

GEORGIA PEACH RESEARCH

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September 14, 2011

YUM BRANDS IS LISTENING!

At a recent analyst meeting in Texas, Georgia Peach Research questioned Yum Brands' management vigorously and directly, saying: "It does not make sense to be reporting high returns on equity, high growth rates in revenue, and foreseeing competitive opportunities and be buying your stock in the open market... under these conditions." Put your money where your mouth and results are.

The official line is that the company is "returning its profits" to shareholders. This is a elementary school argument. This is a corporation with a \$25 billion market value. When it buys its stock in the open market, with a few million dollars here and a few million dollars there, the distribution of profits is going to a small number, relatively speaking, of shareholders selling their shares. The buy backs are not going to all the shareholders, spelled with an "s" at the end of the word.

When an economy is slowing down, when U.S. household incomes sinks to 1996 levels, the rubber meets the road when profits are distributed as dividends to all shareholders. Surely, in today's environment, there are more investors looking for cash income rather than capital gains. Once there was a huge trade off when dividend income was taxed at a higher income tax rate than capital gains, but for the time being this tradeoff is negligible. If the stock market was flooded with optimism about the future, capital gains might be more important. But for the time being, that is not the case. And when compared to bond, CD and money market yields, growing dividends talk loud and clear.

The best strategy for today's investors is to hunt for a sector in the economy which is showing progress while the economy as a whole is not. Raising dividends out of earnings is an important, but not the sole, acid test of candidates to consider.

"A rising tide lifts all boats," said President John Kennedy. Rising dividends goes to all shareholders and wets the appetite of investors who are getting historical low yields from bonds, money market funds and CDs.

Yum Brands is finally listening! It has just raised dividends 14%.

Thank you, clients of Georgia Peach Research for listening to us.