Focus on quality, not higher yields

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Quality companies with strong balance sheets are generally the ones that are most able to sustain their dividends in tough times and increase their dividends over the long term. Higher yield is usually associated with higher risk, and these stocks may fall short of expectations because of dividend cuts or lack of dividend growth.

What is dividend yield?

The total dollar amount of dividends paid in a year divided by the stocks share price. The dividend yield is expressed as a percentage and will fluctuate if there is a change to the companies dividend or share price.

Many investors wisely look at dividend-paying stocks as complementary income-producing vehicles to other asset classes, such as fixed-income investments. However, in their search for additional income, some investors are focusing on the highest-yielding stocks, which we believe carry additional income-reducing risks, as these companies may be forced to suspend or cut their dividends. We recommend owning higher-quality, dividend-paying stocks that have the potential to grow their dividends over time.

High-yield stocks typically carry higher risk

High yields can be the market's signal that investors have concerns about a companies current operations or potential for growth.

If the market is pricing a stock at a level where the yield is unusually high, it may be signaling one or more of the following:

- The dividend is increasingly at risk and could be decreased.
- Growth prospects or business fundamentals at the company have deteriorated, and future dividend increases are unlikely.
- The level of income isn't quite what it appears to be. With certain types of investments (such as those that pay a return of capital distribution), some of the income ends up reducing your cost basis and may potentially result in you having to pay more taxes when you sell the stock.

Higher-yield stocks can be sensitive to interest rates

As the economy recovers from the pandemic and expectations for future growth improve, long-term interest rates may increase, which could put pressure on some high-yielding stocks. Prices of high-yielding stocks could decline as bonds become more attractive and the cost of debt increases.

Rising income and total return matter

It's important to focus on your total return from owning stocks and the potential for rising income, not just the current dividend income. Total return includes share price appreciation and dividend income over time. In addition, a primary reason for owning dividend-paying stocks is the opportunity for rising income, whether reinvested or used to pay for everyday living. If the dividend is not growing, an investor's inflation-adjusted income from the stock actually declines over time.

Higher-quality companies that grow their dividends over time can provide a rising stream of current income that helps offset inflation.

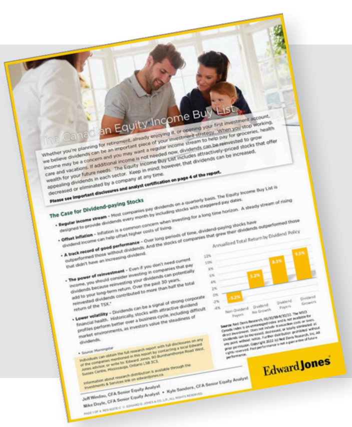
Focus on higher-quality dividend growers

Companies that pay and grow their dividends over time have historically offered several benefits, including:

- **Ability to maintain and grow dividends –** High-quality companies with strong balance sheets are more likely to maintain their dividends and increase them over time.
- **Rising income potential to help offset inflation –** A potentially growing stream of dividend income can help offset rising prices over time.
- **Quarterly or monthly income –** While most companies pay dividends quarterly, you can receive monthly income by staggering the dividend payment dates of your stocks.
- **Total return potential –** Historically, dividend payments have been an important part of the total return from stocks. Over the last 20 years, dividends that have been reinvested have accounted for over 40% of the total return on stocks over the long term.[1]

Actions for you to consider: Add rising income today

We believe now is an especially compelling time to consider rising-income stocks for your portfolio, including those on the Edward Jones Canadian Equity Income Buy List. Take this opportunity to talk with your financial advisor about appropriate ways to include rising income as part of your overall portfolio.



Check out the Canadian Equity Income Buy List

A good place to start when looking for dividend-paying stocks is the Edward Jones Equity Income Buy List, a list of Buy-rated stocks that on average offer dividend yields above the market yield. Most of these stocks also offer above-average dividend growth potential, good historical dividend growth and attractive prices.

1 Source: Factset

