



Why Dividends Deliver: Three Reasons Dividend Growth Investing Works

Bahl&Gaynor
Dividends Pay Dividends®

Investing involves risk, including possible loss of principal. Dividend growth investing does not guarantee income growth or wealth preservation.

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Key Takeaways

1

Dividends reflect real company profit and commitment to shareholders

2

Dividends often indicate business stability and therefore offer predictability

3

Dividends support long-term wealth creation through stability and compounding

Looking for a way to both stabilize and expand your portfolio potential?

Consider dividend growth investing, a time-tested strategy of investing in stocks that pay consistent, growing dividends. These companies tend to be financially strong and committed to durable, long-term growth, potentially offering an appealing combination of predictable returns and portfolio stability.

Capital appreciation often takes center stage when investing in stocks, especially in momentum-driven bull markets. But dividend growth investing can help offer a steadier, more reliable way to build wealth over the long run. Companies that consistently raise their dividends often exhibit strong cash flow generation and prudent capital management, traits that signal financial health and resilience. This can provide investors with confidence, helping to build not only sustainable investment income, but also enduring value potential across full market cycles.

In the pages that follow, we explore three reasons why dividends have proven to be a powerful performance engine and a compelling strategy for compounding wealth over time.

Reason 1: Dividends reflect real company profit and commitment to shareholders

While earnings reports and financial statements offer insights into a company's operations, dividends cut through the noise. They represent real cash, paid out of real profits, that a company is confident enough to share with its shareholders on an ongoing basis.

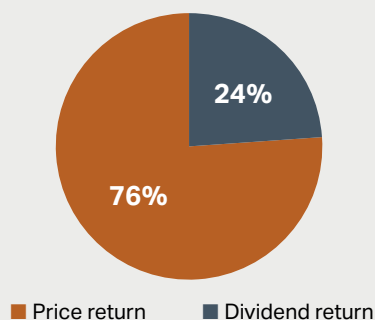
WHY IT MATTERS:

- **Financial Health:** A company that can pay and grow dividends demonstrates strong financial footing.
- **Ownership Commitment:** Regular, growing dividends demonstrate commitment to shareholders by returning cash earnings and treating them as true owners.
- **Confidence in the Future:** Companies that increase dividends typically do so because they believe in their future earnings potential.
- **Business Discipline:** Paying dividends requires thoughtful capital allocation, reinforcing the deployment of prudent, sustainable growth strategies.
- **Long-Term Viability:** Dividends—especially consistently growing dividends—provide a clear lens into a company's performance.

Dividends Have Accounted for a Significant Portion of the Stock Market's Historical Investment Returns

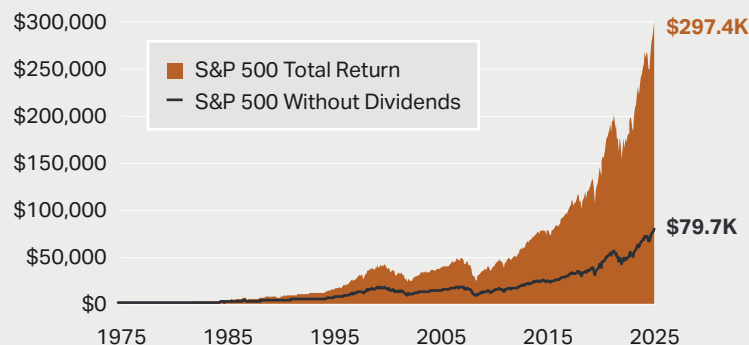
Over the past 50 years, dividends have contributed 24% of the S&P 500's average annual return.

Total Return Components, 1975-3Q2025¹



On a compounded basis, assuming dividend reinvestment, dividends' contribution to total return grows to over 73% of the S&P 500's cumulative return.

The Power of Dividend Reinvestment¹



Historical/hypothetical data shown for illustrative purposes only and does not represent actual performance. Past performance is not predictive of future results. Historical dividend contributions may vary over time.

Reason 2: Dividends often indicate business stability and therefore offer predictability

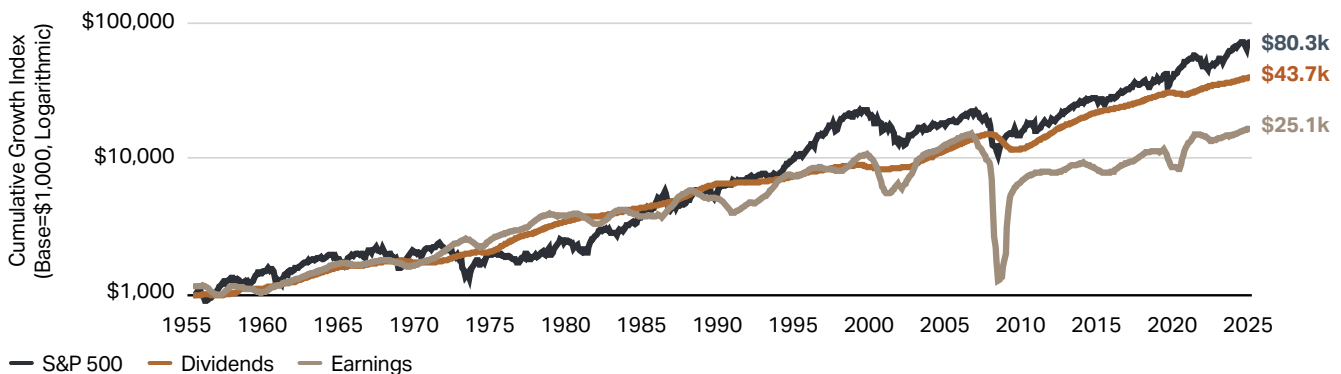
In an investment landscape increasingly driven by headlines and short-termism dividends can offer a steadying force. While stock prices may fluctuate widely, dividend payouts tend to deliver consistent, reliable returns that bring clarity and discipline to long-term investing.

WHAT HISTORY SHOWS:

- **Slow and Steady:** Quality companies focused on dividend growth can offer a solid foundation for a stock's total return. As the chart below shows, companies that have consistently increased their dividend payments to shareholders have generally outperformed the broader equity market and non-dividend paying companies.

Market Price May Rise or Fall, but Dividends That Grow Steadily Can Increase Income and Total Return Potential²

Hypothetical growth of \$1,000 investment (3/1957 to 2Q2025)



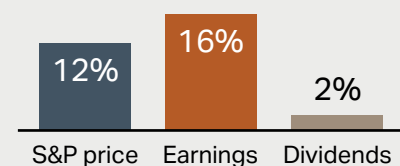
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- **Defense in Down Markets:** Dividend income can help buffer stock price fluctuations, creating a sense of predictability and reliability, even amid challenging markets and times of uncertainty.
- **Stability Over Price Volatility:** A non-dividend-paying stock's volatility typically mirrors 100% of its price volatility, whereas a dividend-paying stock generally will exhibit reduced volatility, reflecting proportional components of both price and dividend volatility, based on its payout.
- **Payout Resilience:** Companies that pay dividends are generally reluctant to cut them. Doing so can signal weakness or damage investor confidence. As a result, dividend payouts have historically been much less volatile compared to stock earnings and share prices (see chart).
- **Focused Selection:** Many publicly traded companies do not pay dividends, offering dividend investors a more selective, and potentially more stable, subset of the market for portfolio construction.

Dividend Payouts Have Shown Much Greater Stability Than Earnings and Stock Prices

Across U.S. stock market history, dividend payouts have been far more stable, on average, than earnings or stock prices.

Comparative Standard Deviations of U.S. Stock Market Drivers, 3/1957-2Q2025²



Reason 3: Dividends support long-term wealth creation through stability and compounding

An actively managed dividend growth strategy can be a powerful portfolio addition, whether investors are looking for a durable source of investment income or aiming to grow and protect their wealth over the long term.

CRITICAL INVESTOR PRIORITIES:

- Capital and Dividend Compounding:** Let your money work for you. Actively managed dividend growth strategies tap into two key sources of return: capital appreciation and dividend income. Together, these can enhance overall performance potential. With companies that grow their dividends, reinvestment buys more shares that also earn dividends, compounding returns and building on a dollar-cost-averaging strategy.
- Inflation Protection:** As inflation eats away at purchasing power, rising dividend payouts may serve as a valuable defense. Unlike fixed-income sources with static payments, dividend growth strategies offer the potential for increasing cash flow over time. This can help investors preserve, and even enhance, their real returns across inflationary environments.
- Risk Mitigation:** Actively managed dividend growth strategies can help reduce portfolio risk exposures in two key ways. First, dividend-paying stocks have historically shown lower volatility, though this is not guaranteed, with steadier performance in both rising and falling markets. Second, dividends provide a cushion during market declines, helping investors recover faster. The chart below highlights how limiting losses reduces the gains needed to recover, reinforcing the value of capturing steadier performance.

“At Bahl & Gaynor, we have seen firsthand how the consistency and resilience that is typically associated with dividend growth investing can offer investors a cornerstone of sustainable wealth building.”

– Robert S. Groenke,
Chief Executive Officer

The Math of Loss, and How Much It Takes to Get Back

Based on hypothetical \$1,000 investment

If an investment loses...		Getting back to the initial value requires a gain of...
Percent Loss	New Value	Breakeven Gain
-100%	\$0	-
-90%	\$100	900%
-80%	\$200	400%
-70%	\$300	233%
-60%	\$400	150%
-50%	\$500	100%
-40%	\$600	67%
-30%	\$700	43%
-20%	\$800	25%
-10%	\$900	11%

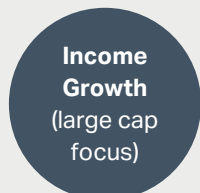
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Bahl & Gaynor Investment Strategies³

Income Growth Family

Targeted Client Outcomes:

- Current & Consistent Income Growth
- Downside Risk Protection
- Seeks Alpha Generation



Strategy:

- Inception: 12/2005
- AUM/AUA: \$41.5B
- Inception: 3/2013
- AUM/AUA: \$2.7B

Vehicle:

- Active ETF
- Advisor SMA/UMA
- Managed Accounts
- Active ETF
- Advisor SMA/UMA
- Managed Accounts

Dividend Family

Targeted Client Outcomes:

- Long-Term Income Growth
- Downside Risk Protection
- Seeks Alpha Generation



- Inception: 6/1990
- AUM/AUA: \$7.0B
- Inception: 12/2005
- AUM/AUA: \$0.4B

- Active ETF
- Advisor SMA/UMA
- Managed Accounts
- Active ETF
- Advisor SMA/UMA
- Managed Accounts

¹ Source: Ned Davis Research, Inc (Prior to 9/30/2018), FactSet (Post 9/30/2018). Data as of 9/30/2025. ² Source: <https://shillerdata.com/>. Based on S&P 500 going back to inception in 3/1957 using historical stock prices, earnings and dividends of large U.S. companies. ³ Source: Bahl & Gaynor. Bahl & Gaynor identifies assets under management as assets over which the firm has discretion (including high net worth and institutional accounts and certain platform assets). Assets under advisement include model-only platform assets over which the firm does not have discretion. Data as of 9/30/2025.

Definitions: **Alpha** is a measure of risk-adjusted return expected from a portfolio above the benchmark return at any point in time. **Dollar Cost Averaging** is investing your money in equal portions, at regular intervals, regardless of the ups and downs in the market. **Standard Deviation** is a statistical measure of historical variability of returns around a mathematical average return that was produced over a given period. The higher the standard deviation, the greater the variability in returns relative to the average return.

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