



## Dividends: Best of Both Worlds?

Dividend-paying stocks can help provide what investors want: growth potential with less risk.

Life is often about give and take. You want a specific feature, but it only comes with the super deluxe model that's out of stock, and who has time to wait? You end up shifting your expectations.

There's also a give and take element for investors. When market volatility looms, we look for ways to reduce risk in our portfolio, which could mean sacrificing growth potential.

But, through dividend-paying stocks, investors may be able to have the best of both worlds. Not only do dividend-paying stocks offer growth potential, but they've also tended to be less volatile than the market overall—and while generally providing a source of income, too.

### Steady As They Go

Dividends are payments made by a company on a regular basis, often monthly or quarterly, to return some of their profits to shareholders. They're typically offered by large companies with well-established financial footings.

Because they're generally the stalwarts of the business world, dividend-paying stocks have historically been less volatile than both the broader market and their non dividend-paying counterparts, which has helped them noticeably outperform (FIGURE 1).

### Saving For a Rainy Day Could Pay Dividends

Thanks to a strong economic rebound off the 2020 recession, companies are sitting on all-time high amounts of cash.<sup>1</sup> For now, companies may be waiting to see where the COVID-19 pandemic moves next. But as the outlook improves, increasing or initiating a dividend is a common use for corporate cash.

### Key Points

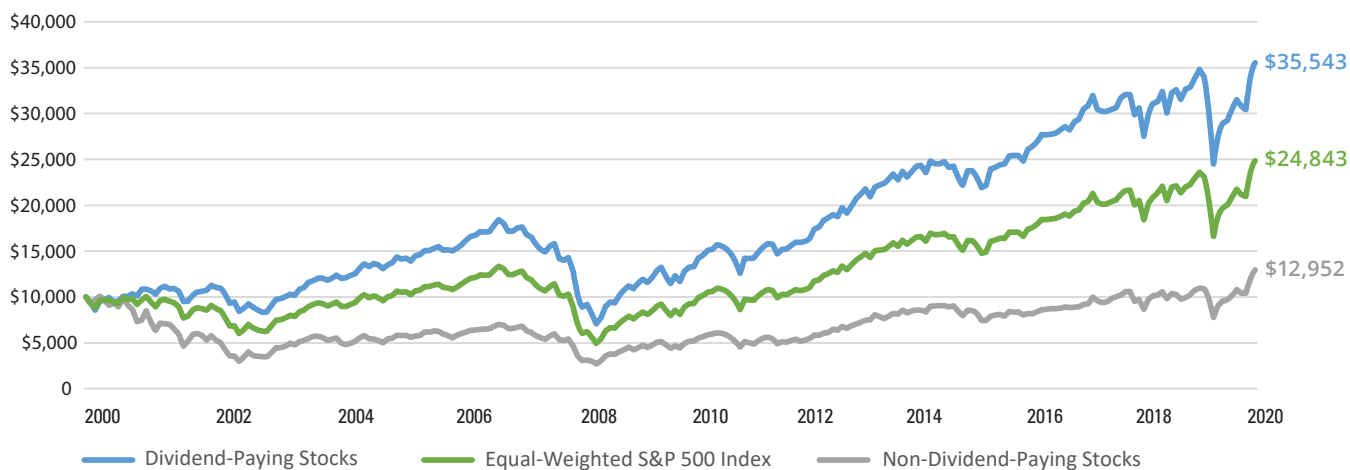
- Preparing your portfolio for volatility could mean giving up a degree of growth potential.
- Dividend-paying companies not only offer growth potential, but have also historically been less volatile than companies that don't pay dividends.
- American companies currently have the highest-ever amount of cash on hand available, which could make income from dividends increasingly attractive.

<sup>1</sup>Source: US Federal Reserve as of 6/30/21

FIGURE 1

## Dividend-Paying Stocks Have Outperformed

Growth of \$10,000 (2000-2020)



**Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. For illustrative purposes only. The equal-weighted index gives each of the 500 stocks in the S&P 500 Index equal statistical importance rather than weighting the stocks by market capitalization, as is typical. Ned Davis Research divided companies into two groups based on whether or not they paid a dividend during the previous 12 months: “dividend payers” and “dividend non-payers.” For each category, a total-return geometric average was calculated with monthly rebalancing. Data Sources: Ned Davis Research and Hartford Funds, 2/21.

In a low-interest rate world that’s keeping fixed-income yields underwhelming, cash-rich companies could be well-positioned to provide investors with a more attractive income stream than many fixed-income investments.

It’s important to note that dividend payouts are a perk, not a guarantee. Companies can opt to pause payments if economic conditions sour, as some did at the beginning of the COVID-19 pandemic. In many cases, however, dividend payments quickly returned as the economy began to stabilize.

As with all stocks, dividend-paying stocks are subject to the ups and downs of the stock market, so be sure you understand the risks before investing.

## Best of Both Worlds?

In summary, dividend-paying stocks may offer investors growth with less volatility relative to their non-dividend paying peers, and could provide a source of income to boot. In other words, investors may be able to enjoy the benefits of many worlds.

If you’re looking for ways to help reduce risk in your portfolio without giving up growth potential, contact your financial professional today.

**Ask your financial professional if dividend-paying stocks are a good fit for your portfolio.**

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

**Important Risks:** Investing involves risk, including the possible loss of principal. • For dividend-paying stocks, dividends are not guaranteed and may decrease without notice. • Different investment styles may go in and out of favor, which may cause a fund to underperform the broader stock market.

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