The Wealthy Owl

No nonsense. All encompassing. Wealth creation.

Exclusive report for free newsletter subscribers

Top 10 Dividend Stocks for 2023

Fourth Annual Report

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http://www.thewealthyowl.com

All financial data provided in this report has been sourced from Morningstar, Compustat and Stratosphere and is current as of December 31st, 2022. The Wealthy Owl offers no warranties on the data presented in this report.

Disclaimer: This report is based my opinions and should not be considered professional financial advice. Please consult a financial professional before using any of the information on The Wealthy Owl blog.

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Introduction

As a dividend AND growth investor, I am heartened by the performance of my dividend portfolio this past year. 2022 could have been much worse for my portfolio if it wasn't for my long-held dividend stock positions. My dividend picks from last year's report outperformed the S&P 500 by 17.3% pts. Such outperformance is not a one-year phenomenon for dividend stocks. My picks have outperformed the S&P for three straight years. And, history has shown high dividend yielding companies, on an annualized total return basis, have outperformed the lowest dividend yielding companies by 3.68%, and the S&P 500 by 2.45% from 1957 – 2012 [1].

Ten plus years ago I started a love affair with dividend growth investing. Always there for me, dividends are the world's most reliable passive income stream. To help investors find and consider solid dividend growth stocks for their portfolios I publish an annual Top 10 Dividend Stock report.

Welcome to the 2023 Top 10 Dividend Stock report!

I follow a methodology for sourcing and analyzing top dividend stocks that includes consideration for their dividend growth track record, ability to sustain dividend growth, earnings growth, business model and current valuations.

Reflecting on my three previous annual reports, I am pleased with the performance overall of my portfolio of picks:

The Wealthy Owl's Definitive Guide to Dividend Growth Investing

GET ON THE PATH TO PASSIVE INCOME FOR LIFE

https://www.thewealthyowl.com/guide-to-dividend-growth-investing

Year	Wealthy Owl Top 10 Dividend Stocks Cumulative Return (as of 12/31/2022)	Dow Jones US Dividend 100 Index Cumulative Return (as of 12/31/2022)	Wealthy Owl Vs. US Dividend 100 Index Return	S&P 500 Cumulative Return (as of 12/31/2022)	Wealthy Owl Vs. S&P 500 Index Return
2020[2]	43.2%	35.6%	**+7.6%**	26.4%	**+16.8%**
2021[3]	6.3%	17.9%	**-11.6%**	3.9%	**+2.4%**
2022[4]	-1.98%	-6.2%	**+4.2%**	-19.2%	**+17.3%**

Year	Dividend yield on cost	Annualized dividend increase
2020	4.2%	6.7%
2021	3.2%	14%
2022	2.2%	14%

As of 12/31/2022

stocks for 2023 as consideration for your own evaluation. Before making investment decisions, please do your own

As a primer, be sure to check out my **Definitive Guide to Dividend Growth Investing**.

1. Future for investors (2012), Jeremy Siegel
2. Period of measurement from October 29, 2019 (date of report publication) to December 30, 2022
3. Period of measurement from December 15, 2020 (date of report publication) to December 30, 2022
4. Period of measurement from January 2, 2022 (date of report publication) to December 30, 2022

Selection Methodology

Track record of paying and increasing dividend

- 5+ years of paying a dividend
- 5+ years of annual dividend increases
- Minimum yield of 1.5% and annual dividend growth rate exceeding 3% over last 5 years
- Combination of dividend yield and annual dividend growth rate > 10%

Ability to sustain and grow dividend

- Payout ratio below 60%
- Earnings per share (EPS) growth greater than 10% on an annualized basis, over the last five years

Strong business model

- Does the company have a sustainable competitive advantage?
- Does the company have new markets to enter and grow?
- Return On Equity (ROE) greater than 12%

Reasonably valued

- Price to Earnings ratio below 20

Rare exceptions to this criterion apply where justified

The Wealthy Owl’s Top 10 Dividend Stocks for 2023

Company	Exchange: Symbol	Sector	Grade
Williams-Sonoma	NYSE: WSM	Retail	A
Lam Research	NASDAQ: LRCX	Semiconductor	A-
Texas Instruments	NASDAQ: TXN	Semiconductor	A-
Bank of America	NYSE: BAC	Financial Services	B+
Cincinnati Financial	NASDAQ:CINF	Insurance	B+
Norfolk Southern	NYSE: NSC	Transportation	B+
Robert Half International	NYSE: RHI	Professional Services	B+
T Rowe Price Group	NASDAQ: TROW	Financial Services	B+
US Bancorp	NYSE: USB	Financial Services	B+
Cognizant	NASDAQ: CTSH	Professional Services	B

WILLIAMS-SONOMA

Williams-Sonoma (NYSE: WSM)

Overall Grade | A

Williams-Sonoma (WSM) is a large kitchenware and home furnishings retailer that sells into the $750B global home market under its house of brands, including its namesake brand and a stable of successful extensions such as Pottery Barn, West Elm, Mark and Graham, Rejuvenation and its steady registry business.

Characteristic	Grade	Highlight	Lowlight
Track record of paying & increasing dividend	A	Five-year annualized dividend growth rate of 17%. Combined dividend yield and five-year growth rate is 20%, well above my minimum 10% hurdle rate. 16-year record of consecutive annual dividend increases.	
Ability to sustain & grow dividend	A	Payout ratio of 19%. EPS annualized growth rate last five years of 34.5%, though this is somewhat exaggerated by management's aggressive share buy back program.	
Strong business model	A-	WSM has grown its business on the back of a very successful brand extension strategy that keeps WSM relevant throughout a consumer's lifecycle (from renting their first apartment and buying their first home to having kids). WSM has also built itself into a digital powerhouse. They have a strong e-commerce business, accounting for 66% of 2021 sales. WSM is riding the digital channel to increased profitability, with plans to decrease its store base by 25% between 2020 and 2025. WSM has built a reputation as having some of the best analytics in retail. They have been collecting consumer data for more than 25 years. With more than 100 marketing analytics and data science employees, WSM is in a great position to use it vast trove of data treasure to predict future customer purchases and capture them more effectively than their peers.	WSM has come under heavier competitive fire in the last few years with e-commerce pure play Wayfair moving into the home furnishing space. WSM faces macro headwinds from a looming recession, inflation and housing market weakness.
Reasonably valued	A	P/E of 6.9, below its 5-year average of 15.1. Trading at its highest earnings yield over the last 10 years, WSM is likely priced below fair value.	

Key Stats

Market Cap: $7.6B
Annualized 3-Year Return: 19.5%
Dividend Yield: 2.65%

Bottom Line

While WSM is likely to be affected by macro economic headwinds in the short term, it is well positioned for long-term growth. WSM is a proven performer coming off a lousy 2022 for the stock (-30% YoY) that offers something for both value and dividend investors.

Summary Analysis: Like many retailers that compete in the home category, WSM rode the surge in home renovation caused by the pandemic over the last few years. Unlike other retailers that saw slowing sales due to inflation, WSM has continued to grow throughout a murky economic cycle. The stock took a hit in November when management shared that a potential recession may cause it to miss its goal of $10B in annual revenue by 2024. The long-term outlook is strong with a new franchise model powering international expansion, entrance into the $80B US B2B market, cross-shopping initiatives and continued digital transformation.

Lam Research (NASDAQ: LRCX)

Overall Grade A-

Lam Research manufactures, sells and services wafer fabrication equipment that chip manufacturers such as Intel, Taiwan Semiconductor, and Micron, use to fabricate semiconductors. Lam is a leader in the dry etch and deposition markets, which are crucial steps in the semi manufacturing process. Today, nearly every advanced chip is built with Lam Research technology.

Characteristics	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B+	Initiated dividend in 2014 and have since increased dividend payout annually. While they sport a dividend yield currently at only 1.6%, they have raised it 16% annualized over the last five years.	
Ability to sustain & grow dividend	A	Lam Research has lots of room to continue growing its dividend with a 18% payout ratio and a five-year EPS CAGR of 28%.	Weak demand for memory chips is a major headwind for Lam as it derives 52% of its revenue from the memory segment. Some of this should be softened by an expected increase in their service business (37% of revenue) as manufacturers typically use chip downturns for maintenance.
Strong business model	B+	The wafer fabrication market requires massive scale, technical expertise and R&D spending, all of which contribute to major barriers to entry. There are only a handful of companies in the world that can do what Lam does. Lam has grown its installed base from 40,000 units in 2015 to 75,000 by the end of 2021. This not only boosts the revenue of Lam's lucrative services business, but it also allows Lam to expand its design and process lead as it learns from a more intimate look into the problems chipmakers face.	Earlier this year the U.S. government released new rules restricting U.S. companies from exporting semiconductor technology to China. On the latest earnings call the CEO estimated that the financial impact from these export restrictions and weaker memory investments would be between $2 billion and $2.5 billion, or about 13% of Lam's annual revenue.
Reasonably valued	A-	Lam is currently trading at a forward P/E ratio of 12.9, below its five-year average of 14.9, showing signs of potential upside. According to Morningstar fair value estimates, Lam Research was the most undervalued of its fabrication peers as of October 28, 2022.	

Key Stats

Market Cap: $57 Billion
Annualized 5-Year Return: 19.3%
Dividend Yield: 1.7%

Bottom Line

If you can weather short term volatility, picking up Lam at current prices should provide good returns over a three-to-five-year period. Lam's quickly growing dividend should provide some nice passive income in the meantime.

Summary Analysis: The long-term demand for Lam's equipment should remain robust. No surprise as their technology helps semiconductor manufacturers achieve the performance required to power the most important technologies today and into the future, including cloud computing, 5G, IoT, AI, self driving cars and augmented reality.

Texas Instruments (NASDAQ: TXN)

Overall Grade: A-

Texas Instruments is a global semiconductor company that designs, manufactures, and sells analog and embedded processing chips mainly to industrial, automotive and personal electronics customers. With a 70+ year history of innovation, Texas Instruments were pioneers in the transition of the electronics industry from vacuum tubes to transistors and now to integrated circuits.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	A	Texas Instruments (TI) has a 19-year streak of consecutive dividend increases, growing at a 25% CAGR over this period.	TI has increased its near-term capital expenditure plans considerably from their norm, introducing some risk to cash available for dividend increases.
Ability to sustain & grow dividend	A	TI is in the 89th percentile of the S&P 500 for free cash as a % of revenue. This is excellent news for shareholders as TI is committed to maximizing the return of cash to shareholders. Their annual goal is to return 100% of cash flow generated to shareholder with a target of 40-80% towards the dividend and the remainder to stock buy backs.	Despite its strong market position, TI remains susceptible to the volatility of the semiconductor industry.
Strong business model	A	In 2005 TI began a major business model shift that has the company focused on higher margin analog and embedded chips. Despite the ubiquitous digital chip stealing all the headlines because of their processing power and use in everything from fridges to phones to airplanes, analog chips are a growing opportunity. Given analog chips represent 77% of TI's total revenue, this is a good thing. In addition to signal processing use cases, every electronic product requires analog chips to provide the power to run. Every time a new phone gets built or a new "thing" gets electrified so it can connect to the Internet, you better believe it contains analog chips.	Trade tensions between the US and China could result in China based customers moving their business to more neutral rivals based in non-US geographies. Some analysts forecast a downturn in semiconductor demand in 2023 and 2024.
Reasonably valued	B	TI is trading at a forward P/E ratio of 20.8, on par with its 5-year average and 2 pts above its peer's average. TI appears to be trading at fair value.	

Key Stats

Market Cap: $150 Billion
Annualized 15-Year Return: 13.5%
Dividend Yield: 2.84%

Bottom Line

As the leader of the attractive analog chip industry and its religious focus on growing free cash flow for shareholders, Texas Instruments is a dependable dividend payer on its way to aristocrat status.

Summary Analysis: TI has done an excellent job building a dominant position in the fragmented, "unsexy" analog chip market that other semiconductor behemoths have ignored. Their enviable market position has been earned thru vertical integration, ultra low cost 300 mm silicon wafter manufacturing, scale, direct to consumer (DTC) muscle (in 2019 one-third of TI business was DTC, in 2021 this rose to 70%), and diversification of products (TI has over 80,000 SKUs available for 100,000+ customers). TI, and its shareholders, enjoy the benefits of a very attractive market. The analog industry features low risk of inventory obsolescence due to long product lifecycles, lower capital requirements as the manufacturing equipment lasts for decades, high switching costs for customers who have designed chips into their devices, pricing power retained by suppliers, and lower R&D costs than digital chip manufacturers. The result is expanding gross margins that reached 67.5% in 2021 from 52% in 2013, and 12% annual growth of free cash flow per share from 2004-2021.

Bank of America (NYSE: BAC)

Overall Grade: B+

Bank of America is a multi-national financial institution operating in 35 countries. It has more than $2.5 trillion in assets, making it one of the largest banks in the U.S. It is organized into four major segments: consumer banking, global wealth and investment management, global banking, and global markets.

Characteristic	Grade	Highlight	Lowlight
Track record of paying & increasing dividend	B+	Nine-year streak of annual dividend increases. Bank of America (BAC) has grown its dividend at an annualized rate of 13% the last five years.	Like most U.S. banks, BAC feels like it's one major recession away from major cuts to its dividend. After the 2008 global financial meltdown, BAC dropped its annual dividend to $0.04. It took 5 years for BAC to resume annual increases after these severe cuts.
Ability to sustain & grow dividend	B+	Payout ratio of 27%. A strong EPS annualized growth rate of 16% over the last five years.	
Strong business model	B+	BAC tends to have leading positions across the different sectors they compete in. It's the top bank in terms of deposits, has a top-two share in retail mortgages, home equity lines of credit, and small-business lending, as well as the largest online retail brokerage. BAC has gained its dominance through scale advantages and massive investments in technology. BAC's digital offerings are realizing exceptional adoption, giving it access to data on millions of customers. BAC has one of the largest tech budgets in the industry at $10 billion per year. They've made good digital progress, with 41 million active digital banking users.	In a rising interest rate environment like the current environment, banks face a double-edged sword. High interest rates bring about higher default rates on loans. However, those same high interest rates act as a tailwind because banks make greater interest fees. As compared to some peers, BAC may be a little more protected from the downside of rising interest rates as they have a higher proportion of noninterest-bearing deposits and a low-cost overall deposit base. Digital competitors are a threat to traditional banks such as BAC, but it has not stopped BAC from collaborating/investing in various FinTech players.
Reasonably valued	B+	The bank is trading at a historically low price to book ratio. With a forward P/E ratio of 8.7, 2% pts below its five-year average, BAC appears to be undervalued at today's prices.	

Key Stats

Market Cap: $265.7 Billion
Annualized 5-Year Return: 4%
Dividend Yield: 2.6%

Bottom Line

Trading near its 52-week low, there is currently a unique opportunity to add Warren Buffett's long-standing top holdings to your own portfolio, while boosting your passive income.

Summary Analysis: BAC has come a long way since its lost 2010s decade. It was triggered in 2008 after the acquisitions of a crashing Merrill Lynch, questionable mortgage lender Countrywide Financial, and problematic MBNA. BAC had a lot of messes to clean up that these troubled assets left in the wake of their near collapses. BAC spent billions to settle regulatory issues, taking years to recover from the damage these companies did to its financials. Rising like a Phoenix, BAC is now one of the most respected banks with a best-in-class retail branch network, tier 1 investment bank, and one of the leading brokerage and advisor firms. Trading at an attractive entry point, BAC may finally be ready to step into a decade of sector beating returns.

Cincinnati Financial (NASDAQ:CINF)

Overall Grade B+

Cincinnati Financial (CINF) is a 70+ years old insurance company that has been growing its dividend for nearly its entire existence. While they are not a well-known insurance company, much like Berkshire Hathaway they invest a large portion of their premiums and cash into equities and bonds.

Characteristic	Grade	Highlight	Lowlight
Track record of paying & increasing dividend	A+	A dividend aristocrat (50+ consecutive years of increasing dividend), CINF is one of only seven companies in the US that has increased their dividend for 60+ years.	
Ability to sustain & grow dividend	A-	While CINF's payout ratio is high at 82.24%, nearly 10% pts higher than its five-year average, I remain confident in their ability to grow their dividend. They have a 62-year track record of doing exactly this, plus they have grown their free cash flow at a 13.7% CAGR over the last decade. I expect this streak to continue.	
Strong business model	B	CINF has consistently delivered premium growth above the industry average, indicating that they have a competitive insurance offering. As of September 2022, CINF grew P&C net written premiums 14% YoY vs. 11% 6-month 2022 reported by the industry.	My one worry is continued climate change causing ever more frequent catastrophic weather events, resulting in greater incurred losses for insurance companies.
Reasonably valued	B+	With a forward P/E ratio that is ~ 1% pt below its five-year average, CINF appears to be reasonably valued.	

Key Stats

Market Cap: $16 Billion
Annualized 5-Year Return 8.8%
Dividend Yield: 2.7%

Bottom Line

If you are looking for a consistent dividend grower it's hard to find a better stock than dividend aristocrat Cincinnati Financial. It is one of the most consistent passive income generators in the entire stock market.

Summary Analysis: Like many insurance companies, CINF drives its business performance thru premium and operating profit growth, and by investing their insurance float. CINF is a serial outperformer of their insurance company peers in the most important metric in the industry – combined ratio (insured losses paid divided by premium payments received), which measures whether an insurance company was profitable with the policies they wrote. Over a decade ago CINF upgraded its predictive analytic models to be able to price policies more consistently profitably. As a result, CINF has averaged a combined ratio of 94.6%, beating the industry average of 99% over the last 10 years. In their most recent quarter, CINF reported a negative EPS of $2.64, but these were entirely paper losses due to the change in the value of the equities they hold. This should reverse when the stock market inevitably recovers. While CINF's investment portfolio has dropped along with the market, their outperformance of the S&P 500 index over the last five years gives me comfort for future returns. CINF in a good position to continue to grow its dividend, as they have been doing the last 62 years.

Norfolk Southern (NYSE: NSC)

Overall Grade	B+

A nearly 200-year-old railway company, Norfolk Southern has a long history of connecting the United States (US) economy. As one of the premier rail companies in the US, Norfolk Southern hauls coal, industrial products, agriculture goods, forest and consumer product, chemicals, metals and construction across its over 19,300 miles of track 22 states and the District of Colombia.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B+	Norfolk Southern has paid a dividend since its formation in 1982. They have a current streak of six consecutive years of annual dividend increases and have grown their dividend by 13% CAGR over the last five years.	
Ability to sustain & grow dividend	B+	Payout ratio of 35%. EPS annualized growth rate for last five years is 16.6%.	
Strong business model	B	Civilization still requires a way to transport goods from point A to point B. Rail offers one of the cheapest methods to do this, and it is four times more fuel-efficient per ton-mile as compared to trucking. It's fair to say Norfolk Southern's business model is safe.	Norfolk Southern experienced labor-related headwinds over the past year, resulting in congestion, lost business, and additional costs. In its most recent quarter Norfolk management claimed to have reached its hiring goals ahead of schedule. Wage inflation is another factor all rails will need to digest in the short-term.
Reasonably valued	B	Trading slightly below its five forward P/E ratio, Norfolk Southern appears to be in fairly-valued territory.	

Key Stats

Market Cap: $57 Billion
Annualized 5-Year Return: 13%
Dividend Yield: 2%

Bottom Line

Not the sexiest company, but when it comes to picking dividend stocks that's more of an advantage. Another favorite of Warren Buffett's, Norfolk Southern is a safe bet in an industry that is not going anywhere.

Summary Analysis: Norfolk Southern, along with CSX, act as an effective duopoly on the east coast. Norfolk and its shareholders, like all the major rail companies, have benefitted from an industry push into Precision Scheduled Railroading (PSR). PSR shifts the scheduling and management of freight movements to the individual carload rather than the entire train. This has helped railways get more out of their assets and drive down costs, allowing them to return more cash to shareholders. Its PSR push has helped Norfolk Southern get onto a good track over the last five years in terms of improving the rail sectors primary measure of success - operating ratio. Although some industry observers believe much of the efficiency low hanging fruit may have been captured, Norfolk Southern continues to invest in PSR, with its latest iteration called "Service, Productivity, and Growth" (SPG). Norfolk Southern is also investing significantly in artificial intelligence, machine learning, and data analytics, putting it in a good position to help build the railway of the future.

Robert Half®

Robert Half International (NYSE: RHI)

Overall Grade B+

Founded in 1948, Robert Half has grown into one of the largest global staffing firm, operating hundreds of locations in several countries.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	A	Robert Half International's (RHI) dividend has increased annually since its inception in 2004, growing at a 11.4% CAGR over this 18-year period.	
Ability to sustain & grow dividend	A-	RHI's dividend is safe with a payout ratio of 27%. EPS growth of 14.6% annualized over the last five years. RHI should continue this growth from some tailwinds that will drive demand for its accounting, finance and IT placement focus areas. The U.S. Bureau of Labor Statistics estimates a 7% CAGR over the next decade for business and financial operations, outgrowing the national average. Estimates are for even faster growth of 12% for IT related occupations.	A deeper than expected recession in 2023 could hamper hiring and therefore RHI revenue. RHI revenue plunged 35% during the 2008-09 great recession. RHI will be hamstrung should this worst-case scenario occur with a limited range of countercyclical services to offer when hiring softens.
Strong business model	B	RHI has built a stellar brand and reputation based on 70+ years of dependable staffing services. These intangible assets allow the firm to charge a premium to local competitors, particularly with small and midsize clients (~70% of RHI's client base) who are less likely to have in-house recruiters and therefore struggle to find the right candidates. RHI's strong brand reinforces the network effects they've built over the years. Their reputation draws in more skilled candidates to submit their resumes to RHI, which grows its pool of candidates, attracting more clients to RHI. More clients with compelling opportunities brings more candidates to RHI, and the loop continues.	
Reasonably valued	B+	The stock is trading at a forward P/E ratio of 12.6, below its five-year average of 17.72, revealing some potential upside.	

Key Stats

Market Cap: $8 Billion
Annualized 5-Year Return: 7.8%
Dividend Yield: 2.33%

Bottom Line

For investors with a long-term focus that can tolerate some short-term pain, it could be a buying opportunity for this steady dividend grower.

Summary Analysis: Robert Half is a solid business, but with the stock down 36% YTD Wall Street has braced for near term pain from an expected recession. The company's latest financial results and forecasts are starting to reflect customers slowing hiring. There was some good news in its 3rd quarter report with its consulting subsidiary Protiviti reporting a new quarterly sales record. But, as a $1.85 billion run rate business, Protiviti will not save RHI from certain hiring freezes should recession fears materialize.

T Rowe Price Group (NASDAQ: TROW)

Invest With Confidence T.RowePrice

Overall Grade	B+

T Rowe Price Group is making its third appearance on the Wealthy Owl's annual top 10 dividend stock list, with its dividend at the juiciest levels yet. That's because T Rowe is down 43% YTD due to the current growth equity bear market. As an asset-management services firm for individual and institutional investors, T Rowe fees are derived from its portfolio of heavy growth equity managed funds.

Characteristic	Grade	Highlight	Lowlight
Track record of paying & increasing dividend	A+	Grew dividend 14% annually over last five years. Raised its dividend for 36 consecutive years, reaffirming T Rowe's status as a dividend champion.	
Ability to sustain & grow dividend	A-	Grown earnings at an annual rate of 15% over the last five years. Dividend payout ratio of 54%.	
Strong business model	B	T Rowe differentiates itself by its scale, brand, strong track record of fund outperformance, and reasonable management fees. T. Rowe Price has a stickier set of customers and assets than its peers. They benefit from a steady stream of investor inflows into retirement plans.	T Rowe's business results are highly correlated with market performance. In the most recent quarter, the bear market caused their assets under management (AUM) to drop 18% YoY. Because T Rowe makes revenue on the fees from AUM, the 2.8% fee decline resulted in top line revenue declining 13% YoY. Forward looking estimates call for continued revenue declines.
Reasonably valued	B-	At a P/E ratio of 16 T Rowe is slightly above their five-year ratio average (14.6), indicating they are likely reasonably valued.	

Key Stats

Market Cap: $24 Billion
Annualized 5-Year Return: 4.5%
Dividend Yield: 4.4%

Bottom Line

Its 36 consecutive year streak of raising its dividend, and its ability to sustain its dividend during the worst of times, makes T Rowe one of the best dividend payers on the stock market.

Summary Analysis: While the current market downturn has caused T. Rowe's stock price to decline significantly this year, they have managed through market declines in the past. They will go back to the playbook that has served them well over their 85-year history, a rigorous research process, impressive performance across asset classes, and investment in its robust research resources. The bigger and more long-term impacting concern is the secular trend that is shifting investing dollar inflow to more passive investing options such as ETFs and away from T Rowe's bread and butter of actively mutual funds. Their brand, scale and successful asset management performance puts them in a good position to deal with this risk. T Rowe recently roll out of some its own exchange-traded funds (ETFs) and their acquisition of alternative asset manager Oak Hill Advisors will help protect against fee compression from low-cost index-based products. Despite a stumble this past year with the performance of their equity funds, T Rowe Price is still one of the best performing asset managers in the industry. The firm also has a pristine balance sheet, carrying virtually no long-term debt. They have $2.8 billion in cash on their balance sheet, allowing them to continually boost their dividend, even during bear markets.

US Bancorp (NYSE: USB)

Overall Grade | B+

Minneapolis-based US Bancorp is one of the most well-respected regional banks, growing into its current standing as the fifth largest US bank. They offer consumer and small business banking (35% of revenue), payment (28%), wealth management and investment (18%), and corporate commercial banking (19%) services.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B+	11-year streak of annual dividend increases after reinstating annual increase following the 2008 - 2009 great recession, including an annualized 9% growth over the last five years.	
Ability to sustain & grow dividend	B+	US Bancorp has grown earnings 9% on an annualized basis over the last five years. Dividend payout ratio of 44%.	
Strong business model	B	Known for its operational efficiencies and conservative approach to investments and product offerings, US Bancorp is one of the more stable holdings in the U.S banking sector. US Bancorp's payments business compliments their strong core retail banking operations. The payments sector is a highly attractive business as its scale, i.e., essentially no incremental cost per additional transaction; provides highly profitable optionality if US Bancorp can grow in this area. They have a big opportunity to convert existing commercial customers that today just use US Bancorp for business banking (70% of existing US Bancorp commercial customers), to also use US Bancorp for payment processing.	Like all banks, US Bancorp will be impacted by a likely recession in 2023. A sustained, economic slowdown leads to higher loan losses and delinquencies as customers have difficulty paying back loans. US Bancorp tends to be more selective with who it lends to as compared to its peers, which will help minimize profit impact if economic conditions worsen. The payments business faces tough competition from larger players with more scale, and the more agile fintech players.
Reasonably valued	B	US Bancorp is currently trading at a forward P/E ratio of 10.4, below its five-year average of 12.6 but above the industry average of 9.1.	

Key Stats

Market Cap: $66 Billion
Annualized 5-Yr Return: -0.65%
Dividend Yield: 5.37%

Bottom Line

US Bancorp has one of the juiciest dividend yields of US banks today, while continuing to increase its payout. Strong management and conservative lending practices makes US Bancorp an excellent option for dividend investors looking for stable income.

Summary Analysis: US Bancorp is a digital leader. They have won several digital banking accolades, including the "overall leader in mobile banking" as ranked by Javelin. Their digital competency has enabled US Bancorp to shift 82% of their total transaction volume to digital. As US Bancorp has shifted more of their channel mix to digital, they have been able to drive major efficiencies as evidenced by their ability to shrink their bricks and mortar branch footprint by 27% over the last four years.

Adding to its history of making smart acquisitions, US Bancorp recently announced plans to acquire MUFG Union Bank. This acquisition expands their reach in the attractive California market. With its track record of spending capital wisely on technology, acquisitions and organic growth initiatives, it's no wonder Warren Buffett owns a 3.4% stake in US Bancorp, though he recently reduced his position. Despite the G.O.A.T investor reducing his stake in US Bancorp, dividend investors should feel their money is well placed with this stable, dividend optimized bank.

Cognizant

Cognizant (NASDAQ: CTSH)

Overall Grade | B

Cognizant is one of the world's largest IT professional services firm with a focus on high growth technologies such as the Internet of Things, AI, digital transformation and the cloud. Cognizant is executing its growth strategy through investments in building its digital capabilities, global expansion, industry specialization and repositioning its brand.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B-	While Cognizant has only been a dividend payer for six years, they have grown their dividend 7% annually over last five years.	
Ability to sustain & grow dividend	B	Cognizant has grown earnings at an annual rate of 9.7% over the last five years. Its dividend has lots of room for annual raises with a current payout ratio of 23%.	Cognizant started paying a dividend under pressure from activist investor Elliot Management. While Elliot Management exiting their Cognizant position has only cost shareholders a more moderate re-purchase program so far, the annual dividend increase will likely be the first major expenditure to be cut in difficult times.
Strong business model	B	Cognizant is riding the digital transformation wave affecting all industries and driving demand for the sort of technical expertise the firm possesses. They are getting recognized in the right areas with both IDC and Forrester putting Cognizant in the leader category for artificial intelligent services. Acquisitions remain a growth driver for Cognizant with two in 2022 thus far, coming off a seven-company buying spree in 2021.	Cognizant's revenue output is constrained by the amount of time their 330,000 consultants can bill their clients. This dynamic had a material impact on their most recent Q3 as the company reported revenue results below expectations due to a headcount shortfall. Attrition is a heightened risk for a firm such as Cognizant that is dependent on H-1B visas to deliver onsite work. Cognizant has a legacy of being known foremost as an outsourcer, which they are trying to change with a move into the higher earning consulting sector.
Reasonably valued	A-	The stock is trading at a P/E ratio of 12.25, well below its five-year average of 22.80, revealing a fair amount of potential upside.	

Key Stats

Market Cap: $29 Billion
Annualized 5-Year Return: -2.8%
Dividend Yield: 1.9%

Bottom Line

Buy Cognizant if you will be happy with the upside of high single digit growth and an increasing dividend payment.

Summary Analysis:

While Cognizant's business has slowed in 2022 due to headcount shortages and macroeconomic uncertainty, they remain well positioned for long term growth. With increased IT complexity and pressure on enterprise customers to go digital, there is growing demand for Cognizant's expertise and services. Cognizant isn't a high-growth story, but there is potential for a growth acceleration once the economy moves past recession worries, which should cause a valuation multiple reset.

Key Terms

Annualized five-year return: The average total return, stock price appreciation plus dividend yield, of a stock as measured over a five- year period

Dividend yield: A dividend yield is the ratio of a company's annual dividend payment as compared to its current share price. The dividend yield is expressed as a percentage and is a simple calculation:

Dividend Yield = Annual Dividend/Current Share Price

Price To Earnings (P/E) ratio: The P/E ratio shows what investors are willing to pay per dollar of earnings.

P/E Ratio = Market value per share/Earnings per share

Payout ratio: Used to assess a company's ability to not only continue paying a dividend but raising it:

Dividend payout ratio = Dividends paid/Net income

Return on Equity: ROE measures the profitability of a company in relation to its shareholders' equity:

Return on Equity (ROE) = Net Income/Shareholder Equity