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Your Investment Account Is A Lot More Than An Account Balance

As a car is much more than its engine, so is an investment account more than the balance we see on periodic reports of how much we have invested and how much we have at the time of the report. If investing were only about accumulating an account balance, we would all go nuts as ours winds its way to a peak, then gives back some before rising again and repeating the process - with the effect that we are notably higher after some years of the back and forth movements. Those back and forth movements represent uncertainty more than anything else, as markets try to be predictors of the next six to nine months.

Account balances have two components, accumulated dividends and interest and accumulated market price changes from our buy points. Over the years, the accumulated dividend and interest portion of the S&P 500 Index (Standard & Poor's 500 Index - a select group of some of the best U.S. stocks) amounted to about 53% of the overall gains made. We can conclude then, that dividends and interest are neither ephemeral nor unimportant to our overall account's health. Furthermore, dividend and interest production is not dependent on account balance growth to remain healthy. Consider the example we presented in our last Report Companion which noted that in the crash year of 2008 the S&P 500 (the major US stock index) dropped 37% while the Vanguard Dividend Growth Fund (VDIGX), our favorite dividend growth fund, dropped 25%. Even better, S&P 500 dividends dropped by almost half that year, while dividends from VDIGX dropped barely 5%. While dividends did not increase over the prior year, they held up far better than the market and the fund's portfolio.

More recently, our conservative dividend growth strategy, which holds a large proportion of VDIGX, was down only 0.36% last month (September 2015) while the S&P 500 dropped 2.64%. And the dividends? The strategy's dividends grew 0.9% from the three month prior dividends - a 3.6% annualized growth rate.

We believe it is better to leave hand wringing about the markets to the newspapers. We should first and foremost align our accounts to our needs and to the risk we can stomach emotionally and after that concentrate on the dividends we are accumulating. After all, doesn't it follow that companies that increase their dividends are increasing their wealth - and ours?

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