

Dividend Income Investing

May 2025

*"If I knew I'd live this long, I would
have taken better care of myself."*
Mickey Mantle




Andy Prophet
Income Nerd


Disclaimer

- Opinions that may be expressed in this presentation are not necessarily those of AAll or the Silicon Valley Chapter.
- My intent is to provide a background for the understanding of income investing and share my own personal experiences
- Viewers should not consider my views as recommendations
- AAll mission: A grassroots organization led by volunteer members, and extend the mission of "person to person" to individual investors in our community
- I hope what's provided herein is unbiased investment education in a social context.



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TODD BLICKENSTAFF
Co-coordinator AAI National Income
and Cash Flow SIG Group

Agenda

- Income Goals
- Income vehicles
- Passive vs Active
- Dividend investing guidelines
- Sources and tools
- Taxes
- Closing remarks
- References



Income Investing Goals

- Steady stream of income
- Grow income faster than inflation
- Preservation of capital
- Optimizing after-tax income
- 8 - 10% CAGR



Common Income Investing Choices

- Dividend Investing
- Preferred Stocks
- MLPs (Master Limited Partnerships)
- REITs (Real Estate Investment Trusts)
- Option-Income (covered calls etc.)
- Income-oriented mutual funds
- Income ETFs
- Bonds and bond ETFs
- Cash equivalent securities



Income Investing Styles

- Passive
 - Mutual funds, ETFs etc.
 - Okay but returns will be lower
- Semi-passive
 - Follow dividend newsletter recommendations
 - Returns better than passive style.
- Proactive
 - Select your own equities
- Keep accurate records
- Review 2-4 times/year

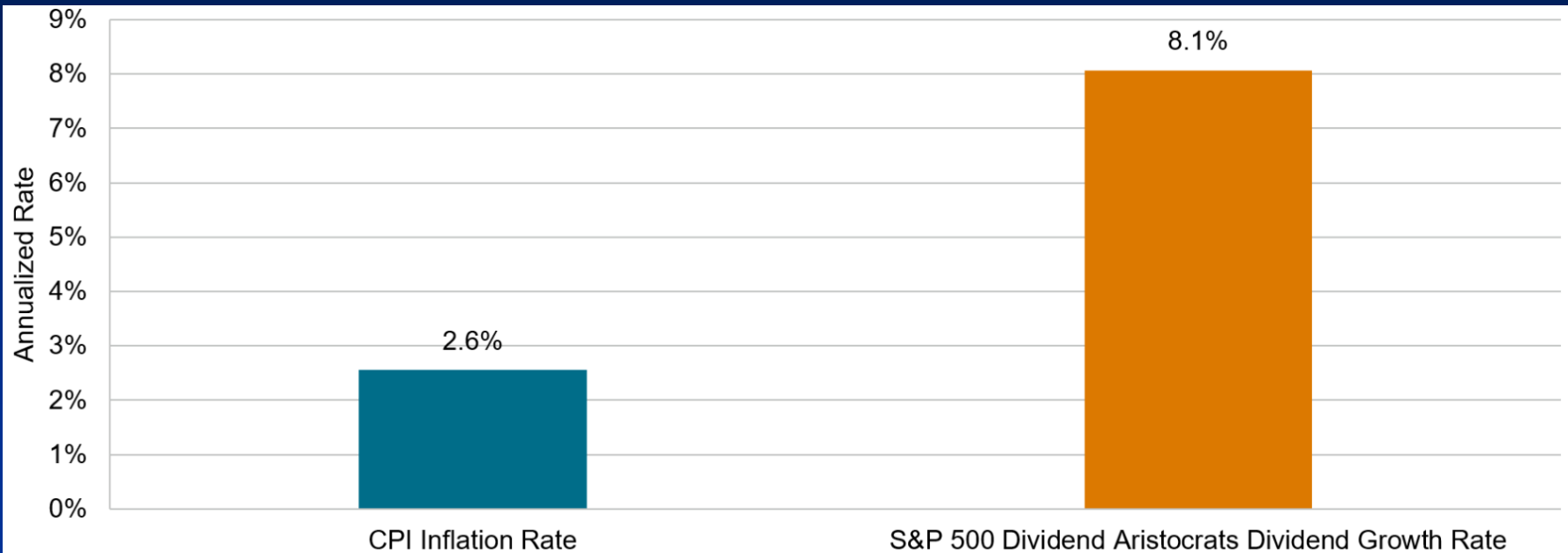


Dividend Investing With ETFs

- Power Shares S&P 500 High Dividend Low Volatility (SPHD)
- Schwab U.S. Dividend Equity ETF (SCHD)
- SPDR Portfolio S&P 500 High Dividend ETF (SPYD)
- AAM S&P 500 High Dividend Value ETF (SPDV) (A recent ETF)
- Vanguard Dividend Appreciation ETF (VIG)
- ALPS Sector Dividend Dogs (SDOG)
- Cboe Vest S&P 500 Dividend Aristocrat Target Income ETF (KNG)



Over the 20-year period, the S&P 500 Dividend Aristocrats achieved an annualized dividend growth rate of 8.1%, which is more than three times the 2.6% CPI rate for the same period.

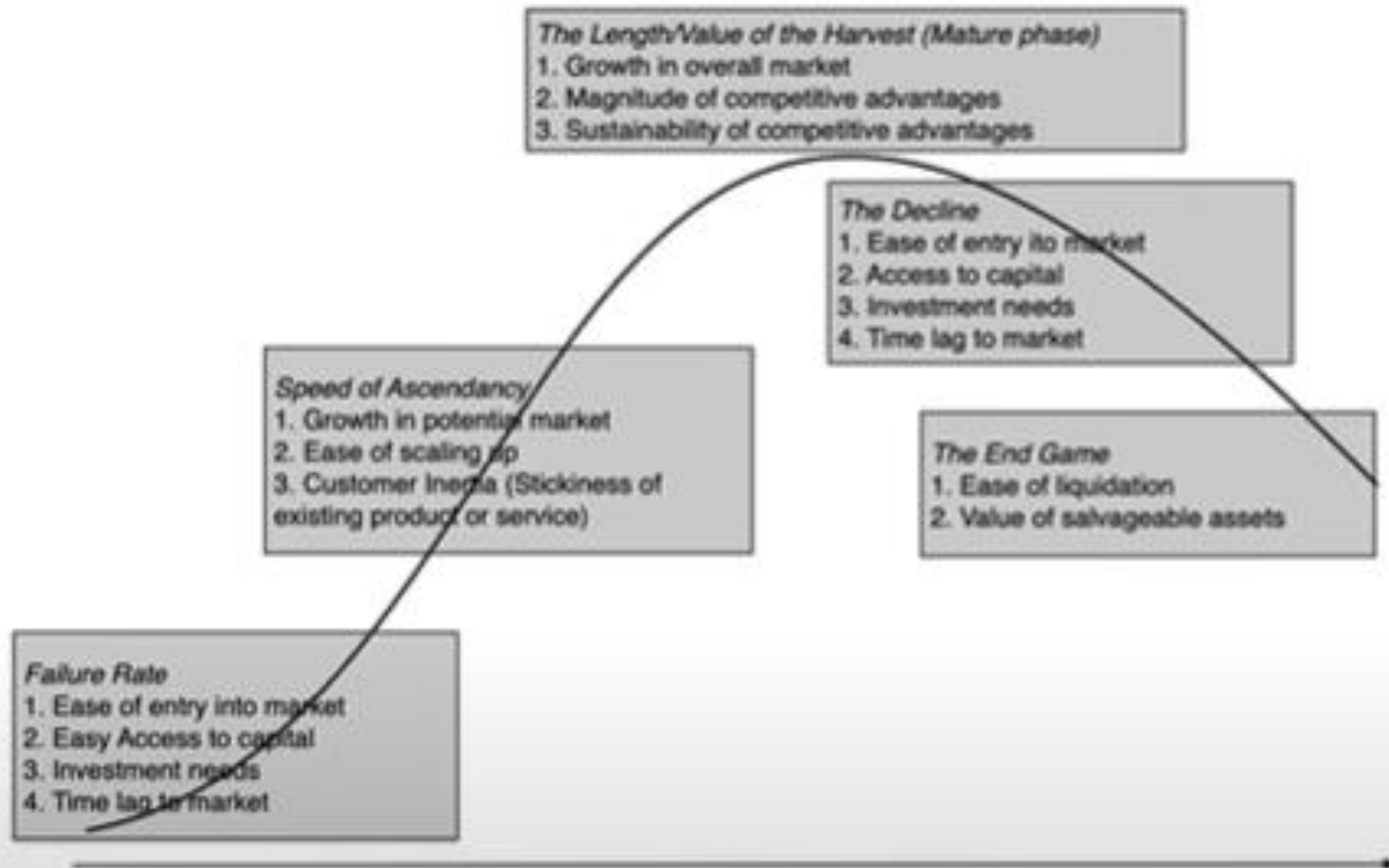


Source: S&P Dow Jones Indices LLC and FactSet. Data from May 2, 2005, to March 31, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

S&P 500 Dividend Aristocrats ETF (NOBL), which tracks this index, is around 2.16%

Corporate Life Cycle

Figure 3.4: The Corporate Life Cycle: Drivers and Determinants

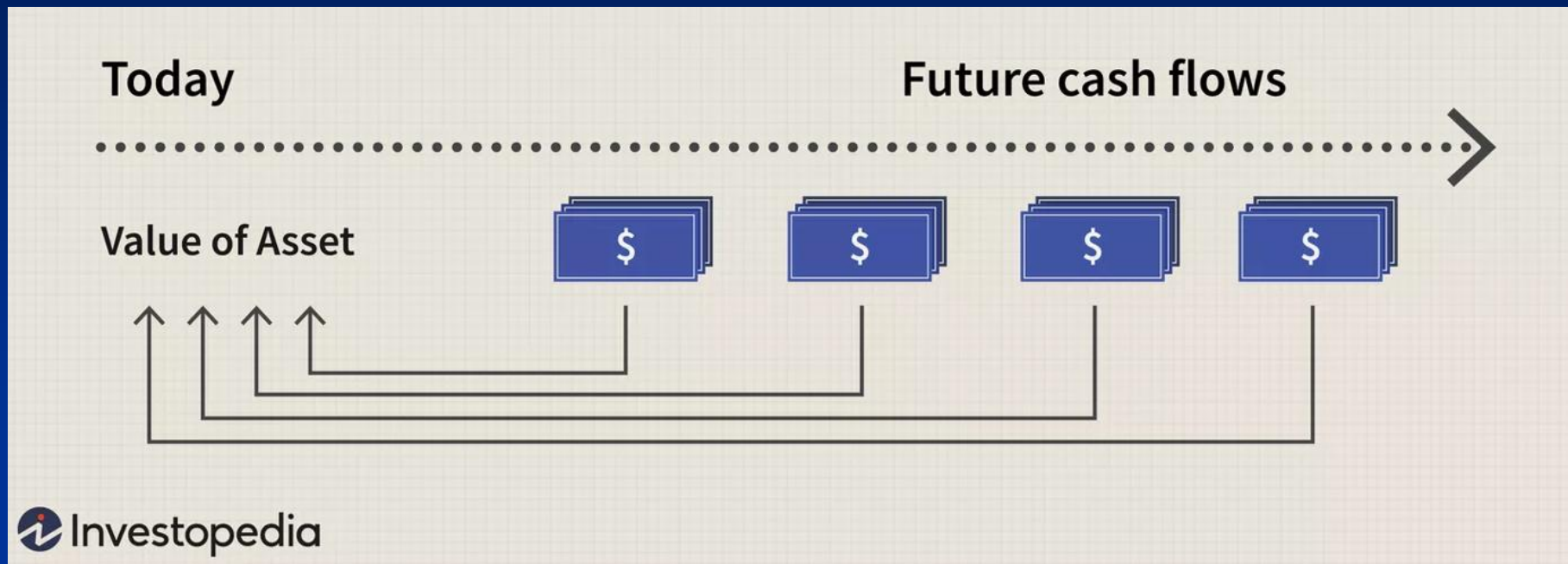


Mature Company Characteristic

- **Revenue growth is approaching the growth rate in the economy:** While the growth rate for earnings for mature firms can be high.
- **Margins are established:** Mature companies tend to have stable margins (at least across cycles)
- **Competitive advantages:** Some mature firms see excess returns go to zero or become negative with the advent of competition, other mature firms retain significant competitive advantages (and excess returns).
- **Debt capacity:** The capacity to borrow money should increase, although there can be big differences in how these firms react to this surge in debt capacity
- **Cash buildup and return:** As earnings improve and reinvestment needs drop off, -
- **Inorganic growth:** As companies get larger internal investment opportunities do not provide the growth



Valuation Basics



Discounted Cash Flow

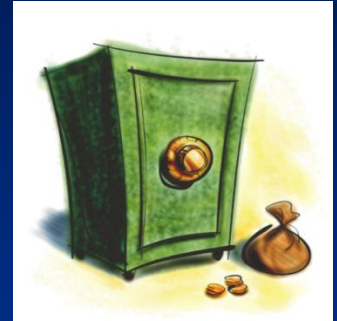


- The discounted cash flow (DCF) values an asset by calculating the sum of the present value of its anticipated future cash flows.
 - This approach acknowledges the time value of money, where money available at the present time is worth more than the same amount in the future due to its potential earning capacity.
- Dividend Discount Model (DDM) is a valuation model which calculates the price of a company's stock based on the theory that its present-day price is worth the sum of all of its future dividend payments when discounted back to their present value.



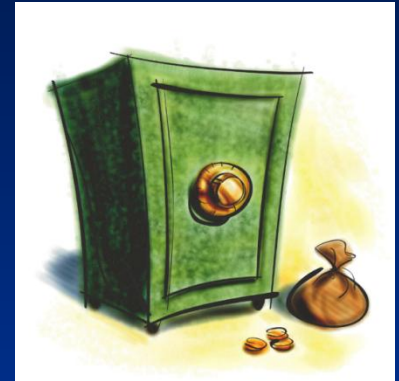
Dividend Guidelines

- Goal: 9% - 10% cagr
- Dividend portfolio selection criteria
 - 2.5 - 3.5% yield and 6 – 8% yearly growth in dividends
 - Yield + growth = 8 to 12%
- Allocation: Each equity on cost basis is about 2.5% to 3.3% of the entire portfolio
 - Diversify across major industries and sectors.
 - About 25 - 30 equities, mostly dividend stocks, a few MLPs, REITs, and preferreds



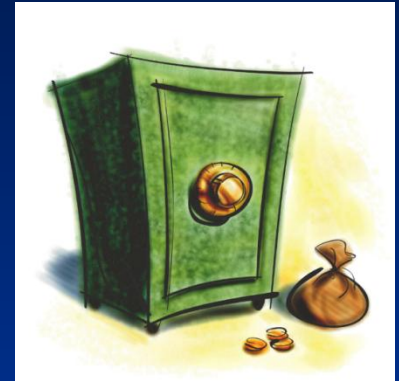
Dividend Guidelines

- Dividend payments are received in cash
 - Past dividend growth often suggests future performance.
 - Portfolio growth can be accelerated by re-investing dividends
- Optimize after tax income
 - Best done in tax-differed accounts
 - Qualified dividends in non-differed accounts are taxed at:
 - 0% rate for 12% bracket or below (MFJ)
 - 15% rate for 22% or 24% brackets (MFJ)
 - 20% rate for 32% and above brackets (MFJ)**



Dividend Guidelines

- Selling Criteria
 - Cuts, freezes or suspension of dividend
 - Bubbles: the stock becomes grossly overvalued
 - Major fundamental changes impacting the company
 - Announcements such as: splits into separate entities or spin-offs
 - Free cash flow dips below the dividend stream
 - Top management changes... CEO or CFO
 - Current yield drops below 2.5% or above 9%
 - Current value exceeds about 10% of portfolio
- No, margin, no shorting, no options, no futures etc.
- Review portfolio 4 times a year.



Where Do I Find Dividend Equities?

- Newsletters

- Morningstar Dividend Investor



- AAI Dividend Investing



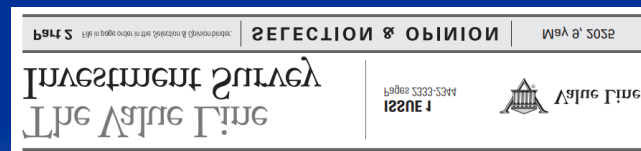
- Seeking Alpha



- Kiplinger's Investing for Income



- Value Line



Portfolio Admin Tools

Software, software and more software ad nauseam...

- Quicken Premier (IRR calculations for equities)



- Value Investing.io

ValueInvesting.io

- Seeking Alpha

Seeking Alpha α

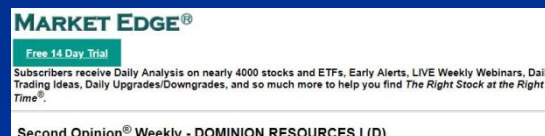
- FastGraphs: Fundamentals Analyzer Software Tool



- Excel or Google Sheets.



- Schwab Market Edge



- TurboTax



- Gemini Advanced



Keeping a Journal Really Helps

Investment Check List & Journal

Ticker: **Company Name:**

Recommended Source: Select or type...

Thesis Statement:
(Reasons I believe this stock is good investment, basic tenets, use the 3-minute rule):

Meets the Following Goal:
Dividend Equities:
☐ **Builder:** (Current Yield: 3-4% per year Dividend Growth: 6-9% per year)
(Yield must exceed 20-yr Treasury Bond)
☐ **Harvest:** (Current Yield: 5-7% per year Dividend Growth: 3-5% per year)
☐ **Fixed Income Equities:** (Yield: 3.5-8%)
☐ **Preferred Equities:** (Yield: > 6.0%, Investment Grade, Less than Call Price, Prior to call date.)

Scenarios:
1. If price goes below: then buy shs at
2. If price goes below: then buy more shs at

Comments:

Purchase Information:
Date: **Shares:** **Price:**
Date: **Shares:** **Price:**

Sell Criteria:
(Document several plausible scenarios such as: positive developments such as price target, negative developments such as lower earnings, loss of key competitive advantage. If company is purchase for good growth characteristics, then selling must be consider if slower growth occurs. Or if based on value criteria, then consider selling if it becomes overvalued. Identify most likely to reflect success or failure of the Thesis Statement.)

- Originally prepared in a notebook binder... one page for each security
- I write down why I buy and when to sell the stock... up front
- Hope to migrate to NotebookLM

High Tax States

- California (13.3%) ←
- Hawaii (11%)
- New Jersey (10.75%)
- Oregon (9.9%) ←
- Minnesota (9.85%)
- District of Columbia (8.95%)
- New York (8.82%)
- Vermont (8.75%)
- Iowa (8.53%)
- Wisconsin (7.65%)

Risk of Cognitive Impairment

David Laibson AAll Journal Sept 2011

Figure 3. Cognitive Impairment Without Dementia

71-79	16.0%
80-89	29.2%
90+	38.8%

Source: Plassman et al, 2006.

Figure 2. Prevalence of Dementia in North America

60-64	0.8%	
65-69	1.7%	× 2.1
70-74	3.3%	× 1.9
75-79	6.5%	× 2.0
80-84	12.8%	× 2.0
85+	30.1%	× 2.4

Source: Ferri et al, 2006.

Closing Remarks

Investing for Income is Effective But...

- Be patient: It takes 8 -10 years to achieve a sustainable yield on cost.
- Be realistic: Your income needs may not always match what the market offers
- Higher the yield the great the risk
- Be sure to have plan for income investing if you or your partner become cognitively impaired.
- Getting older means more medical expenses
- Taxes won't disappear once you retire
 - Always calculate your after-tax return
 - Check out April 2018 Journal: “[Social Security and Medicare Can Raise Retirees’ Tax Rates](#),” by William Reichenstein and William Meyer



End

Questions



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"If we take a late retirement and an early death, we'll just squeak by."

Reference URLs



- Seeking Alpha: http://seekingalpha.com/dashboard/investing_income My favorite au
- Quicken Premier: <http://quicken.intuit.com/personal-finance-software/premier-investment-management.jsp> (love-hate relationship)
- Income Tax Planning Spreadsheets
 - Taxvisor.com <http://www.taxvisor.com/taxes/index.html>

Reference URLs

(Continued)



- Damodaran Online: <http://www.damodaran.com>
- F.A.S.T. Graphs; <http://www.fastgraphs.com/>
- Dividend Aristocrats <http://us.spindices.com/indices/strategy/sp-500-dividend-aristocrats>
- Master Limited Partnerships: A High-Yield Favorite for Growing Dividends <http://www.investinganswers.com/investment-ideas/income-dividends/master-limited-partnerships-high-yield-favorite-growing-dividends->

References: Income Newsletters

(continued)

- [AAll Dividend Investing](#)
- [Value Line \(free at most libraries\)](#)
- [Kiplinger's Investing for Income](#)
- [Morningstar Dividend Newsletter](#)



Reading List

- Security Analysis, Graham and Dodd: Sidney Cottle, Roger F. Murrar, Frank E. Block
- Investment Valuation: Aswath Damodaran
- Retirement Investing for Income Only: Bruce C. Miller
- The Corporate Life Cycle: Business, Investment, and Management Implications: Aswath Damodaran
- Sensible Stock Investing, How to pick value and manage stocks: David P. Van Knapp (latest edition)

