

More Than Yield...

Factors Influencing Successful Dividend Investing



Retire on dividends... it's a laudable goal and an attainable one if you look beyond the current yield on your equity choices and observe several factors which can work in tandem to create income for the long haul. Consider these:

Yield on Cost

Current yield is, of course, an important consideration, but yield on cost is a great way to magnify your investment. For example, a stock purchased five years ago that yielded 2% at the time and has grown its dividend 10% annually now would yield 3.2% on your original investment. In 5 more years, that yield on cost would be 5.2% given the same annual growth rate in dividends. **Getting more (and growing) income from the same amount of capital initially spent is, I feel, the real measure of success.**

Diversification of income

It's popular to tout diversifying the allocation of capital... it's also important to diversify the allocation of income. The income contribution from a higher yielding stock can become more concentrated if its capital weight is similar to those of stocks with lower yields. That leaves the investor more vulnerable to adverse events if a higher yielding company's dividend is reduced. So, **it is very important to understand and appreciate the diversification of income.**

Harmonious Existence of Yield and Growth

(You won't find this phrase in the Financial Terms Dictionary, but it's common at Bahl & Gaynor.) This means it is important to have a combination of lower yielding stocks with higher expected dividend growth rates, blended with higher yielding stocks with lower expected growth rates. **This allows the investor to create a more balanced portfolio that encompasses multiple sectors and reduces the income and capital risk to the portfolio.**

These are the tenets of building an income stream for retirement, education, recreation... while protecting your principal investments (even as a volatile market rotates around us). These are the principles that have guided Bahl & Gaynor's disciplined approach for more than 30 years, helping our clients with customized plans to achieve capital appreciation as well as income growth.

This commentary is for information, education, and research purposes only. No fiduciary relationship exists because of this commentary. Past performance is not necessarily indicative of future results. Investing in securities involves risk of loss which readers should be prepared to bear.



John B. Schmitz
CFA, CIC
Portfolio Manager
and Principal