



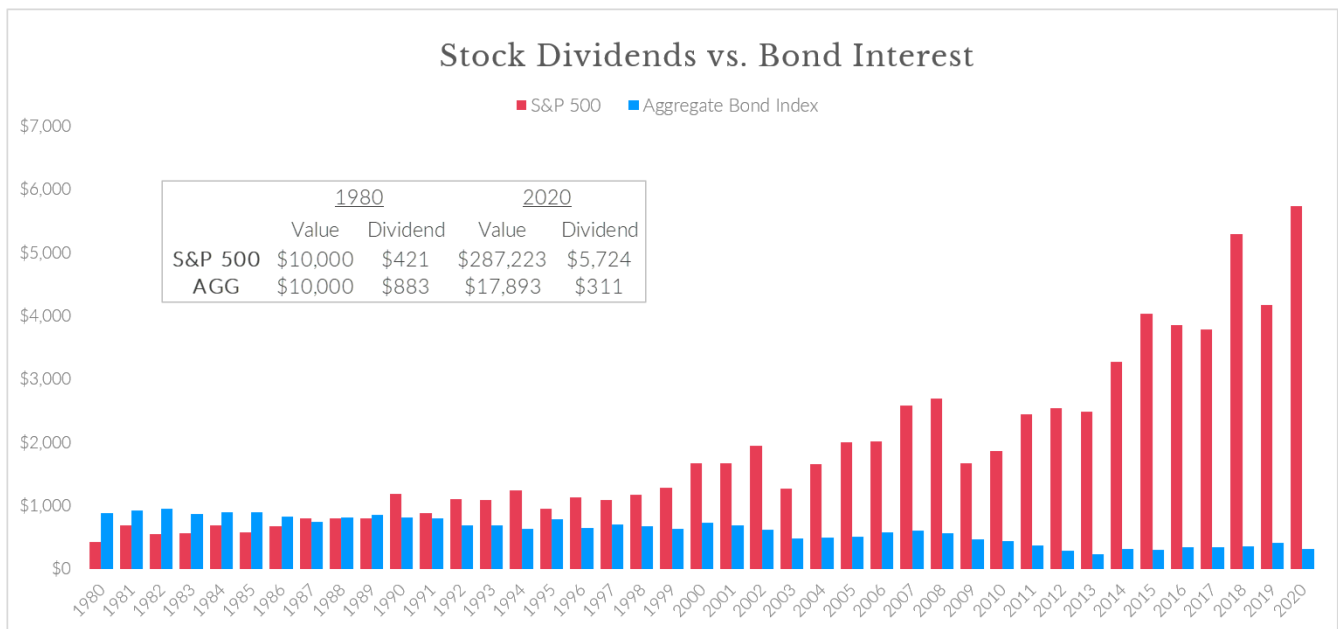
# The Power of Rising Stock Dividends

A whitepaper discussing generating income from stock dividends vs. bond interest

## The Study

If there's ever a chart to remember as an investor, it's this one. This is not a chart that chronicles one magical stock purchase that climbed to the moon. Instead, it's the story of an unassuming force in investing that could create a rising source of income for a lifetime. It's the story of stock dividends, which have proven to grow at twice the rate of inflation over the better part of stock market history. The following study will also compare how an investment in equities for dividend income has fared relative to investing in bonds for income, which are commonly thought of as a more conservative counterpart to stocks.

Let's compare a \$10,000 investment in the S&P 500 vs. the Aggregate Bond Index beginning in 1980. In each case, the investor left the principal alone, while taking the income produced each year to spend. The Income from stock dividends is shown in the **red**, income from bonds (interest) is shown in **blue**.



Source: Capital Investment Advisors

## First, We'll Talk About the Red Line – Stock Dividends.

As you can see in the table above, in the very first year, a \$10,000 investment in the S&P 500 paid a dividend of about \$421 in year one or 4.21 percent on the initial investment. Forty years later, the dividend *income* shown by the red line climbed to about \$5,724. That's a 57 percent annual yield on the original investment.

This shows that the income from stock dividends grew at about 6 percent per year. Inflation during that same period grew at about 3 percent. **So, dividends increased at double the rate of inflation.** Talk about protecting your purchasing power.

But don't forget that the investment corpus grew as well. In addition to the income you received each year, your \$10,000 investment would have grown into more than \$287,000.

This price-only return (which excludes dividend income) clocks in at about 8.75 percent per year. If you add in another 3 percent for the dividends each year, you get a total return of about 11.75 percent per year. If you had re-invested all the dividends into your portfolio, your \$10,000 would have grown to almost \$850,000 after 40 years.

## What About The Blue Line – Bond Interest?

Bonds are typically thought of as a safer alternative to stocks – maybe too safe. They were great in 1980 when you were getting almost a 9 percent return. But over time, the Lehman/Barclay's Aggregate Bond Index grew from \$10,000 to only \$17,893 and would now pay you only \$311 per year, or 1.75 percent on your investment.

## The Verdict

Based upon the data in our study, stock dividend income wins against bond income by an incredibly large margin. Annual stock dividend income increased over 13.5-fold, while the remaining price-only return grew 28-fold. Bonds, on the other hand, rose less than two times in price (during the longest bond bull market we've seen in history) and experienced a 64 percent reduction in income.

It doesn't matter if you have \$500,000, \$5 million or \$50 million in your retirement portfolio. It's hard to find a more consistent source of growing income to outpace inflation, along with the potential for a dramatic increase in your underlying principal. 28X the value of your investment and 13.5X your annual income\*.

When you look at these historical studies, you might say to yourself, "That would have been nice over the *last 40 years* so haven't I missed the boat?" Not really. If you're 40 or 50 years old, don't you have 3 to 4 decades left to invest? Contrary to your brain saying, "it's too late for this," remember that you have more years of spending ahead of you than you might think. Think in decades, not years.

Now, imagine looking specifically for stocks that are perennial dividend payers and consistent dividend growers. This pursuit of dividends is perhaps worthy of a life's work for any investor with the long-term patience and vision to do so.

*\*From 1980 through June 30th, 2020 this study showed that cumulatively, bond interest totaled \$25,117 while stock dividends totaled \$76,230. From a current income perspective by 2020, stock dividends were more than 18 times that of bond interest per year (\$5,724 vs. \$311).*

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