17. Jul 2019 Equities

Dividends are an investor's best friend

A look at the USA shows that in the long term, corporate payouts are the biggest contributor to a stock’s total return.

- In the eurozone, there is still no sign of an end to the low interest rate policy.
- As a result, many investors are resorting to equities, because bonds provide hardly any return.
- When interest rates are low, dividends are a good way for investors to achieve a solid source of income

3 minutes to read

Interest rates in the eurozone have been extremely low for years. Nevertheless, European Central Bank (ECB) boss, Mario Draghi, recently put further monetary easing on the table due to the uncertain economic environment. There appears to be no end to the low interest rate policy in sight, meaning that equities are likely to remain a more attractive investment than bonds for the time being.

Dividends make a significant contribution to total returns

Dividend stocks are particularly popular with investors, as Thomas Schüßler, who manages one of the DWS crowd pleasers, the DWS Top Dividende fund, knows. However, he prefers not to call dividends the "new interest" – because the price risk remains. "If you want to achieve a reasonable return in times of low interest rates, you simply have to take a certain amount of risk," says

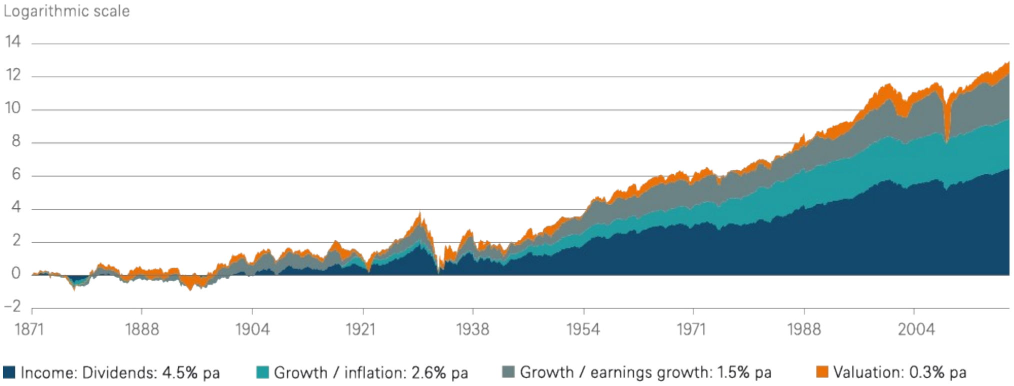
Schüßler. "And dividends can provide a solid source of income for investors."

The role of dividends in equity investments is shown in the total return. For equities, the total return is influenced by corporate profit, the stock's valuation [1]<javascript:;>, income (including dividends and other distributions) and inflation.

Analysis by well-known US economist Robert Schiller shows that dividends accounted for the lion's share of total US equity returns over the past few decades. Their share was more than double that of real profits. And the stock valuation's effect on total return was even lower over the same period.

Dividends make a significant contribution to total returns

The contribution of dividends to the total return of US equities is more than double that of real earnings. The effect of an increase in valuation makes an even lower contribution.



As of: December 2018; source: Robert J. Shiller, DWS International GmbH. Past performance, actual or simulated, is not a reliable indicator of future results.

Top Dividende

Top Dividende

anagement invests globally in s, primarily high-capitalised that expect a higher dividend an the market average.

Dividend shares may give a portfolio stability in uncertain times

Looking to the future, DWS also currently estimates dividends' potential as a driver of equities' total return to be higher than that of other factors. This is because short-term prospects on the stock markets do not look very promising. This means that big gains last year and lingering trade disputes are likely to put a brake on equity markets' growth potential in the short term. Instead, the risk is increasing of a correction, which could, for example, see the S&P 500 share index[2]<javascript:;> in the US plunge by more than ten percent[3]<javascript:;>.

However, it is precisely in such uncertain times that dividend stocks come into their own. "Regardless of whether the economic situation is good at the moment or less promising, companies that have paid their shareholders a stable or rising dividend in recent years often do not want to stop doing so," says Schüßler.

Many of these companies also have relatively stable revenue models that are less susceptible to cyclical fluctuations. This is particularly true of the so-called dividend aristocrats – companies that have consistently paid investors a higher dividend for at least the last 25 years. Dividend aristocrats often achieve dividend growth of 5 to 10 percent per year[4]<javascript:;>. "These companies' generous dividend policy has several advantages for investors," says Schüßler. "It is an attractive opportunity to generate additional and relatively reliable income. And it lends the portfolio stability when prices are fluctuating."

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1. ^ <javascript:;> Measured, for example, by the price-earnings ratio, P/E
2. ^ <javascript:;> Representative index of the performance of the US equity market, composing 500 leading companies in the USA.
3. ^ <javascript:;> More information on the current market assessment by DWS can be found here: https://www.dws.com/insights/cio-view/cio-view-quarterly/q2-2019/more-troubles-ahead/
4. ^ <javascript:;> Source: https://www.passivergeldfluss.de/dividenden-aristokraten/

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