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Sustainable income with "double dividends"

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Comfortably making return on the money market via interest? A thing of the past. Interest rates will remain low in the foreseeable future. Are there any alternatives? Companies that regularly pay out some of their profits as dividends to their shareholders are a substitute for interest income, which currently does not exist. If you also attach importance to principles of sustainability, you can sort of reap "two dividends" with the ERSTE RESPONSIBLE STOCK DIVIDEND fund.

The phase of low interest rates that has been going on for years on the financial markets seems to continue, as has been supported by the most recent statements from the important central banks, i.e. the US Fed and the European Central Bank (ECB). Even though inflation expectations have increased on the back of the re-opening after the pandemic, necessary measures will continue to be taken across the globe to ensure that the economy comes off the ground again. This means that nobody really needs high interest rates at this point – countries with high levels of debt (not only due to corona) the least. However, if the central banks are firing on all cylinders, the risk of an overheating economy increases. It remains to be seen how well the banks straddle the necessary stimuli and the return to normalcy in the coming years.

Note: Past performance is no reliable indicator for future performance.
Source: Datastream

Despite these adverse conditions for investors looking for yield, the savings ratio in Austria remains enormously high. Those who leave their money in a savings account cannot offset rising inflation, not by a long shot. Instead, if your money is in a savings account, you are likely to lose purchase power in the foreseeable future. – Unless you find an alternative, like dividends: by buying the shares of a company, you become a co-owner and benefit from profits, but may incur losses in less profitable times. This means that when buying dividend shares, one has to take into account the share price risk.

In a long-term analysis, equities perform very well. However, investors have to be aware of the volatility that is a characteristic feature of stock exchanges; share prices can fluctuate both ways. If you invest some of your money in shares, you should have a long investment horizon in order to be able to recover possible losses. That being said, losses offer a good opportunity to buy at lower prices.

The number of shareholders is on the rise

We are happy to see that the number of shareholders and fund investors has increased significantly. 57% of adults up to the age of 29 are well-disposed towards investments, which is significantly above the 42% across all age groups. This is based on a change of heart among Austrians: five years ago, the percentage was drastically lower at 29% of people taking a positive view on financial investments, as a study by the Association of Austrian Investment Companies within the context of the World Fund Day 2021 (only in German) shows (see here: Untersuchung der Fondsverbände im Rahmen des Weltfondstag 2021). More and more investors are interested in the risks and benefits of funds and have had a positive experience in recent years; especially as they are turning the risks of price fluctuations into an advantage by investing in fund savings plans (s Fonds Plan).

Note: Depending on the performance of the investment fund, the performance of an s Fonds Plan will differ from that of a single investment (higher or lower). A loss of capital is possible in both cases.

Dividend shares can help investors compensate for the lack of interest income in their portfolios. They are also a good way to diversify the risk of equities. Companies that pay out regular dividends are financially sound and generate stable sales, often over many years. Within their sectors, they often hold a strong market position – after all, they have to be able to afford a dividend payout. The following chart illustrates how important dividends have become to the generation of income and thus wealth: the total amount of dividends paid out globally has increased by more than a third since 2011.

Total amount of dividends paid out worldwide from 2011 to 2020 (in billions of USD)

Sources: Statista / Janus Henderson Investors

Due to the pandemic, many companies had to suspend their dividend payments last year. This year, the outlook is more positive: there is a certain need to recover previously unpaid dividends. The increasing re-opening of the economy comes with a healthy dose of optimism. The company results for Q1 2021 were largely above expectations, and the outlook for the coming quarters is positive. However, the conditions differ significantly between sectors. For example, the banking authority is keeping a tight rein on the banks, and some sectors still suffer from the effects of the pandemic, e.g. tourism and aviation.

Attractive dividend yield with ERSTE RESPONSIBLE STOCK DIVIDEND

It all depends on what kind of dividend shares the investor has in their portfolio. If you have neither the will nor the time to scrutinise dozens or hundreds of companies, you should leave the selection of suitable dividend shares to the experts of investment companies.

The ERSTE RESPONSIBLE STOCK DIVIDEND is a good choice in this segment. The dividend yield (i.e. expected dividend divided by current share price) of the currently 49 invested companies is 3.9%. The majority of the dividend income goes to the fund shareholder. The next dividend payout is scheduled for 1 June. The fund aims at a payout yield of 3%. The fund focuses on companies with attractive dividend payouts and with a pioneering role in the ESG arena. We take into account ethical aspects in the selection process of the shares.

Conclusion

Interest rates will not be attractive for a while. Investors wanting to outsmart inflation should think about dividends and dividend shares. The combination of dividend shares with a selection process that takes into account ESG criteria constitutes an interesting investment alternative. So there is a kind of “two dividends”.

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