



Longbow Asset Management Company

LONGBOW ASSET MANAGEMENT COMPANY Quarterly Investment Note May 7, 2004

Evidence from numerous published studies, in addition to common logic, suggests that investors prefer firms which follow a stable and predictable dividend policy. At Longbow, dividends play an important role in our clients' common stock strategy.

We recognize that many clients rely on dividends to meet expenses (much like they rely on the interest payments from fixed income securities) and that they would be seriously inconvenienced if their portfolio's dividend stream was unstable.

Dividends are the offspring of earnings. They represent earned capital that is being returned to shareholders. Thus it follows that dividend stability and growth are predicated on earnings stability and growth.

Also of importance, dividends temper the ability of a company's management to squander capital by investing in poor projects or needlessly expanding through ill-advised acquisitions.

In our common stock portfolio, 29 of the 30 companies that we manage for clients pay dividends. (The only company that does not pay a dividend is Oracle* (NASDAQ: ORCL)).

Below we highlight the dividend accomplishments of four of our companies:

Exxon Mobil (NYSE: XOM)

Price per Share (on 05/06/04): \$43.83; Dividend Yield: 2.50%

Formed through the merger of Exxon and Mobil in late 1999, this company is the world's largest publicly owned integrated oil company serving customers in more than 200 countries.

Exxon has paid a dividend every year for more than a century. On April 28, 2004, the company increased its per share dividend by 8 percent from \$0.25 to \$0.27. This represents 22 consecutive years of increasing the annual dividend payment to shareholders.

Johnson & Johnson (NYSE: JNJ)

Price per Share (on 05/06/04): \$54.84; Dividend Yield: 2.10%

The world's largest and most recognized health care company. Johnson & Johnson offers a broad line of pharmaceuticals (47 percent of sales in 2003), consumer products such as *Tylenol* and *Band-Aid* (18 percent of sales in 2003), and other medical and dental products (35 percent of sales in 2003).

On April 22, 2004, Johnson & Johnson's Board of Directors declared an 18 percent increase in its quarterly dividend payout from \$0.24 per share to \$0.285 per share. This latest dividend increase represents 42 consecutive years of increasing the annual dividend payment to shareholders.

*In the case of Oracle, the world's largest enterprise software company, its nonexistent dividend policy is not due to financial instability (as of the last fiscal quarter ended, Oracle had \$8 billion in cash and short-term investments along with virtually no debt); instead, it is due to cash being reinvested back into the company in order to combat the competitive pressures and the endless rush to innovate and retain its market leader position in the dynamic database systems industry. (Note: Microsoft (NASDAQ: MSFT) only started paying a dividend in 2003, nearly 20 years after going public.)

Sara Lee (NYSE: SLE)

Price per Share (on 05/06/04): \$23.44; Dividend Yield: 3.2%



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Sara Lee is one of the world's leading branded consumer packaged goods companies with three global businesses—Food and Beverage (53 percent of sales in 2003), Branded Apparel (35 percent of sales), and Household Products (12 percent of sales in 2003). Its well-known name brands include *Sara Lee*, *Earth Grains*, *Jimmy Dean*, *Chock full o' Nuts*, *Hanes* and *Playtex*.

On April 29, 2004, the company declared a quarterly dividend of \$0.1875 per share on its common stock. This represents 233 consecutive quarterly dividends declared by the corporation (meaning the company has paid quarterly dividends for nearly 60 years in a row).

Wells Fargo (NYSE: WFC)

Price per Share (on 05/06/04): \$56.15; Dividend Yield: 3.3%

Founded in 1852, this San Francisco-based financial institution provides banking, insurance, investment, mortgage, and consumer finance services across North America and is the only U.S. bank rated 'Aaa' by *Moody's Investor Services*.

Wells Fargo increased its quarterly common stock dividend by 50 percent in 2003 to \$0.45 per share. Their latest quarterly dividend of \$0.45 was declared on April 27, 2004. The company targets a generous annual dividend payout ratio of 40 to 50 percent.

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Each of our firm's clients is unique and each has different investment goals. We work efficiently and in a disciplined manner to design investment solutions to meet their needs. Income generation is a central need for many clients. Hopefully, this letter illustrates how our firm provides for this particular need.

We welcome you to call our office at (918) 295-9929 if you have any questions or need assistance anytime. We are always available to help and we appreciate your trust and confidence.

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- Sources:*
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 5. Standard & Poor's Stock Reports; www.schwabinstitutional.com;
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