

The Power of Dividend Growth

There are several ways an investor can seek to generate income from their portfolio — fixed income investments and dividend-paying equities being the two primary vehicles. Fixed income investments (i.e.: bonds) typically generate a fixed stream of income over the life of the bond with the principal returned at maturity. Dividend-paying equities may also provide a relatively reliable source of income, with the potential for capital appreciation. Stocks that consistently increase their dividend may offer even greater long-term potential.

- As illustrated in Exhibit 1, shifting focus from the initial absolute yield to dividend growth creates the potential for increasing long-term purchasing power, even in an inflationary environment. While there is no guarantee that a company will grow their dividend, or even pay a consistent one, dividend growth, when achieved, can help an investor maintain purchasing power in an inflationary environment.
- Over time, dividend growth can considerably augment an investor’s income stream both on an absolute basis and relative to a fixed yielding investment (see Exhibit 2).
- Dividend growth provides a strong foundation for a stock’s total return; Dividend Growers and Initiators in the S&P 500 have, on average, returned +10.2% annually from 1/31/1973–12/31/2023.¹ The more frequently dividends are issued and reinvested, the greater the compounding effect and the higher the annualized rate of return. Remember that dividends are still considered taxable earnings, even when reinvested.
- Dividend payments have favorable tax treatment, currently subject to a federal income tax of 15% for investors in the 25% tax bracket or higher with net long-term capital gains for securities held longer than one year. Consult a tax professional regarding taxation of dividends.

Hypothetical Illustrations:

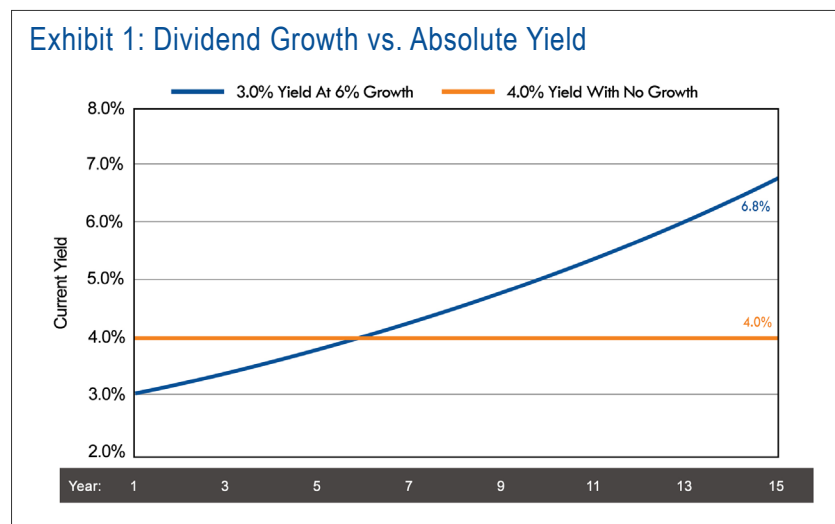


Exhibit 2: Annual Income on \$100,000 Investment

Initial Dividend Yield = 3%
Fixed Yield = 4% Dividend Growth Rates of 5%, 6%, 7% and 8%

Year	4%	5%	6%	7%	8%
Year 1	\$4,000	\$3,000	\$3,000	\$3,000	\$3,000
2	\$4,000	\$3,150	\$3,180	\$3,210	\$3,240
3	\$4,000	\$3,308	\$3,371	\$3,435	\$3,499
4	\$4,000	\$3,473	\$3,573	\$3,675	\$3,779
5	\$4,000	\$3,647	\$3,787	\$3,932	\$4,081
6	\$4,000	\$3,829	\$4,015	\$4,208	\$4,408
7	\$4,000	\$4,020	\$4,256	\$4,502	\$4,761
8	\$4,000	\$4,221	\$4,511	\$4,817	\$5,141
9	\$4,000	\$4,432	\$4,782	\$5,155	\$5,553
10	\$4,000	\$4,654	\$5,068	\$5,515	\$5,997
15	\$4,000	\$5,940	\$6,783	\$7,736	\$8,812
20	\$4,000	\$7,581	\$9,077	\$10,850	\$12,947
25	\$4,000	\$9,675	\$12,147	\$15,217	\$19,024
30	\$4,000	\$12,348	\$16,255	\$21,343	\$27,952

Figures in Exhibits 1 & 2 illustrate the annual income potential generated by a hypothetical investment and do not reflect the impact any price appreciation or depreciation may have on the total market value of the investment. An investment may be worth more or less than the initial principal investment at sale. Actual dividend growth rates will vary over time and may not always be positive.

Key Takeaway:

Dividend-growing equities have the potential to augment your income, grow your purchasing power and act as a cushion in difficult markets.



To discuss how dividend growth stocks may fit into your portfolio, please contact a financial professional or visit www.aamlive.com.

1. Source: Ned Davis Research. Dividend Growers and Initiators include stocks in the S&P 500 Index that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a Grower for 12 months or until another change in dividend policy. The S&P 500 Index is an unmanaged market capitalization-weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors.

Hypothetical income figures are not indicative of future results; actual income may be lower or higher than the annual dividend income shown. Past performance does not guarantee future performance.

Dividend Payment Risk: An issuer of a security may be unwilling or unable to pay income on a security. Common stocks do not assure dividend payments and are paid only when declared by an issuer's board of directors. The amount of any dividend may vary over time. A company may choose to skip or suspend dividend payments. In this case, shareholders lose the investment income and might also see the value of their shares fall if income-oriented investors sell their holdings.

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18925 Base Camp Road • Monument, CO 80132 • www.aamlive.com

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