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IS SOME INCOME BETTER THAN OTHERS? ALL ABOUT DIVIDEND INVESTING

Clients often talk about living off the interest generated by their portfolios, and they are not usually referring to just the bond interest they receive but also the dividends from the stocks they own. I even hear clients talk about their investment income that way when their portfolio is not designed to capture dividends and interest to withdraw and live off of in retirement but to generate capital gains that meet or exceed their income needs.

The subject can be confusing, so here's a brief primer:

Dividend investing can be a good strategy for certain investors, but like any investment approach, it has its pros and cons. Whether dividend investing suits you depends on your financial goals, risk tolerance, and investment timeline.

A dividend investing strategy is simple: You invest in companies that pay shareholders a stable dividend regularly, which provides a relatively predictable series of cash flows. Here are some considerations to help you decide if dividend investing aligns with your investment objectives:

PROS OF DIVIDEND INVESTING

1. **Regular income:** Dividend-paying stocks can provide a steady stream of income, making them attractive to income-seeking investors, especially those in or nearing retirement.
2. **Potential for growth:** Some companies increase their dividends over time, providing investors with the potential for income and capital appreciation.
3. **Lower volatility:** Dividend-paying stocks, particularly those of established companies, tend to be less volatile than high-growth or speculative stocks.
4. **Dividend reinvestment:** By participating in dividend reinvestment programs (DRIPs), investors can automatically reinvest dividends to purchase additional shares, potentially compounding their returns over time.
5. **Historical performance:** Over the long term, dividend-paying stocks have historically provided competitive returns and can be a defensive strategy during bear markets.

CONS OF DIVIDEND INVESTING

1. **Limited growth potential:** High-growth companies often reinvest their earnings into expanding the business rather than paying dividends. As a result, dividend stocks may not experience the same rapid price appreciation as growth stocks.
2. **Dependency on stable companies:** Relying heavily on dividends can lead investors to focus on mature, stable companies, potentially missing out on higher-growth opportunities in emerging industries.
3. **Interest rate sensitivity:** In a rising interest rate environment, dividend stocks may become less attractive compared to fixed-income investments.

4. **Dividend cuts:** Companies can reduce or eliminate dividends in challenging economic conditions, leading to decreased income for investors.
5. **Tax implications:** Dividends are typically taxable income, which may impact the after-tax returns for investors in taxable accounts.

That last item is maybe the most important consideration, and the one that drives me as an investment advisor to steer most clients away from a strategy that is overly focused on generating income through dividend investing, particularly for higher income earners: A strategy that focuses on growing a portfolio through capital gains will be much more tax efficient than one designed to generate high dividends because the long-term capital gains tax rate is significantly lower for people in most tax brackets than the tax rate on stock dividends and bond interest.

CONCLUSION

Dividend investing can be an essential component of a well-rounded investment portfolio, especially for income-oriented investors and those seeking a more conservative approach. However, tax implications are a critical consideration, and it's essential to diversify your investments and consider your overall financial goals, risk tolerance, and time horizon.

A balanced portfolio may include a mix of dividend-paying stocks, growth stocks, bonds, and other asset classes to achieve the desired level of risk and return that aligns with your individual needs. It's always a good idea to consult a financial advisor to develop a personalized investment strategy tailored to your circumstances.

— Steve Tepper, adapted from content generated by ChatGPT

SUCCESSOR TRUSTEES—IS IT TIME TO CONSIDER A CORPORATE TRUSTEE?

A trust is an indispensable component of many estate plans. A key element in structuring trusts is the appointment of a trustee. This is the individual or entity responsible for managing assets according to the stipulations of the trust agreement.

One aspect often overlooked is the appointment of a successor trustee who assumes responsibility when the original trustee can no longer fulfill their duties. Today, we will delve into the idea of appointing a corporate trustee as your successor trustee and weigh the potential pros and cons of such a decision.

WHAT ARE SUCCESSOR AND CORPORATE TRUSTEES?

First, let's define the key terms. A successor trustee is an individual or entity that steps in to manage a trust when the original trustee cannot continue due to death, incapacity, resignation, or other factors.

A corporate trustee is a bank or trust company that provides professional trust management services. They are highly regulated, offer continuity, and provide expertise in managing trusts. They can help ensure compliance with complex legal and tax regulations, and successfully navigate challenging family dynamics.

WHY CONSIDER A CORPORATE TRUSTEE?

Many trust grantors choose family members or friends as trustees or successor trustees. This decision is a natural inclination, as these individuals are trusted, familiar with the family dynamics, and presumably have the beneficiaries' best interests at heart. However, being a trustee can be demanding, requiring financial acuity, impartiality, and a significant amount of time.

As an alternative, you might designate a corporate trustee as the successor trustee. A corporate trustee has experience and resources to handle complicated financial tasks, such as investment management, tax planning, and compliance with state and federal laws. This expertise can be invaluable in maximizing the value of the trust and minimizing potential liabilities.

Continuity is another compelling reason to consider a corporate trustee. Corporate trustees, unlike individuals, do not retire, become incapacitated, or die. This continuous, uninterrupted service may provide peace of mind to trust grantors and beneficiaries alike.

Corporate trustees are also bound by fiduciary standards, which means they are legally required to act in the best interest of the trust beneficiaries. This fiduciary obligation can help reduce potential family conflicts that might arise when family members are appointed as trustees.

WHAT ARE THE POTENTIAL DRAWBACKS?

Corporate trustees do have potential downsides. One such concern is cost. Corporate trustees charge for their services, and while these fees may be outweighed by the benefits provided, they are a factor to consider.

Another potential disadvantage is the impersonal nature of corporate trustees. A corporate trustee may lack the intimate knowledge of the family dynamics and personal wishes of the grantor that a close family member or friend might have. This could lead to decisions that, while legally sound and in the best interest of the trust, may not align with the personal nuances of the family.

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Despite these potential downsides, you may find it worth considering the appointment of a corporate trustee, especially if your estate is large or complex, your family dynamics are complicated, or there is no suitable individual to take on the role.

It's essential to discuss your options with an experienced estate planning attorney who understands your situation and can provide appropriate advice. Your financial advisor can also help you decide the best route, given their comprehensive knowledge of your finances and goals.

FINAL THOUGHTS

While appointing a family member or friend as a successor trustee might seem like the most straightforward option, appointing a corporate trustee may provide valuable advantages. These include expertise, continuity of service, and fiduciary responsibility.

Despite a corporate trustee's potential costs and impersonal nature, their professionalism could make them the best choice for managing your trust in the long term. As always, consider all options carefully and consult a professional. As fiduciary financial advisors, we help clients make such decisions as part of their ongoing wealth management services.

This material was written in collaboration with artificial intelligence (ChatGPT) derived from sources believed to be accurate. This information should not be construed as investment, tax, or legal advice.

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