The case for dividends

After interest rates plunged toward zero, I began making the case for dividend-paying (and raising) stocks.

I reiterated that stance just over a month ago when I recommended dividend paying ETFs (along with energy ETFs) in an Investor's Business Daily interview, which I've posted on my website. With the exception of last year, this position has worked out well.

David Vomund
Market Pulse

In a recent article in Forbes the bull case was made again. It cited BlackRock's research that said dividends provided 90 percent of the market's return over 100 years.

Ned David Research put a finer point on it. In a study of the 43 years beginning in 1970, companies with steady dividends returned 7.7 percent annually while non-payers returned 2.6 percent.

Those that raised their dividend every year returned 10.1 percent. So dividend growth counted for more than the dividend yield. No wonder.

To increase dividends year after year a company must increase earnings as well. What kind of companies do that? Well-managed companies in fundamentally solid industries whose demographics are clearly positive.

Many are in the health-care industry. Others are financial services companies. The list of dividend aristocrats (at least 25 years of dividend growth) includes many utilities.

Rising profits lead to rising stock prices. That's always been true. In even the worst of times there are companies that benefit at the expense of others, taking market share with better or cheaper products and services (or both). Some break ground with new products. Look at Apple.

For the largest percentage of companies, however, profit growth needs a growing economy. If the pie isn't growing, the slices stay the same size or become smaller.

Is the economic pie growing? Barely. From 1950 to 2000 GDP growth averaged 3.5 percent. Since 2000 it's averaged 2 percent.

That is not a small difference and explains why real household income is virtually unchanged since 2000. Put another way, the middle class hasn't had a raise in 15 years while health care costs, college tuition and taxes have risen. Some people are angry about that. And they vote.

The easiest way to own a broad portfolio of stocks that pay and increase dividends is to purchase ProShares Dividend Aristocrats (NOBL) or Vanguard Dividend Growth (VIG).

These ETFs have outperformed this year, already shrugging of the selling at the start of the year. History says they should continue to do outperform.

David Vomund is an Incline Village-based fee-only Registered Investment Advisor. Information is found at www.VomundInvestments.com or by calling 775-832-8555. Clients may hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.