



## Why dividends make me (and my clients) happy

A diverse portfolio of leading companies is a satisfying way to invest

BY DANIEL COHEN

My daily morning routine includes reviewing the activity in my clients' accounts. Included in this review is a listing of all dividends received into client accounts. Almost every day there is at least one company in client portfolios that is paying their dividends, and the list of clients holding those dividend-paying positions is long. These recurring payments give me great comfort. Many clients and investors likewise appreciate the regular dividends that companies pay.

Finances are a leading cause of stress for so many people, whether young or old, wealthy or not, working or retired. The daily volatility of the markets and the threat of uncontrolled inflation raises investor stress levels, although we have just finished the third positive year in the market with outstanding gains during this time.

Companies have been reporting strong financial results in the past year and that has helped fuel the healthy gains in the market. However, investors cannot sit back and enjoy their success and celebrate gains for long. Every year brings new worries and cause for concern. Positions that were hitting highs can quickly correct, and the market can lose 5 to 10 percent seemingly overnight. Therefore, proactive portfolio management and long-term focus are both crucial.

The returns you earn in the market are a combination of the gain in the price of a position plus the cash flow paid from dividends. Most companies return a portion of their profit to shareholders, and those are dividends. Ideally, a company retains some of their profit to reinvest back into the business or to retain in reserves in case funds are needed.

**Most rapidly growing companies** pay no dividends because all their profit is being reinvested to fund the company's growth



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plans. The companies with the least volatility are the ones that balance their profit so that some is returned to their shareholders, and some is invested back into the company. Those that are highly leveraged with debt and pay no dividends or are growing rapidly but losing money are the most volatile.

Dividends are an ideal source of income for multiple reasons. Studies show that people with multiple sources of regular recurring income are happier than those who are limited to spending their investment principal for their livelihood. Most companies pay their dividends on a regular basis and quarterly is most common.

Historically, dividends have grown at about 5 percent per year, so that someone living off their dividends has been able to enjoy not only a steady income but a steadily growing income. There are many companies that have been paying dividends for decades with consistent annual increases.

For the long-term investor in dividend-paying companies, the dividend payout can be significant over time. Someone who bought Apple shares 10 years ago at a price adjusted for splits would have been paid about \$23 per share and received a 1 percent yield at that time. Though that initial dividend is not enough for most to live on, if the investor held the shares for the

decade, the increased dividend at the end of the decade equals 7 percent of the original investment, and that dividend continues to increase every year along with the share price.

**Starbucks paid a modest dividend** a decade ago, but those that continue to hold are earning almost 9 percent in regular dividends on their original investment. Other strong companies with a similar history of growing dividends, with current 7 to 9 percent yields on the original cost over the past decade, include Chevron, McDonalds and Pfizer. Home Depot's current yield on its decade-ago cost would be an impressive 19 percent. Some take the regular dividends to fund their lifestyle while others reinvest the dividends back into the portfolio to allow for additional compounding.

Strategic investing requires awareness, study and patience. Many novice investors who invest today expect they'll immediately start enjoying gains and consistent growth. While that's possible, the statistics presented here show that it's best to start planning well in advance of when you retire so you can enjoy the significant returns dividends compounded over many years can provide.

Developing a portfolio that's diversified with leading companies in various industries and with a history of paying increasing dividends has been a highly satisfying way for many to invest. Returns from dividends have provided much comfort to people currently in retirement as well as those planning their retirement well into the future. A guided plan can be your key to consistent, reliable investment income. So, enjoy your dividends, be happy, and stop stressing about the daily volatility of the market. **NHBR**

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