

A Study of The Effects of Dividends On The DLOM

In early 2010 we published the results of our November 2009 study of all LEAPS and the costs of price protection for equities. (See “Minimum Marketability Discounts” – 5th Edition at www.dlom-info.com.) That study did not include the effects of dividend yields, if any, on the costs of price protection over time (the discount for lack of marketability or DLOM). Since then, we have researched the dividend performances of all of those companies and their effects on discounts.

Based on this research, our observations are that companies paying dividends had somewhat smaller discounts than companies not paying dividends. The absolute difference in discount percentages was generally from 3% to 5%. The size of the dividend yield did not produce a significant difference in DLOM. These conclusions are consistent with the results of earlier studies.

This study included all companies that had LEAPS traded in November 2009.¹ 728 companies had 2011 LEAPS that expired in mid-January 2011, a duration of 14 months. Of those companies, 577 also had 2012 LEAPS expiring in mid-January 2012, a duration of 26 months. As in all previous studies, the cost of price protection or the discount for lack of marketability was calculated as the cost of the LEAPS divided by the cost of the underlying stock. In most cases, the study included dividends paid in the 4th quarter of 2008 and the first three quarters of 2009. Where numbers for that period were not readily available, we used dividends paid in all of 2009. Our source of information, in most

¹ It did not include LEAPS of Exchange Traded Funds (ETFs) or closed-end funds.

cases, was each company's 10-K annual report as published on the Edgar website of the Securities and Exchange Commission. Occasionally we used dividend information from Yahoo Finance.

Exhibit I shows the detailed results. The following chart showing only 2012 LEAPS summarizes our findings.

Costs of Price Protection For 577 Companies With 2012 LEAPS

	<u>Median</u>	<u>Mean</u>	<u>25th%</u>	<u>75th%</u>
Yields over 4.0%	24.9%	26.4%	21.1%	30.5%
Yields from 1.0% to 4.0%	23.6%	24.6%	20.1%	28.7%
Yields below 1.0%	25.8%	27.2%	21.9%	30.5%
All companies with yields	24.3%	25.4%	20.9%	29.5%
Companies with no yields	28.6%	31.0%	24.2%	34.7%
Yielding Advantage (No yield - Yielding)	4.3%	5.6%	3.3%	5.2%

Exhibit I

LEAPS Discounts By Company Dividend Performance

November, 2009

All Companies

Count	728	577
Median	20.3%	26.1%
Mean	21.7%	27.9%
25th Percentile	16.8%	21.8%
75th Percentile	24.6%	31.8%

Companies with Yields Greater Than 4.0%

Count	59	43
Median	20.2%	24.9%
Mean	21.4%	26.4%
25th Percentile	15.1%	21.1%
75th Percentile	23.5%	30.5%

Companies with Yields From 1.0% To 4.0%

Count	248	210
Median	18.4%	23.6%
Mean	18.8%	24.6%
25th Percentile	15.0%	20.1%
75th Percentile	21.8%	28.7%

Companies with Yields Below 1.0%

Count	87	75
Median	19.7%	25.8%
Mean	20.5%	27.2%
25th Percentile	17.2%	21.9%
75th Percentile	22.5%	30.5%

All Companies with No Yield

Count	334	249
Median	22.1%	28.6%
Mean	24.2%	31.0%
25th Percentile	18.7%	24.2%
75th Percentile	28.6%	34.7%

All Companies with Yields

Count	394	328
Median	18.7%	24.3%
Mean	19.6%	25.4%
25th Percentile	15.3%	20.9%
75th Percentile	22.4%	29.5%