DIVIDENDS – We like dividends.

Dividends and capital growth are called Total Return. For instance, say a security pays an annual dividend of 3.0%. Say its price goes up 5% for the year. Your total return would be 8.0%.

If another security went up 5.0% but didn't pay a dividend that its total return for that year would be 5.0%.

Here's another rather start example.

From 1/1960 to 3/2017 the return of the S&P 500 was 9.93%. But without the dividend it was 6.63%. (SOURCE: Sungard FACTMASTER). Note that 9.93% is not just 3.3% higher than 6.63%. It's actually over 50% higher, that is, 9.93% is over 50% higher than 6.63%

Yet that's not all.

Looking at this site one can see this difference in total returns for different time horizons.

https://dqydj.com/sp-500-return-calculator/

Try it. It's easy and makes a compelling point.

For instance:

From Jan. 1990 to Sept 2017.

No Dividends:

Total S&P 500 Return was 634% which is a 7.42% average annual return.

With Dividends:

Total S&P 500 Return was 1120% which is a 9.71% average annual return

From Jan. 2000 to Sept. 2017.

No Dividends:

Total S&P 500 Return was 75% which is a 3.22% average annual return.

With Dividends:

Total S&P 500 was 144% which is a 5.10% average annual return.

Again, you can go to the site noted above and put in your own dates.

The point is we like dividends.

BUT NOTE: Companies pay dividends, not indexes. It's the companies that make up the S&P 500 that pay these dividends not the index itself.

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That said, here's another interesting aspect about dividends - *Qualified Dividends.*

Qualified for what? Well, for better tax treatment. The Jobs and Growth Tax Relief Reconciliation Act of 2003 ("JGTRRA") reduced all taxpayers' personal income tax rates and cut the tax rate on qualified dividends from the ordinary income tax rates to the lower long-term capital gains tax rates.

The implications are something like this – if you're in the highest marginal federal tax bracket, 39.6% ordinary dividends would be taxed at 39.6%. But, Qualified Dividends would be taxed at 20.0%. I think that's a big difference, like almost half. So on $20,000 of dividend income that could be the difference between paying $7,920 in taxes or paying $4,000 in taxes.

ALWAYS CHECK WITH YOUR TAX ADVISOR FOR ALL TAX ADVICE

Note that to qualify the dividend must have been paid by an American company or a qualifying foreign company.

The Internal Revenue Service (IRS) requires investors to hold the stock for a minimum period of time to benefit from the lower tax rate. Common stock investors must hold the shares for more than 60 days during the 121-day period that starts 60 days before the ex-dividend date. Did you get that?

The security holdings of Mutual funds, ETFs and Closed-end funds generally satisfy this holding period. Thus the investor in these type funds does not have to satisfy the holding period.

OKAY – This is not a recommendation to buy or sell any security. Gotta say it.

It's just interesting stuff that can have a major impact on your take-home, after-tax return(s).

Finally, unlike fixed income (bond) investments, dividend paying companies can, and often do raise their dividends. In fact there are many money managers who only invest in companies that have a long history of paying dividends and a long history or raising their dividends.

The point is, dividends can matter.

Please remember Dividends are not guaranteed, will fluctuate and must be authorized by the company's board of directors. Investing in stocks involves risk, including the possibility of losing one's entire investment. Examples provided are hypothetical examples for illustrative purposes only. They are not intended to reflect the actual performance of any security. Investments involve risk and you may incur a profit or a loss. Past performance may not be indicative of future results. It is not possible to invest directly in an index. The S&P 500 is an unmanaged index of 500 widely held stocks.

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