

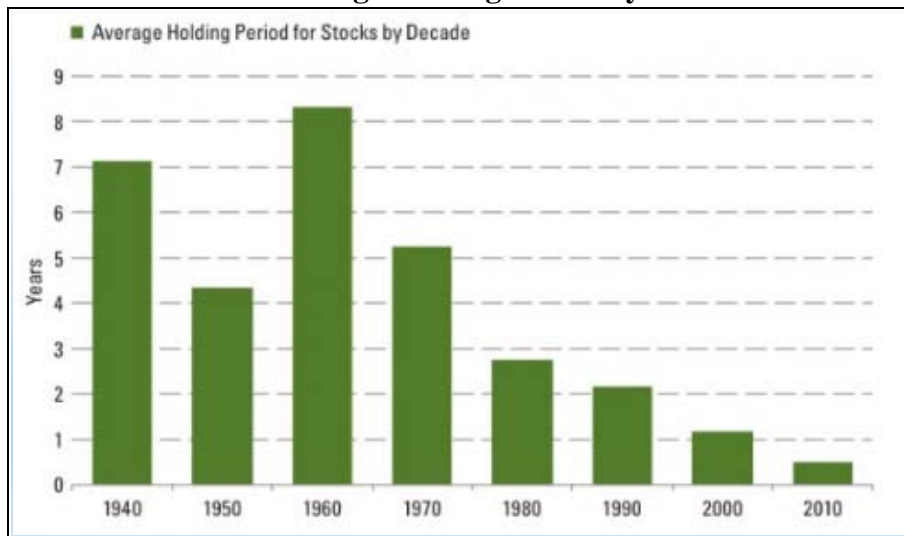
Alley Company Dividend Portfolio 2019 Q3 Letter

October 17, 2019

Portfolio Turnover is a statistic that measures trading activity (i.e., how frequently assets are bought and sold) within a fund or portfolio, typically over a twelve month period.¹ While maintaining a long-term mindset can often times be easier said than done, frequent short-term trading causes portfolio turnover to rise and can have a negative effect on *after-tax* investment performance in a taxable account.

In the exhibit below, we see how too many investors have adopted a shorter-term mindset. In the first half of the 20th century, stocks listed on the New York Stock Exchange (NYSE) were routinely held for five years or longer, but holding periods began to plummet in the late 1970s. In recent years, the average holding period for a NYSE-listed stock has dipped to *under one year* as investors have increasingly become “traders” or “renters” of companies as opposed to long-term “owners.”

NYSE Average Holding Period by Decade



Source: NYSE

What are some of the underlying factors that have driven market participants to hold their investments for shorter periods of time?

- Technology has clearly played a role as trading today can be done quickly with just the click of a mouse.
- Commission rates have consistently declined over the years and have recently become *free* at many custodians, thus eliminating a deterrent to trading.

- There has been a proliferation of short-term oriented investment vehicles over the past few decades, including hedge funds and algorithmic computer-based trading strategies.
- Financial news programming and instantaneous access to information have magnified the focus on near-term events.

All of these factors feed the impulse to “trade” stocks rather than “invest” in companies. As dividend-focused investors, we have adopted more of an “ownership” mentality which allows us to share in the long-term dividend and cash flow growth of a company.

While a portfolio turnover rate of zero percent is unrealistic due to normal portfolio management activity, it has been our experience that a range of 10-25 percent is attainable for an investment strategy that takes the long view.²

Quarterly Performance Update

The Alley Company Dividend Portfolio outperformed the Russell 1000 Value Index in the third quarter and has outperformed the index on a year-to-date basis as well.

Top contributors and detractors from an individual holdings perspective in the third quarter were:

<u>Top Contributors</u>	<u>Top Detractors</u>
NextEra Energy, Inc. (NEE)	Altria (MO)
Procter & Gamble (PG)	Cisco Systems (CSCO)
Apple (AAPL)	Exxon Mobil (XOM)

Top and bottom sectors in the marketplace during the quarter were:

<u>Top Performing Sectors</u>	<u>Bottom Performing Sectors</u>
Utilities (-)	Energy (-)
Real Estate (+/-)	Health Care (+/-)
Consumer Staples (+)	Materials (-)

(+) indicates that the portfolio is overweight this sector and (-) indicates that the portfolio is underweight this sector relative to the benchmark.

Dividend announcements among Alley Company Dividend Portfolio holdings during the quarter were:

<u>Company</u>	<u>Dividend Change</u>
Altria (MO)	+5%
Lockheed Martin (LMT)	+9%
Microsoft (MSFT)	+11%
Philip Morris International (PM)	+3%
Union Pacific (UNP)	+10%
Verizon (VZ)	+2%

There were no changes made to the Alley Company Dividend Portfolio during the third quarter.

Alley Company Dividend Portfolio

The investment philosophy of the Alley Company Dividend Portfolio focuses on striking the balance between attractive absolute dividend yield and strong dividend growth underpinned by solid company fundamentals of our portfolio holdings. We employ a bottom-up, research-driven process focused on fundamental analysis of our portfolio holdings.

Alley Company, LLC

Alley Company is a boutique investment management firm that is dedicated to operating a discernible and disciplined investment philosophy and generating superior risk-adjusted investment returns. Alley Company was founded in 1998 and in 2006 established the Alley Company Dividend Portfolio to capitalize on investment opportunities in quality companies with strong dividend-paying cultures.

The Alley Company Quarterly discusses general developments, financial events in the news and investment principles. It is provided for information purposes only. It does not provide investment advice and is not an offer to sell a security or a solicitation of an offer, or a recommendation, to buy a security. The statements and opinions contained herein are solely those of Alley Company LLC and are based upon sources and data believed to be accurate and reliable. The Russell 1000 Value Index measures the performance of large- and mid-capitalization value sectors of the U.S. equity market. Additional information regarding Alley Company, LLC can be found by accessing the SEC's website at adviserinfo.sec.gov.

¹ Portfolio turnover is calculated by taking either the total amount of new securities purchased or sold (whichever is less) over a particular period, divided by the total asset value of the portfolio or fund being analyzed.

² The Alley Company Dividend Portfolio has a trailing five year average portfolio turnover rate of 13%.