

Why Dividends Matter...

especially now



Why focus on dividends at a time when some may consider the strategy unimaginative? Because history proves its wisdom. This is true even after a 2020 headlined by notable nonpayers of dividends. It's impossible to ignore the fact, stay at home stocks (most of them non-dividend payers), markedly outperformed the S&P 500 in the short term. **We invest for the long-term benefit of our clients and if this year taught us anything, it's that performance can turn on a dime.**

Morgan Stanley's global head of macro strategy forecasts 10-year US Treasury rate will rise to 1.45% by the end of 2021. It's near 1% now. Companies with long histories of consistent dividend growth tend to outperform as rates increase, says MS & Co.'s Matthew Hornbach¹. Inflation is often a key driver to higher rates. Hornbach states that companies with rising dividend streams are useful in offsetting higher inflation. I must concur; if a client's income stream from his or her portfolio can grow faster than the rate of inflation, that means lifestyle enhancement, not just sustainability.

Reinvesting dividends during down periods also pays off, but investors can't get discouraged. This is where an experienced counselor is essential, and our hand-selected team of advisors proves valuable.

Investment choices begin with this fundamental: dividends are paid in cold hard cash and an obvious sign of the company's strength. **A commitment to quarterly dividends is a clear sign the company understands that shareholders own the business and should be tangibly rewarded for their investment.** The key is consistently picking quality companies with attractive and sustainable payouts.

Investing in dividend payers has historically been shown to reduce portfolio risk. We find focusing on short term results in financial markets is at odds with sound investment principles. Consider too this benefit: qualified dividend payments are taxed at a lower rate than ordinary income.

Finally, dividends pay dividends. The cash flow generated can supplement your retirement income, help finance pre-retirement needs, or be used to reinvest for future gains. Each investor has unique needs requiring a customized approach. While a disciplined dividend strategy may have seemed outdated last year, I remain convinced time will show their timeless appeal and enduring value. You can call us unimaginative, but in the same breath you must also call us committed to providing investors with tangible benefits in unpredictable markets.

¹Source: Morgan Stanley, *On the Market February 2021, 2021 Should Be a Good Year for Buybacks and Dividends*
<https://advisor.morganstanley.com/thomas.mcgee/documents/home-office/global-investment-committee/On-The-Markets.pdf>

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