

## Are Dividends Important?

As most of you know dividend payout and consistent dividend growth are two of the characteristics we weight heavily when analyzing stocks. We thought it might help you understand the method to our madness if you had a clear picture of the long-term importance of a growing dividend.

Lets use the S&P 500 as our sample investment. If in 1963 you had invested \$10,000 in the S&P 500 **without dividends** your investment would have grown to about \$137,000. That's a compound return of 6.8%. **If dividends were included**, your investment would have grown to about \$523,000, or an annual return of 10.4%. This example makes it easy to see the benefit of dividends over the long run. Sooo how can dividends, which normally account for only a small portion of your expected return (most stocks we buy pay about 1% to 3% in dividends), create such a large difference in your return? Well, here are two important concepts to help bring it into focus... 1) Dividend growth, and 2) Consistency of payout.

### Dividend growth:

If you invest in companies that consistently increase their dividend, the relatively small dividend that is paid at the time of purchase can grow to be a significant part of your return as the years go by. As an example let's look at General Electric. If you purchased shares of GE in 1993 your dividend would have been 25 cents per share, which would have given you a current yield of about 3% at the time of your purchase (assuming you paid an average price for your stock). Not an extraordinary amount, however, over the last ten years, GE has increased it's dividend and today it pays 77 cents per share. That's a payout increase of more than 300%. Based on your original investment the dividend now represents a return of more that 9%. It's easy to see how the dividend that started rather small becomes an increasingly important component of your return. We believe "consistent dividend growth" is a very important factor to be considered when making a stock selection.

***Consider this: The Standard & Poors dividend record shows that when a company changes it's dividend the odds are six to one that it will increase rather than decrease. We like those odds!***

### Consistency of payout:

Most companies strive to pay a dividend that they believe they will be able to maintain through good and bad economic climates. Because of this policy, *the dividend tends to be paid consistently each quarter or year whether the market rises or falls*. Share price increase, on the other hand, tends to come in fits & spurts that usually include some years when the price declines (gasp!). *Through the effect of compounding, a consistent return grows to a larger sum than an equal return that is volatile and includes some negative years*. The consistent dividend can simply add more to your pocket.

***Increase in stock price is the cake and dividends are the icing.***

### The effect of compounding:

Now, for those of you that enjoy the math, here is a very brief example of the effect of compounding. We feel this is one of the most important concepts that you can understand as an investor. Because of the effect of compounding, each additional increment of return that you receive is **MORE** important than the previous one. To show this effect lets look again at our 40-year S&P 500 example in the second paragraph above. Our hypothetical \$10,000 investment without dividends grew only to \$137,000 with a annualized return of 6.8% When we added dividends to our investment it grew to \$523,000 but the annualized return had increased to only **10.4%**. The first 6.8% earned \$127,000 and the next 3.6 % earned \$386,000!! Think that through.

***When we encourage you to earn the most you can within your comfort zone, this compounding effect is what's rattling around in our minds.***

If you would like to read a little more about the importance of dividends on your portfolios return simply send an e-mail or give us a call and we will send you a complete article on dividends.

Thanks for your business,

**Sycamore Financial Group**

*If you know someone who you feel may benefit from this information, feel free to forward this message. If you have questions or would like more information about this or other topics, simply reply to this message.*

**\*\*Past performance does not assure future results. Investors cannot invest directly in the stock market indexes such as the S&P 500. Invest return and principal value of an investment will fluctuate. Investor value, when sold, may be worth more or less than their original cost.**

The material in this presentation is for illustrative purposes and does not reflect any particular investment.