



ClearBridge's Vanderlee: Dividend Stocks Are A Bargain In Income-Starved Market

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Chuck Jaffe, in The NAVigator podcast, interviewed Peter Vanderlee of ClearBridge Investments, co-manager of the LMP Capital and Income Fund. Read the Q & A below as Peter says that the stock market's recovery back to record-high levels hasn't made dividend stocks overpriced because much of the move has been in stocks that don't make distributions. Coupled with lower-for-longer interest rates, it makes dividend stocks the compelling buy for income-oriented investors in today's market.



Peter Vanderlee

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Peter Vanderlee, portfolio manager at ClearBridge Investments is here to talk dividends, yields, and opportunities in income-oriented securities. Welcome to The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator's brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today it's going to point you in the direction of a fund manager. Peter Vanderlee is here, he is portfolio manager for ClearBridge

Investments, co-manager of the LMP Capital and Income Fund, a closed-end fund that trades under ticker symbol SCD. If you want to learn more about him and the firm, go to ClearBridge.com, on Twitter @Clear_Bridge. And you can learn more about investing in closed-end funds by going to the website of the Active Investment Company Alliance, AICAlliance.org. Peter Vanderlee, great to have you on The NAVigator.

PETER VANDERLEE: Thanks for having me, Chuck.

CHUCK JAFFE: The market is near record highs, but the offshoot of that is that yields are at near record lows. In that kind of environment as an income oriented money manager, where are you finding opportunities?

PETER VANDERLEE: Yes, the year so far has been a bifurcation actually in terms of stock performance with growth and non-dividend paying stocks especially in favor. Income-oriented equity securities like dividend paying stocks have not been in favor, which is a surprise given that interest rates are near all-time lows and that the Federal Reserve has stated that rates are going to stay low for a long period of time. Furthermore, today over \$15 trillion worth of bonds have a negative yield and indeed real rates, so rates after inflation are negative with the 10-year real rate being negative by about 1%. So all this bodes well for income-oriented securities such as dividend paying stocks. People still need income given that so many baby boomers, for example, are entering their retirement years and need to recreate a paycheck of sorts to supplement an overall lack of savings. They need some inflation protection as well. Bonds in this respect are of little help with yields being so low and most bonds don't provide inflation protection. And the solution and the opportunity here lies in holding a diversified portfolio of dividend paying securities, especially those stocks that can increase their dividends over time. So that's in a nutshell where the opportunity is.

CHUCK JAFFE: Where are you focused when it comes to your portfolio? Because you've got those opportunities but at the same time they're not all the classic opportunities, so what are you looking at and how much changing do you have to do?

PETER VANDERLEE: There are a number of opportunities in the income area of the investment spectrum. Dividend paying stocks is certainly an area that has a tremendous amount of opportunity, given what I mentioned, the need for income to begin with, but also many dividend paying stocks are from companies that have very strong balance sheets,

these companies generate a lot of free cashflow, these companies are poised to increase their earnings overtime and by extension increase their dividend, which is where you're getting a rising stream of income providing that inflation protection. Meanwhile, many of these dividend paying stocks have not participated in this year's rally that we've seen in the broader market. The rally in the broader market has been dominated by non-dividend paying stocks. Technology names such as Facebook, consumer discretionary names such as Amazon, which is technology more broadly speaking, have really dominated the indices and performance that we've seen. But if you look at the non-dividend paying stocks in the market, and you strip out Microsoft and Apple, which both do pay dividends. If you strip those out, actually all the rest is negative in terms of total return for the rear. So this bifurcation where there has been a select number of non-dividend paying stocks propelling the market is really something that is quite significant, and dividends being somewhat out of favor as a result sets up for quite a good opportunity. In addition, it's not just about dividend paying stocks where we do see opportunities. For example, if you look at energy MLPs, they are totally out of favor. Energy in general is out of favor for a number of reasons, and MLPs are even more out of favor given their convoluted structure and the fact that many of these energy MLPs are providing investors with dreaded K-1 tax forms, which are about as popular as a colonoscopy procedure. As a result, the valuations in these energy MLPs have gotten to very attractive levels where income streams in many cases are quite high, sometimes high single digits, low double digits. So that actually sets up as a very interesting opportunity from an investment standpoint, because not only are you going to get a high income stream in this environment where it's so difficult to get income, but you also have the potential for some capital appreciation as these valuations have been crushed to near record lows. So it's not just about dividend paying stocks as I mentioned, there's energy MLPs and we do see some other opportunities in the spectrum of income-oriented equity securities. So all in all, I think we're in a scenario where it sets up quite well for what's to come.

CHUCK JAFFE: And what is to come? What is your outlook for what we're going to be facing? We've obviously not too far away from an election, which will put one exogenous event in the rearview mirror, or soon to be in the rearview mirror, or slowly in the

rearview mirror, however it turns out. But however we get through that, we still have the pandemic hanging over us, so what's the expectation for you going forward?

PETER VANDERLEE: I'm constructive on the outlook. The Fed will remain dovish for quite a while with shorter interest rates remaining anchored near zero while the Fed is also expanding its balance sheet to the tune of a \$120 billion every month. Furthermore, fiscal stimulus has been strong and there likely will be an additional fiscal stimulus package well north of \$1 trillion in the near future. This dynamic of monetary accommodation and fiscal stimulus is pushing investors up the risk curve, and that is good for equities and stocks in general. Given that the market has been so enamored with growth stocks and non-dividend paying stocks at the expense of high quality dividend paying stocks, I do see this trend reverse itself a bit going forward. There's simply too many dividend paying stocks that are high quality management team, high quality products, leaders in their sectors with attractive income streams in the form of dividends that are poised to increase over time, with security prices that are quite attractive in this environment. And that tells me that it's actually a good time to be constructive here on the outlook of what's ahead.

CHUCK JAFFE: Peter, thanks for sharing that outlook with us. I look forward to chatting with you again down the line.

PETER VANDERLEE: Thanks for having me, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host Chuck Jaffe and you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance, on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Peter Vanderlee, portfolio manager at ClearBridge Investments and co-manager of the LMP Capital and Income Fund. Learn more about him, the firm, and the funds at ClearBridge.com. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week. Until then, stay safe everybody.

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