

# Blog

## Why More Investors Are Turning to Dividend-Paying Companies



Keith Dunn | March 14, 2025



Dividend-paying stocks have long been a cornerstone of successful investing, offering both steady income and capital appreciation. Unlike high-risk growth stocks, dividend-paying companies tend to be well-established, financially disciplined, and committed to returning value to shareholders. This makes them particularly attractive during uncertain economic times.

At EsqWealth, we recognize the importance of dividends in a well-structured portfolio, particularly for investors seeking reliable returns with lower volatility. As market conditions shift, a growing number of investors are moving toward dividend-paying stocks for stability, income, and long-term wealth accumulation. A recent *Wall Street Journal* article highlighted this trend, noting that dividend stocks are attracting investors looking for defensive positions amid economic uncertainty and fluctuating interest rates. [i] The move toward dividends reflects a deeper understanding of their role in sustaining total returns, reducing portfolio risk, and compounding wealth over time.

### Why Dividend Stocks Matter

Dividend-paying stocks offer investors a dual advantage:

### 1. Steady and Predictable Income Stream

Regardless of market fluctuations, dividends provide a reliable cash flow, making them particularly appealing for retirees or investors seeking passive income. These cash payouts allow investors to earn a tangible return without needing to sell shares. Over time, even modest dividends can accumulate into a meaningful income stream, helping offset inflation and maintaining purchasing power.

### 2. Lower Volatility and Downside Protection

Dividend-paying companies tend to be more financially stable, reducing the likelihood of extreme price swings compared to speculative growth stocks. Historical data confirms that dividend stocks experience less volatility and smaller drawdowns during market corrections.<sup>[ii]</sup> This makes them an effective hedge during economic downturns, when markets become unpredictable.

### 3. The Power of Compounding for Long-Term Growth

Reinvesting dividends allows investors to compound their returns exponentially. Rather than simply relying on stock price appreciation, reinvested dividends buy additional shares, which then generate their own dividends. Over time, this compounding effect can significantly increase total returns. Studies show that dividends and their reinvestment have historically accounted for the majority of the S&P 500's total return.<sup>[iii]</sup> This reinforces the idea that wealth creation is not solely about stock price growth, but also about consistent dividend income over decades.

### 4. Financial Discipline and Stronger Corporate Governance

A company's ability to pay—and more importantly, grow—dividends is a signal of strong financial health and effective capital allocation. As Daniel Peris argues in his widely respected book, *The Dividend Imperative*, dividends force companies to maintain operational efficiency, sustainable profits, and shareholder accountability.<sup>[iv]</sup> Unlike firms that hoard excess cash or engage in risky acquisitions, dividend-paying companies are incentivized to focus on long-term profitability rather than short-term stock price gains.

### The Case for Dividend Investing in Today's Market

With rising interest rates, inflation concerns, and geopolitical uncertainties, many investors are rethinking their portfolio allocations. Dividend stocks offer an attractive alternative to low-yielding bonds while providing a buffer against inflation and market volatility.

### How Dividend Growth Outperforms Over Time

Dividend-paying stocks have not only outperformed non-dividend-paying stocks historically but have done so with lower risk. Companies that consistently grow their dividends have delivered higher total returns over decades. This is because dividend growth signals financial stability and earnings strength, qualities that tend to lead to sustained capital appreciation.

A long-term perspective is crucial when investing in dividend stocks. As Peris explains in *The Dividend Imperative*, stock prices ultimately follow dividend growth, not market speculation. His research highlights that companies increasing dividends tend to see more stable earnings, better stock price performance, and greater investor confidence.

Additionally, as highlighted in *The Wall Street Journal*, institutional investors and retail investors alike are shifting toward dividend-paying stocks as a way to mitigate risk while still capturing market upside. This trend suggests that dividends are being recognized not just as a supplementary benefit but as a core driver of investment success.

### Strategic Considerations When Investing in Dividend Stocks

To maximize the benefits of dividend investing, it's important to balance yield and dividend growth potential. While some stocks offer high yields, an unsustainably high payout ratio can be a red flag. Instead, focusing on companies with consistent dividend increases and strong cash flows ensures a sustainable and growing income stream over time.

Diversification is also key—dividend portfolios should include a mix of industries, such as consumer staples, healthcare, and utilities, which have historically been reliable dividend payers. Sector weighting should be adjusted based on economic conditions; for example, in a low-interest-rate environment, utilities and real estate investment trusts (REITs) may be attractive, while in growth cycles, companies with moderate yields but higher dividend growth rates can outperform.

### The Enduring Value of Dividend Stocks in a Well-Balanced Portfolio

At EsqWealth, we recognize that dividend-paying stocks provide a unique combination of income, stability, and long-term growth, making them an essential component of a well-diversified investment strategy. As investors increasingly shift toward dividend-focused strategies amid market volatility, the case for dividends has never been stronger.

Unlike many financial advisors who take a one-size-fits-all approach, EsqWealth works with Johnson Dunn Capital Advisors to implement highly customized portfolio strategies tailored to each client's goals, risk tolerance, and time horizon. Johnson Dunn Capital Advisors actively manages four distinct portfolios, each designed to optimize different aspects of an investor's financial objectives.<sup>[v]</sup> Additionally, EsqWealth has access to BlackRock's institutional-grade investment portfolios, which are not available to retail investors, further expanding the range of sophisticated options for clients.

One of the four portfolios that Johnson Dunn Capital Advisors manages is referred to as the Concentrated Dividend Growth portfolio. It seeks to capitalize on the well-documented benefits of dividend-paying stocks. By investing in 25-40 companies with a proven track record of increasing dividends, this approach aims to maximize both income and capital appreciation while dynamically adjusting sector exposure based on market conditions. This portfolio embodies the philosophy outlined in Daniel Peris's *The Dividend Imperative*—that true shareholder value is built through sustainable, growing dividend distributions rather than speculative price movements.

Ultimately, dividends are not just a defensive tool—they are a time-tested strategy for long-term wealth accumulation. As the financial landscape evolves, investors who incorporate dividend-paying stocks into their portfolios can enjoy consistent income, increased portfolio resilience during downturns, and the power of compounding over time. Whether as a core investment or part of a broader diversified strategy, dividend stocks remain a proven pathway to financial stability and sustainable growth.

[i] Lang, H. E. (2025, March 10). *Wary investors play defense in switch to dividend stocks*. *The Wall Street Journal*. Retrieved from <https://www.wsj.com> (<https://www.wsj.com>)

[ii] Hartford Funds. (n.d.). *The power of dividends*. Retrieved March 12, 2025, from <https://www.hartfordfunds.com/insights/market-perspectives/equity/the-power-of-dividends.html> (<https://www.hartfordfunds.com/insights/market-perspectives/equity/the-power-of-dividends.html>)

[iii] Investopedia. (2015, September 10). *5 reasons why dividends matter to investors*. Investopedia. Retrieved March 12, 2025, from <https://www.investopedia.com/articles/investing/091015/5-reasons-why-dividends-matter-investors.asp> (<https://www.investopedia.com/articles/investing/091015/5-reasons-why-dividends-matter-investors.asp>)

[iv] Peris, D. (2013). *The dividend imperative: How dividends can narrow the gap between Main Street and Wall Street*. McGraw Hill.

[v] By visiting EsqWealth's website under "Our Alliances" you can select Johnson Dunn Capital Advisors, Inc. to read more about these portfolios. <https://www.esqwealth.com/our-alliances> (<https://www.esqwealth.com/our-alliances>)

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