



# Investing for income: equity edition

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When investors are looking for income, immediately, they think of the bond market. But I think it's important to understand, the stock market's also a source of income.

Dividends. Dividends are a source of income. And dividends, historically, are very important. Long-term, dividends are 40% of your return from the stock market. So 60% of the return was the price movement and 40% was your dividend income. From 2010 till the end of 2017, because we look at annual data, dividends were only 16% of your return.\* Why? It was a bull market, stocks were going up a lot. So a two-and-a-half or three-percent dividend yield wasn't important.

The market, unless you think we're in a perennial bull market where every year, you're going to make double-digit returns and...that's not likely. We're going to return, I think, to a norm where dividends are an important part of your return.

I think there's a temptation, then, of, "I want to get the highest-yielding stocks." I would suggest the highest-yielding stocks might not be the highest-yielding stocks in a year or two if the dividend gets reduced.

If it's too good to be true, it's probably too good to be true, which means the dividend might be at risk.

So what you want to find is stocks who have dividends, have dividends that grow and where the risk of that dividend being cut is relatively low. How you do that is, you look at what's called cash flow, free cash flow. And if the cash flow is not enough to cover the dividend going forward, the odds are, they're not going to be able to pay the dividend, they're going to cut it.

You want to look for sustainable dividends, because going forward, income, dividends, are going to be an important part of the total return, investing in the stock market.

*\*Source: Ned Davis Research as of 12/31/18. Updated annually. Past performance is not a guarantee of future results.*

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