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## FEATURES

### High-Yield Dividend Stocks:

By Don Schreiber, Jr.

Seeking protection from increasingly volatile markets, investors have yanked a page out of legendary investor Benjamin Graham's tome, *The Intelligent Investor*, and are persistently seeking investment strategies that provide them with a safety edge.

The rules to investing are undergoing a dramatic change as investors revolt against failed strategies. They have become more aware of recent evidence that shows dividend-paying stocks, not growth stocks, become the foundation on which portfolios are built.

When the government lowered the tax on capital gains for the first time in 1981, a new tax-driven strategy for owning growth stocks caused many investors to forget about dividends and the benefits they provide. In a rush to pay lower taxes, safe and consistent quarterly dividend (a component of growth stocks) was abandoned in favor of pure price appreciation, the only component of growth stocks. Regretful investors turned fast and hard, as the remarkable bull market of the 80's and 90's became a distant memory.

#### Back in the Spotlight

The good news for advisors is that dividend-paying stocks are back in the spotlight. In 2003, the government passed new tax legislation removing the arbitrary tax preference for returns generated by capital gains and provided tax relief to returns from dividends. This prompted many investors to increase their allocations to dividend-paying strategies.

One of the big selling points for dividend paying stocks is that they are often a safe harbor during volatile times. Not only can investors count on steady and reliable return from dividends, but dividend-paying stocks are also less volatile. This is a major appeal as not too many investors can tolerate huge market downturns during extended periods of volatility. Look at the 2000-2002 bear market cycle. The dividend-focused Industrial Average Index fell 26%, while the growth stock oriented NASDAQ Composite Index fell 40%.

#### Debunking a widely held belief

The old idea that dividend stocks provide less return than growth stocks is being discarded as new research is being published. One of Wall Street's leading research firms, Ned Davis Research, Inc., released a report last year that debunks this widely-held belief. By analyzing the returns of S&P 500 stocks by category, the study shows that dividend paying stocks have outperformed non-dividend paying stocks over the long term.

Although stock prices tend to fluctuate more wildly, dividend returns tend to be more consistent over time. Dividend returns are more silent but surely over time. As such, it's not a surprise that during bearish market cycles, dividend-paying stocks outperform their non-dividend-paying counterparts.

A viable strategy for financial advisors is to shore up their clients' portfolios with high-yielding dividend-paying stocks, given the fact that traditionally high-yielding dividend stocks are not only less volatile but also offer investors a more reliable return opportunity. Many market pundits are forecasting modest price appreciation of 5-6% from stocks over the next decade, so why not match appreciation with a yield to generate the 10% historical rate of return that most investors want?

#### Avoiding Capital Depletion

As a large percentage of our population gets closer to retirement, the risk tolerance of this generation is lower than that of previous generations. This is a significant concern for financial advisors as they help their clients plan for retirement.

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