

Dividend Dynamics: Assessing the Five Key Benefits of Dividend-Paying Stocks

Increased market volatility has placed dividend-paying stocks back into the spotlight. These securities have been long valued for their defensive characteristics during down markets, but their attractive combination of steady income and capital appreciation potential has also delivered consistent, strong returns across full market cycles.

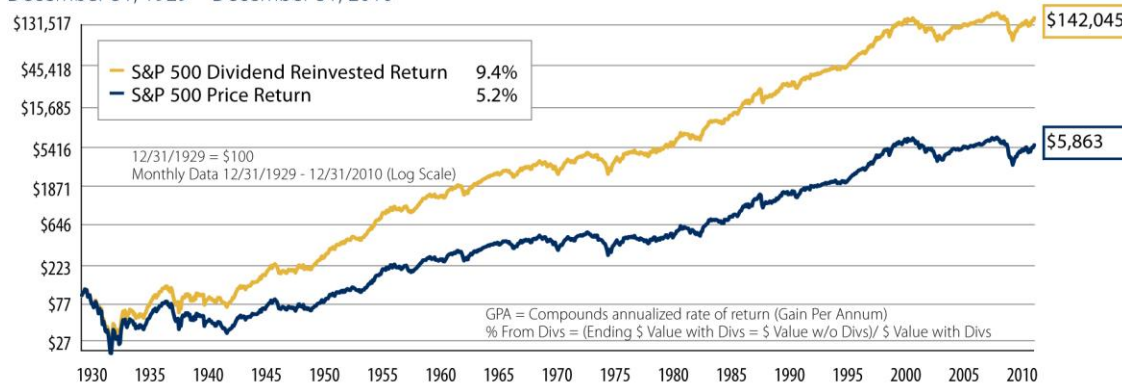
Given this context, equity dividend investing seems particularly relevant in today's market climate. Facing the prospects of slower growth opportunities and more extreme, more frequent market gyrations, investors may be well served by the predictability of dividends to help stabilize – and enhance – their equity returns.

Consider two of the benefits of dividend-paying stocks:

- **A clear signal of corporate financial health.** Dividends enhance earnings transparency of a company and exert a level of financial discipline on management. They also increase corporate accountability and can be a signal of management's confidence for future growth prospects.
- **Significant source of total return.** Dividend-paying securities offer the potential for both capital growth and income. The compounded effect of reinvested dividends accounted for nearly 50% of equity total return. Viewed another way, eliminating the compounded dividends would have resulted in an annualized total return of 5.2% compared to 9.4% when they are included. *See chart below.*

S&P 500 Dividend Reinvested Total Return vs. Price Return

December 31, 1929 – December 31, 2010



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