Wealth Enhancement®

Weekly Market Update October 18, 2024

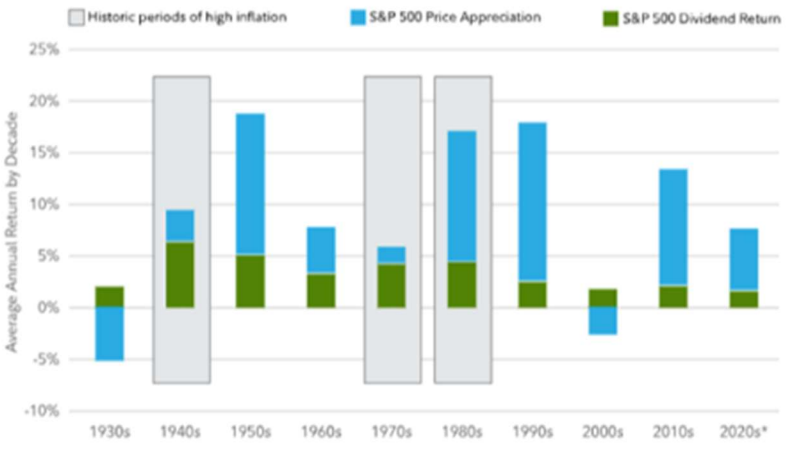
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Fed Funds 4.75% - 5.0%, US Ten Year 4.083%, Oil $69.35

	Close	One Week	One Month	Year-to-Date	One Year
Dow Jones Industrial	40,275.91	+0.96%	+2.88%	14.82%	+30.64%
Standard & Poor's 500	5,864.67	+0.85%	+2.84%	+22.95%	+38.84%
Nasdaq Composite	18,489.55	+0.80%	+3.02%	+23.17%	+42.40%
Russell 2000	2,093.05	-5.62%	+0.58%	+3.17%	+13.04%

Stocks continued their torrid pace higher this week, with the Dow Jones Industrials and Standard & Poor's 500 reaching all-time high levels, while the NASDAQ is poised to break through its July 11 record closing high. While the small cap Russell 2000 has not had quite the returns of the larger capitalization stocks, with interest rates expected to fall over the next year there may be greater growth potential in small caps going forward.

With the focus on Artificial Intelligence directing investors' attention on growth stocks, it is easy to overlook the importance of dividends. In fact, since 1930 dividends have provided 40% of the total return of the S&P 500. The payouts have not had quite the saliency of earlier decades when interest rates were more stable, but they are still an important component of total return.



Courtesy: Fidelity.com

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If one does prefer to invest in dividend paying stocks, is it better to go for the higher-yielding stocks, or instead lower-yielding stocks with a higher *growth* rate of dividends? That may in part depend on whether an investor uses their dividends for living expenses. If that is not the case, the data shows that lower-yielding stocks with higher dividend growth rates will provide a much higher total rate of return. The three securities in the chart below track the ten-year total return from a high-yield stock fund, the SPDR Portfolio S&P High Dividend ETF (SPYD – red), the Vanguard Dividend Appreciation Index ETF (VIG – blue), and the Standard & Poor's 500 index itself (SPX – green).



*All dividends reinvested Data: TotalRealReturns.com

The high dividend SPDR, yielding over 4%, is clearly the choice for people needing current income, but it comes at a price; its ten-year total return is less than half that of the S&P 500 index. Note that the Vanguard Dividend Appreciation Index has had a total return much closer to that of the S&P 500 stock index, and its future return expectation (based on an exponential trend line) is also close. The VIG fund is a fine alternative for investors who want the growth the large cap index provides, but with its lower volatility as measured by its Beta and R-squared.

Wishing You a Profitable Week,

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