Committee Perspectives

An Ameriprise Global Asset Allocation Committee publication

Cedric Buermann Jr., CFA, | Quantitative Analyst - Asset Allocation
April 30, 2021

Smart Investing in Dividends could Pay Dividends in Retirement

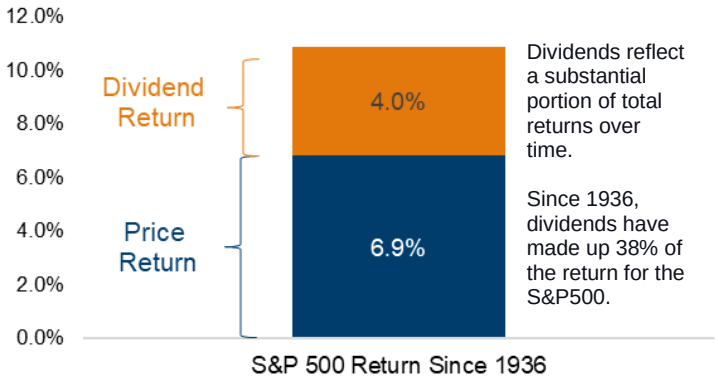
Key Takeaways

- Dividends reflect a substantial portion of total return over time.
- Dividend paying stocks tend to be less volatile and hold up better than broad U.S. Equities in down markets.
- In our opinion, investors should increase their allocation to dividends as they approach retirement.
- Dividend-paying stocks can be used to provide investors a “paycheck” in retirement.

What are dividends, and how should I allocate to dividend-paying companies over time? If you don't know the answer to this question (and most people don't), you may be missing out on a crucial investing dynamic. In our view, dividend-paying stocks' characteristics make them an essential part of a retirement game plan. We believe investors should consider having an increasing allocation to dividend-paying companies as they approach retirement.

A dividend is one way a company returns its earnings to shareholders. Companies often pay dividends when they have a solid balance sheet and forecast a stable-to-improving outlook for earnings and free cash flows. Dividend payments are not guaranteed. Reductions, either temporary or permanent, can occur due to changes in the competitive, economic, and regulatory environments. However, we believe corporate boards are hesitant to announce reductions, as they can signal to investors business conditions have changed. In our view, investors may be able to rely on dividends to supplement their income and help create a steady "dividend paycheck."

Management teams must balance between returning capital to shareholders and reinvesting back into the business. Often, this decision comes down to growth opportunities; companies with higher growth potential tend to reinvest a larger share of their earnings back into their business. Still, this higher potential may also include a higher risk for the company and the investor. Unfortunately, reinvesting in a business doesn't always increase a stock's value, as some projects fail to generate forecasted returns.



Source: Bloomberg, S&P Dow Jones Indices, American Enterprise Investment Services, Inc. Data as of 12/31/2020.

Dividends reflect a substantial portion of total returns over time.

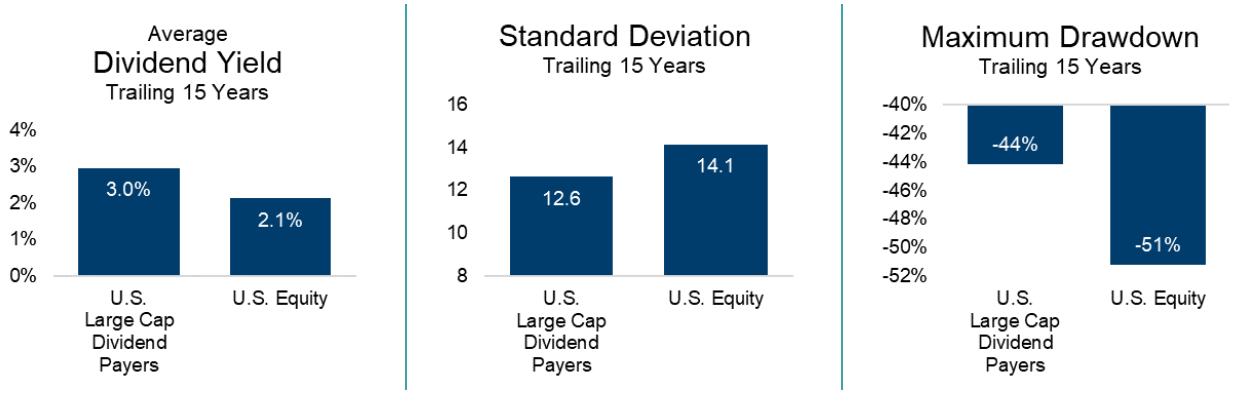
Since 1936, dividends have made up 38% of the return for the S&P500.

The relatively reliable return stream from a dividend-paying stock has historically provided a more stable stock price.

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS OF INTEREST, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT. For further information on any of the topics mentioned, please contact your financial advisor.

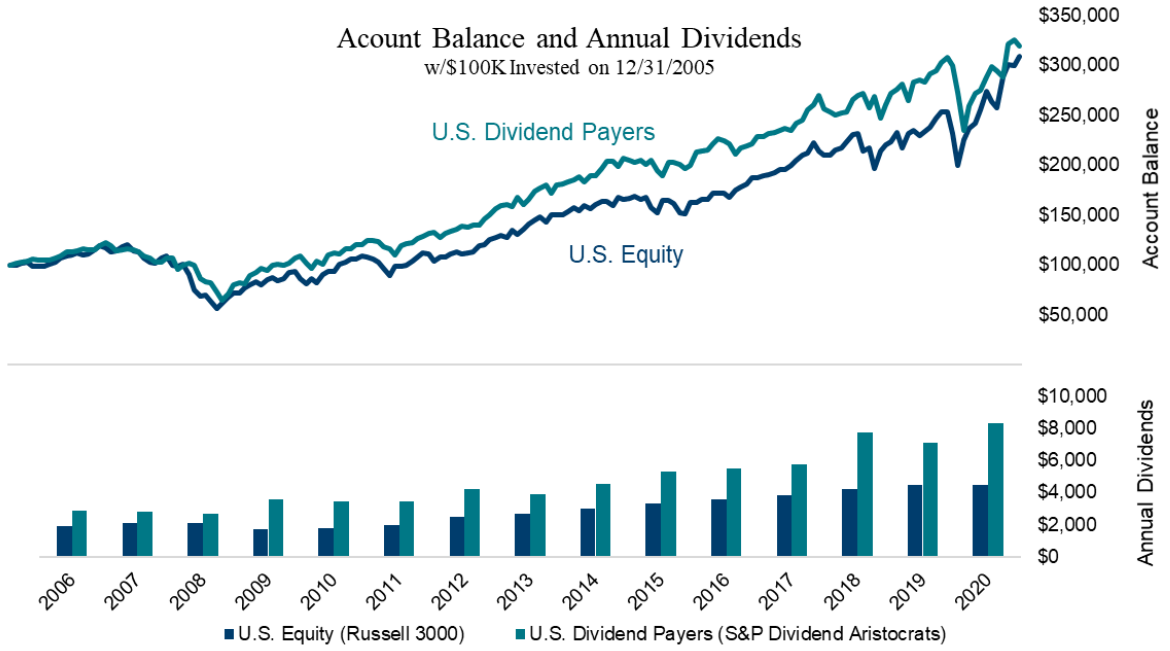
Below are results over the last fifteen years for U.S. Equity (represented by the Russell 3000) and U.S. Dividend Payers (represented by the S&P Dividend Aristocrat Index, which only includes large U.S. dividend-paying companies that have increased dividends every year for the last 25 consecutive years.)

Relative to the general U.S. equity market, investors focusing on dividend-paying stocks can increase their yield, lower equity volatility, and limit downside risk over time.



Source: Morningstar, S&P Dow Jones, American Enterprise Investment Services, Inc. Data as of 12/31/2020. U.S. Large Cap Dividend Payers represented by the S&P 500 Dividend Aristocrats Index, and U.S. Equity represented by the Russell 3000 Index. Both indexes reflect total return data with dividends reinvested. Standard Deviation measures the return variability of security. Maximum Drawdown measures the most significant loss from top to bottom during a given period, likely experienced over multiple quarters, during a recession. Past performance is not a guarantee of future results.

While past performance does not guarantee future results, if past trends continue, we believe allocating to dividend-paying stocks could enhance long-term return potential. History suggests, over time, stock prices go up, and dividend-paying companies increase their dividends. In our view, if these two forces continue, an investor who owns these types of companies could see their dividend paycheck grow over time, potentially acting as a natural inflation hedge.



Source: Morningstar, S&P Dow Jones, American Enterprise Investment Services, Inc. Data as of 12/31/2020. U.S. Large Cap Dividend Payers represented by the S&P 500 Dividend Aristocrats Index, and U.S. Equity represented by the Russell 3000 Index. Account Balance data reflects price returns with dividends paid out to investors, represented in the Annual Dividend chart. Past performance is not a guarantee of future results.

From a portfolio construction standpoint, we believe a typical investor's allocation to dividend-paying stocks should increase as you approach retirement.

- Investors with 16+ years out from retirement should have a healthy allocation to companies reinvesting in their business. These securities are typically more volatile compared to dividend-paying stocks. But a higher concentration to stocks centered on growth in the business could provide higher long-term price appreciation potential.
- Investors with 8 to 15 years until retirement should begin thinking about an increased allocation to larger companies focused on growing their dividends over time.
- Retired investors should lean more heavily on companies that have proven to have consistent cash flows and a solid balance sheet, and a history of maintaining dividends in all market environments. Retired investors can consider changing their dividend policy from "reinvesting dividends" to "sweep dividends," which will place dividends into their cash account, turning this return stream into a dividend paycheck.

In our view, dividend-paying stocks are an essential part of a retirement game plan, and investors should have an increasing allocation to dividend-paying companies as they approach retirement. We believe understanding the characteristics of dividend-paying stocks and the dynamics they bring to your portfolio could strengthen confidence in your retirement strategy.

Global Asset Allocation Committee

Led by top Ameriprise strategists, the Ameriprise Global Asset Allocation Committee is a team of experienced investment professionals focused on delivering strategic and tactical asset allocation guidance and actionable investment strategies. Each quarter the Committee publishes a comprehensive outlook on the markets along with its recommendations in the Quarterly Capital Market Digest.

David M. Joy
Vice President
Chief Market Strategist

Russell T. Price, CFA
Vice President
Chief Economist

Thomas Crandall, CFA, CAIA, CMT
Senior Director
Asset Allocation

Christine A. Pederson, CAIA, CIMA
Senior Director
Manager Research

Brian M. Erickson, CFA
Vice President
Fixed Income Strategy

Justin H. Burgin
Vice President
Equity Research

Jon K. Cartwright
Senior Director
Fixed Income

Dan Garofalo
Director
Equity Research

Cedric Buermann Jr., CFA
Quantitative Analyst
Asset Allocation

Anthony M. Saglimbene
Vice President
Global Market Strategist

Frederick M. Schultz
Director
Equity Research

Patrick S. Diedrickson, CFA
Director
Equity Research

Mark S. Phelps, CFA
Director
Manager Research

Ameriprise Financial
1441 West Long Lake Road, Suite 250, Troy, MI 48098
Telephone: 248.205.5808
For additional information or to locate your nearest branch office, visit ameriprise.com.

Important disclosures

As of March 31, 2021

The views expressed regarding the company(ies) and sector(s) featured in this publication reflect the personal views of the research analyst(s) authoring the publication. Further, no part of research analyst compensation is directly or indirectly related to the specific recommendations or views contained in this publication.

A part of a research analyst's compensation may be based upon overall firm revenue and profitability, of which investment banking, sales and trading, and principal trading are components. No part of a research analyst's compensation is based on a specific investment banking transaction, nor is it based on sales, trading, or principal trading. A research analyst may have visited the material operations of one or more of the subject companies mentioned in this research report. No payment was received for the related travel costs.

This information is being provided only as a general source of information and is not intended to be the primary basis for investment decisions. It should not be construed as advice designed to meet the particular needs of an individual investor. Please seek the advice of a financial advisor regarding your particular financial concerns. Consult with your tax advisor or attorney regarding specific tax issues.

Tactical asset class recommendations mentioned in this report reflect The Ameriprise Global Asset Allocation Committee's general view of the financial markets, as of the date of the report, based on then current conditions. Our tactical recommendations may differ materially from what is presented in a customized long-term financial plan or portfolio strategy. You should view our recommendations in conjunction with a broader long-term portfolio strategy. Not all products, services, or asset classes mentioned in this report may be available for sale at Ameriprise Financial Services, LLC. Please consult with your financial advisor.

PRODUCT RISK DISCLOSURES

Diversification and **asset allocation** do not assure a profit or protect against loss.

Dividend payments are not guaranteed and the amount, if any, can vary over time.

DEFINITIONS OF TERMS

Market risk may affect a single issuer, sector of the economy, industry or the market as a whole.

INDEX DEFINITIONS

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

DISCLAIMER SECTION

Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, historical sector performance relationships as they relate to the business and economic cycle, consumer preferences, foreign currency exchange rates, litigation risk, competitive positioning, the ability to successfully integrate acquisitions, the ability to develop and commercialize new products and services, legislative risks, the pricing environment for products and services, and compliance with various local, state, and federal health care laws. See latest third-party research reports and updates for risks pertaining to a particular security.

This summary is based upon financial information and statistical data obtained from sources deemed reliable, but in no way is warranted by Ameriprise Financial, Inc. as to accuracy or completeness. This is not a solicitation by Ameriprise Financial Services, LLC of any order to buy or sell securities. This summary is based exclusively on an analysis of general current market conditions, rather than the appropriateness of a specific proposed securities transaction. We will not advise you as to any change in figures or our views.

Past performance is not a guarantee of future results.

Investment products are not federally or FDIC-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

Ameriprise Financial Services, LLC and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

Ameriprise Financial Services, LLC. Member FINRA and SIPC.