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Time to Take Stock of Equity-Income Securities

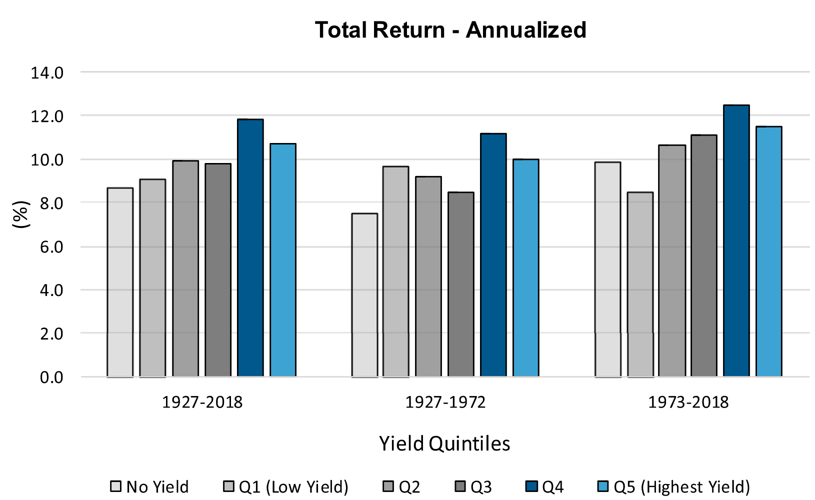
By Paul Dokas and Robert Ginsberg — Q4 2019

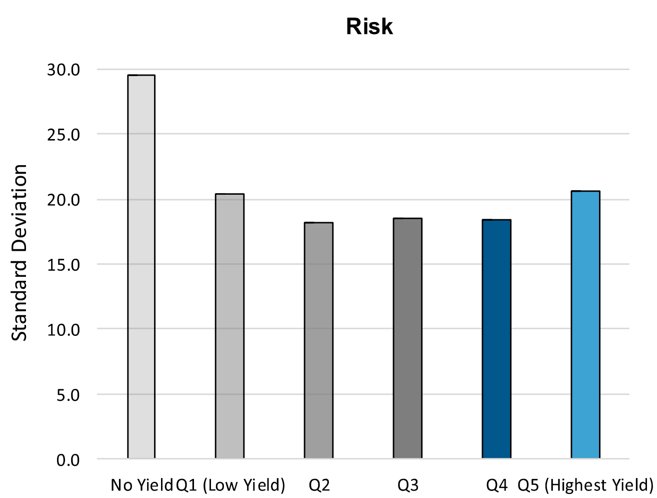
We believe the current popularity of momentum and low-volatility stocks may have created a notable investment opportunity for overlooked and attractively priced, equity-income securities.

KEY TAKEAWAYS

- Equity-income securities—with their potential for premium yield, lower volatility and capital appreciation—have long been and continue to be an attractive investment.
- Today's divergent valuations within this category have been driven in part by popular momentum and defensive securities receiving large infusions of capital.
- We believe the valuation disparity has created a notable opportunity for investors to buy attractively priced equity-income securities.
- Cadence Capital Management's approach to equity-income investing is designed to take advantage of these undervaluations.

High-yield dividends, lower volatility and capital appreciation have long made equity-income securities an attractive investment. Historically, stocks with premium yields have tended to have higher-than-average returns with lower-than-average volatility.





Source: Cadence; Fama, French: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. Fama and French data is produced using the CRSP dataset. Charts represent value-weighted returns. Yield is represented with dividend yield from 7/1927-11/2016. Results shown do not reflect our actual client returns. Past performance is no guarantee of future results. Gross performance results may reflect the reinvestment of dividends and other earnings (if any).

We believe today's market conditions have given investors another compelling reason to buy equity-income securities: many of the stocks are significantly undervalued. Momentum stocks are currently popular with investors who may believe past performance will translate into future gains. Defensive stocks such as utilities are also seeing a good deal of attention as a low-risk equity alternative to fixed-income products and their low-interest rates. We believe valuations of many momentum and defensive securities have been stretched too far, leaving them vulnerable to corrections. The popularity of these stocks has created divergent valuations within equity income.

Company Type	Dividend Yield	Price/Earnings	Year-over-Year Sales Growth
Defensive	2.7	22.2	3.2
Real Estate	3.7	26.5	6.9
Economically Sensitive	2.6	16.1	7.1

Source: FactSet. Within the large cap value universe, the Defensive group includes Consumer Staples, Healthcare and Utilities sectors. Economically Sensitive group includes Energy, Materials, Industrials, Consumer Discretionary, Financials, Information Technology, and Communication Services sectors. Sectors are defined by the Global Industry Classification Standard (GICS).

As the table above shows, the economically sensitive areas of the market have approximately the same dividend yield as defensive names, but trade about 25% cheaper based on price to earnings with almost twice the year-over-year sales growth.

We see a notable investment opportunity to buy attractively priced equity-income securities that may provide premium yield, lower volatility, earnings growth and capital appreciation.

Cadence Capital Management's approach to equity-income is designed to take advantage of undervaluation and capture the long-term outperformance of premium-yielding stocks. For example, we start the construction of our equity-income portfolios by selecting large-cap companies with premium yields and strong financials. We weight these holdings based on liquidity and fine-tune the weights based on dividend sustainability, dividend growth, and valuation. The actively managed equity-income portfolios are rebalanced periodically to keep them in-line with strategic objectives.

THE BOTTOM LINE

We believe today's divergence of equity-income valuations offer a uniquely favorable time to invest in undervalued securities that may provide premium yield, lower volatility and capital appreciation. Cadence Capital's approach is designed to take additional advantage of this window of opportunity by adjusting portfolio weight among equity-income securities based on their relative valuations.

WHAT YOU CAN DO NEXT

- Contact us for more information about Cadence Capital Management's equity-income strategies via email (info@cadencecapital.com) or call (617) 624-3500.
- Visit the Cadence Capital Management website (www.cadencecapital.com)

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All data shown is as of 9/30/2019.

ABOUT CADENCE CAPITAL MANAGEMENT

Founded in 1988, Cadence Capital Management LLC is a quantitatively oriented global equity manager specializing in fundamentally-driven, systematic strategies across U.S., international and emerging markets and in actively managed U.S. small and midcap strategies. Cadence is a subsidiary of Pacific Global Asset Management, the investment unit of Pacific Life Insurance Company.

Cadence operates as an independent investment advisor with the support and partnership of Pacific Global, which offers us access to a broad set of administrative tools and business infrastructure. Our clients benefit from our shared commitment with Pacific Global to innovation, exceptional service and helping investors achieve their financial goals. Further, our clients can rest assured that we are backed by a high quality, 150-year-old company.

Cadence provides investment advisory services to institutional and professional clients and does not sell securities.

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