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DIVIDENDS

UNDERSTNDING YOUR STATEMENT

IF YOU HAD QUESTIONS recently about your statement, you are not alone. Enough clients asked similar questions that I was prompted to write the following explanation.

Below is an example of the "Portfolio at a Glance" section on page 1 of your statement. Two main questions surfaced lately:

1. Why is a big loss showing for "Net Change in Portfolio?"
2. What does "Estimated Annual Income" mean?

Portfolio at a Glance

	This Period
BEGINNING ACCOUNT VALUE	**$148,421.53**
Dividends, Interest and Other Income	3,659.66
Fees	5.00
Net Change in Portfolio[1]	-2,754.30
ENDING ACCOUNT VALUE	**$149,331.89**
Estimated Annual Income	$1,133.64

SHORT ANSWER

The short answer for the first question is "Dividends," and for the second is "Interest and Other Income." Let me explain.

LONG ANSWER #1: DIVIDENDS

Dividends are net profit, distributed to shareholders. Dividend amounts fluctuate, and the payment frequency varies widely. Because 2017 was a good year for corporate profits, dividends were generally higher in 2017. And, since many companies pay dividends annually in December, we saw elevated dividends reported on 12/2017 statements.

Dividends are paid on a "per share" basis. If there is a 1% dividend paid, and your share price is $100, you will receive a $1.00 dividend per share owned. When dividends are paid, the share price, by definition, goes down by the dividend amount.

The reasons for the share price drop is this… Dividends represent cash paid to the shareholder. If the company pays out cash to you, it no longer has that cash. Thus, intuitively, the company's value drops, and the share price drops accordingly. The good news is that you have not actually lost any money in that scenario, because you have the (lower priced) share AND the cash, which together equal the same amount as the (higher priced) share prior to the dividend.

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Consider this simple example. You own 10 shares at $100 each, for a total of $1,000. When a 1% dividend is paid ($1.00 per share), $10.00 is paid into your account as "**Dividend Income**," and is included on that line on your statement. Your new share price is $99.00. You still own 10 shares, so your post-dividend share value is $990. Because your shares lost value, your "**Net Change in Portfolio**" is a loss of $10.00, but your account value is still $1,000 when you add the $990 and the $10 together. Most investors have chosen to reinvest dividends, so the $10 buys .101 of an additional $99 share. You now own 10.101 shares at $99, for a total of $1,000.

In the statement pictured above, there was apparently either some additional market gains in share price and/or additional **Interest and Other Income** that caused the **Dividends, Interest and Other Income** to exceed **Net Change in Portfolio,** in turn prompting the Ending Account Value to be higher than the Beginning Account Value. While it seems instinctive to label this result as a "**Net Change in Portfolio**," the vendor that prints your statements is instead using that phrase to describe solely the change in your share price, whether due to market gains/losses, or dividend effects.

LONG ANSWER #2:
INTEREST & OTHER INCOME

Good news! The **Estimated Annual Income** on your statement is NOT your annual rate of return or the amount you are permitted to draw for annual income during retirement. Either one of these would be a huge disappointment, to be sure!

Rather, **Estimated Annual Income** on your statement includes two items: (1) interest (on money market and/or other cash instruments), and (2) bond yield (interest paid to you by bond issuers).

Unless you are heavily invested in bonds, it is likely that the **Estimated Annual Income** on your statement will be a small portion of your overall rate of return. If the example account above, for instance, increased 10% (roughly $15,000) in a given year, then the **Estimated Annual Income** of $1,133.64 would compose only about 1/15th of the overall annual gain.

If you would like further explanation on bond yields vs. income vs. capital gains, please click here to see an article I wrote on the subject.

Sincerely,

John

John D. VanDyke