



Why is income important for all investors? Anwiti Bahuguna, Senior Portfolio Manager

Investing for income is not just for retirees. I think every investor should take a look at income as a source of growth for their capital.

If you think about income, the thing that comes to your mind is bonds. And it's definitely true that for bond investors, even for a short time period, income constitutes the majority of the returns that they would get from that investment. For example, if you're investing in corporate bonds, more than 90 percent of the returns you get from that investment is the income or the coupon that that bond yields.

For stocks, people have the perception that it's really just price gains. "Let's get into a hot stock; it's going to go up, we're going to make a lot of money." In fact, research has found that if you extend your horizon of investing in stocks beyond the short term, say if you'd think about investing for five years or ten years, which is the time period for any serious investor, then a significant chunk of your return, even for stocks, comes from the income component of stocks, which in this case is dividends. For example, if you're investing for five years, as much as 40 to 60 percent of the returns is driven by the dividend component of the stocks and not the price returns.

So I think it's really key for investors to focus on income, whether they're thinking of stocks or bonds or any other kind of investment.

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"A significant chunk of your return....comes from the income component of stocks" Source: Brandes Institute. Data as of December 2014.

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