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Equity Income Strategies in a Growing Economy

Stock prices don't tell the whole story for investors seeking to generate income and long-term growth with relatively low volatility.

Through the first three quarters of 2018, growth stocks outperformed the broader U.S. equity market, represented by the S&P 500, while more conservative, high-dividend-paying companies generally underperformed. This is typical in a growing economy.

KEY TAKEAWAYS

Growth stocks outperformed through the first three quarters of 2018, while conservative strategies underperformed.

Though stock prices for high-dividend companies in equity income strategies have been relatively flat this year, these companies are still paying dividends to shareholders.

Conservative strategies such as equity income typically outperform in struggling economies, but are a solid investment even in a growing economy.

GROWERS VS. PAYERS

Growth-oriented companies typically do not pay high dividends, preferring to reinvest their profits in the business to help it grow. Some don't pay dividends at all. High-dividend companies typically are not seeking growth, so consistently allocate more of their profits to shareholder dividends.

Growth companies also can be more volatile. When an economy is slow, growth companies tend to face greater headwinds as investors shift to more conservative investments, such as high-dividend companies. In these conditions, equity income strategies typically have a greater opportunity to outperform.

	S&P 500 Dividend Yield Breakdown		
	Average Weight %	Total Return %	Contribution to Return %
Payers	81.67	8.24	6.73
Above-Median Payers	39.85	0.54	0.22
Below-Median Payers	41.82	15.57	6.51
Non-Payers	18.33	20.79	3.81
Total	100	10.54	10.54
YTD as of 9/30/2018 Source: FactSet			

2018: A TIME OF GROWTH

The year-to-date return for the S&P 500 index through the first three quarters of 2018 was 10.54%. This measure of performance by large-capitalization companies in the United States can be divided into categories based on dividend size: nonpayers, below-median payers and above-median payers, with 2% representing the median dividend.

As the chart shows, above-median payers, those companies paying the highest dividends and the ones typically included in equity income strategies, represented 39.85% of the index, returned 0.54% and contributed only 0.22% to the index's total return. Nonpayers and below-median payers combined to represent 60.15% of the index, return 17.16% and contributed an outsized 97.9% of the index's total return.

While high-dividend-paying companies lagged on return, they continued to pay dividends. So, even in a growing economy, they remain a solid investment.

CONCLUSION

Equity income strategies are a good fit for investors who seek to generate income and long-term growth with reduced volatility. Though growth stocks tend to outperform in a growing economy, equity income strategies tend to outperform in a slow growth environment. By focusing on companies with a history of paying high dividends regardless of economic conditions, equity income strategies mitigate volatility and remain a solid investment in all stages of the economic cycle.

To learn more about Equity Income Strategies and whether they could be suitable for your investment objectives, contact your advisor.

Benchmark Information:
Broad benchmarks are presented to illustrate the general price movement in one or more broad, widely accessible asset class. These benchmarks are not intended to represent the security selection process or holdings, but serve as a frame of comparison using established, well known indices. These indices are not available for direct investment. A person who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees, transaction costs, etc. which would reduce returns.

Standard & Poor's 500 (S&P) Index: Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

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