Here's What You Need to Know about Dividends

In November 1999 tech stocks with no dividends seemed like a sure bet. Despite the hype, I was still doing my best to encourage my readers to stick the principles of dividends and compounding. Here's what I wrote then:

> ### *Historically, Dividends Provide Much of Total Return*
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> *What about the base for the economy and the stock market in general? As I've written often, the two are inexorably linked. After all, could stocks on average outrun the performance of all the companies that jointly contribute to our country's gross domestic product? No. and, here's why.*
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> *Over seven decades, from 1926 to 1997, U.S. nominal gross domestic product (non-inflation adjusted) grew at a compounded 6.4% per year. Over the same period, the return on stocks due to price appreciation (dividends not considered) was a compounded 6% per year. The fit is almost exact. I know you're thinking that the stock market must have done better than that, but it did not.*
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> *Investors, however, did better due to the average annual compounded 4.6% return paid to shareholder from dividends. The total return from (1) price appreciation and (2) dividends was an average compounded 10.6%, but remember, over 43% of total return came from dividends. Sadly, today's investors have almost completely forgotten about dividends. Perhaps with the average yield on stocks about 1.5%, instead of the historical 4.6%, there is some reason not to spend much time on dividends. Nonetheless, most investors are unlikely to see stock price appreciation that outruns nominal GDP growth over*

time.

You can read more about the benefits of dividends in your portfolio in, Dividend Investing: A Primer, a white paper on the subject produced by my family run investment counsel firm, Richard C. Young & Co., Ltd.