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Dividend-Paying Stocks Still a Good Bet

By David Peltier

Once again this issue, my focus in this section is on the bigger picture regarding dividend investing. With all of the volatility in the market over the past two weeks, the **S&P 500** is only up 1%. I mention this because the index is similarly flat over the past 10 years.

But if investors had instead bought stocks with dividends and re-invested the payments over the past decade, they would have had more to show for themselves. An investment in a stock with a 4% yield will be worth 48% in 10 years, even if the stock stays the same. That's the math behind the power of compounding.

But readers still need to be cautious. Standard & Poor's is predicting a 10% decline in dividend payments from the S&P 500 stocks, which would be the worst performance in 50 years!

You'll see evidence of this on the scorecard that follows, which has the most dividend cuts that I've ever seen since I started writing the newsletter. Loyal readers will also notice that as 2008 has progressed, more and more names outside of the financial sector are making the list.

So while investors should continue to exercise caution in their investments and preserve capital ahead of what could be a prolonged recession, I do believe that some attractive opportunities remain in the universe of dividend-paying stocks.

(Scorecard appears on the next page)

The Dividend Advisor Scorecard

Rating	Company	Yield	New Payment	Former Payment	Freq.	Must-Own Date
New Dividends						
↑	John Bean Technologies (JBT:NYSE)	3.3%	\$0.07	N/A	Q	10/28
↓	Power Integrations (POWI:Nasdaq)	0.5%	\$0.025	N/A	Q	11/24
↑	Techne (TECH:Nasdaq)	1.5%	\$0.25	N/A	Q	10/29
Raised Dividends						
↓	1st Source (SRCE:Nasdaq)	2.8%	\$0.16	\$0.14	Q	10/30
↓	Airgas (ARG:NYSE)	1.7%	\$0.16	\$0.12	Q	12/10
↑	Bank of Hawaii (BOH:NYSE)	3.8%	\$0.45	\$0.44	Q	11/24
↓	Brown & Brown (BRO:NYSE)	1.6%	\$0.075	\$0.07	Q	10/31
↑	Cass Information (CASS:Nasdaq)	1.5%	\$0.13	\$0.12	Q	12/2
↓	Eaton Vance (EV:NYSE)	2.8%	\$0.155	\$0.15	Q	10/28
↑	Exelon (EXC:NYSE)	4.1%	\$0.525	\$0.50	Q	11/11
↑	Goodrich (GR:NYSE)	2.7%	\$0.25	\$0.225	Q	11/25
↓	Hanover Insurance (THG:NYSE)	1.2%	\$0.45	\$0.40	A	11/21
↑	Healthcare Services (HCSG:Nasdaq)	4.0%	\$0.16	\$0.15	Q	10/21
↓	Home Bancshares (HOMB:Nasdaq)	1.0%	\$0.065	\$0.06	Q	11/6
↓	Matthews International (MATW:Nasdaq)	0.6%	\$0.065	\$0.06	Q	10/28
↑	Microchip Technology (MCHP:Nasdaq)	5.4%	\$0.339	\$0.338	Q	11/11
↑	National Penn Bancshares (NPBC:Nasdaq)	4.3%	\$0.1725	\$0.17	Q	10/28
↑	PPG Industries (PPG:NYSE)	4.4%	\$0.53	\$0.52	Q	11/5
↑	Questar (STR:NYSE)	1.7%	\$0.125	\$0.1225	Q	11/18
↓	Shenandoah Telecommunications (SHEN:Nasdaq)	1.4%	\$0.30	\$0.27	A	11/6
↑	Stepan (SCL:NYSE)	2.6%	\$0.22	\$0.21	Q	11/24

(Scorecard continues on the next page)

Legend: Stocks in the scorecard are rated ↑ -- **Attractive** or ↓ -- **Avoid**. These ratings are David Peltier's opinion of the stock, relative to its industry peers, and do not imply a buy or sell recommendation. Frequency: A: Annual; Q: Quarterly, M: Monthly, S: Semiannual, BM: Bimonthly, X: Special.

Raised Dividends (cont.)

Rating	Company	Yield	New Payment	Former Payment	Freq.	Must-Own Date
↑	Strayer Education (STRA:Nasdaq)	1.0%	\$0.50	\$0.375	Q	11/21
↓	Texas Instruments (TXN:NYSE)	2.3%	\$0.11	\$0.10	Q	10/28
↓	UMB Financial (UMBF:Nasdaq)	1.6%	\$0.175	\$0.165	Q	12/8
↓	Vectren (VVC:NYSE)	5.6%	\$0.335	\$0.325	Q	11/11
↑	VF (VFC:NYSE)	4.3%	\$0.59	\$0.58	Q	12/4

Special Dividends

↑	Diamond Offshore (DO:NYSE)	0.6%	\$1.875	\$1.25	X	10/29
↓	Life Partners (LPHI:Nasdaq)	0.7%	\$0.01	\$0.01	X	11/24
↓	Renaissance Learning (RLRN:Nasdaq)	2.5%	\$0.75	\$0.75	X	11/4
↓	Westfield Financial (WFD:Nasdaq)	2.1%	\$0.25	\$0.15	X	11/6

Lowered Dividends

↓	Anchor Bancorp Wisconsin (ABCW:Nasdaq)	0.8%	\$0.01	\$0.10	Q	10/29
↓	Asbury Automotive (ABG:NYSE)	0.0%	\$0.00	\$0.225	Q	N/A
↓	B&G Foods (BGS:NYSE)	22.8%	\$0.17	\$0.212	Q	12/26
↓	Brunswick (BC:NYSE)	1.6%	\$0.05	\$0.60	A	11/19
↓	Citigroup (C:NYSE)	4.9%	\$0.16	\$0.32	Q	10/29
↓	CNA Financial (CNA:NYSE)	0.0%	\$0.00	\$0.15	Q	N/A
↓	Colonial Bancgroup (CNB:NYSE)	0.0%	\$0.00	\$0.095	Q	N/A
↓	Columbia Banking System (COLB:Nasdaq)	2.0%	\$0.07	\$0.17	Q	10/31
↓	Comerica (CMA:NYSE)	4.8%	\$0.33	\$0.66	Q	12/10
↓	Fidelity National Financial (FNF:NYSE)	6.7%	\$0.15	\$0.30	Q	12/12
↓	Jones Lang Lasalle (JLL:NYSE)	1.8%	\$0.25	\$0.30	S	11/11
↓	LSI Industries (LYTS:Nasdaq)	3.1%	\$0.05	\$0.15	Q	10/29

(Scorecard continues on the next page)

Legend: Stocks in the scorecard are rated ↑ -- *Attractive* or ↓ -- *Avoid*. These ratings are David Peltier's opinion of the stock, relative to its industry peers, and do not imply a buy or sell recommendation. Frequency: A: Annual; Q: Quarterly, M: Monthly, S: Semiannual, BM: Bimonthly, X: Special.

Lowered Dividends (cont.)

Rating	Company	Yield	New Payment	Former Payment	Freq.	Must-Own Date
↓	MGIC Investment (MTG:NYSE)	0.0%	\$0.00	\$0.025	Q	N/A
↓	Pzena Investment Management (PZN:NYSE)	0.0%	\$0.00	\$0.05	Q	N/A
↓	Tempur-Pedic (TPX:NYSE)	0.0%	\$0.00	\$0.08	Q	N/A
↓	Winnebago (WGO:NYSE)	0.0%	\$0.00	\$0.12	Q	N/A
↓	Zions Bancorp (ZION:Nasdaq)	3.6%	\$0.32	\$0.43	Q	10/31

Legend: Stocks in the scorecard are rated ↑ -- *Attractive* or ↓ -- *Avoid*. These ratings are David Peltier's opinion of the stock, relative to its industry peers, and do not imply a buy or sell recommendation. Frequency: A: Annual; Q: Quarterly, M: Monthly, S: Semiannual, BM: Bimonthly, X: Special.

The Model Portfolio

The bulk of the third-quarter earnings season is behind us, and the market has bounced back this week as institutional tax-loss selling appears to have dried up. After the election Tuesday, two questions will remain: How long will the recession last, and how deep of a decline in growth is the market pricing in? With that uncertainty remaining, I believe that stocks with consistent dividends should continue to outperform the broader market for the remainder of 2008.

Earnings Reviews

- **AT&T** (T) announced mixed results Oct. 22. The company earned 67 cents a share, which was 4 cents lower than the consensus analyst estimate. Revenue grew 4% year over year to \$31.34 billion, which was \$20 million ahead of expectations.

AT&T added 2 million wireless subscribers during the quarter, aided by sales of **Apple's** (AAPL) iPhone. As a result, the company took market share from **Verizon** (VZ) and **Sprint Nextel** (S). Beginning in November, AT&T will also be the exclusive seller of **Research In Motion's** (RIMM) Blackberry Bold.

Additionally, growth of AT&T's proprietary U-verse video users accelerated during the quarter, and the company remains on track to reach its goal of 1 million users by the end of the year. This helped to offset continued declines in traditional wireline accounts.

The stock gained 7% over the past two weeks, closing Thursday at \$27.10. Even so, I maintain that AT&T shares remain attractive to purchase at current levels, for the 5.9% dividend yield.

- **California Water Service** (CWT) posted solid third-quarter results Oct. 29. The company earned \$1.06 a share, which was a full 27 cents ahead of the consensus analyst estimate. Revenue grew 16% year over year to \$131.7 million, which was also \$6.6 million ahead of expectations. The company benefited from higher rates, recently granted by state regulators. Usage was also up in Cal Water's service region.

The stock gained about 10% over the past two weeks, closing Thursday at \$36.45. Even so, these higher earnings should lead to another dividend increase for Cal Water in 2009. With that in mind, the stock remains attractive to hold at current levels, for its 3.2% dividend yield.

- **Dow Chemical** (DOW) delivered mixed third-quarter results Oct. 23. The company earned 60 cents a share, which was 3 cents ahead of the consensus analyst estimate. Revenue grew more than 13% from the previous year to \$15.41 billion, which fell \$220 million short of expectations.

Dow benefited from strong pricing, up 22% year over year, which helped to offset higher raw-materials costs. The hurricanes in the Gulf of Mexico also hurt earnings by 3 cents a share, as 80% of its North American output was shut down at one point.

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On the conference call, CEO Andrew Liveris discussed the spread of the economic slowdown and credit woes, predicting a global recession through most of 2009. Despite this downbeat outlook, Liveris vigorously defended the company's dividend, even though he backed away from a longstanding view that Dow will have base annual earnings of \$3 a share.

Management backed this sentiment up, as two insiders stepped in and bought a total of 26,000 shares on the open market earlier this week.

The stock gained more than 8% over the past two weeks, closing Thursday at \$25.96. That said, with management's continued endorsement of the 6.5% dividend yield, I continue to believe that Dow shares are attractively valued at current levels.

- **Kimberly-Clark (KMB)** posted strong third-quarter results Oct. 22. The company earned \$1.02 a share, which was a penny ahead of the consensus analyst estimate. Revenue grew 8% from the previous year to \$5 billion, matching expectations. On the other hand, management warned that its currency exposure will hurt fourth-quarter earnings by 10 cents a share.

This marks the fourth straight quarterly profit decrease, as Kimberly struggles to keep up with rising commodity costs. Average prices for the company's branded products rose 8%, which has caused some consumers to shift toward lower-priced items. Additionally, the company sold \$500 million of 10-year bonds with a 7.5% yield Oct. 30. The new debt will help management reduce its need for commercial paper, which is a market that has become skewed during the credit crisis. Kimberly's bonds continue to receive an A rating from the major agencies.

The stock was upgraded on Oct. 23 at the brokerage Caris, and I agree that shares of Kimberly-Clark remain attractively valued at Thursday's closing price of \$60.94, for the 3.8% dividend yield.

- **Kraft (KFT)** reported strong third-quarter results Oct. 29. The company earned 44 cents a share, which was a penny ahead of the consensus analyst estimate. Revenue grew more than 19% year over year to \$10.46 billion, and also came in \$60 million ahead of expectations.

Kraft benefited from higher prices on its products, passing along higher cheese and chocolate costs to customers. By adding value with new items, the company has so far been able to fend off competition from lower-priced competitors.

The stock was upgraded to buy at Merrill Lynch on Oct. 17 and also by the brokerage Argus on Oct. 30. I agree that Kraft shares are attractive to purchase at Thursday's closing price of \$28.95, for the 4% dividend yield.

- **Newell Rubbermaid (NWL)** announced mixed third-quarter results Oct. 30. The company earned 36 cents a share, which was 2 cents ahead of the consensus analyst estimate. Revenue grew more than 4% year over year to \$1.76 billion, which was \$30 million less than expected. Looking ahead to the fourth quarter, management guided to earnings of 29 cents to 34 cents a share, compared with the previous consensus of 38 cents.

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Gross margin fell by 300 basis points from the previous year, hurt by higher resin and sourced finished goods costs. Home and Family was the best performing division for the company, offset by softness in Tools, Hardware, Office Products and Décor.

The stock fell 10% over the past two weeks, closing Thursday at \$13.20. Even so, as long as the company continues to comfortably cover its 6.4% dividend yield with earnings, I believe that Newell shares are attractive to purchase at current levels.

- **Reynolds America** (RAI) posted solid third-quarter results Oct. 22. The company earned \$1.29 per share, which was 10 cents ahead of the consensus analyst estimate. Revenue fell 1% from the previous year to \$2.27 billion, which was \$20 million higher than expected.

Cigarette volume declined 7.5% year over year, though Reynolds said that its Camel and Pall Mall brands still gained market share during the quarter and benefited from higher pricing. The company's smokeless tobacco brands also gained market share, as the operating margin improved 3%, aided by cost-cutting. The stock gained more than 10% over the past two weeks, closing Thursday at \$49.28. Despite the gains, I believe that Reynolds shares remain attractive to purchase at current levels, for the 6.9% dividend yield.

- **U.S. Bancorp** (USB) posted disappointing third-quarter results Oct. 21. The company earned 32 cents a share, which was 47 cents below the consensus analyst estimate. Revenue fell 5% from the previous year to \$3.38 billion, which was also \$430 million short of expectations. Despite the company's above-average lending standards, U.S. Bancorp is not immune from a deteriorating credit environment, as evidenced by increases in net charge-offs and nonperforming assets. The bank's capital ratio remained at a strong 8.5%, which is flat from the second quarter.

On the conference call, CEO Richard Davis said he'd consider accepting a capital investment from the government, using the funds to pursue acquisitions. The company is one of the last financially strong banks to go about seeking acquisitions of struggling institutions, and I believe there will be plenty of opportunities to grow its deposit base in the coming months. In the meantime, the stock remains attractively valued at Thursday's closing price of \$28.80, for U.S. Bancorp's 5.9% dividend yield.

Earnings Previews

- **Mercury General** (MCY) will announce third-quarter results Nov. 3. The insurer is expected to earn 90 cents a share, down from \$1.13 a year ago, on \$708 million of revenue. Management has missed the consensus analyst profit estimate for two of the past three quarters.

The company will also host a conference call at 1 p.m. EST that investors can access at 877-807-1888. A replay will be available for one week at 800-642-1687, using the passcode 68104532. Both the live call and a replay can be accessed at Mercury's Web site: www.mercuryinsurance.com.

A key point for the quarter will be the company's ability to deal with falling prices in the California auto insurance market. Readers should also listen for management's comments on the conference call about the company's investment portfolio, as the insurance industry has been the latest group plagued by investing in toxic paper. In the meantime, Mercury remains attractive to hold at Thursday's closing price of \$49.53, for its 4.7% dividend yield.

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- **World Wrestling Entertainment (WWE)** is scheduled to announce third-quarter results the morning of Oct. 6. The consensus analyst estimate is for the company to earn 9 cents a share, down from 12 cents a year ago, on \$107.9 million. Management has met or exceeded the consensus analyst estimate for three of the past four quarters.

WWE will also host a conference call at 11 a.m. EST that investors can access at 800-862-9098, using the passcode WWE. The live call and a replay can also be accessed at the company's Web site: corporate.wwe.com.

On the call, readers should listen for any comments from management about the slower economy cutting into WWE's business. Also look for any potential cuts in the company's growth plan, especially in high-definition investments or overseas expansion.

In the meantime, management remains committed to the company's 10.3% dividend yield, and I continue to believe that the stock is attractive to purchase at Thursday's closing price of \$14.

Company Updates

- **Consolidated Edison (ED)** gained nearly 12% over the past two weeks, closing Thursday at \$43.73. Despite the move, the stock remains attractive to hold at current levels for its 5.35% dividend yield.

Dividend Reminder

- California Water Service announced its latest quarterly dividend of 29.25 cents a share (3.2% yield) Oct. 29. Investors at the close of trading Oct. 29 qualified for the Nov. 14 payment.

Dividend Advisor Model Portfolio

Company & Ticker	Open Date	Cost Basis per Share	Annual Yield	Ex-Dividend Date	Current Price	% Gain/Loss (excl. dividends)	Total Return
California Water CWT	5/13/05	\$34.95	3.6%	7/31/08	\$36.45	4.29%	15.04%
Dow Chemical DOW	6/23/04	\$40.75	6.7%	9/26/08	\$25.96	-36.29%	-20.79%
Consolidated Edison ED	1/24/03	\$40.44	5.4%	11/7/08	\$43.73	8.14%	40.67%
Kraft Foods KFT	8/31/07	\$31.92	4.0%	9/22/08	\$28.95	-9.30%	-5.01%
Kimberly-Clark KMB	11/11/05	\$58.78	3.9%	9/3/08	\$60.94	3.67%	14.34%
Mercury General MCY	2/4/04	\$46.44	4.8%	9/11/08	\$49.53	6.65%	25.9%
Newell Rubbermaid NWL	3/3/06	\$24.97	6.0%	8/27/08	\$13.20	-47.14%	-38.73%
T. Rowe Price TF PRTAX	3/21/03	\$9.90	4.44%	12/31/07	\$8.91	-10.00%	14.24%
Reynolds American RAI	8/31/07	\$66.21	7.0%	9/8/08	\$49.28	-25.57%	-19.15%
AT&T T	8/22/08	\$30.90	5.8%	10/8/08	\$27.10	-12.30%	-12.30%
U.S. Bancorp USB	3/30/07	\$35.09	5.5%	9/26/08	\$28.80	-17.93%	-10.80%
World Wrestling Ent. WWE	12/8/06	\$16.57	10.2%	9/11/08	\$14.00	-15.51%	-1.75%

TheStreet.com Dividend Advisor - Performance

Total Average Return	12.37%	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, including dividends paid, but do NOT take into account interest earned or commissions. Results are updated overnight and posted prior to the market open the following business day. The Total Average Return figures reflect changes since inception on 1/24/2003. *The DVY is the iShares Dow Jones Select Dividend (DVY:NYSE) exchange-traded fund.
2008 YTD Return	-9.56%	
2008 YTD Return on DVY*	-26.19%	

(If you have any questions or comments for David, please [send an email](#) directly to him. He welcomes your feedback.)

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