Captain's Log

Guiding Your Financial Journey

Dividend Investing: Small Payments Can Boost Returns

Owning shares of stock or stock funds might increase the value of your portfolio in one of two fundamental ways: capital appreciation (i.e., price increases) and dividend payments. Of the two, capital appreciation carries the greatest potential for return, but it also carries the greatest potential for loss. And any gains or losses are only reaped when you sell your shares.

By contrast, dividends typically offer more consistent modest returns that are paid while you hold your shares. For this reason, dividends have long been popular with retirees and others who are looking for regular income. But focusing on dividends can be appropriate for almost any investor, especially if dividends are reinvested to purchase additional shares. Although reinvesting dividends from individual stocks may not be cost-effective, mutual funds and exchange-traded funds (ETFs) generally offer an option to reinvest dividends and/or capital gains.

Growth and volatility

In general, more established companies tend to pay dividends, and these companies may not have as much growth potential as newer companies that plow all of their earnings back into the company. Even so, dividends can boost total return. A 2015 study found that dividends had accounted for about one-third of the total return of the S&P 500 index since 1956, with the other two-thirds from capital appreciation. In the fourth quarter of 2017, more than 80% of S&P 500 stocks paid a dividend with an average yield of 1.87% for the index as a whole and 2.24% for dividend-paying stocks. Many mid-size and smaller companies also paid dividends.[1]

Because dividends are by definition a positive return, even during a down market, dividend-paying stocks may be less volatile than non-dividend payers. However, dividend stocks tend to be more sensitive to rising interest rates; investors looking for income may move away from stocks if less risky fixed-income investments offer comparable yields.

Quarterly payments

Dividends are typically paid quarterly in the form of cash or stock. The amount is set by the company's board of directors and can be changed at any time. Dividends can be expressed as the dollar amount paid on each share or as yield — the annual dividend income per share divided by the current market price. When the share price falls, the yield rises (assuming dividend payments remain the same), enabling investors who reinvest their dividends to buy more shares that have the potential to grow as market performance improves.

Investing in dividends is a long-term commitment. In exchange for less volatility and more stable returns, investors should be prepared for periods where dividend payers drag down rather than boost an equity portfolio. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

[1] S&P Dow Jones Indices, 2015, 2018

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Four Tips for Downsizing in Retirement

Have you considered downsizing in retirement?

Going through years of accumulated possessions and memories is probably not how you envisioned spending part of your retirement. It may sound like a daunting and emotionally draining task, but downsizing could be a savvy financial move, especially if you haven't reached your retirement savings goals.

1. Set goals for downsizing

Before you make any decisions, think about why you might want to downsize in the first place. Is it because you want to save on mortgage payments or other monthly expenses? Or are you looking to free up some cash to help pursue your lifestyle goals in retirement?

No matter what your specific goals may be, understanding the connection between them and downsizing can help motivate you to follow through with it.

2. Determine the best time to downsize

It's said that timing is everything, so choosing when to downsize will be an important decision to make. One benefit of downsizing early in retirement is that mortgage payments and other related expenses (such as utilities and real estate taxes) could decrease, presuming that you are downsizing to a less expensive residence. This could mean you have extra funds to pursue new hobbies and activities right away in retirement. You might even be fortunate enough to have sufficient funds from the sale of a larger home to pay for a smaller home with cash, thus eliminating or decreasing your mortgage payment, or significantly increasing cash flow.

But there may be advantages to delaying downsizing. If you wait to do it later in retirement, you might have a better sense of just how much you need to downsize to support your current lifestyle. Plus, timing your downsizing plans with a stronger real estate market could mean that you sell and/or purchase a new home at a more opportune time.

3. Be realistic about costs

There are several costs to think about if you are downsizing your home: the worth of your current home, the cost of a new home, and the fees and expenses associated with relocating. Before you start boxing up your belongings, run the numbers. Start by contacting local real estate agents to receive estimates of your home's value. Compare the estimates so you can develop an idea of how much you might be able to get for your home. Research online to see what homes in your neighborhood have sold for recently — this can also help you determine your home's potential selling price.

Take similar steps when you look for your new home. One option that might be available is to rent a new house or apartment for a length of time before buying it. That way, you'll learn whether the home and the location suit you, helping you avoid buyer's remorse.

If you're buying a new home, don't forget to account for the down payment, home inspection, closing costs, and other associated charges. Factoring all of the numbers into the equation may reveal whether downsizing makes the most sense for you and your financial situation.

4. Consider downsizing your belongings, not just your home

For some people, downsizing might simply mean cutting down on clutter rather than relocating. It's easier said than done, particularly if you've amassed many belongings over time. When purging your home, consider the following:

- **Take your time.** Don't feel pressured to clear out your entire home in one fell swoop. Instead, make a plan to do one room or section of your home at a time.
- **Involve your children.** If you have kids, consider asking them for their help. Many hands make light work, and your children may end up expressing interest in items they would like to have.
- **Sell valuables.** Maybe you can't find a new home for that antique necklace you never wear or the rare baseball cards collecting dust in your attic. Consider having those items appraised and selling them to an auction house or online. Depending on how many items you're selling and their worth, you could wind up with quite a bit of money that you can use to help cushion your retirement fund.
- **Donate gently used items.** Find out if there are any local organizations in your community that could benefit from furniture, clothing, or any other possessions in good condition that you want to get rid of. Some donation outlets may even offer free pickup of certain items, saving you time and hassle.
- **Clear out junk.** Chances are you've accumulated items that you simply won't be able to give away or sell. Discard belongings that serve no purpose other than taking up space in your home. You might be surprised by how much room you could free up.

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Quiz: Can You Answer These Social Security Benefit Questions?

Did you know that 94% of all workers are covered under Social Security?

Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

Questions

1. Can you receive retirement and disability benefits from Social Security at the same time?

a. Yes

b. No

2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?

a. Reduced by 30%

b. Reduced by 40%

c. Reduced by 50%

d. Your benefit will not be reduced

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

a. 6%

b. 7%

c. 8%

4. Monthly Social Security benefits are required to be paid by which of the following methods?

a. Paper check only

b. Paper check, direct deposit, or debit card

c. Direct deposit or debit card

5. Are Social Security benefits subject to income tax withholding?

a. Yes

b. No

6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?

a. Less than 12 months since you've been receiving benefits

b. Less than 18 months since you've been receiving benefits

c. Less than 24 months since you've been receiving benefits

Answers

1. b. No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

2. d. Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

3. c. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

5. b. No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

6. a. If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.

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What is gross domestic product, and why is it important to investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings
- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

What is the employment situation report, and why is it important to investors?

Each month, the Bureau of Labor Statistics publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and an establishment survey of over 651,000 worksites.

Results from each survey provide information about the labor sector, including the:

- Total number of employed and unemployed people
- Unemployment rate (the percentage of the labor force that is unemployed)
- Number of people working full- or part-time in U.S. businesses or for the government
- Average number of hours worked per week by nonfarm workers
- Average hourly and weekly earnings for all nonfarm employees

According to the Bureau of Labor Statistics, when workers are unemployed, they, their families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for yet other workers.

Investors pay particular attention to the information provided in this report. For instance, a decreasing unemployment rate may indicate an expanding economy and potentially rising interest rates. In this scenario, stock values may rise with expanding corporate profits, while bond prices may fall for fear of rising interest rates. Advancing wages may also be a sign of higher inflation and interest rates, as well as greater economic productivity.

Generally, the Employment Situation Summary report provides statistics and data on the direction of wage and employment trends — information that can be invaluable to investors.

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