Stock Dividends and Today's Retiree

The goal of many retirees is to invest their money to generate a rising inflation adjusted income stream for life. One way to help accomplish this is through an allocation to dividend paying companies. Dividend paying stocks can be purchased individually, through a mutual fund or an index fund.

As part of our practice, we are recommending our retired clients have an allocation (55% to 60%) to stocks and specifically to dividend paying and dividend growing stocks (through mutual funds and Index funds) for the following reasons:

1) Our goal is inflation adjusted rising income. Historically, stocks within the S&P 500 Index have increased dividend payments greater than the rate of inflation.

2) From 1980 to 2021 dividends represented 84% of the total return of companies in the S&P 500. In other words, most of the return came from reinvested dividends. (2)

3) Dividend paying companies tend to be more conservative as the dividend represents a net profit to shareholders after all expenses have been paid. There is a saying, "you can't fake a dividend". It is a cash payment.

4) According to Ned Davis research, companies that regularly grow their dividends saw the highest increase in share price from 1973 to 2020. In fact, the highest returns with the least amount of volatility historically have been the dividend growing companies – not necessarily the highest dividend today – but the potential for growing dividends in the future.

5) Research has indicated retirees should re-characterize their stock investments from growth to growth and income or dividend investing. This would lead to more conservative stock investments with an income stream.

6) For retirees, a portion of your expected return could be paid to you as spendable income and it could be a growing income. These rising cash payments could help fund increasing living expenses.

7) Many companies have paid dividends and raised their dividends for the past 25 years – even through stock market corrections and the great recession of 2008/2009. There are mutual funds and index funds available with a focus on these investments.

8) Dividends are not guaranteed but tend to be paid by financially strong companies with a management team focused on the shareholder. These companies tend to have high profits, stable earnings, low debt and good payout ratios.

(1) Source: Capital Group
(2) Source: Morningstar & Hartford 12/21

As a reminder, stocks fluctuate in price and can decline significantly in poorly performing stock markets.

This is the reason we recommend an allocation to dividend paying companies yet also recommend an

allocation to bonds and cash. Some retirees may have 50% on the stock side and 50% on the bond/cash side again depending on their unique situation. An allocation to dividend paying companies- both US and abroad - should be considered as part of a well-diversified portfolio.

If your goal in retirement is to replace your paycheck with a rising income stream from your investments - consider an allocation to dividend paying stocks either individually, through an actively managed mutual fund or an index fund.

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International investing involves special risks, including but not limited to, currency fluctuations, economic instability, and political uncertainties, not typically present with domestic investment.

Mutual funds and Index funds are not FDIC insured, principal is subject to market fluctuations, and value at redemption may be worth more or less than the original cost. There is a higher degree of risk to capital associated with equity mutual funds. Although fixed income or bond funds may pay higher rates than CDs, their net asset values are sensitive to interest-rate movement and a rise in interest rates can result in a decline in value of the investment.

Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

S&P 500 Index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Investors cannot invest directly in an index.

Asset allocation and diversification does not guarantee a profit or protect against a loss.

Capital Analysts of New England, Inc.
35 Braintree Hill Office Park, Suite 400
Braintree, MA 02184
617-786-1600

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