KONDRACKI ADVISORY

The Importance of Dividends for the Long-Term Investor

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Recently, a client called me to review his quarterly performance report, and specifically, to discuss the section of the report that showed the total dividends received. He was very pleased that his total income received through quarterly dividend payments had grown considerably, and represented a significant portion of the total return that his portfolio had achieved, since inception. The client went on to say that: "Dividends for my wife and me are an excellent source of return and growing lifetime income, and offer us protection and greater certainty, in what, at times, can be a very unpredictable stock market and economic environment." These sentiments are supported by the fact that approximately 40% of the long-term return of the stock market has come from dividends, so they should be an important consideration for any long-term investor.

Dividend payments are an excellent reminder that as shareholders, we truly are the business owners, and are directly sharing in the financial success of the companies in which we are invested. Reliable and growing dividends, paid through even the most challenging market and economic environments, provide us with important information about the nature of a company's business, its financial strength, and commitment to fiscal discipline. It should be remembered that even during the dot-com bubble of 1999-2001, and also throughout the financial crisis of 2007-2008, there were many industry-leading and time-tested companies whose businesses continued to perform very well. Each day, 70 million people around the world were still enjoying a quick bite at McDonald's. Each day, FedEx continued to deliver over 10 million packages that "absolutely, positively", had to get there on time. Each week, 260 million shoppers continued to make their "stock-up" trip to Walmart so that they could save money and live better. Each year, Intel continued to sell 300 million microprocessors to help power the worldwide digital economy.

At present, our portfolios have an approximate dividend yield of 2.70%, and if they continue to grow their dividends by an average of 7% per year, **dividend income will double** in approximately 10.2 years, regardless of the underlying stock price, market, or economic environment. In the same example, using a $500,000 portfolio, dividends will have grown from $13,000 per year to $26,000. When we choose to reinvest our dividends, we purchase more shares which can lead to an even larger future income stream.

Although there are no guarantees that our companies will be able to grow their earnings and dividends in the future, we do have decades of their dividend history as a guide. For example, **McDonald's** has raised its dividend each and every year since paying its first dividend in 1976 and **Walmart** has increased its annual cash dividend every year since first declaring a $0.05 per share annual dividend in March 1974. This year, Walmart will pay **$2.08** per share! Every company in our portfolios pays a dividend, and most of them have been paying and growing their dividends for decades.

Dividend Income will always be an important component of our long-term investment strategy.