Dividend Momentum Rotation

Cash Flow Cowboys

Kelson Flynn | Chris Folau | Brady Pace

November 10, 2025

Investment Thesis

Idea — Rotate into the financial select sector (XLF) with rising dividends and strong price momentum.

Origin — Keim (1985) yield–return link; Korganbekova (2018) bank dividend news moves prices (short-lived); Fasano (2018) dividend policy shifts can create small abnormal returns; Wang (2020) momentum persistence.

Strategy — *Dividend Momentum Rotation* in XLF

Historical Performance— Tested DMR across 1, 3, 5, 10, 20-year windows on XLF constituents using both dividend yield & growth rate criteria. Results were not consistently better than XLF/SPY.

Recommendation – ***Do Not Invest***

What to Sell – *(Hypothetical case)*

Effect on Portfolio – *(Hypothetical case)*

Research Background

	Financials Specific (XLF)	All Sector—Broad Market
Event-driven (news or announcements)	Korganbekova (2018) — Bank dividend news moves prices. Think of it like a team announcing a trade: good news gains hype, bad news cause outrage. When banks raise dividends, prices usually pop; when they cut, prices slip. DMR takeaway: Plan entries and exits around these announcements to catch the pop or sidestep the drop.	Fasano (2018) — Changing dividend policy sends a signal. Companies tweaking how much and how reliably they pay are telling the market something about confidence verses cash. Prices often adjust for a few days as investors digest it. DMR takeaway: Favor firms pushing payouts in the right direction; de-prioritize those sending weak signals.
Cross-section (who to own, not just when)	*DMR within XLF (applied) — Pair payout progress with price strength. Back the banks that are steadily raising dividends and whose stock is already running well. Two signals in the same direction beat one.* *DMR takeaway: Rotate toward names with both dividend momentum and price momentum.*	Keim (1985) + Wang (2021) — Yield and momentum help, with guardrails. Higher dividend yield can line up with better returns, but seasonality (like January) and company size matter. Also, winners tend to keep winning—for a while. DMR takeaway: Use yield/growth as the compass and momentum as the speed gauge

Dividend Momentum Rotation (DMR)

What is Dividend Momentum Rotation (DMR)?

- Universe: XLF constituents (financials only).
- Signal: Dividend Momentum — prioritize names showing rising dividends (tested via Dividend Growth Rate (DGR) and Dividend Yield (DY) variants); Current 6 Month Total Return above Median
- Intent: Own financials that are increasing payouts and trending up.

What does the data show?

- Inconsistent returns: Only the 10-year and 5-year was positive; 1, 3, and 20-year windows underperformed SPY.
- Weak risk-adjusted profile: Sharpe and related measures lagged in most windows.

Why this supports a NO BUY!

- Not robust across timeframes.
- Risk not compensated (volatility and drawdowns without superior Sharpe).

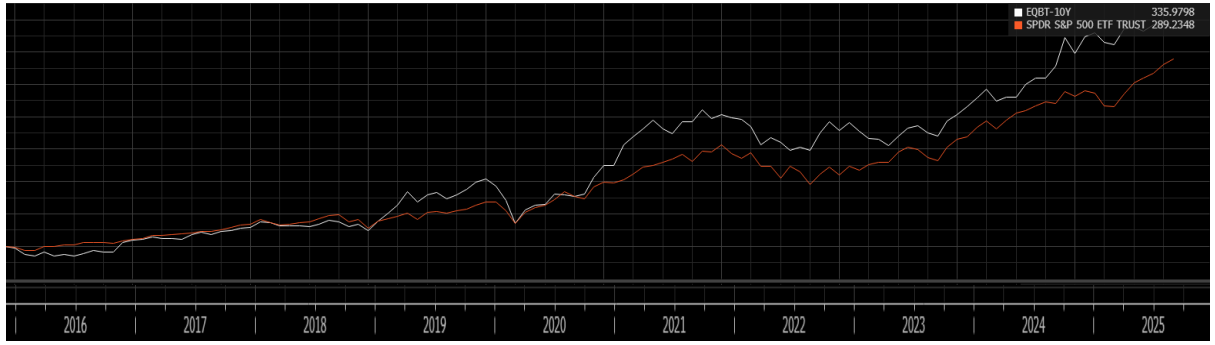
Backtesting Implementation Details

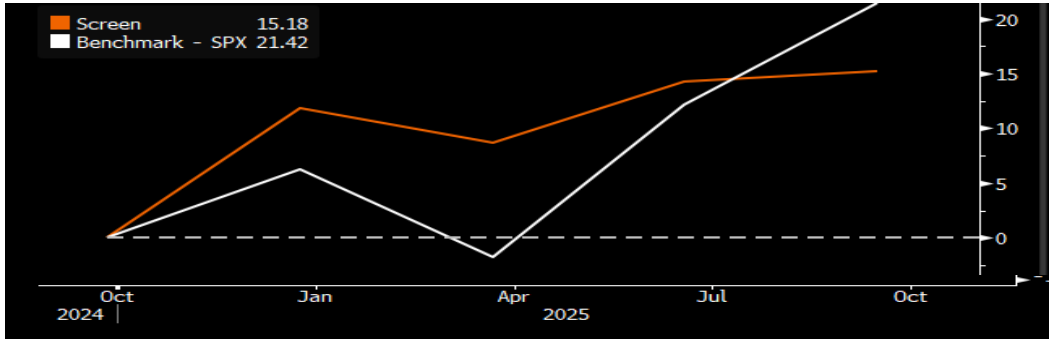
# OF STOCKS	11
MIN MARKET CAP	$ 1B
MIN MONTHLY TRADING VOLUME	$38M
WEIGHTING SCHEME	EQUAL
REBALANCING FREQUENCY	QUARTERLY
TIME FRAME	10Y, 1Y
CURRENCY	USD

Filtering Criteria

Security Universe	1624320	
Trading Status: Active	574259	
Indices: Financial Select Sector Index	75	
Security Attributes: Show Primary Security of company only	74	
Analytic Criteria	74	
Current Current Market Capitalization of a Share Class >= 1000 Million	74	LCL
Top 25 Sequential Percentile Rank - Higher is Better(Dividend Net 3yr Growth Rate)	17	
Current 6 Month Total Return (BLOOMBERG L.P.) >= 0.5	11	

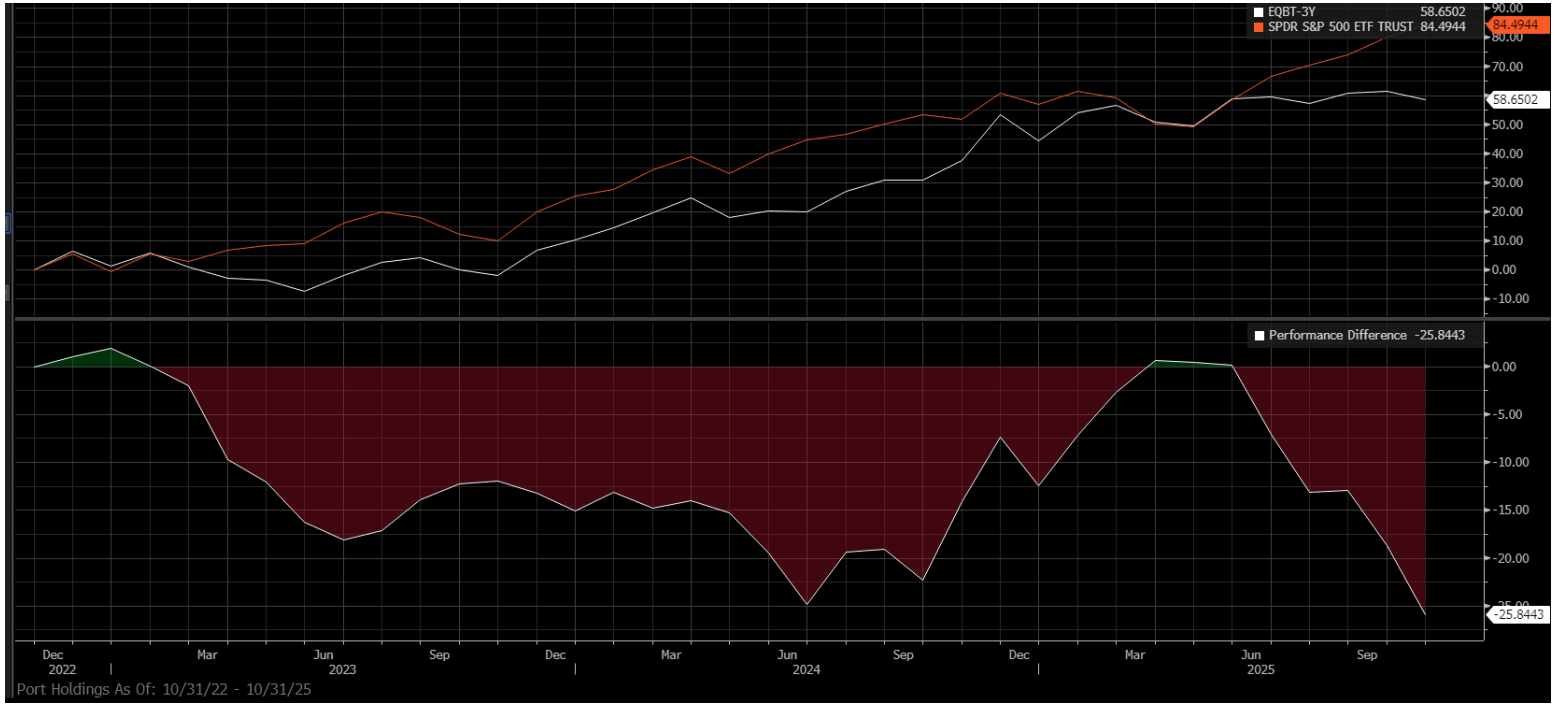
Backtesting Results – Dividend Growth Rate





Annualized	Return	α*	β*	σ	Sharpe	Treynor	Max DD	Info Ratio*	Idio. Risk
10 Year DMR	15.88%	3.04	.99	20.56	.75	.15	-20.25%	.17	.14
1 Year DMR	11.97%	-2.78	.82	10.3	1.16	.29	-2.91%	-.42	.08
10 Year SPX	14.24%	--	1.00	13.28	1.07	.14	-14.62%	--	--
1 Year SPX	16.8%	--	1.00	17.09	1.13	.17	-7.5%	--	--

Backtesting Results – Dividend Growth 3yr



Annualized	Return	α*	β*	σ	Sharpe	Treynor	Max DD	Info Ratio*	Idio. Risk
3 Year DMR	15.28%	-1.71	.78	16.17	.83	.21	-8.75%	-.44	.13
3 Year SPX	20.74%	--	1.00	13.61	1.38	.19	-8.25%	--	--

Backtesting Results – Dividend Growth Rate

10-Year Analysis	Mean	Min	25%	Median	75%	Max
Market Cap ($Billion)	219.3	21.8	36	119	270	855
P/E Ratio	20.8	10.6	14.2	15.9	34.1	36.9
Monthly Trading Volume ($Millions)	40.7	0.7	1.8	3.2	12.4	385
Share Price	289.8	24.9	86.0	163.1	552	786.3

Purchases using DGR

Name	Ticker	P/E Ratio	MoTVol ($M)	MCap ($B)	Share Price	# of Shares	Total Value
American Express	AXP	23.21	2.5	229	368.5	12	$4545.45
Bank NY Mellon	BK	15.82	3.2	76	109.6	41	$4545.45
Goldman Sachs	GS	15.98	1.8	235	786.3	6	$4545.45
Hartford Insurance	HIG	10.59	1	36	129.4	35	$4545.45
Interactive Brokerage	IBKR	34.08	3.9	119	70.54	64	$4545.45
JPMorgan Chase	JPM	15.57	7.2	855	314.2	14	$4545.45
Mastercard INC	MA	35.25	1.8	495	552	8	$4545.45
MSCI INC	MSCI	36.91	385	43	582.9	8	$4545.45
Regions Financial	RF	10.95	28	21.79	24.85	183	$4545.45
Raymond James	RJF	15.85	0.7	32	163.1	28	$4545.45
Wells Fargo	WFC	14.17	12.4	270	86.04	53	$4545.45

SPY vs DGR

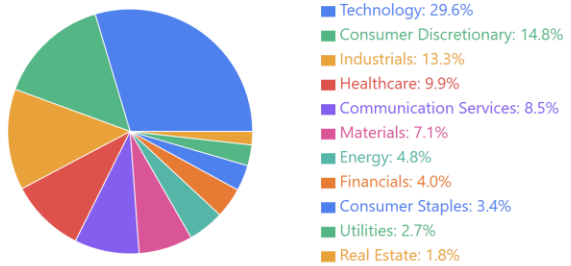
Industry Focus: *Financials*

	SPY	Strategy
Sharpe	.95	.88
Σ	16.5%	14.20%
B	1	.92
CAGR	20.10%	17.20%

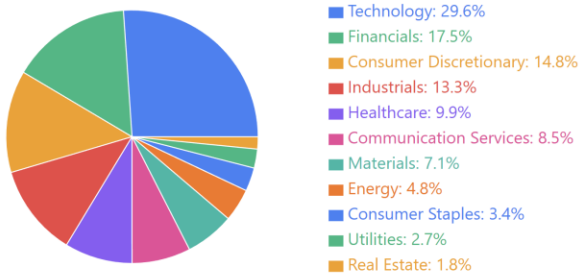
Effect on the School Portfolio

	Existing Portfolio	Proposed Portfolio
Beta	1.15	1.16
Sharpe	1.97	1.98
Standard Deviation	19.8%	18.6%
Expected Return	29.4%	28.30%
Idiosyncratic Risk	2.6%	2.2%

Current Portfolio by Sector



Proposed Portfolio by Sector



Effect on the Total Portfolio

	Current Weight	Potential Weight
Semiconductors	14.70%	14.70%
Semiconductor Equipment & Materials	10.69%	10.69%
Software - Application	9.89%	9.89%
Aerospace & Defense	8.65%	8.65%
Other/Unknown	7.46%	5.28%
Other (<0.5%)	5.57%	5.76%
Drug Manufacturers - General	4.73%	4.73%
Electrical Equipment & Parts	4.70%	4.70%
Insurance - Property & Casualty	4.16%	4.36%
Specialty Industrial Machinery	3.53%	3.53%
Engineering & Construction	3.04%	3.04%
Computer Hardware	3.03%	3.03%
Farm & Heavy Construction Machinery	2.29%	2.29%
Entertainment	1.99%	1.99%
Advertising Agencies	1.84%	1.84%
Oil & Gas E&P	1.64%	1.64%
Biotechnology	1.56%	1.56%
Restaurants	1.52%	1.52%
Software - Infrastructure	1.47%	1.47%
Auto & Truck Dealerships	0.88%	0.88%
Auto Parts	0.81%	0.81%
Capital Markets	0.80%	1.20%
Residential Construction	0.76%	0.76%
Consulting Services	0.73%	0.73%
Packaged Foods	0.69%	0.69%
Asset Management	0.58%	0.78%
Footwear & Accessories	0.56%	0.56%
Oil & Gas Midstream	0.53%	0.53%
Education & Training Services	0.52%	0.52%
Financial Data & Stock Exchanges	0.51%	0.71%
Credit Services	0.16%	0.56%
Banks - Diversified	0.00%	0.59%

Summary

Idea – *Dividend Growth Rate in XLF*

Strategy – Select companies in the financials space with growing dividends to invest in

Historical Performance – *Positive 10,5yr, Negative 1,3,20yr*

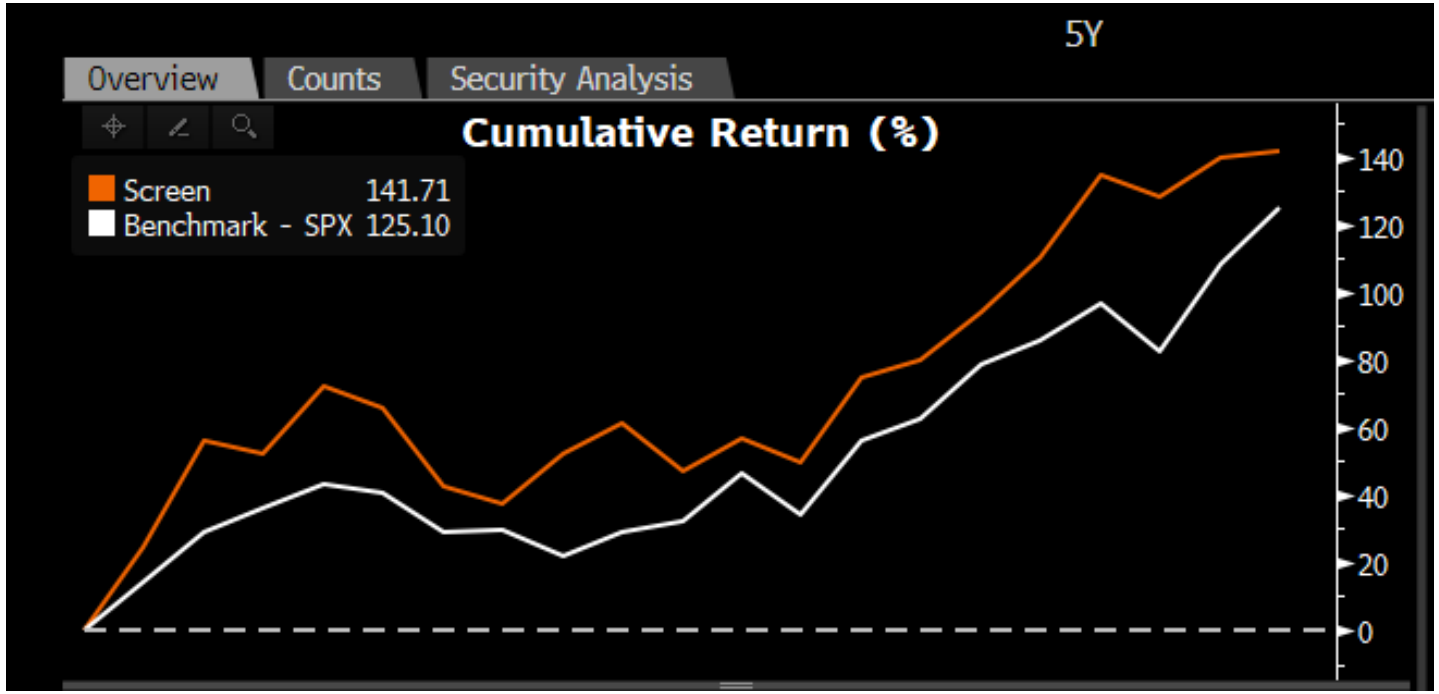
Recommendation – *Do not buy*

What to Sell – *N/A*

Effect on Portfolio – *N/A*

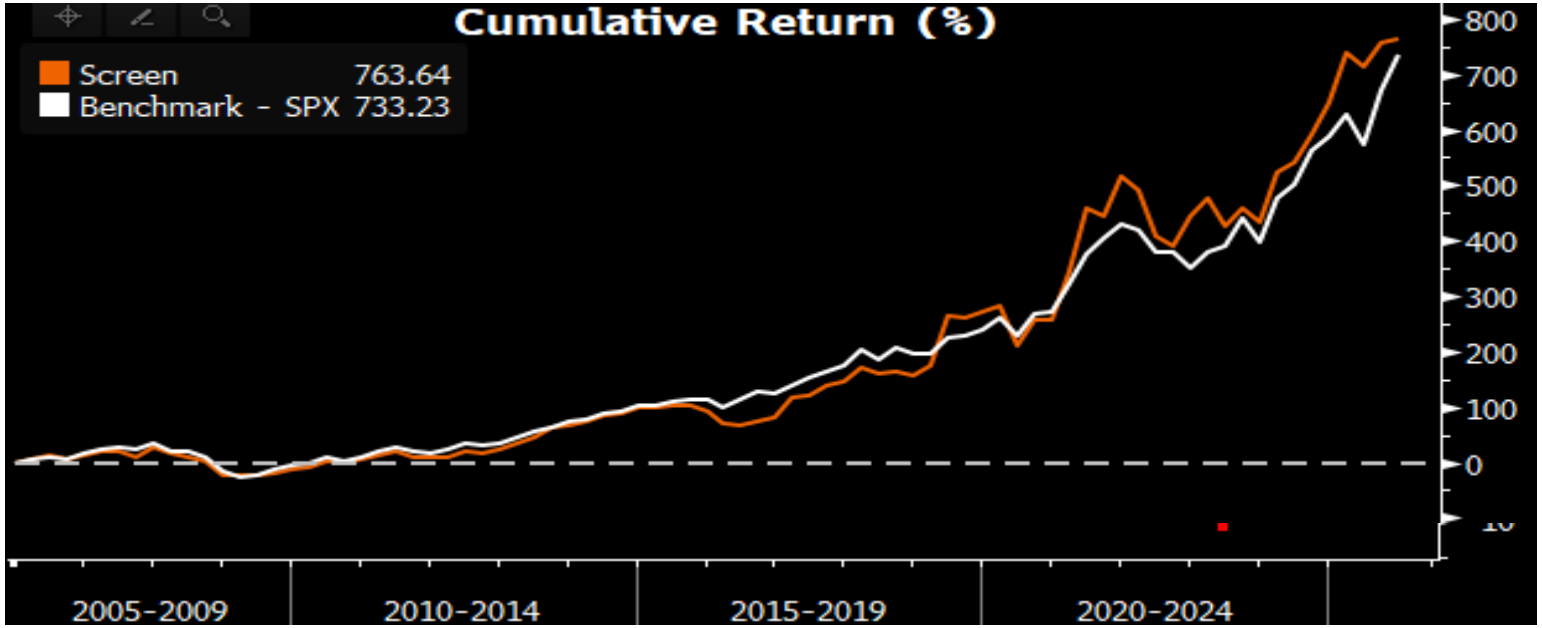
Appendix

Backtesting Results – Dividend Growth 5yr



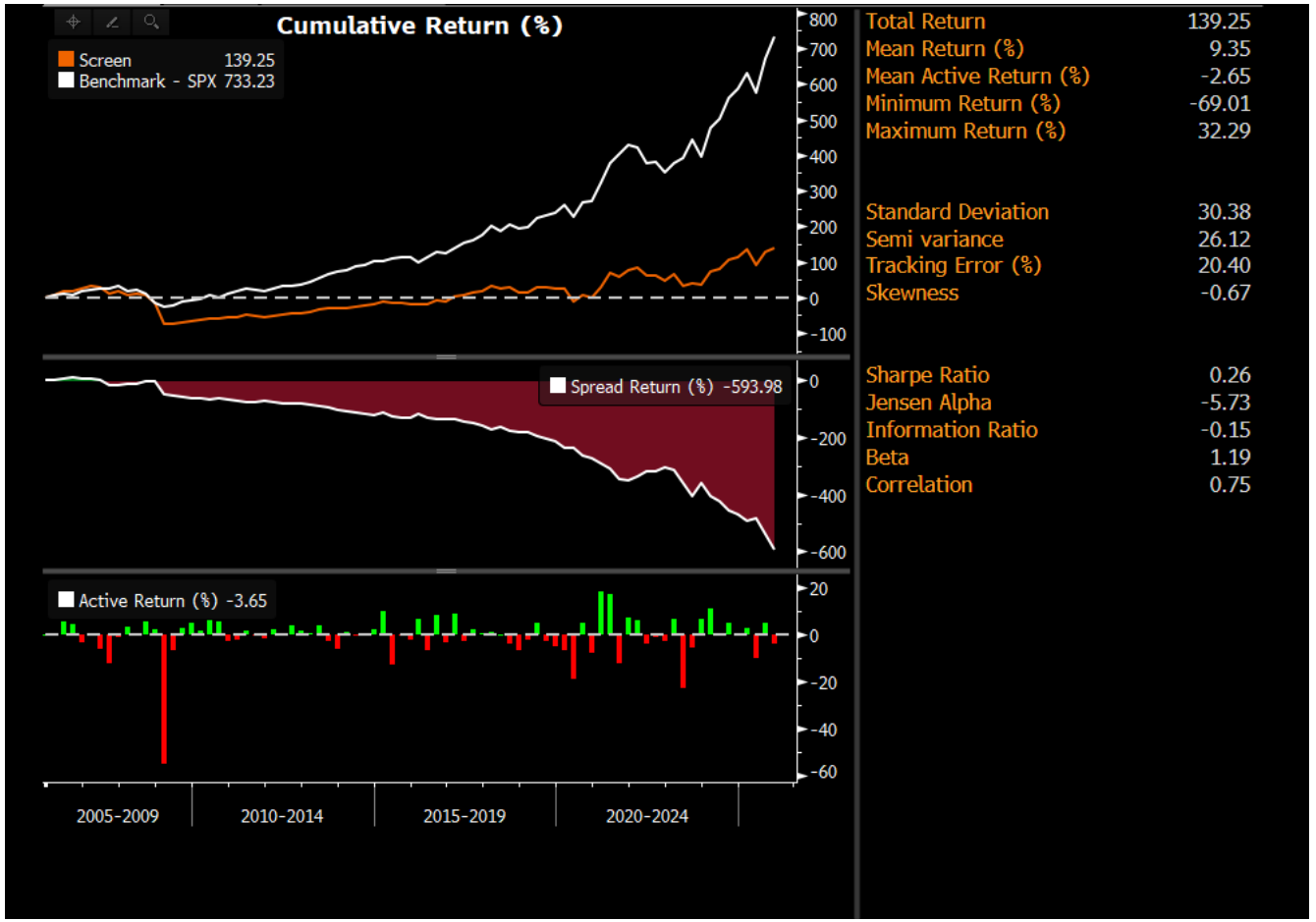
Annualized	Return	α*	β*	σ	Sharpe	Treynor	Max DD	Info Ratio*	Idio. Risk
5 Year DMR	18.31%	5.46	.81	20.19	.93	.19	-20.25%	.1	.13
5 Year SPX	16.71%	--	1.00	14.24	1.09	.15	-14.62%	--	--

Backtesting Results – Dividend Growth 20yr

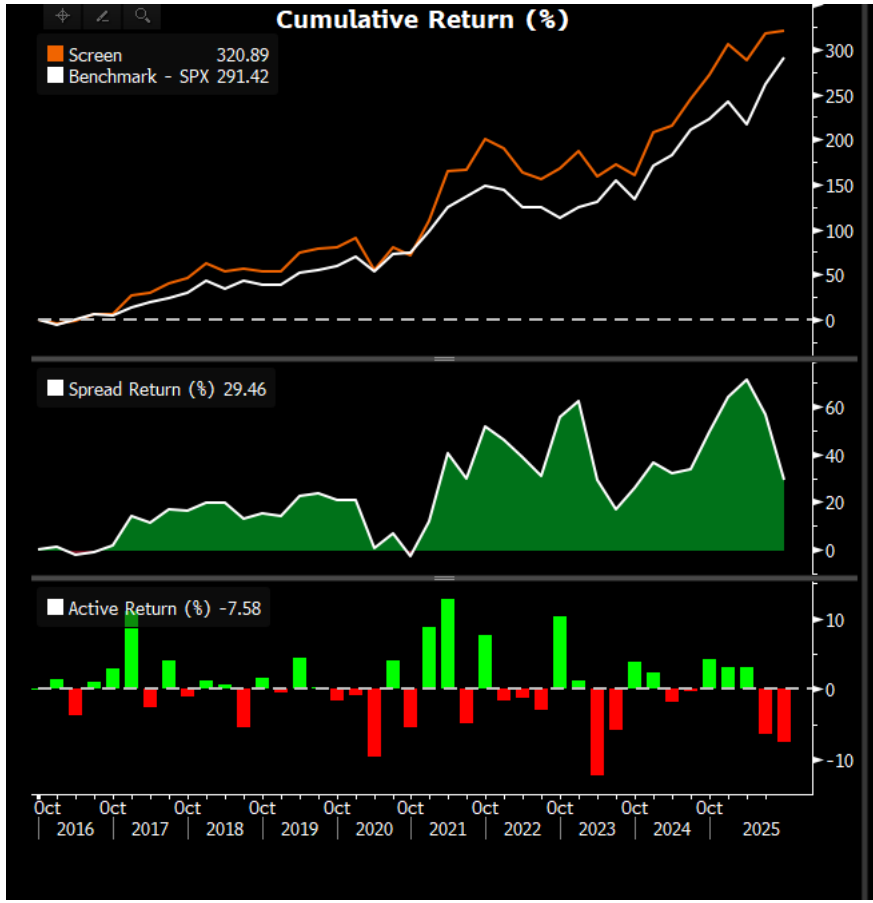


Annualized	Return	α*	β*	σ	Sharpe	Treynor	Max DD	Info Ratio*	Idio. Risk
20 DMR	11.23%	-.13	1.09	18.26	.56	.08	-38.92%	.07	.23
20 Year SPX	11.03%	--	1.00	13.69	.8	.11	-45.06%	--	--

Backtesting Results – Dividend Yield 20yr

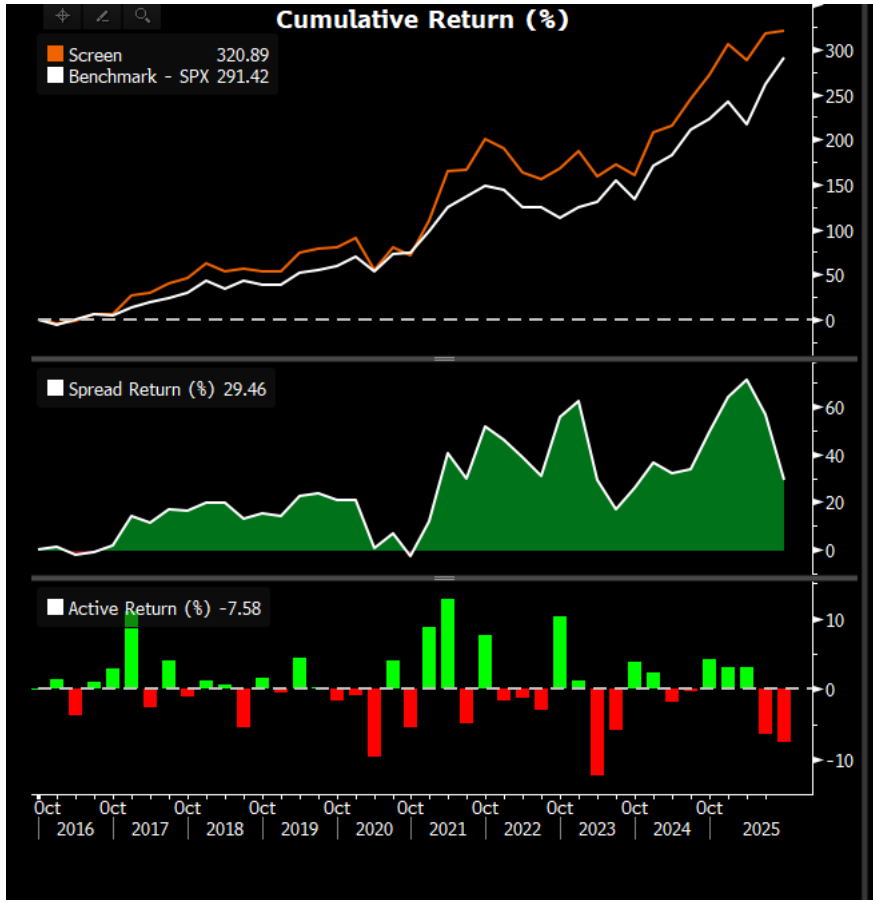


Backtesting Results – Dividend Growth 8%



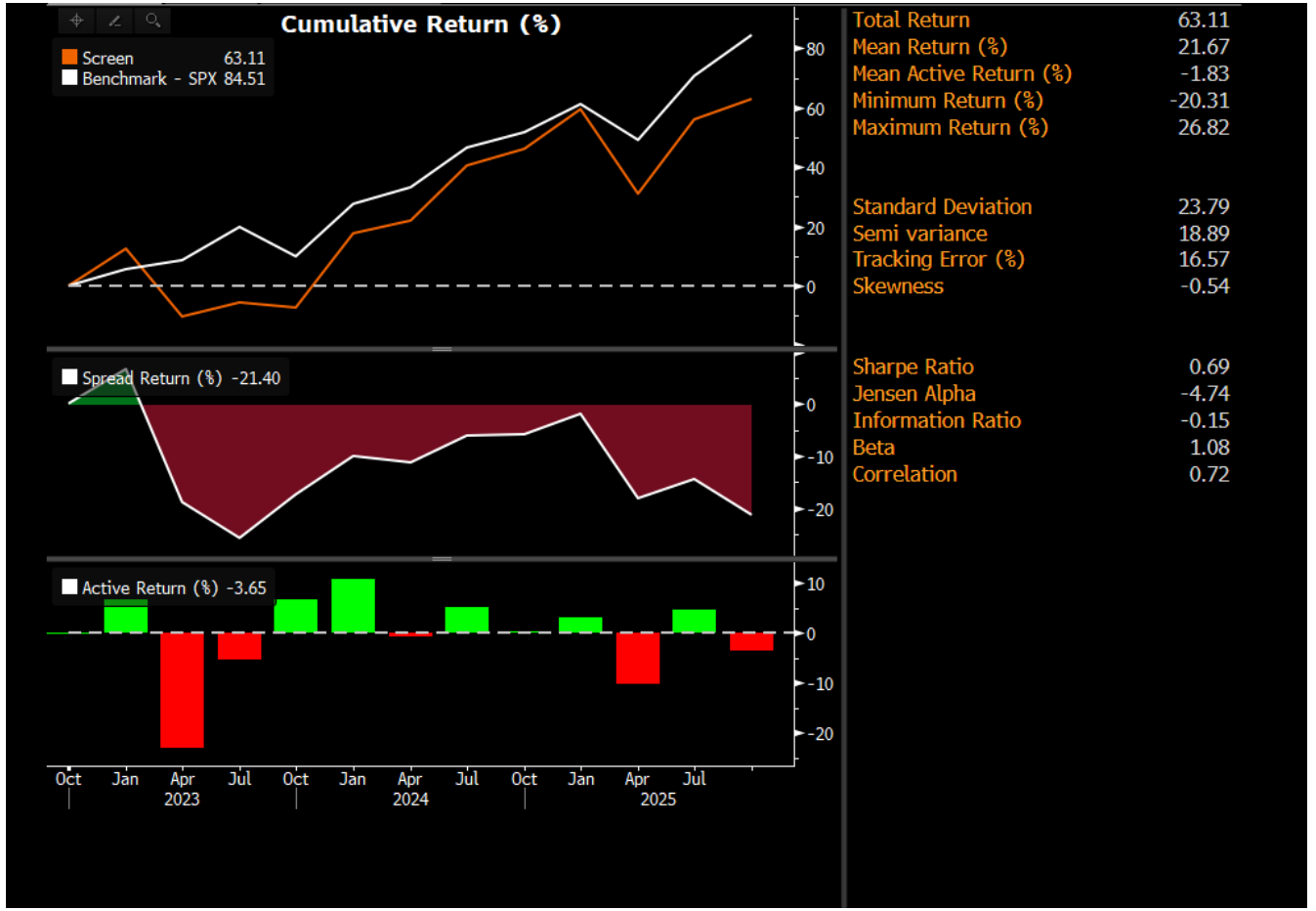
Total Return	320.89
Mean Return (%)	17.21
Mean Active Return (%)	1.44
Minimum Return (%)	-18.84
Maximum Return (%)	25.75
Standard Deviation	21.11
Semi variance	16.69
Tracking Error (%)	12.12
Skewness	-0.20
Sharpe Ratio	0.76
Jensen Alpha	2.22
Information Ratio	0.11
Beta	0.95
Correlation	0.82

Backtesting Results – Dividend Yield 10yr



Total Return	320.89
Mean Return (%)	17.21
Mean Active Return (%)	1.44
Minimum Return (%)	-18.84
Maximum Return (%)	25.75
Standard Deviation	21.11
Semi variance	16.69
Tracking Error (%)	12.12
Skewness	-0.20
Sharpe Ratio	0.76
Jensen Alpha	2.22
Information Ratio	0.11
Beta	0.95
Correlation	0.82

Backtesting Results – Dividend Yield 3yr



Total Return	63.11
Mean Return (%)	21.67
Mean Active Return (%)	-1.83
Minimum Return (%)	-20.31
Maximum Return (%)	26.82
Standard Deviation	23.79
Semi variance	18.89
Tracking Error (%)	16.57
Skewness	-0.54
Sharpe Ratio	0.69
Jensen Alpha	-4.74
Information Ratio	-0.15
Beta	1.08
Correlation	0.72

Academic References

Keim, D. B. (1985). Dividend yields and stock returns: Implications of abnormal January returns. *Journal of Financial Economics*, 14(3), 473–489.

Korganbekova, A. (2018). *The impact of dividend announcements on stock prices* (Master's thesis, Central European University).

Toschi, E., & Fasano, V. (2018). *Dividends and abnormal return: Can a change in the dividend corporate policy influence the stock's return?* (Master's thesis, Copenhagen Business School).

Wang, F., Yan, X., & Zheng, L. (2021). Time-series and cross-sectional momentum in anomaly returns. *European Financial Management*, 27(4), 736–771.