ADVISER INVESTMENTS

SPECIAL REPORT

# Dividend-Growth Stocks

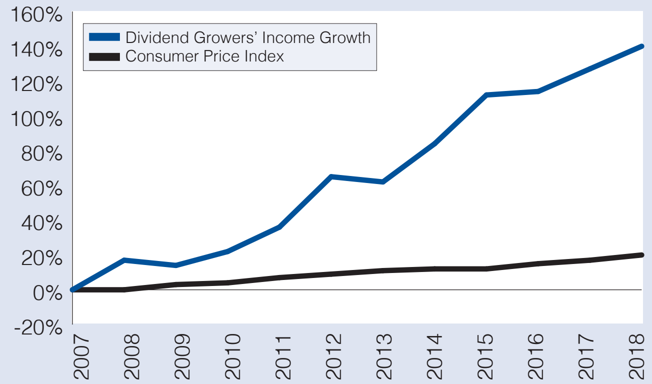
## INVESTING FOR GROWTH AND INCOME

Dividends matter. Stocks of companies that regularly and reliably increase their payouts to shareholders—dividend-growth stocks—can create wealth and provide stability in your portfolio.

Investors in dividend-growth stocks earn money two ways:

- Capital appreciation. Dividend growers tend to be high quality, stable companies that provide a strong defense against market downdrafts. Their stocks have delivered competitive returns with less risk than the overall stock market through full market cycles.
- Income growth. Not only do dividend growers pay out a steady stream of income, but they typically grow that stream of dividends faster than inflation. Since 2007, inflation has pushed the price of goods up 20% while dividend growers have increased their dividends 140%!

**Growing Dividends Outpace Inflation**




Note: Chart shows percentage growth of dividend payments for the NASDAQ U.S. Dividend Achievers Select index compared to the gain of the consumer price index from 2007 through 2018. Source: Bloomberg.

## Consistent Quality, Greater Tax Efficiency

Quality and consistency are what make dividend-growth stocks so appealing as the foundation of a portfolio. While bonds, which regularly and predictably pay out interest, have been the go-to investment for those looking to generate income with their savings, most bonds pay a fixed amount of interest, meaning your income doesn't rise with inflation, slowly eroding your ability to spend.

The added advantage to earning income from dividends instead of interest payments is that they are taxed at a lower rate. Stock dividends are taxed at capital gains rates. Bond interest is taxed as income at higher and more onerous rates.

## The Best Offense Is a Good Defense

When stock markets fall, the financial strength that enables quality dividend-growing companies to continue to pay and boost their payouts can help bolster their stock prices. While dividend-growth stocks aren't immune to market corrections, they typically decline less than their non-dividend-paying peers and the overall market.

Historically, the NASDAQ U.S. Dividend Achievers Select index, made up of companies that have increased their dividends in each of the past 10 years, has declined only 70% as much as the S&P 500 during market downturns while capturing 86% of the market's gains. The chart on the next page shows the drawdowns of the broader market against those of dividend growers.

The 2008 financial crisis offered an object lesson in the value of downside protection—while the S&P 500 dropped 50.9% from peak to trough, dividend growers dropped 41.1%. Losing less during crashes and corrections gives investors a head start when the markets begin to recover; there is less ground to make up before moving on to further gains. The S&P 500 took 37 months to recover its financial-crisis losses. Dividend growers recouped their money more than a year earlier, getting back to even in 24 months.

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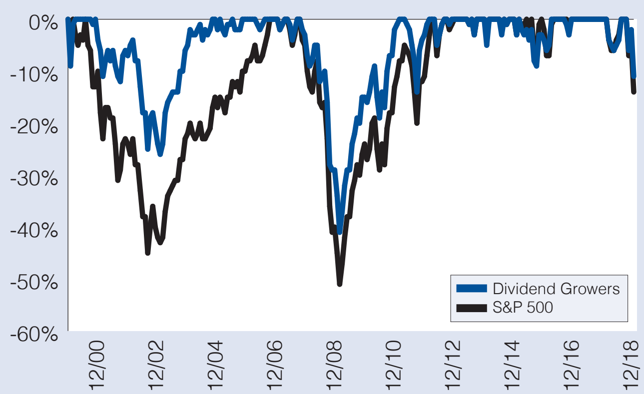
## How We Select Dividend-Growth Stocks

Our *Dividend Income* strategy concentrates client portfolios in the stocks of high-quality companies that pay above-average dividends. Since its 2009 inception, we've taken a consistent, risk-conscious approach to managing this portfolio of dividend growers.

Our team focuses on financially robust companies that pay and raise their dividends consistently year after year. We look for businesses with what we refer to as "battleship balance sheets" that allow them to successfully navigate difficult economic and market environments. We also seek companies that generate excess free cash flow. This protects the dividend while allowing the business to continue to grow.

**Dividend Defense**




Note: Chart shows percentage drawdown for Dividend Growers (represented by the NASDAQ U.S. Dividend Achievers Select index) and S&P 500 index from 2000 through 2018. Source: Bloomberg.

Just as dividends matter, so does price. We don't simply buy stocks with healthy dividends, but rather look for companies where the stock price does not reflect the full value of the company and its ability to grow its dividend. While dividends represent roughly half of a stock's total return, the other half comes from rising stock prices over time. That's why we carefully calculate what we believe to be fair value for a broad range of companies' stocks, and only buy them when we believe a bargain is at hand.

Our *Dividend Income* portfolio typically holds just 30 to 40 stocks, all of which we believe are high quality and attractively priced. We are continuously reviewing companies we own and those we don't in an effort to uncover stocks that can improve the *Dividend Income* portfolio's risk and return characteristics in both the near- and long-term.

## Are Dividend-Growth Stocks Right for You?

To learn how you can benefit from dividend-growth stocks, please call one of our wealth management professionals. They will be happy to discuss how our *Dividend Growth* strategy, which is most suitable for investors who prefer to own individual stocks or are seeking a predictable stream of income, can become a component of your portfolio. We also offer a socially conscious version of this strategy for those investors who wish to follow an environmental, social and corporate governance (ESG) investment approach. You can reach us by phone at **(800) 492-6868** or by email at **info@adviserinvestments.com**. We look forward to hearing from you!