock price at the beginning of the period equals 13%.

The advantage of total return is that it gives investors the potential for a win-win combination. Net worth is increased by both the change in the stock's price and the payment of the dividend. Stock prices are unpredictable, of course, so there is no guarantee that the total return will be positive for any specific stock held in the portfolio. But the presence of a dividend provides another component of return in an investor's favor.

Another way we seek to achieve positive rates of return in the Dividend Investing portfolio is by selecting fundamentally attractive stocks. Stocks selected for the portfolio must possess good business models, strong balance sheets, growth in sales and earnings, positive free cash flow, attractive valuations and a history of rising dividend payments. Each company must also add to the portfolio's diversification.

Diversification is accomplished in several ways. Companies are selected from a variety of industries and sectors. No minimum market capitalization is required, allowing for the inclusion of companies of differing sizes. Several strategies are used to identify stocks with varying characteristics. Some stocks will have stronger potential for sales and earnings growth, while others will have higher yields.

Companies must also have a reasonable expectation of paying a dividend over the foreseeable future, and we generally look for a history of rising dividend payments. We consider the indicated yield (projected dividend payments for the next 12 months divided by the current share price) for all stocks, but place a greater emphasis on stocks with the potential to enhance the portfolio's total return than those that merely pay a high dividend.

Figure 1. Dividend Payments Tab

AAII DIVIDEND INVESTING

Home | Weekly Update | Portfolio | Monthly Newsletter | Subscriber Resources | Manage

Portfolio • Performance • Transactions

Portfolio

Click on the tabs to see more information about the DI portfolio.

Holdings | Performance | **Dividend Payments** | Dividend Analysis | Fundamentals

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Click on the column headers to change sort order.

Company (Ticker)	Months Div Paid	Quarterly Dividend Payment*			Annual Indicated Div	Div Yield	Direct Invest	DRIP Plan
		Ex-Div Date	Payment Date	Payment Amount				
ABM Industries, Inc. (ABM)	2, 5, 8, 11	Mon Jul 2, 2012	Mon Aug 6, 2012	$0.1450	$0.58	2.8%	--	--
AFLAC Incorporated (AFL)	3, 6, 9, 12	Mon May 14, 2012	Fri Jun 1, 2012	$0.3300	$1.32	3.3%	Yes	Yes
AT&T Inc. (T)	2, 5, 8, 11	Thu Apr 5, 2012	Tue May 1, 2012	$0.4400	$1.76	5.0%	Yes	Yes
Chesapeake Utilities (CPK)	1, 4, 7, 10	Wed Jun 13, 2012	Thu Jul 5, 2012	$0.3650	$1.46	3.3%	Yes	Yes
Chevron Corporation (CVX)	3, 6, 9, 12	Wed May 16, 2012	Mon Jun 11, 2012	$0.9000	$3.60	3.6%	Yes	Yes
Eaton Corporation (ETN)	2, 5, 8, 11	Thu May 3, 2012	Fri May 25, 2012	$0.3800	$1.52	3.7%	Yes	Yes
Emerson Electric Co. (EMR)	3, 6, 9, 12	Wed May 9, 2012	Mon Jun 11, 2012	$0.4000	$1.60	3.4%	Yes	Yes
General Dynamics (GD)	2, 5, 8, 11	Tue Jul 3, 2012	Fri Aug 10, 2012	$0.5100	$2.04	3.2%	--	--
Genuine Parts Co. (GPC)	1, 4, 7, 10	Wed Jun 6, 2012	Mon Jul 2, 2012	$0.4950	$1.98	3.2%	--	Yes
Illinois Tool Works (ITW)	1, 4, 7, 10	Wed Jun 27, 2012	Tue Jul 10, 2012	$0.3600	$1.44	2.6%	--	Yes
Intel Corporation (INTC)	3, 6, 9, 12	Thu May 3, 2012	Fri Jun 1, 2012	$0.2100	$0.84	3.2%	Yes	Yes
Leggett & Platt, Inc. (LEG)	1, 4, 7, 10	Wed Jun 13, 2012	Fri Jul 13, 2012	$0.2800	$1.12	5.4%	--	Yes
McDonald's Corp. (MCD)	3, 6, 9, 12	Thu May 31, 2012	Fri Jun 15, 2012	$0.7000	$2.80	3.2%	Yes	Yes
Medtronic, Inc. (MDT)	1, 4, 7, 10	Tue Apr 3, 2012	Fri Apr 27, 2012	$0.2425	$0.97	2.6%	Yes	Yes
Microchip Technology (MCHP)	3, 6, 9, 12	Tue May 15, 2012	Thu May 31, 2012	$0.3500	$1.40	4.3%	--	--
Microsoft Corp. (MSFT)	3, 6, 9, 12	Tue May 15, 2012	Thu Jun 14, 2012	$0.2000	$0.80	2.7%	Yes	Yes
Norfolk Southern Corp. (NSC)	3, 6, 9, 12	Wed May 2, 2012	Mon Jun 11, 2012	$0.4700	$1.88	2.8%	Yes	Yes
PepsiCo, Inc. (PEP)	1, 3, 6, 9	Wed May 30, 2012	Fri Jun 29, 2012	$0.5375	$2.15	3.2%	Yes	Yes
Target Corporation (TGT)	3, 6, 9, 12	Mon May 14, 2012	Sun Jun 10, 2012	$0.3000	$1.20	2.1%	Yes	Yes
United Technologies (UTX)	3, 6, 9, 12	Wed May 16, 2012	Sun Jun 10, 2012	$0.4800	$1.92	2.6%	Yes	Yes
V.F. Corporation (VFC)	3, 6, 9, 12	Wed Jun 6, 2012	Mon Jun 18, 2012	$0.7200	$2.88	2.1%	--	Yes
Vectren Corporation (VVC)	3, 6, 9, 12	Fri May 11, 2012	Fri Jun 1, 2012	$0.3500	$1.40	4.7%	Yes	Yes
Waddell & Reed Fin'l (WDR)	2, 5, 7, 11	Thu Apr 5, 2012	Tue May 1, 2012	$0.2500	$1.00	3.4%	--	--
Wisconsin Energy Corp. (WEC)	3, 6, 9, 12	Thu May 10, 2012	Fri Jun 1, 2012	$0.3000	$1.20	3.1%	Yes	Yes

** Quarterly dividend information is the most recent provided by the company.*

Quarterly dividend increased from prior quarter.

Quarterly dividend decreased from prior quarter.

On occasion, we may add a stock that does not have a long history of rising dividend payments or that has recently instituted a dividend if we believe it has the potential to increase dividends in the future.

Portfolio Addition and Deletion Rules

For a stock to be added to the DI portfolio, it must possess the following the characteristics:

- Currently pays a dividend;
- Dividend yield above benchmark yields;
- Higher dividend payments this year relative to last year, or a reasonable expectation that future dividend payments will be raised (in certain cases, a company that recently initiated a dividend will be considered if there is a reasonable expectation that it will increase its dividend in the future);
- A free-cash-flow payout ratio below 100% (utility stocks are allowed to have a ratio above 100% if free cash flow is positive when calculated on a pre-dividend basis);
- Improving trends in sales and earnings;
- A strong balance sheet, as measured by the current ratio and the liabilities-to-assets ratio;
- An attractive valuation, as measured by the price-earnings ratio;
- Has no more than one class of shares; and
- Dividends are paid as qualified dividends, not non-dividend distributions.

Foreign companies (ADRs or those listed on foreign exchanges), real estate investment trusts (REITs), master limited partnerships (MLPs) and unit investment trusts (UITs) are not eligible because of tax rules.

A stock may be deleted from the DI portfolio for one or more of the following reasons:

- The dividend is cut or suspended, or there is a reasonable expectation that this will occur;
- Yield falls to a level considered to be too low for the portfolio;
- Deteriorating trends in sales, earnings or cash flow;
- Deteriorating financial strength;
- High valuations;
- Changes in the corporate structure, including a merger, acquisition, or divesture; or
- The company is affected by negative developments.

Cash dividends paid to the DI portfolio are not automatically reinvested via a dividend reinvestment plan (DRIP). Rather, payments are added to the portfolio's cash balance and deployed when adding a new stock to the portfolio. Excess cash may also be used to add to positions of stocks underweighted in the portfolio but still fundamentally attractive.

Dividend Dates

Investors should pay close attention to the dividend dates before buying or selling dividend-paying stocks. Companies list two key dates when announcing a dividend: the record date and the payment date.

The record date is the day you must be on the company's books as a shareholder in order to receive the dividend. To qualify as a shareholder on the record date, you must own the shares before the ex-dividend date, which is two trading days before the record date. The ex-dividend date is used by the stock exchanges to indicate when a new shareholder is no longer entitled to the declared dividend. For example, if the record date is a Monday, you must own the shares before the previous Thursday, which is the ex-dividend date. On the ex-dividend date, the stock price is adjusted to reflect the upcoming dividend payment. Depending on the size of the dividend, this could result in a noticeable price change both leading up to the ex-dividend date (the price rises) and afterward (the price falls). Therefore, you should factor in the ex-dividend date before deciding when to buy or sell a dividend stock.

The ex-dividend date is also important from the standpoint of taxes. The Tax Act of 2003 reduced the maximum tax rate on qualified dividends to 15%. To prevent individuals from gaming the system, this reduced tax rate only applies if the stock has been held for more than 60 consecutive days during the 120-day period beginning 60 days before the ex-dividend date. The IRS stipulates that when counting the number of days the recipient has held the stock, the day the recipient disposed of the stock should be included, but not the day the recipient acquired it.

The second date is the payment date. This is the date that the dividends will be paid to shareholders recognized by the company on the record date. You will owe taxes as of the date the dividend was paid, not the date you withdraw or reinvest the cash.

Both the ex-dividend date and the payment date are listed on the Dividend Payments tab located in the Portfolio section of the DI website (Figure 1) and in the Dividend Payments table of the DI monthly newsletter.

Dividend Payments and Reinvestments

Dividend payments are allocated to the DI portfolio's cash balance to fund future stock purchases. When a stock is sold, the proceeds of that sale and any existing cash in the portfolio are used to fund the purchase of a replacement stock. If the total cash available exceeds the average position size for the portfolio, not all of the available cash may be used to purchase the new stock.

Should the portfolio's cash balance grow to a significant size, it may be reinvested into some, but not all, of the portfolio's existing holdings. Subscribers are alerted in our weekly email and on the website to all transactions, including reinvestments, before they occur.

As a subscriber, you have three options for your cash dividend payments. You can set the cash payments aside for future stock purchases when a DI addition alert is published. You can withdraw the cash for portfolio income. You can also reinvest the dividends, using them to acquire more shares of the same stock. Withdrawing the cash or immediately reinvesting the cash will result in your portfolio's performance differing from the returns achieved by the DI portfolio.

Should you choose to immediately reinvest your dividends, your brokerage firm may be able to facilitate the transaction at no charge. Many companies do offer dividend reinvestment programs directly to shareholders, but these programs require extra paperwork and recordkeeping. Going through your broker, if possible, may be the easiest way to automatically reinvest your dividends. Contact your brokerage firm for information, including any potential expenses you may incur.

Chapter Two: Following the AAII Dividend Investing Portfolio

AAII Dividend Investing (DI) is designed to educate you on how to become a successful dividend investor. Following the DI approach involves creating your own portfolio based on the DI portfolio and reading the weekly updates for portfolio additions and deletions.

Overview

AAII Dividend Investing is designed to provide all the information and education you need to manage a dividend stock portfolio, including important investment principles regarding stock analysis and portfolio management. The service includes a detailed listing of the complete portfolio, portfolio addition and deletion alerts, and ongoing support for your efforts in maintaining a portfolio that considers both portfolio return and portfolio risk.

Managing an individual DI portfolio consists of three basic steps:

1. *Building your initial portfolio:* The Holdings tab in the Portfolio section of the DI website (Figure 2) and the Portfolio Holdings table of the DI monthly newsletter list all of the stocks currently comprising the DI portfolio. The portfolio is designed to hold 24 stocks, and we suggest dividing your investments in equal dollar amounts among all 24 stocks. If you decide to invest in a subset of the overall Dividend Investing portfolio, instructions are provided below.

2. *Weekly update:* After the market close each week (Friday, except for certain holiday-shortened weeks), updated commentary and news about the portfolio is sent out via email and published on the DI website. If a change to the portfolio is made, a deletion or addition alert is prominently listed in the weekly update.

3. *Monthly report:* Additions to the portfolio are made monthly, shortly after the beginning of the month. An alert about the addition is included in the weekly update and discussed in greater detail in the monthly report, both of which can be accessed on the DI website. (Subscribers can also opt to have the monthly report sent to them by mail for a small additional cost.) The monthly newsletter provides more in-depth coverage of the portfolio, highlights certain stocks within the portfolio, and offers educational commentary regarding dividend investing.

Building Your Initial Portfolio

DI emphasizes the portfolio concept and individual stock selection as described in "Chapter One: The AAII Dividend Investing Philosophy and Strategy."

How many of the 24 stocks should you own? Clearly, the more stocks you own, the greater the portfolio's diversification and the lower the portfolio risk. The number of stocks you choose from the current DI portfolio and when you buy them, however, depend on several factors. We suggest that subscribers invest in all 24 stocks, but the following issues should be kept in mind.

First, you need not rush to invest in stocks immediately after a portfolio addition alert is issued. This is also true of portfolio deletion alerts. Depending on market action, you may wish to buy on weak days and sell on strong days—but we don't suggest a market timing approach. However, if you are going to use the DI approach effectively, you should act on portfolio addition and deletion alerts reasonably quickly—within the week.

Pay attention to the stocks' ex-dividend dates. Purchasing a stock before the ex-dividend date ensures that you will receive the next dividend payment, but also makes you liable for the taxes on the distribution. Buying the stock after the ex-dividend date can potentially allow you to acquire it at a lower price, particularly if the dividend is significant. But you will not be eligible to receive the upcoming dividend and you will not incur the tax liability on the dividend.

You should also be cautious about trading early during the day, particularly at the open of the first trading day following a portfolio addition or deletion alert. If you are a buyer, give the sellers time to get involved in the market. Depending on market action, you may wish to buy on weak (down) days. In addition, it is always safer to employ limit orders. In order to be part of the DI portfolio, stocks must have sufficient liquidity so that our addition alerts should not affect prices significantly for any extended period of time. If you are buying a large number of shares, you might wish to spread your buying over more than one day. While we generally suggest acting on portfolio addition and deletion alerts within the week, don't be afraid to wait longer if you feel the stock price is moving in your favor (falling if you are a buyer or rising if you are a seller).

In general, the commission costs as a percentage of total acquisition cost will be higher when purchasing only a few shares of stock—meaning that your percentage trading costs will fall as you increase the number of shares you purchase. For those managing their own investment portfolio, it is best to use a deep-discount broker. In today's marketplace, there is little reason to pay more than $20 in commissions for a stock transaction and, depending on your need for other services, you can get executions for much less than that.

Holding Less Than 24 Stocks

If you choose to hold less than 24 stocks, it is imperative that you divide your initial investment as equally as possible among stocks from different industries with an equal initial investment amount in each stock. You can select stocks by yield, earnings growth rate or the date they were added to the portfolio (newest to oldest). It is strongly advised that you hold at least 12 stocks, and holding more stocks will increase your portfolio's diversification and lower its risk.

Here is an example of how you would create a portfolio based on the 12 highest-yielding stocks in the DI portfolio, adjusted for sector and industry diversification.

Assume you decide to invest $36,000 in a 12-stock portfolio. You would invest approximately $3,000 per stock ($36,000 ÷ 12 = $3,000). You would purchase 120 shares of a stock trading at $25 ($3,000 ÷ $25 = 120), but only 25 shares of a stock trading at $120 ($3,000 ÷ $120 = 25). You should not be concerned with purchasing odd lots (amounts less than 100 shares). Furthermore, purchasing an equal number of shares of each stock would lead to some stocks being weighted higher than others in your portfolio, which would likely increase your portfolio's overall risk (volatility).

When deciding how much money to commit to your DI portfolio, keep in mind that buying stocks in small value amounts will lead to higher transaction costs as a percentage of your portfolio's value that will, over time, negatively impact your performance.

Figure 2 displays a sample complete DI list. A 12-stock portfolio created from this list based on the highest-yielding method would include the stocks with the highest yield, adjusted to ensure that as many sectors and industries are represented as possible. You will notice that the dollar amounts invested are the same, but the number of shares held in each stock varies.

- AFLAC Incorporated (Financial)—76 shares ($3,000 ÷ $39.74 = 75.5, or 76 shares)
- AT&T Inc. (Services)—88 shares ($3,000 ÷ $34.04 = 88.1, or 88 shares)
- Chesapeake Utilities (Utilities)—72 shares ($3,000 ÷ $41.58 = 72.2, or 72 shares)
- Chevron Corporation (Energy)—31 shares ($3,000 ÷ $97.78 = 30.7, or 31 shares)
- Eaton Corporation (Technology)—69 shares ($3,000 ÷ $43.36 = 69.2, or 69 shares)
- Emerson Electric Co. (Technology)—64 shares ($3,000 ÷ $47.23 = 63.5, or 64 shares)
- General Dynamics (Capital Goods)—47 shares ($3,000 ÷ $63.96 = 46.9, or 47 shares)
- Genuine Parts Co. (Consumer Cyclical)—48 shares ($3,000 ÷ $62.69 = 47.9, or 48 shares)
- Leggett & Platt, Inc. (Consumer Cyclical)—144 shares ($3,000 ÷ $20.90 = 143.5, or 144 shares)
- Microchip Technology (Technology)—97 shares ($3,000 ÷ $31.06 = 96.6, or 97 shares)
- Vectren Corporation (Utilities)—104 shares ($3,000 ÷ $28.94 = 103.7, or 104 shares)
- Waddell & Reed Financial (Financial)—105 shares ($3,000 ÷ $28.69 = 104.6, or 105 shares)

If you own less than 24 stocks and a stock you own is deleted from the DI portfolio, you should replace it using the same methodology you followed before—either according to date added, highest yield or earnings growth—and adjust the strategy to ensure exposure to several sectors and industries. You can make an immediate purchase of a new stock or wait to review the new stock added to the DI portfolio shortly after the start of the month. The new DI stock should be examined to see

Figure 2. Holdings Tab

Company (Ticker)	Portfolio Alert		Current Price	Total Return Since Purchase	Div Yield	Market Cap (Mil)	Sector: Industry
	Date	Price					
ABM Industries, Inc. (ABM)	12/31/11	$20.48	$21.32	2.7%	2.7%	$1,146	Services: Business Services
AFLAC Incorporated (AFL)	12/31/11	$43.26	$39.74	(10.5%)	3.3%	$18,584	Financial: Insurance (Accident & Health)
AT&T Inc. (T)	12/31/11	$30.24	$34.04	15.0%	5.2%	$199,577	Services: Communications Services
Chesapeake Utilities (CPK)	12/31/11	$43.35	$41.58	(3.6%)	3.5%	$398	Utilities: Natural Gas Utilities
Chevron Corporation (CVX)	12/31/11	$106.40	$97.78	(10.4%)	3.7%	$192,888	Energy: Oil & Gas - Integrated
Eaton Corporation (ETN)	12/31/11	$43.53	$43.36	(3.3%)	3.5%	$14,642	Technology: Electronic Instruments & Controls
Emerson Electric Co. (EMR)	12/31/11	$46.59	$47.23	(0.3%)	3.4%	$34,648	Technology: Scientific & Technical Instruments
General Dynamics (GD)	12/31/11	$66.41	$63.96	(5%)	3.2%	$23,064	Capital Goods: Aerospace and Defense
Genuine Parts Co. (GPC)	12/31/11	$61.20	$62.69	2.5%	3.2%	$9,774	Consumer Cyclical: Auto & Truck Parts
Illinois Tool Works (ITW)	12/31/11	$46.71	$55.95	16.9%	2.6%	$26,708	Consumer Cyclical: Auto & Truck Parts
Intel Corporation (INTC)	12/31/11	$24.25	$26.09	7.2%	3.2%	$131,259	Technology: Semiconductors
Leggett & Platt, Inc. (LEG)	05/04/12	$21.49	$20.90	(2.7%)	5.4%	$2,930	Consumer Cyclical: Furniture & Fixtures
McDonald's Corp. (MCD)	12/31/11	$100.33	$90.30	(8.3%)	3.1%	$91,767	Services: Restaurants
Medtronic, Inc. (MDT)	12/31/11	$38.25	$36.76	(4.3%)	2.6%	$38,252	Health Care: Medical Equipment & Supplies
Microchip Technology (MCHP)	12/31/11	$36.63	$31.06	(11.7%)	4.5%	$5,965	Technology: Semiconductors
Microsoft Corp. (MSFT)	12/31/11	$25.96	$29.42	10.6%	2.7%	$247,153	Technology: Software & Programming
Norfolk Southern Corp. (NSC)	12/31/11	$72.86	$65.56	(10.5%)	2.9%	$21,357	Transportation: Railroads
PepsiCo, Inc. (PEP)	12/31/11	$66.35	$68.27	3.3%	3.1%	$106,772	Consumer Non-Cyclical: Beverages (Non-Alcoholic)
Target Corporation (TGT)	12/31/11	$51.22	$57.69	13.8%	2.1%	$38,145	Services: Retail (Specialty Non-Apparel)
United Technologies (UTX)	12/31/11	$73.09	$73.95	(0.2%)	2.6%	$67,395	Capital Goods: Aerospace and Defense
V.F. Corporation (VFC)	12/31/11	$126.99	$141.22	9.0%	2.0%	$15,473	Consumer Cyclical: Apparel/Accessories
Vectren Corporation (VVC)	02/07/12	$29.55	$28.94	1.0%	4.8%	$2,373	Utilities: Natural Gas Utilities
Waddell & Reed Fin'l (WDR)	12/31/11	$24.77	$28.69	14.0%	3.5%	$2,477	Financial: Investment Services
Wisconsin Energy Corp. (WEC)	12/31/11	$34.96	$37.26	9.3%	3.2%	$8,586	Utilities: Electric Utilities

Price data delayed up to 20 minutes.

if it ranks among the highest-yielding or fastest-growing stocks, depending on your methodology. If it does not, choose from among the other existing stocks.

Weekly Updates

After the close of trading each Friday (or the last weekly trading day) a weekly update is sent out via email (Figure 3) and published on the DI website. This update notifies you of any changes that have been made to the portfolio. The weekly update also provides news and commentary about the portfolio.

If a portfolio deletion alert is issued during the month for one of the stocks you own, sell it and keep the proceeds to buy a stock from the portfolio additions after the start of the next month (see the previous section for instructions if you are holding less than 24 stocks).

When you sell a stock from your portfolio, give the buyers time to get involved in the market. Depending on market action, you may wish to try to sell on strong (up)

Figure 3. Weekly Email

AAII
DIVIDEND
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AAII
AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

May 4, 2012

Selling Wal-Mart, Buying Leggett & Platt; Plus, May Monthly Report

What's in This Issue

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Dear Dividend Investing Subscriber,

We have two announcements to share with you this week. First, Wal-Mart Stores, Inc. (WMT) will be deleted from the DI Portfolio and Leggett & Platt, Inc. (LEG) will be added to the DI portfolio. Secondly, the May Monthly Report is now available on the DI website.

As we discussed in last week's update, Wal-Mart has been alleged of bribing Mexican government officials and then covering up an internal investigation into the matter. We lack the information to judge the validity of the allegations but are concerned that the scandal will be a distraction to the company. U.S. government officials have an ongoing investigation and Mexican officials are looking into the matter. After we made our decision to delete the stock, news reports surfaced that the California State Teachers' Retirement System had filed a lawsuit against the retailer.

Portfolio Alerts

Portfolio Additions

Date	Company	Ticker
5/4/2012	Leggett & Platt, Inc.	LEG

Portfolio Deletions

Date	Company	Ticker
5/4/2012	Wal-Mart Stores, Inc.	WMT

Pay attention to the calendar when selling Wal-Mart, because it is going ex-dividend on Wednesday, May 9, 2012. If you sell the stock on Monday, May 7, or Tuesday, May 8, you will not qualify for the upcoming dividend—and you may not want to qualify for it. The reduced tax rate for qualified dividends only applies if you have owned the stock for at least 61 consecutive days out the 120-day period surrounding the ex-dividend date.

Since you may be shaking your head and thinking, "oh great, tax-speak," we'll walk you through the dates. (If you hold all of your dividend days. While we generally suggest acting on portfolio addition and deletion alerts within the week, don't be afraid to wait longer if you feel the stock price is moving in your favor (falling if you are a buyer or rising if you are a seller). Again, be aware of the ex-dividend date, as it can impact the stock's price.

Monthly Report

The monthly report (Figure 4) provides more in-depth analysis of the stocks held in the portfolio, including additional details about why they were added or are continuing to be held. The report also provides additional commentary about the DI portfolio, a full summary of all transactions, a monthly list of the 24 stocks making up the DI portfolio, and educational content about stock analysis and portfolio management.

The monthly report is posted in the Monthly Report section of the DI website. A print version is available for a small additional charge to cover postage and printing costs.

Summary

While it is certainly reasonable to make some adjustments in the aforementioned procedures to accommodate personal preferences or special knowledge, we do not suggest wide variations if you wish to mirror the performance of the DI portfolio. DI is a portfolio approach and we do not attempt to rate individual stocks. Randomly picking a half-dozen stocks from the 24-stock portfolio, especially if sectors and industries are ignored, defeats the purpose of the DI portfolio strategy. We do not purport to know how each of these stocks will behave in the future, but we believe that the portfolio as a whole (or the suggested subsets) should perform well on a risk-adjusted basis.

It is important to remember that risk and return are a trade-off: The most return/risk efficient portfolio offers the highest return at the level of risk you are willing to assume. In terms of your total wealth, portfolio management through asset allocation and portfolio structure are more important than individual stock selection. DI is designed to help educate investors in time-tested methods of portfolio creation and risk reduction.

For answers to your questions, see the next chapter.

Figure 4. Monthly Report

AAII DIVIDEND INVESTING™

May 2012
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AAII Dividend Investing is produced by AAII. "The American Association of Individual Investors is an independent nonprofit corporation formed in 1978 for the purpose of assisting individuals in becoming effective managers of their own assets through programs of education, information and research."

A change is being made to the portfolio this month: Wal-Mart Stores, Inc. (WMT) is being deleted and Leggett & Platt, Inc. (LEG) is being added.

As we'll explain further in the DI Portfolio Alerts section starting on page 2, we have concerns about the adverse effect that the investigation into Wal-Mart's alleged bribes in Mexico will have on the stock's price over the foreseeable future. The dividend appears safe and the valuation is attractive; however, we are concerned about the opportunity cost of holding onto the stock until the scandal is resolved. Simply put, we think other dividend-paying stocks offer more upside. Leggett & Platt is one of those stocks.

Another change we are making involves the layout of this newsletter. We are altering the format a bit to allow room for a little more content than in our first two issues. This is will allow us to share more information with you. For example, our in-depth stock reports now include current and five-year average dividend yield, the past five dividend payments, the number of analysts who have revised earnings estimates during the past month, and industry medians for the price-earnings ratio, operating margin, return on equity and liabilities-to-assets ratio. We have also expanded the number of in-depth company reports from two to four. Small changes, but ones we hope you will find useful.

April DI Portfolio Performance

Normally, beating one's benchmark is something to brag about. A flat return, however, warrants withholding the bravado. Such is the case with the AAII Dividend Investing (DI) portfolio. We beat our benchmark in April, but the performance was 'eh.'

The DI tracking portfolio ended April flat, with no statistical change. A –0.1% decline in prices (capital gains) was offset by income return of 0.1%, leaving our monthly total return at 0.0%. Comparatively, the Dow Jones U.S. Index fund (IYY), an exchange-traded fund that holds over 1,300 stocks, cost its shareholders –0.6% last month. No dividends were paid by IYY last month, so the ETF's total return is solely comprised of the capital loss.

We expected the DI portfolio to perform comparatively better during tougher market conditions, and this is exactly what it did last month. Stocks fluctuated throughout April after a strong first quarter. Rising bond yields in Europe, concerns about a slowing of economic growth in China, and mixed economic data here in the United States combined to pause the rally in stock prices. Overshadowing all of this were concerns of a repeat of last year, when economic growth in the U.S. slowed, worries about European sovereign debt intensified and stocks fell into a correction during the summer and fall months.

Our predictive powers are not good enough to foresee what will happen over the next several months. (If we had the ability to see into the future, we would have discussed the Wal-Mart scandal a month ago. Alas, soothsaying skills are rarer than those who claim to have them.) What we do know is that the U.S. economy continues to expand and that first-quarter corporate earnings were not as bad as analysts had predicted. S&P Capital IQ said that 69% of S&P 500 companies topped first-quarter profit forecasts as of the end of April, an above-average number of companies beating expectations. Combined first-quarter earnings

Chapter Three: FAQs—Your Questions Answered

Getting Started

Answers to questions you may have when building a portfolio based on DI.

I am a new subscriber to *AAII Dividend Investing*. Should I invest in all 24 stocks or only invest in stocks as they are added to the portfolio?

The more stocks you own, the greater your portfolio's diversification and the lower the risk. Optimally, you should purchase all 24 of the stocks in the *AAII Dividend Investing* (DI) portfolio. However, commission costs as a percentage of portfolio value will be higher when purchasing only a few shares of each stock. You should use a deep discount broker if you are managing your own portfolio. There is little reason to be paying more than $20 in commissions per each buy and sell transaction and, depending on your need for other services, you can get executions for much less than that. If you cannot own all 24 stocks in the DI portfolio, then we recommend that you hold at least 12 stocks, ensuring exposure to several sectors and industries to provide diversification. You can choose among the most recently added stocks, which most currently reflect our selection criteria; the 12 with the strongest projected growth; or the 12 with the highest yields. Invest equal dollar amounts in the individual stocks you purchase, whether you buy all 24, 12 or a number in between.

Can I invest in just the highest-yielding stocks?

The more stocks you own, the greater your portfolio's diversification and the lower its risk will be. The number of stocks you choose from the current DI portfolio and when you buy them, however, depend on several factors. We suggest that subscribers who want to track the portfolio invest in all 24 stocks.

If you choose to hold less than 24 stocks, you could choose from among the highest-yielding stocks. However, make sure that you divide your initial investment as equally as possible among stocks from different industries with an equal initial dollar amount in each stock. It is strongly advised that you hold at least 12 stocks, and holding more stocks will increase your portfolio's diversification and lower its risk.

What should I do with my dividends?

Subscribers have three options when it comes to handling cash dividend payments. The first is to allocate dividend payments to your portfolio's cash balance until an addition alert is sent out. The second option is to withdraw the dividend payments, either as portfolio income or to fund required minimum distributions (RMDs) if held in an individual retirement account (IRA). The third option is to automatically reinvest the dividends, via either a direct reinvestment plan (DRIP) or your brokerage firm. Many brokerage firms will facilitate direct reinvestments, and this may be an easier and less costly way to engage in such programs.

Subscribers who choose to either withdraw the dividend payments or participate in a direct reinvestment plan will realize portfolio returns that are different from those reported for the DI portfolio.

Do you have any advice as to when or how often one should rebalance the portfolio?

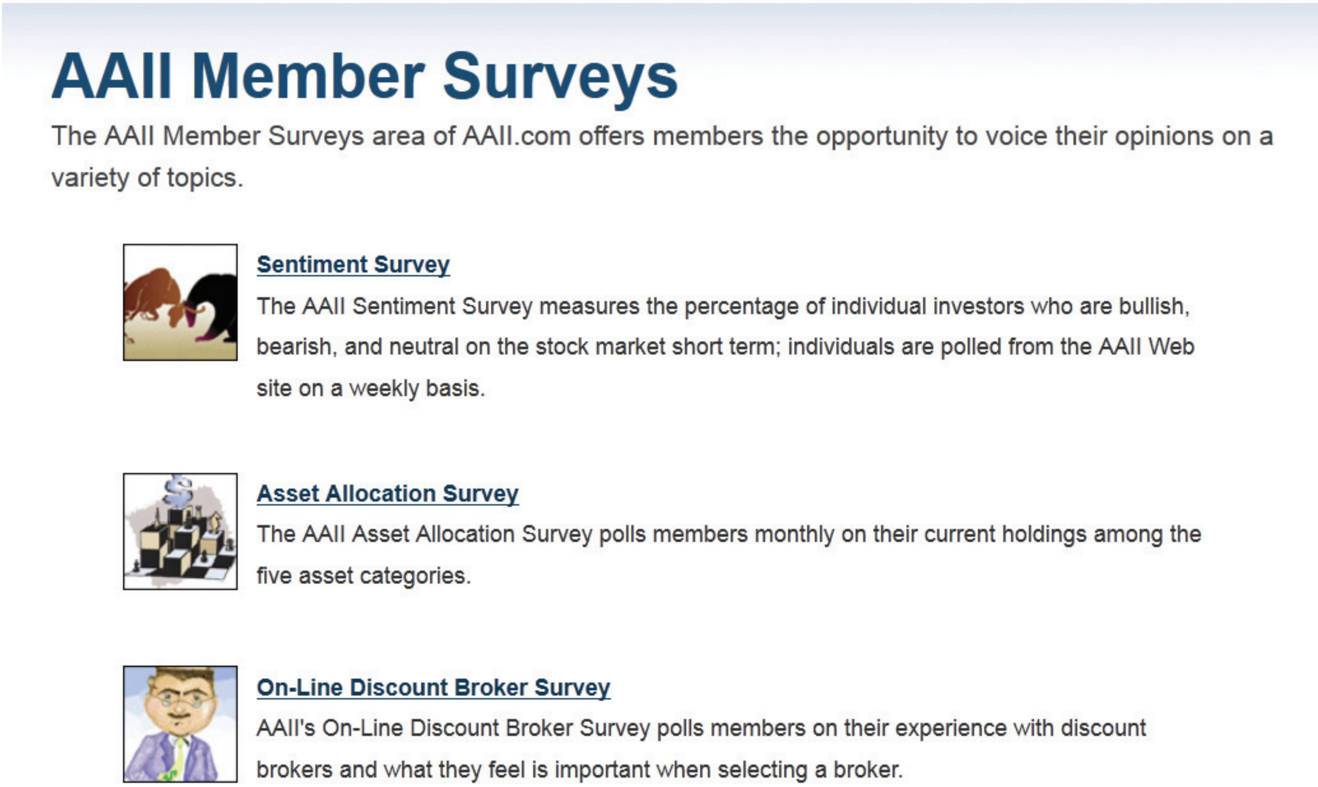
We do not advocate active rebalancing of DI holdings—selling off partial positions of holdings that have grown or adding to positions that have underperformed. However, when buying stocks to replace those that have been deleted from your DI portfolio, we do recommend that you invest amounts that are proportionate to the average holding size of your overall DI portfolio plus your portfolio's cash balance.

Here is a simple way to determine the approximate amount to invest when buying stocks to replace those that have been deleted from your DI portfolio:

Begin by calculating the average position size (in dollars) for each of the stocks in your DI portfolio. This is merely the process of adding together the market value of each of your DI stocks and your cash balance and then dividing the total by the number of DI companies you own. This average is approximately the amount you should try to invest in each of the new DI stocks. For some months, investing this amount will leave you with cash left over. This will happen if you have deleted a stock for a gain or have accumulated cash from dividend payments. If you are not averse to holding cash, this can be used in those months when you may have deleted a stock for a loss. Otherwise, invest the cash you have on hand equally into the stocks you are buying.

If you find that you do not have enough cash on hand to invest the average holding amount and you are not willing to add new money to your portfolio, than any cash available should be invested equally among the new stocks.

Figure 5. Investor Surveys Area of AAII.com



Do you have any advice as to which broker I should use?

We do not favor one broker over another. However, AAII surveys members on their experience with online discount brokers. You can see weekly results and an annual tabulation of the Online Discount Broker Survey at the Investor Surveys area of the AAII website (Figure 5). AAII also publishes an annual Discount Broker Guide that provides an in-depth comparison of the most popular brokers from our survey of members.

When purchasing stocks should I invest equal share amounts or equal dollar amounts?

You should try to invest equal dollar amounts in each stock you purchase. The key is equal initial dollar amounts, not number of shares, in each stock. Purchasing odd lots of shares (less than 100 shares) does not incur extra costs.

Should I use stops in my DI portfolio?

Portfolio deletions for the DI portfolio are issued when a company cuts its dividends, exhibits signs of weakening financial condition or otherwise shows signs that it may no longer be an attractive dividend candidate. Since DI follows a long-term investing approach, with the focus of generating returns through both price movement and dividend payments, stop losses are not used or encouraged. Plus, the regular payment of dividends helps to cushion some of the volatility that may occur.

If you choose to sell before a portfolio deletion is issued, pay attention to the ex-dividend date and determine if you want the cash dividend. The stock price will decline by the dividend amount on the ex-dividend date.

What should I do with shares I receive from spinoffs?

Should a company divest itself of certain operations and issue shares in the new company to shareholders, we review the spinoff and make adjustments accordingly. We analyze each spinoff on a case-by-case basis and announce to all subscribers what we intend to do before the divesture occurs.

Figure 6. Transactions Page

AAII DIVIDEND INVESTING

Home | Weekly Update | Portfolio | Monthly Newsletter | Subscriber Resources | Manage

Portfolio • Performance • Transactions

Transactions

Transaction history for the actual AAII Dividend Investing portfolio

Date	Transaction	Ticker	Security	Number of Shares	Cost per Share	Commissions/ Fees	Total (Cost) / Proceeds
January 2012 Transactions							
1/3/2012	Deposit		Initial Portfolio Value				**$100,035.11**
1/3/2012	BUY	ABM	ABM Industries, Inc.	199	$20.85	$7.00	($4,156.16)
1/3/2012	BUY	AFL	AFLAC Incorporated	92	$44.96	$7.00	($4,143.32)
1/3/2012	BUY	CPK	Chesapeake Utilities	96	$43.41	$7.00	($4,174.36)
1/3/2012	BUY	CVX	Chevron Corporation	38	$110.73	$7.00	($4,214.70)
1/3/2012	BUY	EMR	Emerson Electric Co.	87	$47.83	$7.00	($4,168.21)
1/3/2012	BUY	ETN	Eaton Corporation	92	$45.44	$7.00	($4,187.48)
1/3/2012	BUY	GD	General Dynamics	61	$68.17	$7.00	($4,165.37)
1/3/2012	BUY	GPC	Genuine Parts Company	68	$61.53	$7.00	($4,190.97)
1/3/2012	BUY	INTC	Intel Corporation	169	$24.66	$7.00	($4,174.52)
1/3/2012	BUY	ITW	Illinois Tool Works Inc.	86	$48.10	$7.00	($4,143.60)
1/3/2012	BUY	MCD	McDonald's Corporation	42	$99.02	$7.00	($4,165.84)

Is there a minimum amount of money you recommend investing in the DI portfolio?

We recommend that you hold at least 12 DI stocks, choosing them from a variety of sectors and industries. Furthermore, you should invest equal dollar amounts in the individual stocks you purchase. The more money you invest in the DI portfolio, the lower the transaction costs per share or per investment. Keep in mind that commission costs will be higher when purchasing only a few shares of each stock. You should use a deep discount broker if you are managing your own portfolio. There is little reason to be paying more than $20 in commissions for each transaction and, depending on your need for other services, you may be able to get executions for less than that. When deciding how much money to commit to your DI portfolio, keep in mind that buying stocks in small dollar amounts will lead to higher transactions costs as a percentage of your portfolio's value that will, over time, impact your performance.

How AAII Dividend Investing Works

Answers to questions you may have about how the DI portfolio is managed.

How are deleted stocks replaced in the *AAII Dividend Investing* portfolio?

Once a month, those stocks that were deleted during the previous month are replaced with new ones to bring the DI portfolio back to 24 stocks. New stocks are added based on their fundamental characteristics, current yield, dividend history, valuation and industry. They may be chosen from a different industry and may have a higher or lower yield than the stocks that were sold from the portfolio.

Deletion alerts and addition alerts are announced in the weekly update (email and online) and the monthly report (mail and online).

Are dividends reinvested?

We do not participate in dividend reinvestment programs (DRIPs), but rather allocate the dividend payments to cash until a new addition or portfolio reinvestment alert is issued.

Specifically, accumulated cash from dividend payments and the proceeds from the deletion of a portfolio holding are combined to fund the addition of a new stock. Should the DI portfolio's cash balance reach a significant enough size, it may be reinvested into some, but not all, of the portfolio's existing holdings. Subscribers are alerted to all transactions, including reinvestments, before they occur.

Is the DI portfolio actually traded?

An actual portfolio following the strategy used for the DI portfolio from the perspective of a subscriber was started at the beginning of 2012. Trades are not placed until after portfolio alerts have been issued to our subscribers via email and the DI website. Actual discount broker commissions and fees are incurred and are figured into performance calculations. A comprehensive transaction record of the portfolio is found at the Transactions page in the Portfolios section (Figure 6).

How is performance calculated?

The results we report are based upon the performance of a tracking portfolio that consists of all 24 DI stocks. This performance includes both price changes (capital gains) and cash dividend payments (income). Actual brokerage commissions and fees are incurred and figured into performance calculations. The return we present is a time-weighted rate of return used for measuring the performance of money managers and mutual funds. All costs and expenses are considered in the calculation. We comply with the performance presentation standards of the CFA Institute, which requires the use of a time-weighted rate of return. The purpose of the time-weighted rate of return is to measure the performance of the investment advice, not the impact of money flowing into and out of the account.

Are price targets or buy/hold/sell recommendations listed for the DI portfolio stocks?

No, because we are more concerned with changes in a company's fundamentals than fluctuations in a stock's price. We do pay attention to the price-earnings ratio for all holdings and make changes to the portfolio if the valuation becomes excessive. Similarly, we delete a stock if its yield falls significantly below the benchmark's yield. We do not use price targets because we believe that changes in the underlying fundamentals are more important to achieving success than price fluctuations.

The key to mimicking the performance of the DI portfolio, or any other model portfolio, is to own all of the holdings and to follow all addition and deletion alerts.

Portfolio Alerts

Clarification of what you need to do when portfolio alerts are issued.

When and how are portfolio deletions announced?

Portfolio deletion alerts are announced on a weekly basis. Deletions are normally disclosed after the close of trading on the last day of every week through the weekly update email and on the DI website. The monthly report also covers any portfolio changes made during the prior month.

After the close of trading on the last trading day of the week (Friday, except for certain holiday shortened weeks), the Weekly Update page of the DI website is updated to disclose any deletion alerts that have been issued for the week, along with the latest news and commentary on stocks in the DI portfolio. New portfolio alerts are also prominently displayed on the home page of the DI website.

Why are portfolio deletion alerts issued only once a week?

We take a longer-term, portfolio-centric approach to investing. By issuing our deletion alerts after the close of trading for the week, we allow all subscribers at least two days to decide whether there is any action they want to take. We have tried to make the DI system as easy to follow as possible. Knowing that there will only be one alert a week eliminates the need to constantly look for changes.

When are portfolio additions announced?

Portfolio addition alerts are issued on a monthly basis. Like deletion alerts, addition alerts are announced through the weekly update, DI website and in the monthly report. Portfolio addition alerts are issued on a Friday (or the last trading day of the week) shortly after the start of the month.

How quickly should I act after receiving a portfolio alert?

You need not rush to purchase or sell stocks immediately after a portfolio alert. You should be cautious about trading early in the day, particularly at the open, the first day after a portfolio alert. If you are a buyer, give the sellers time to get involved in the market. Depending on market action, you may wish to try to buy on weak days. Also, it is always safer to employ limit orders. The stocks in the DI portfolio are reasonably liquid, and our portfolio alert alone should not affect the price significantly for any extended period of time. If you are buying a large number of shares, you might buy some one day and some another. While we generally suggest taking action within the week, you can wait longer if you feel the stock is moving in your favor.

Where can I find a listing of all of the transactions for the actual AAII Dividend Investing portfolio?

A comprehensive list of transactions for the actual DI portfolio—including trades, dividends, interest income, etc.—is presented on the Transactions page in the Portfolio section (Figure 6). The list of transactions is updated on a weekly basis.

The Dividend Investing Website and Emails

Assistance and guidance for utilizing the *AAII Dividend Investing* website.

We recommend that you upgrade your browser to the most current version available. This will ensure that you are viewing and navigating the DI website as intended.

How can I change the contact information I have on file?

Your contact information is maintained within your profile settings. You can update your login information, email address or mailing address by going to the Manage page of My Profile, near the top of any DI page. Note that you will first need to log into the website to make any changes to your profile.

When I return to the website, it seems I am still logged in. Why am I not automatically logged out when I close the browser?

Use the Log Out button, located in the upper right-hand corner of any page, to end your session at the website at any given time during your visit.

When I enter my login name and password on the Login page and then click on the Log In button, my browser just returns to the same Login page asking me for my login name and password again.

You will need to enable your Web browser to allow cookies to resolve this problem. *AAII Dividend Investing* does not use cookies to gather personal information or for marketing purposes.

If you do not already know how to enable your browser to allow cookies, instructions for the most commonly used Web browsers are provided below.

For instructions on using additional browsers and updates to browsers listed here, please see the FAQs page of AAII.com at www.aaii.com/help.

Internet Explorer 6.0, 7.0, 8.0, 9.0—Enable Cookies

1. Click on Tools > Internet Options or click on the sprocket icon in new versions such as 9.0
2. Click on the Privacy tab.
3. In the Privacy section, under Settings, you'll see a button labeled Advanced. Click on Advanced.
4. In the Advanced Privacy Settings section, click on

the checkbox labeled Override Automatic Cookie Handling. (You'll notice that the word Accept is clicked on by default under First party cookies and Third party cookies. Leave these radio buttons checked.)

5. Click on the "Ok" button (make sure it is the Ok button for Advanced Privacy Settings, directly under the words "Always allow session cookies").
6. You should be back in the main Privacy section where you clicked Advanced. Click on Sites.
7. In the field labeled Address of Web Site, type in "www.aaiidividendinvesting.com" and then click the "Allow" button.
8. Click OK.
9. Click OK in the main Privacy section to close the Internet Options box.

Firefox 3.0 and newer—Enable Cookies

1. Select Tools menu at the top of the browser screen or click on "Firefox" in the upper left-hand corner.
2. From the drop-down menu choose Options.
3. When the Options box appears, click on the Privacy tab.
4. Make sure that the drop-down menu for "Firefox will:" is set to "Use custom settings for history."
5. The checkbox next to "Accept cookies from sites" can be left unchecked if you prefer, but aaiidividendinvesting.com will still need to be added as an exception. Click on the "Exceptions" button.
6. Note: If you do prefer to have the "Accept cookies from sites" checkbox selected, we also recommend that you unselect the checkbox next to "Accept third-party cookies."
7. Near the top of the Exceptions box, type in "aaiidividendinvesting.com" in the field labeled "Address of web site" ("www" is not required).
8. After typing in "aaiidividendinvesting.com", you will notice that the buttons just below that field are no longer grayed out and are now clickable. Click the "Allow" button. You should see "aaiidividendinvesting.com" and the word "Allow" added to the site/status box. Click "OK" to close the Exceptions box.
9. Click OK to close the Options box.

Safari 3.0, 4.0 and 5.0—Enabling Cookies

1. Choose Edit from the top menu bar, then select Preferences.
2. Click the Security tab.
3. Verify that either "Always" or "Only from sites you navigate to" is selected to the right of the words "Accept cookies:".
4. Click OK.
5. Close and relaunch your browser.

Safari 5.1—Enabling Cookies

1. Click the sprocket icon on the browser toolbar, which is the settings menu.
2. Click on Preferences.
3. Click the Privacy tab.
4. Verify that either "Never" or "From third parties and advertisers" is selected to the right of the words "Block cookies:".
5. Close the window.

Google Chrome (Older versions)—Enabling Cookies

1. Click the wrench icon on the browser toolbar.
2. Select Options (Preferences on Mac and Linux; Settings on Chrome OS).
3. Click the Under the Hood tab.
4. Click on "Content Settings" in the Privacy section.
5. Click the Cookies tab in the Content Settings dialog that appClick on "Make exceptions for cookies from specific websites or domains."
6. Click "Manage exceptions."
7. Click the "Add a new exception pattern" field and enter "www.aaiidividendinvesting.com".
8. Select Allow under Behavior.
9. Hit Enter on your keyboard to save the exception.

Google Chrome (Versions 16.0 and newer)—Enabling Cookies

1. Click the wrench icon on the browser toolbar.
2. Select Options (Preferences on Mac and Linux; Settings on Chrome OS).
3. Click the Under the Hood tab.
4. Click on "Content Settings" in the Privacy section.
5. Click on "Manage exceptions..."
6. Click "Manage exceptions."
7. Under "Hostname Pattern," enter "www.aaiidividendinvesting.com".
8. Select "Allow" under Behavior.
9. Close the window.

The type size is too small. I cannot read any of the text!

Display settings are configured differently on each computer depending on your particular preferences. The DI website was developed using specific font sizes and layout dimensions that would allow for as many of these different settings as possible.

There are two ways you can control the size of fonts on your computer monitor:

1. Adjust the font size under the “Zoom” (found by clicking on the sprocket or wrench icon) or by clicking on “View > Text Size” menu item in your Web browser. This will only adjust HTML text and will not increase the dimensions of the site in proportion to the enlarged text.

2. Increase the viewing size of the entire website proportionately by going to your Display settings (in the Control Panel) and lowering your screen resolution.

Note: The DI website is best viewed using a resolution of 1024 x 768.

I have set my preferences to obtain emails but am not getting them.

Although a weekly update is included with your subscription, we cannot guarantee the delivery of each email. There are a number of technical situations beyond our control that may prevent delivery. A few troubleshooting options you should investigate include:

1. Check in your deleted items folder or junk mail folder for the weekly update. You may have spam filters that are inadvertently identifying the newsletters as spam and, therefore, not sending them directly to your Inbox.

2. Within your email filter settings, make sure that you allow all emails from aaiidividendinvesting@aaii.com.

3. Check your mailbox to make sure it is not full. Delete any unwanted or old emails from your mailbox to ensure there is enough space to receive the weekly update.

4. Check with your email provider to see if they are having any technical problems. If they are having technical problems with their servers, our emails will not be accepted on your end. Also, ask if your provider has any filters on their end that may be identifying the weekly update as spam or unsolicited mail. Also, tell your provider that we currently use Lyris/Sparklist servers to send the DI update.

Note: If you do not receive the alert via email, you can read it on the DI website. Go to the Weekly Update section or go to www.aaiidividendinvesting.com/weeklyupdate. The email updates are normally sent by 6:00 p.m. Central Time each Friday. We also provide links to the past alerts on the Weekly Update page.

How do I open the DI monthly report online?

The DI monthly report is posted in PDF format at the Monthly Report page. To view or print the file, you need Adobe Acrobat Reader, which is a free download at www.adobe.com/products/acrobat/readstep.html. Click issue date of a monthly report to download the PDF file. If you are having trouble viewing the PDF in your browser, download the file onto your computer by right-clicking on the link and selecting “Save Link As...”.

Why am I getting a blank white screen with the “Page cannot be found” or “HTTP 404” message?

The very first thing you will want to check in this case is that you are properly connected to the Internet, since these are the same error messages that display if you attempt to access any website while inadvertently disconnected from the Internet. When properly connected to the Internet, however, these two general browser errors are most commonly experienced when using a bookmark link that was most likely created after logging into the DI website. It is important to remember that when creating a bookmark link for any login-protected website (such as www.aaiidividendinvesting.com), remember to bookmark the site only BEFORE logging in and not after. Once you log into a website, a unique session ID number is created by the Web server. If you bookmark a site after a unique session has been generated, this will cause problems accessing the website at a later date.

Glossary

Annual Indicated Dividend—The total dollar amount of cash dividends forecast to be paid over the next 12 months.

Company—The name of the company.

Current Price—The most recent price (during a trading session) or the price of the final transaction (after the market close) for a given security. During the trading day, price quotes are delayed by up to 20 minutes.

Current Ratio—Total current assets divided by total current liabilities for a firm. A measure of balance sheet strength, a ratio above 1.0 means current assets exceed current liabilities.

Daily Change—The percentage change in the stock's price for the most current trading day. This number is updated on a delayed basis during trading hours.

Direct Investment—A program that allows investors to buy their initial shares directly from a company, without having to go to through a broker. Companies that offer this service are designated by the word "Yes" in the Dividend Payments table. Commissions are not charged, but other fees might be. Information can usually be found on a company's investor relations website. For more information, see AAII's "Guide to Direct Purchase and Dividend Reinvestment Plans" at www.aaii.com/guides/Guide-to-DRPs.

Dividend Growth Rate—The compound annual percentage change in dividends per share over the number of indicated fiscal years. Positive numbers show an increase in the dollar amount of dividends paid.

Dividend Reinvestment Plan (DRIP Plan)—A program that allows shareholders use cash dividends to acquire additional shares of stocks, including partial amounts (e.g., 0.3 shares). Some companies offer these plans and are designated by the word "Yes" in the Dividend Payments table. Many brokers will also facilitate dividend reinvestments. Fees may exist, depending on the company or the broker. For more information, see AAII's "Guide to Direct Purchase and Dividend Reinvestment Plans" at www.aaii.com/guides/Guide-to-DRPs.

Dividend Yield—Current—Projected dividend payments for the next 12 months divided by the current stock price. This numbers shows, in percentage form, how much income can be expected relative to the current stock price.

Dividend Yield—**1 Year Ago—**The stock's dividend yield (dividends divided by price) from one year ago.

Dividend Yield—**5 Year Average**—The stock's average dividend yield (dividends divided by price) over the past five calendar years.

EPS Growth—**Estimate Y0 to Estimate Y1**—The forecast percentage growth in earnings per share for the upcoming fiscal year (Y1) relative to forecast growth earnings for the current year (Y0). This number shows, in percentage form, the expected increase or decrease in earnings over the next year.

EPS Growth—**Quarter-over-Quarter**—The change in earnings per share for the current quarter relative to the same quarter a year ago, expressed as a percentage.

EPS Growth—**12 Month**—The change in earnings per share for the current 12-month period relative to the previous 12-month period, expressed as a percentage.

Estimated EPS Growth Rate—The consensus expected annual growth rate in earnings per share for the next three to five years.

Ex-Dividend Date—The owner of any shares purchased on or after the ex-dividend date will not be entitled to that quarter's dividend. This is two trading days before the record date. Investors must purchase shares prior to the ex-dividend date to receive the dividend.

First Year Dividend Paid—The first year a company paid its dividend. If a dividend was suspended, the date is the first year the dividend was reinstated.

Income Return Since Purchase—A component of total return, this shows the percentage change in a holding's value attributable to dividend income. It is calculated as a total return less than the price appreciation since purchase, adjusted for commissions.

Index Return Since Purchase—The total return of the benchmark index since the stock was added to the DI tracking portfolio, expressed as a percentage.

Indicated Dividend Yield—Projected (indicated) dividend payments for the next 12 months divided by the current share price.

Liabilities to Assets—Total liabilities divided by total assets. A measure of balance sheet strength, lower percentages signal a lower proportionate amount of debt.

Market Capitalization—A measure of company size, this is the current share price multiplied by the number of shares outstanding, expressed in millions of dollars.

Months Dividends Paid—The calendar months the company has typically paid dividends to shareholders. Months are shown in numerical format with 1 = January, 2 = February, 3 = March, etc.

Net Margin—Net income divided by total revenues. This number shows how profitable a company is relative to revenue on a percentage basis after all costs, including taxes, are factored in. Net margins vary by industry.

Number of Years of Dividend Increases—The number of current consecutive years the company has increased the annual dollar amount of the dividend it has paid.

Payment Date—The date a company distributed the most recent quarterly dividend to shareholders. Once a company announces a dividend, the payment date is the date on which the next dividend will be paid.

Payment Amount—The dollar amount of the current quarterly dividend payment. An up arrow next to the payment amount in the Dividend Payments table indicates that the dividend is higher than that paid last quarter. A down arrow indicates that the dividend is lower than that paid last quarter. If no arrow is displayed, the dividend has not changed during the quarter.

Payout Ratio: EPS—12 Month—The percentage of earnings paid out as dividends over the latest 12-month period. A payout ratio of 100% means the dollar amount of dividends paid equals the dollar amount of profits earned.

Payout Ratio: EPS—5 Year Average—The average payout ratio (percentage of earnings paid out as dividends) for the previous five years.

Payout Ratio: FCFPS (12 Month)—The percentage of free cash flow per share paid out as dividends over the latest 12-month period. Free cash flow is cash flow from operating activities less capital expenditures. A measure of a company's ability to both pay dividends and increase its cash balance.

P/E Ratio—Estimate Y0—The price-earnings ratio (price divided by earnings) based on forecast earnings per share for the current fiscal year.

P/E Ratio—TTM—The price-earnings ratio (price divided by earnings) based on reported earnings per share for the previous 12 months (trailing 12 months).

Portfolio Alert Date—The date on which it was announced that a stock is being added to the DI Portfolio. Announcements are made on the alert date in the weekly update email, on the DI website, and in the monthly report.

Portfolio Alert Price—The price at which the stock closed on the day it was announced that the stock is being added to the DI portfolio. Announcements are made on the alert date in the weekly update email, on the DI website, and in the monthly report. This price is not used in calculating the performance of the DI portfolio. The reported performance uses the actual cost basis and associated commissions. Stocks are purchased for the DI portfolio the week following an alert.

Price Return Since Purchase—A component of total return, this is the percentage change in stock's price since it was purchased for the DI tracking portfolio. Price returns are adjusted for commissions and splits and spinoffs.

Purchase Price—The average cost basis per share of the shares purchased for the real DI tracking portfolio. The average cost basis includes any commissions incurred for the purchase and is adjusted for stock splits and spinoffs, if appropriate. Stocks with a recent portfolio addition alert that have yet to be purchased for the tracking portfolio show "na" in the Stock Performance table for the closing price until the stock is purchased for the tracking portfolio.

Record Date—The date you must be listed on a company's books as a shareholder to receive the declared dividend. If you purchased shares through a broker, you must own the shares before ex-dividend date, which is two trading days prior.

Return on Equity—Net income for the past 12 months divided by average common equity over the preceding four quarters. A measure of management effectiveness, it shows the percentage return the company is earning on shareholder's equity.

Risk Index (3 Year)—The 36-month annualized standard deviation of return for the stock divided by the 36-month annualized standard deviation of return for the benchmark, which is the Dow Jones U.S. Index Fund (IYY). The baseline value for the index is 1.00. Values above 1.00 indicate greater risk than the benchmark. Values below 1.00 indicate less risk than the benchmark.

Sales Growth—**Quarter-over-Quarter**—The percentage change in sales for the current quarter relative to the same quarter a year ago.

Sales Growth—**12 Month**—The percentage change in sales for the current 12-month period relative to the previous 12-month period.

Sector: Industry—A description of the type of business the company engages in as defined by Thomson Reuters. Sector is the broad business category, while industry is more specific.

Time-Weighted Rate of Return—A portfolio return calculation that excludes the timing influence of the cash flows. This is the return presented for the DI tracking portfolio. See "How to Calculate the Return on Your Portfolio" in the AAII archives for more information.

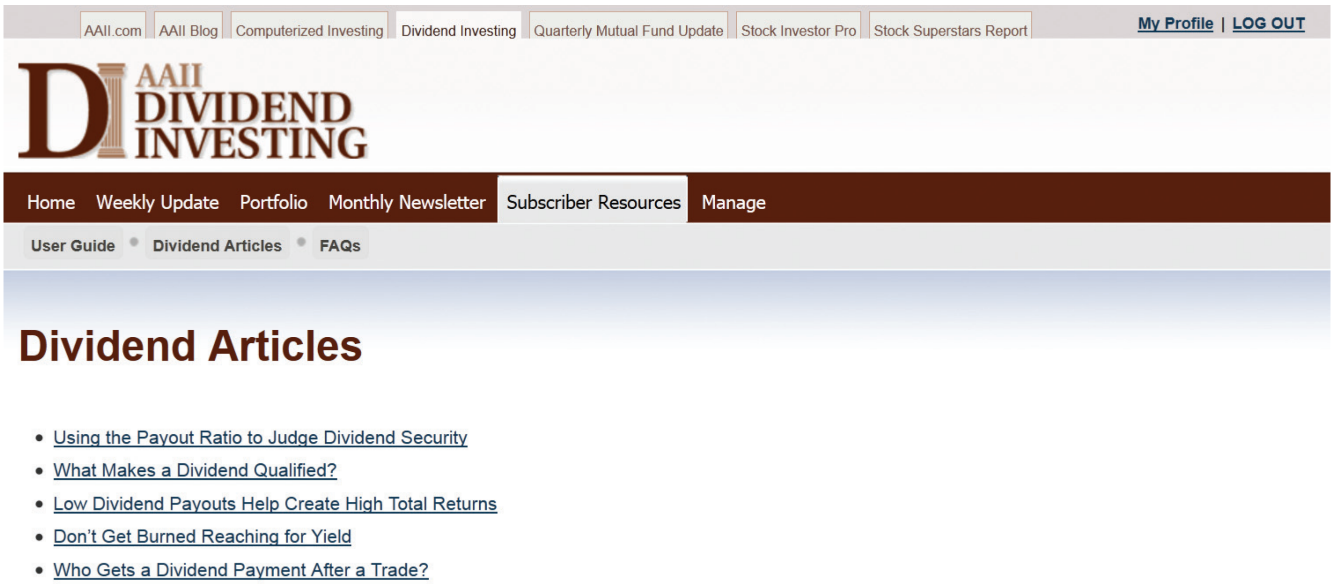
Total Return Since Purchase—The time-weighted change in a stock's price from the commission-adjusted purchase price plus the value of all dividends received during the holding period. This number shows the percentage earned or lost from price movement plus the dividend income.

Ticker—Stock ticker symbol.

Appendix: Subscriber Resources

Go to the Subscriber Resources page at AAIIDividendInvesting.com and click on Dividend Articles for more educational information. New articles are added each month.

Figure 7. Dividend Articles Section of Subscriber Resources



AAII Dividend Investing™ educates readers on how to build a portfolio based on time-tested investment research and proven risk-reduction strategies.

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