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Simmons Investment Advisors

Dividends

We often talk to our clients about the importance of dividends in reaching their total return goals with the least amount of risk. To illustrate this point, our friends at the investment research firm Strategas have kindly allowed us to reproduce the chart below:

Dividend Contribution to Total Return

Decade	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg Payout Ratio
1930s	-41.9%	56.0%	14.1%	N/A	90.1
1940s	34.5%	100.1%	134.6%	74.4	59.4
1950s	257.3%	180.3%	437.7%	41.2	54.6
1960s	53.7%	54.2%	107.9%	50.2	56.0
1970s	17.2%	59.1%	76.4%	77.4	45.5
1980s	227.4%	143.1%	370.5%	38.6	48.6
1990s	315.7%	115.7%	431.5%	26.8	47.6
2000s	-24.1%	15.0%	-9.1%	N/A	35.3
2010s	189.7%	66.9%	256.7%	26.1	35.2
2020s	38.7%	4.0%	42.7%	9.4	41.1
Average	**114.4%**	**87.8%**	**202.2%**	**47.8**	**52.5**

The chart is arranged by decade and shows the S&P 500 returns broken down by price change and dividends. In the second to last column, the percentage of total return that dividends represent is shown. The bottom row shows the averages for the ten decades in the chart.

Let's start with the two decades with negative price returns, the 1930's and the 2000's. In the 1930's, dividends were the only reason investors achieved a positive return at all. In the 2000's, dividends at least were able to greatly ameliorate the downdraft in prices. This is why we say dividends help give an investor a margin of safety.

From the 1940's through the 1970's, dividends played an extremely important role in total return, making up between 41% and 77% of total return. Even in the 1980's, they made up nearly 39% of total return. For sixty years, investors expected, and received significant income from their equity holdings.

It wasn't until the 1990's that things began to change, and dividends' share of total return shrank to 27%. A large part of this is probably due to the fact that until 1982, share buybacks were not legal. Their legalization coincided with company management pay packages becoming more tied to share price performance and buying back shares was one way to help engineer higher share prices.

We are only two years into the 2020's, but so far dividends only account for just over 9% of the total return. In part this is due to the domination of the index by large technology-oriented companies which pay no or low dividends. That being said, it is reasonable to expect that the percentage of total return that dividends represent will revert to something similar to what we saw in the 1990's and 2010's, which were both also tech-centric decades. If tax rates go up on capital gains, companies may even begin to focus on dividends once again.

All of this is a fancy way of saying that price returns will probably not remain at the elevated levels we have seen the past two years, and that dividends will once again become an important part of achieving your goals. While they represent a smaller piece of the pie than in earlier decades, they are still significant and offer downside protection. If capital gains taxes increase, dividends could become even more important going forward. As always, if you have any questions about this or any other topic, please reach out.

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