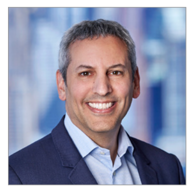
July 2026

Markets and Economies

# Dividend Growers: The Importance of Yield-on-Cost

**While current yield is a key consideration, we think it's essential to focus on the potential future income of an investment in dividend-paying stocks.**







Darnell Azeez, CFA
*Partner, Portfolio Manager*

Subrata Ghose, CFA
*Portfolio Manager*

Jeffrey Rabinowitz, CFA
*Portfolio Manager*

JJ Titus, CFA
*Product Specialist*


## KEY TAKEAWAYS

- With uncertainty around future interest rates and market volatility, investors may be searching for alternative sources of income. We think one source worth considering is U.S. dividend-paying stocks.
- While current dividend yield is a focal point for investors, we think it is more important to consider the future income that could be generated by dividend stocks—especially those with a long-term history of annual dividend increases.
- We believe one important measure in that regard is yield-on-cost, which is annual income relative to the originally invested amount.
- Future dividend income can potentially be enhanced by employing an active manager with experience in selecting quality dividend-growth stocks.

When researching dividend-paying stocks, investors often focus on the current dividend yield—the rate of payout their investment is generating now. This is understandable, as a typical goal of a dividend-focused investor is to generate current income. But only paying attention to the current yield misses out on what we believe is the real power of dividends: the potential growth of future income from your investment. For dividend stocks, we think this concept is best illustrated by a metric known as yield-on-cost, which we believe has several strategic advantages over merely focusing on current yield.

Yield-on-cost is calculated by dividing the annual dividend income by the original purchase price of the investment. This measure reflects how much an investor is earning from their initial investment over time. Looking through this lens can help illustrate the potential for the long-term growth in income from dividend-paying stocks.

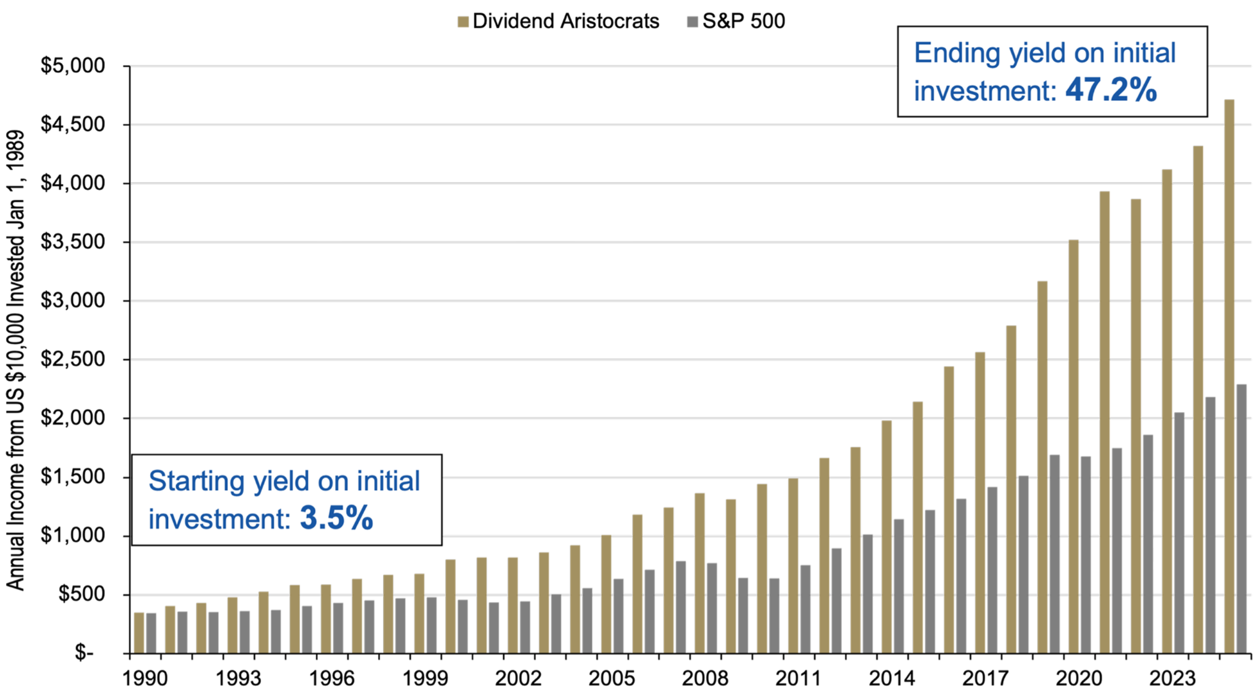
LORD ABBETT®

## Rising Dividends, Rising Income

A good way to visualize this concept is to examine the income generated over time by an initial investment of $10,000 in the S&P 500® Index and the S&P 500® Dividend Aristocrats Index®, which measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years (see Figure 1). Taken by itself, the initial yield on both indexes in 1989 is not an eye-popping figure compared to the yields available on other asset classes at that time. This is where a long-term focus and the power of growing dividends become important. Over time, the strong dividend growth of those S&P 500 Aristocrats led to an income stream more than twice as large as its broader counterpart (as the chart assumes that dividends are being withdrawn each year).

**Figure 1. Yield-on-Cost Provides a Compelling Illustration of the Power of Dividend Growth**

*Annual dividend income on $10,000 invested on January 1, 1989 (1989–2025) for the S&P 500® Index and the S&P 500® Dividend Aristocrats Index®*




| | Initial Investment | First Year Income | Starting Yield | Final Year Income | Ending Yield on Cost |
|---|---|---|---|---|---|
| S&P 500 Dividend Aristocrats Index | $10,000 | $351 | 3.5% | $4,717 | 47.2% |
| S&P 500 Index | $10,000 | $344 | 3.4% | $2,289 | 22.9% |

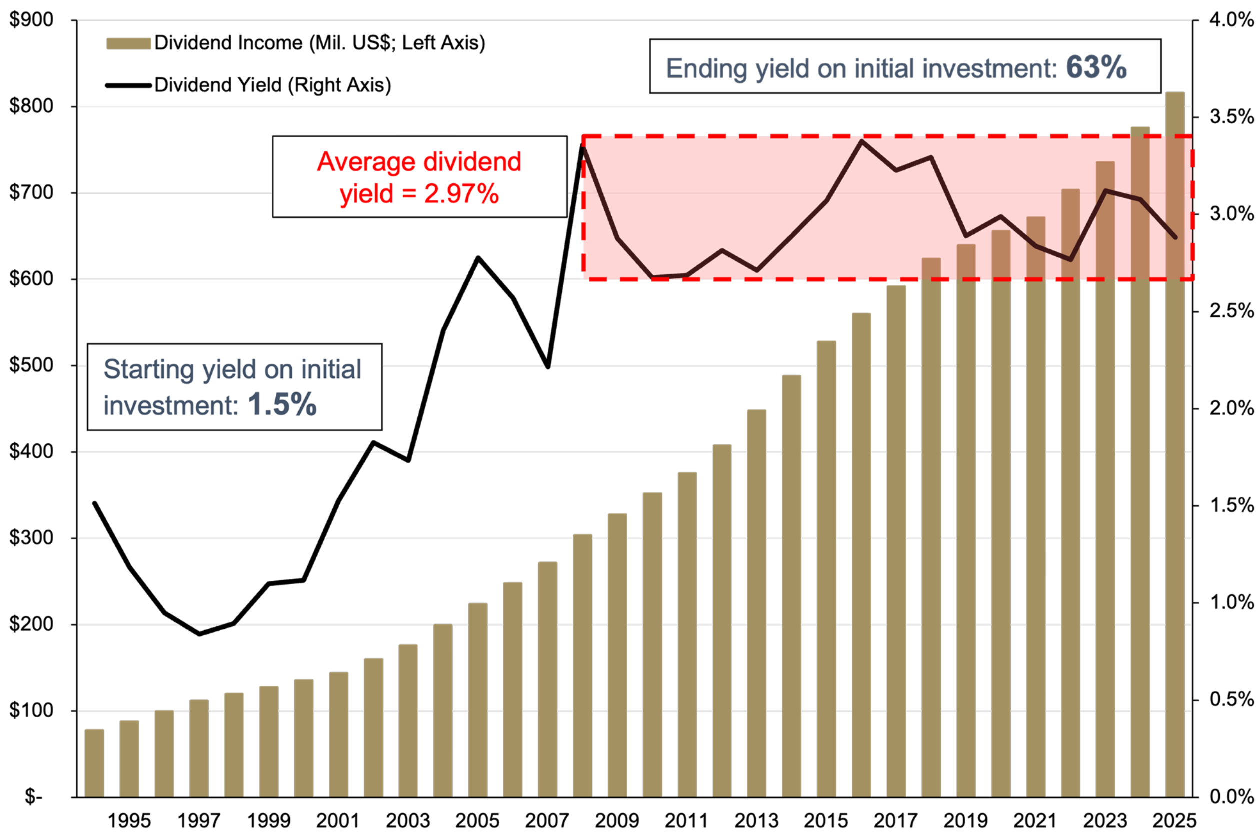
Source: FactSet. Data as of December 31, 2025. Most recent full-year data available.
A company's dividend payments may vary over time, and there is no guarantee that a company will pay a dividend at all.
**Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

It is important to note that over this time horizon, the dividend yield on both indices has decreased. The average dividend yield over the entire period of the S&P 500 was 1.8%, while the Dividend Aristocrats was 2.5%. But if we focus on yield-on-cost, we see that our initial investment in the stock market is yielding almost 50% when targeting companies with a focus on dividend growth.

The experience of one of the most well-known investors of our time, Warren Buffett, underscores the importance of yield-on-cost. In 1994, Buffett's company, Berkshire Hathaway, completed a seven-year purchase of Coca-Cola shares for $1.3 billion. The cash dividends from that investment produced $75 million of income for Berkshire in 1994. As of this writing, Coke's current yield is around 3% and has been for the last 17 years (see Figure 2). While some may see the unchanged yield as a detriment, the annual dividend has grown 268%, while the stock price appreciated by 209% over this period. As a result, those cash payouts grew to $816 million by 2025, resulting in a yield of 63% on the initial investment. Should the soft-drink giant continue its multi-decade run of sustainable growth and annual dividend hikes, the yield on cost will continue to increase as well. The key takeaway here is that for long-term investors in companies that grow their dividends over time, **the starting yield is not as relevant as the ultimate yield on cost of that investment.**

**Figure 2. Dividend Increases Fueled Rising Income from Coke Shares Even as Yield Remained in a Narrow Range**

*Berkshire Hathaway's annual dividend income from its mid-1990s Coca-Cola investment (left axis) and Coca-Cola's dividend yield over time (right axis), 1994–2025*




| | Initial Investment | First Year Income | Final Year Income | Ending Value (as of 5/31/26) | Ending Yield on Cost |
|---|---|---|---|---|---|
| Coca-Cola Co. (figures in $mil.) | $1,300 | $75 | $816 | $31,604 | 63% |

Source: FactSet. Latest available calendar-year data.
A company's dividend payments may vary over time, and there is no guarantee that a company will pay a dividend at all.
**Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

## Quality Counts

The Coke example highlights the importance of finding quality companies within the realm of dividend-paying stocks. Within that cohort, we believe investors can benefit by focusing on companies with a long history of dividend growth. These companies typically have stable earnings, robust cash flows, and a disciplined approach to returning capital to shareholders. This focus naturally aligns with selecting quality stocks that can sustain and grow their dividends over time, reducing the risk of income instability. As we noted in a previous article on dividend-growth investing, over the period from January 1973 through December 2025, dividend growers in the S&P 500 generated higher annualized returns with lower volatility than dividend payers that did not grow dividends, dividend non-payers, and dividend cutters.

In contrast, a focus on current yield may lead investors toward higher-yielding, but potentially riskier, companies. Research has shown that the companies with the highest dividend yields have historically lagged the broader universe of dividend-paying stocks. These companies can face high volatility dealing with challenges maintaining its dividend or can have limited equity market participation as “bond proxies” (securities in sectors like real estate, utilities, and consumer staples that have high valuations with relatively low earnings growth). In addition, these “bond proxies” tend to be very interest-rate sensitive and can face headwinds during periods of rate volatility.

We think the potential long-term benefits of dividend-paying stocks are clear. However, we believe **a thoughtful, active approach to dividend investing is vital to accessing these benefits** while balancing risk and reward. We believe it is important to target quality companies that are not only willing to increase their dividend but are also able to do so in a manner that keeps their future growth intact. We have previously noted that an additional appealing feature of dividend-growth stocks is their lower volatility when compared to the overall dividend-paying universe. The outcome of owning a lower-volatility portfolio of dividend-growth companies may mean not only superior risk-adjusted returns over time, but the chance for investors to grow their wealth over the long term—and provide themselves with a more assured financial future.

LORD ABBETT®

## Glossary & Index Definitions

**Annualized return** is the average rate of return an investment earns each year over a specified period, expressed as an annual percentage.

**Cash flow** refers to the movement of money into and out of a business. Strong cash flow can help a company fund operations, invest in growth, and pay dividends.

**Current dividend yield** is the annual dividend paid by a company divided by its current stock price. It measures the income an investor receives based on the stock's current market value.

**Dividend** is a distribution of a company's earnings to shareholders, typically paid in cash, though it may also be issued as additional shares of stock. Dividends represent a way for companies to share profits with investors.

**Dividend-paying stocks** are Stocks issued by companies that regularly distribute a portion of their earnings to shareholders in the form of dividends.

**Dividend yield** is a financial ratio that measures the annual income an investor receives from dividends relative to the current price of a stock.

**Returning capital to shareholders** refers to a company's practice of distributing cash to shareholders through dividends or share repurchases.

**Yield-on-cost** is the annual dividend income from an investment divided by its original purchase price. It measures how much income an investment generates relative to the amount initially invested.

**Volatility** is the degree to which an investment's price fluctuates over time. Higher volatility generally indicates greater price swings and investment risk.

**Dividend policy:** A stock is classified as a dividend payer if it paid a cash dividend any time during the previous 12 months; a dividend grower if it initiated or raised its cash dividend at any time during the previous 12 months; and a non-dividend payer if it did not pay a cash dividend at any time during the previous 12 months. A company's dividend payments may vary over time, and there is no guarantee that a company will pay a dividend at all.

**S&P 500® Dividend Aristocrats®** measure the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The **S&P 500®** Index is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment

## Important Information

The information contained herein is provided by Lord, Abbett & Co. LLC ("Lord Abbett"). Lord Abbett is a registered investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), as amended, and is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission ('SEC"). Registration with the SEC does not imply a particular ability or training. Lord Abbett is a global asset manager with headquarters in Jersey City, New Jersey.

Certain information provided in the material has been obtained from third party sources and such information has not been independently verified by Lord Abbett. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Lord Abbett or any other person. While such sources are believed to be reliable, Lord Abbett does not assume any responsibility for the accuracy or completeness of such information. Lord Abbett does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in the material constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in the material may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Past performance is not a reliable indicator or guarantee of future results. All investments involve risk, including the loss of capital.

The views and opinions expressed are those of the Lord Abbett author as of the date of the material, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. References to specific asset classes and financial markets are for illustrative purposes only. This material is not intended to be relied upon as a forecast, research or investment advice. Neither Lord Abbett nor the Lord Abbett author can be responsible for any direct or incidental loss incurred by applying any of the information offered.

The information in this material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation in any jurisdiction. This material has not been reviewed or approved by any regulatory authority in any jurisdiction.

None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies.

Specific investments described herein do not represent investment decisions made by Lord Abbett. The reader should not assume that investment decisions identified and discussed were or will be profitable. Specific investment advice references provided herein are for illustrative purposes only and are not necessarily representative of investments that will be made in the future."

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.