

Power of Compounding with Dividend-Growing Equities

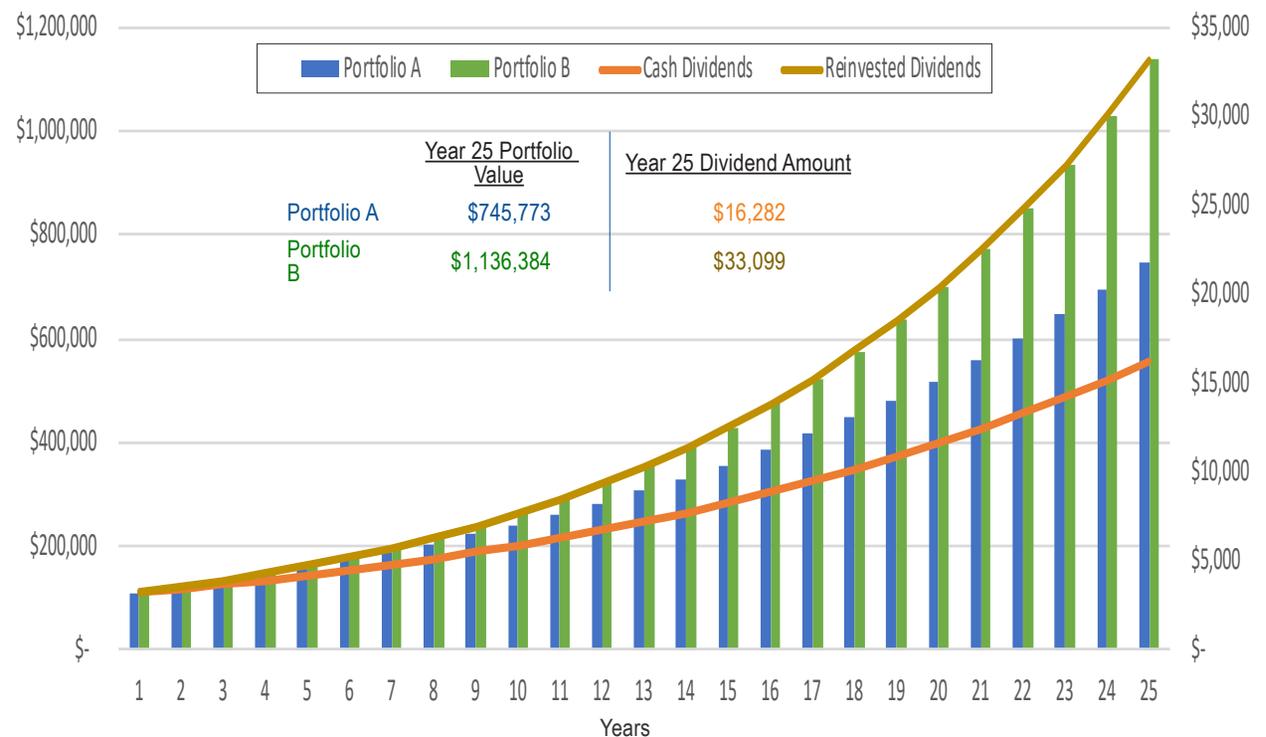
Few people would argue that when you have time on your side, the power of compounding is able to work its magic. Harness this power in dividend-paying equities that exhibit steady dividend growth and the effects can potentially be even more pronounced. Consider an example with the the assumptions listed in Table 1 for \$100,000 invested for 25 years with an annual investment return of 7%, an annual 3% dividend payout, along with a steady moderate dividend growth rate of 7%. Let's assume Portfolio A withdraws the dividends in cash, while Portfolio B reinvests the dividends.

The results are illustrated in Exhibit 1 and show that in 25 years, the account value of Portfolio B has increased at an *accelerated rate* due to the effects of compounding on reinvested dividends. While there is no guarantee that a company will grow its dividend, or even pay a consistent one, steady dividend growth, when achieved, can help an investor to potentially increase their purchasing power over time.

Table 1: Assumptions

Initial Investment	\$100k
Years Invested	25
Annual Investment Return	7%
Annual Dividend Payout	3%
Dividend Growth Rate	7%

Exhibit 1: Hypothetical Illustration: Reinvesting Dividends v. Withdrawing Dividends



Figures in Table 1 and Exhibit 1 are hypothetical and illustrate the annual income potential generated by a hypothetical investment and does not take into account any fees. 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.

Why Steady Dividend Growth?

A consistent dividend distribution tends to be a positive sign of a company's health. Moreover, consistent increases in the amount of the dividend distribution is an indication of the growth potential of future dividend distribution amounts - since companies increase dividends only when it believes it can sustain the amount in the future. Exhibit 2 shows a 3% dividend payout at various growth rates. You can see that over time reinvesting the consistent increases in annual dividend payouts can leverage compounding to potentially accelerate the growth of a portfolio. Remember that dividends are still considered taxable earnings, even when reinvested. Consult a tax professional regarding taxation of dividends.

Exhibit 2: Hypothetical Illustration: Annual Dividends on \$100,000 at Various Dividend Growth Rates (%)

Year	0%	6%	7%	8%
1	\$3,000	\$3,000	\$3,000	\$3,000
2	\$3,000	\$3,180	\$3,210	\$3,240
3	\$3,000	\$3,371	\$3,435	\$3,499
4	\$3,000	\$3,573	\$3,675	\$3,779
5	\$3,000	\$3,787	\$3,932	\$4,081
10	\$3,000	\$5,068	\$5,515	\$5,997
15	\$3,000	\$6,783	\$7,736	\$8,812
20	\$3,000	\$9,077	\$10,850	\$12,947
25	\$3,000	\$12,147	\$15,217	\$19,024

Figures in Exhibit 2 are hypothetical and 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.

For more information on how dividend growth stocks may fit into your portfolio, please contact your financial professional or visit www.aamlive.com.

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

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