Worried About Volatility? Consider Dividends

Given the uptick in inflation, rate increases on the horizon, and the Russian invasion of the Ukraine, many investors are looking for strategies to help cushion the effects of volatility. Investing in dividend-paying stocks is one to consider.

Dividends account for approximately 20% of total return for stocks in the S&P 500*

Inflation recently hit a 40-year high. Rate increases are on the horizon. And the Russians have invaded the Ukraine. It's no wonder that stock market volatility has notched up. Given last year's exceptionally strong stock market performance -- a tough act to follow -- investors are especially nervous about what lies ahead. With the S&P 500 already in correction territory (down 10% from its early January high) as of February 28, many are seeking ways to cushion their portfolios from a further downturn.

One time-tested strategy is by investing in dividend paying stocks. The appeal of dividend-paying stocks is simple: They can potentially provide investors with tangible returns on a regular basis regardless of market conditions. But there are other reasons why dividend payers may make sense for you.

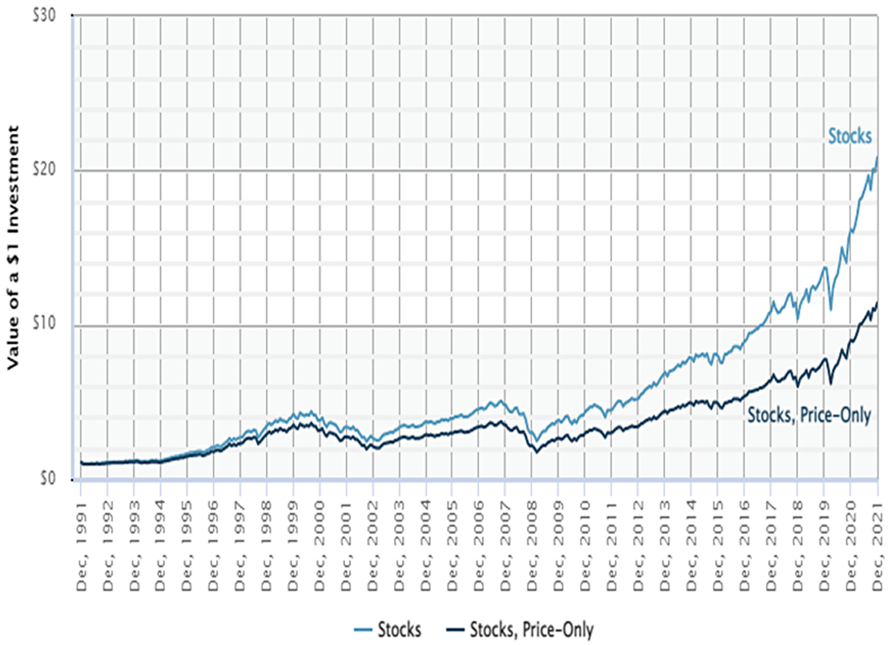
The Advantages of Dividend-Paying Stocks

History provides compelling evidence of the long-term benefits of dividends and their reinvestment.

- **A sign of corporate financial health.** Dividend payouts are often seen as a sign of a company's financial health and management's confidence in future cash flow. Dividends also communicate a positive message to investors who perceive a long-term dividend as a sign of corporate maturity and strength.
- **A key driver of total return.** There are several factors that may contribute to the strong return of dividend-paying stocks over the long term. One of them is dividend reinvestment. The longer the period in which dividends are reinvested, the greater the spread between price return and dividend reinvested total return (see chart below).
- **Potentially stronger returns, lower volatility.** Dividends may help to mitigate portfolio losses when stock prices decline, and over long time horizons, stocks in the S&P 500 with a history of increasing their dividend each year have also produced higher returns with less risk than non-dividend-paying stocks, although past performance is no guarantee of future results.[1]
- **Diversification.** Income-oriented investors may want to diversify potential sources of income within their portfolios. Stocks with above-average dividend yields may compare favorably with bonds and may act as a buffer should conditions turn negative within the bond market.
- **Favorable tax treatment.** Qualifying dividends are currently taxed at a top rate of 15% for most investors, though certain high-income investors may pay as much as 23.8%. However, this is still lower than the current 37% top

rate on ordinary income.

Dividend Reinvestment Can Pay off Over Time[2]



If you are considering adding dividend-paying stocks to your investment mix, make sure to consider other factors besides dividends, such as earnings and other valuation metrics. Also keep in mind that dividends can be increased, decreased, and/or eliminated at any time without prior notice. A financial professional can help you map a dividend strategy that fits your particular needs.

*Source: DST Retirement Solutions, LLC, an SS&C company. For the 30 years ended December 31, 2021. Index performance does not reflect the effects of investing costs and taxes. Past performance is not a guarantee of future results.

[1]Source: S&P Global, *S&P 500 Dividend Aristocrats: The Importance of Stable Dividend Income*, September 23, 2021.

[2]Source: ChartSource®, DST Retirement Solutions, LLC, an SS&C company. For the period from December 31, 1991, through December 31, 2021. Stocks are represented by the total return (price plus reinvested dividends) of the S&P 500 index. Stock prices are represented by the change in price of the S&P 500 index. It is not possible to invest directly in an index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and

would likely have been lower. Past performance is not a guarantee of future results.

