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Dividend Growers: A Less Volatile Approach to Building Long-Term Wealth

"Time in the market is more important than timing the market" is a concept that's especially relevant for those investing in quality stocks. Here's why.



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KEY TAKEAWAYS

- Investors have historically shown a tendency to reduce equity exposure after market drawdowns.
- We believe that the long-term benefits of equity market compounding are powerful, and attempting to time the market can result in less favorable outcomes.
- Identifying a diversified strategy that focuses on owning high-quality dividend growth companies can potentially offer investors lower volatility, attractive risk-adjusted returns, and perhaps lessen the tendency to reduce exposure to the equity market at inopportune times.

Buy low and sell high! This strategy has been preached since the beginning of investing. The thinking behind this maxim: When the equity market is expensive, investors should sell their winners and capture some of their hard-earned gains. When stocks are seen as cheap, often after a market downdraft, investors should increase their equity exposure and position themselves for future appreciation.

This approach is simple conceptually, yet it is much more complicated to execute in practice. Peaks and troughs are not necessarily foreseeable, and it is difficult to determine the duration of upward or downward moves in the equity market. This is why history has shown that those who stay invested or those who invest at regular intervals have had much better outcomes than those who tried to time the market.

Despite this evidence, investor behavior still shows a reluctance to stay invested in equity markets after periods of weak returns. Over the last 25 years, whenever major U.S. stock indexes had a double-digit drawdown over a quarter, it was common to see net outflows in the equity markets. In almost every instance, the market rebounded strongly over the following 12 months, meaning that some investors inverted the old cliché and "sold low," missing out on that recovery (Figure 1).

Figure 1. Investors Exiting the Market During Drawdowns Have Missed Out on Major Recoveries

Data for the S&P 500® Index for the indicated periods

DATE	QUARTERLY PERFORMANCE	NET NEW FLOWS ($M)	SUBSEQUENT 1-YEAR RETURN
2008-Q4	-21.94%	($44,346)	26.46%
2020-Q1	-19.60%	($68,002)	56.35%
2002-Q3	-17.28%	($45,042)	24.40%
2022-Q2	-16.10%	($41,649)	19.59%
2001-Q3	-14.68%	($5,871)	-20.49%
2011-Q3	-13.87%	($42,385)	30.20%
2018-Q4	-13.52%	($23,825)	31.49%
2002-Q2	-13.40%	$7,984	0.25%
2001-Q1	-11.86%	$15,533	0.24%
2010-Q2	-11.43%	($10,945)	30.69%
2009-Q1	-11.01%	($21,820)	49.77%
	AVERAGE	**($25,488)**	**22.63%**

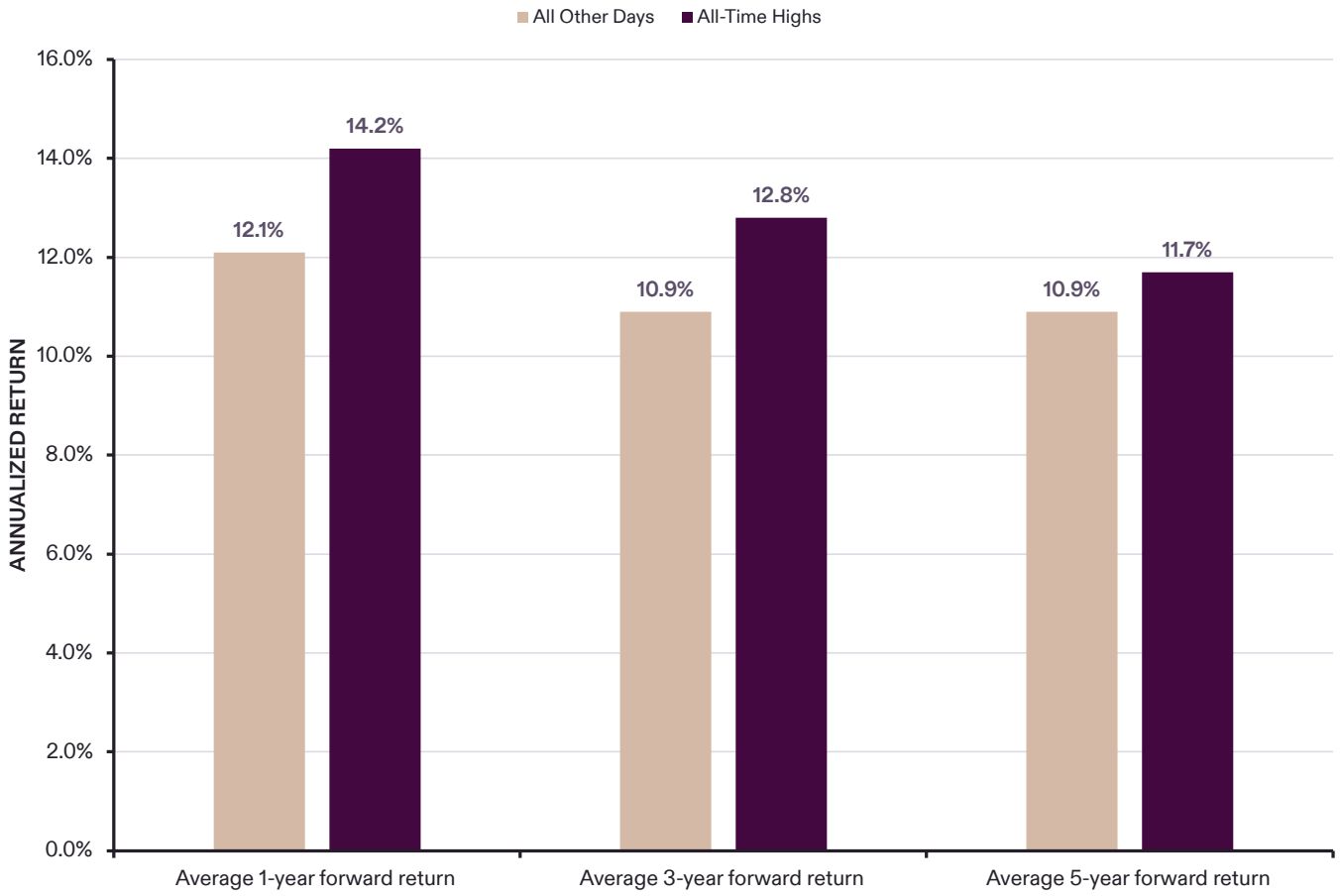
Source: Morningstar. Performance based on total return of S&P 500® Index in the periods following quarterly declines of 10% or more since Q4 2008. **Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio 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.

Why Staying Invested Matters

The goal of investing is long-term wealth creation. This wealth creation is highlighted by two distinct phases. The first phase is wealth accumulation. Historically speaking, equities have been one of the most compelling asset classes to help build long-term wealth. While the percentage of one's allocation to equities depends on their own time-horizon and goals, we believe it is imperative to be steadfast in whatever that equity allocation is supposed to be. With markets at all-time highs, investors are constantly worried about whether there is more room to run. If we look at the last 36 years, investing when markets were at all-time highs provided better 1-, 3-, and 5-year forward returns as compared to all other days (Figure 2).

Figure 2. All-Time Highs Can Be a Positive Signal

Average Annualized S&P 500® Total Returns when investing at all-time highs versus all other days, January 1, 1988, to September 30, 2026

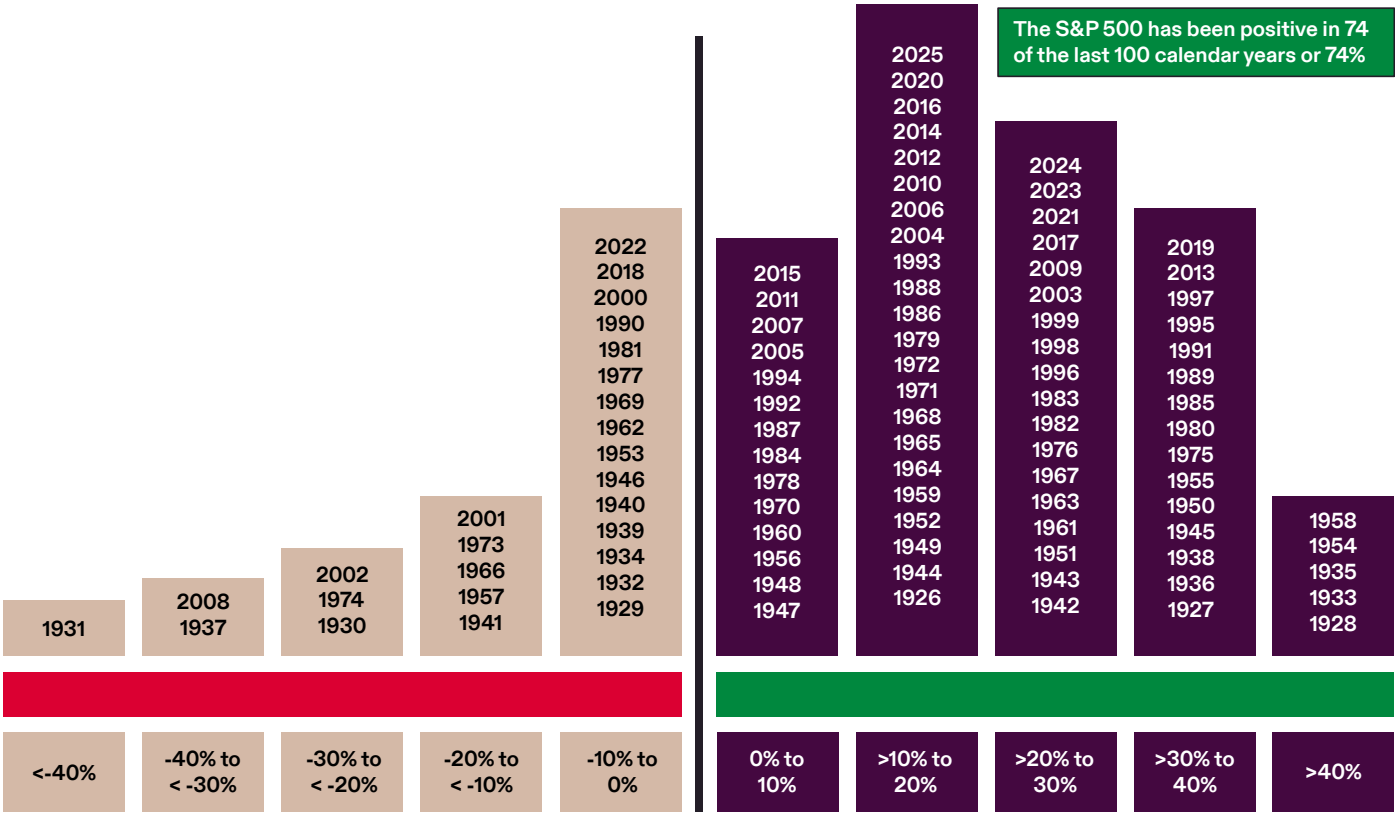


Source: FactSet. Returns are measured based on the S&P 500® Total Return Index from January 1, 1988, to September 30, 2026. **Past performance is not a reliable indicator or guarantee of future results.** For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

One reason for this phenomenon is that equity returns are historically more positive than they are negative. Looking at annual returns of the S&P 500® Index since 1926, we can see that returns have been positive for almost 74% of the time (Figure 3). Over five-year rolling periods, this increases to 88%. Over 10-year periods, returns were positive 94% of the time. This further demonstrates the impact of remaining invested in equities through full market cycles; it has been rare to experience losses when measuring returns through such a long-term lens

Figure 3. Through the Decades, Staying in the Market Has Built Wealth

Yearly return data for the S&P 500® Index, 1926–2025



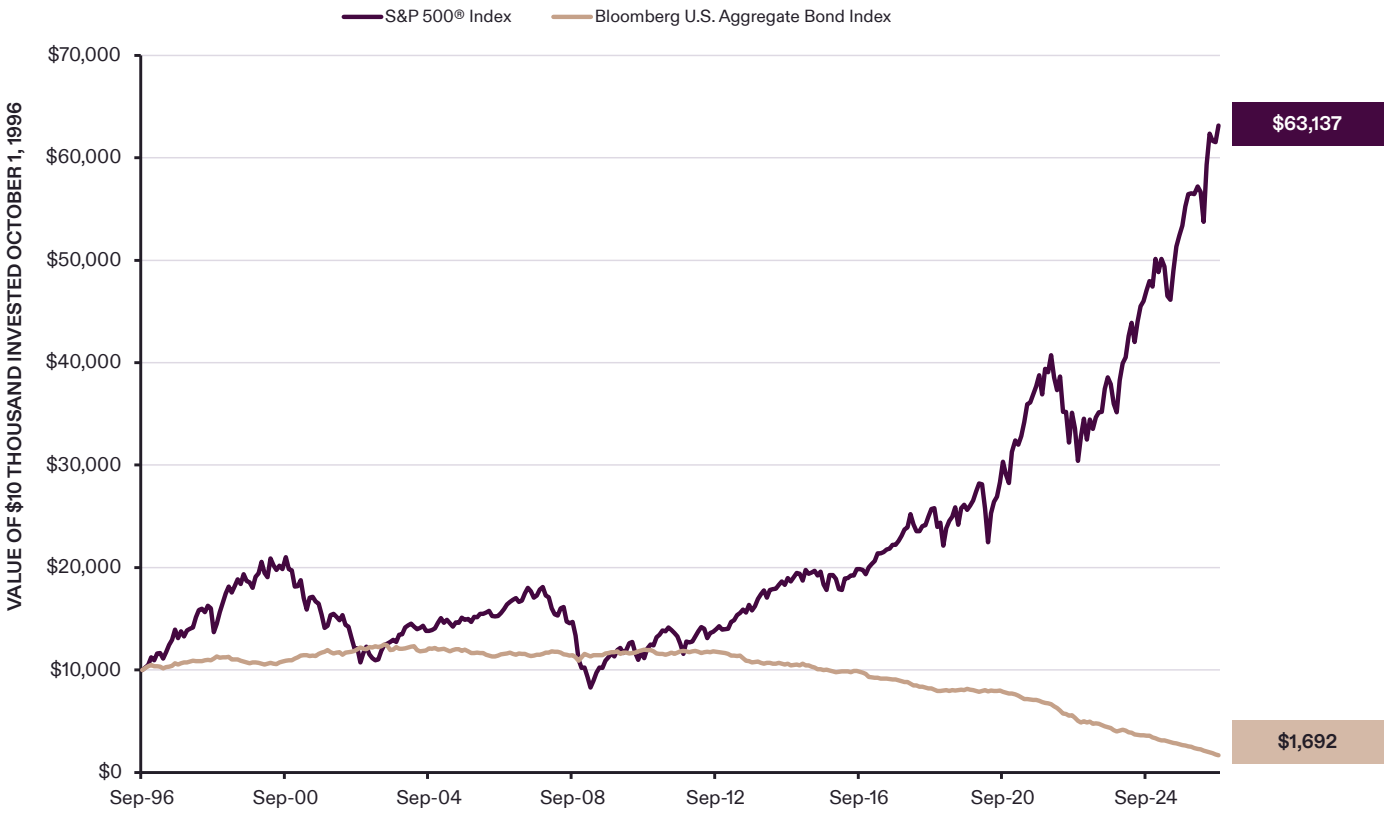
	NUMBER OF PERIODS			PERCENT OF PERIODS	
	Positive	Negative	Total	Positive	Negative
Calendar Year Returns	74	26	100	74.0%	26.0%
Rolling 1-Year Returns, Monthly	907	291	1,998	45.4%	14.6%
Rolling 5-Year Returns, Monthly	1,019	130	1,149	88.7%	11.3%
Rolling 10-Year Returns, Monthly	1,031	58	1,089	94.7%	5.3%

Source: Standard & Poor's and Lord Abbett. Returns are measured based on the S&P 500® Index from January 1, 1926, to September 30,2026. **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.

The second phase of long-term wealth creation is wealth preservation during retirement. Over the last three decades, investors have experienced three major market downturns: the 1999-2000 "tech bubble," the global financial crisis of 2008–09, and the onset of the COVID-19 pandemic in early 2020. In each of these periods, investors fled from equity markets in an attempt to preserve assets. Yet, a hypothetical investment in the S&P 500® versus a fixed-income alternative, the Bloomberg U.S. Aggregate Bond Index (with 5% withdrawals adjusted for inflation), shows two entirely different retirement outcomes (Figure 4).

Figure 4. How Two Different Retirement Portfolios Could Have Fared Over the Past 30 Years

Hypothetical growth of a $10,000 investment in the S&P 500® and Bloomberg U.S. Aggregate Bond Indexes from October 1, 1996, to September 30, 2026, assuming annual 5% withdrawals



Source: Standard & Poor's and Lord Abbett. **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.

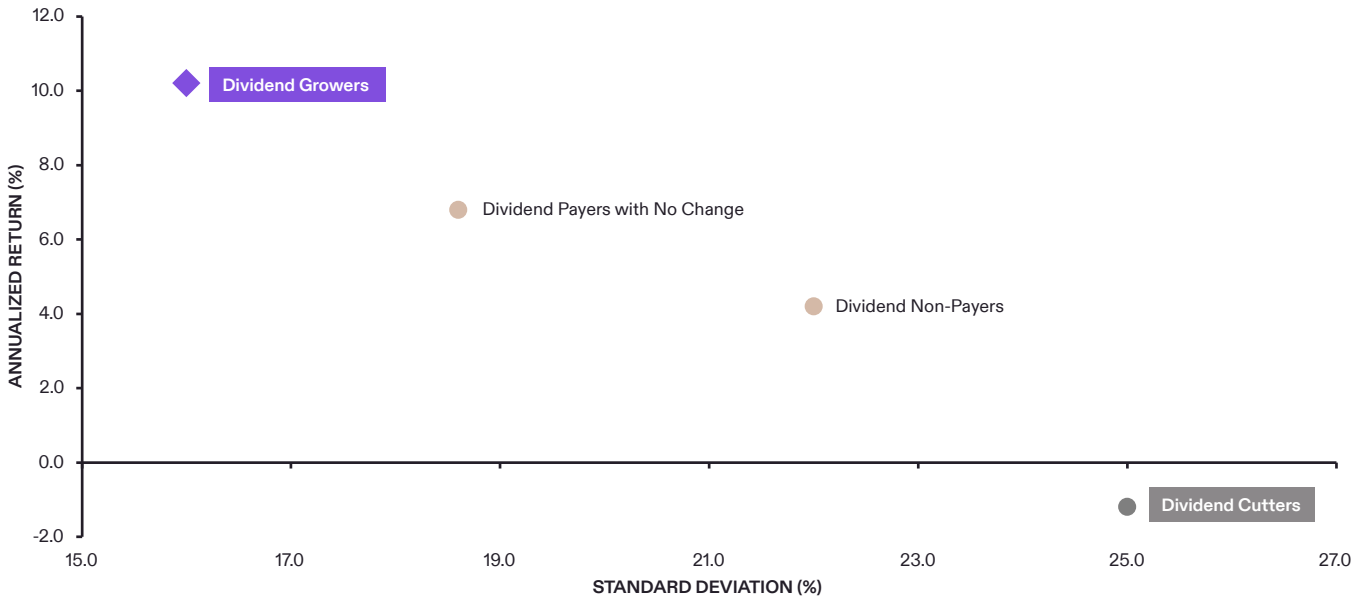
Regardless of whether an investor is in the accumulation phase or the preservation phase, it's worth repeating that it is important for investors to focus on "time in" the market as opposed to "timing" the market.

Weathering Tough Times with Dividend Growers

We believe a thoughtful and diversified approach is vital to weathering periods of market drawdowns. It is important to remain invested in the equity markets as the potential for long-term growth can lead to a larger nest egg in retirement. Yet, it is sometimes inevitable for the emotional decision-making to take over during uncertain time periods. We think one way of alleviating this stress is by selecting a portfolio that has demonstrated lower volatility. If we look at the last 50 years of data, high-quality companies that are initiating and growing dividends have had higher returns and lower volatility than the equal-weighted index as shown in Figure 5.

Figure 5. Dividend Growers Have Offered Higher Returns with Less Volatility

Data for the S&P 500® Index, January 31, 1973–December 31, 2025



Source: Ned Davis Research. Latest available historical data. 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. Standard deviation is a statistic that measures the dispersion of a data set relative to its mean. The higher the standard deviation, the further the observed data are from the mean. **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.

While this chart shows a slight deviation between dividend growers and dividend payers, in recent years, we've seen a higher dispersion. Since 2020, the markets have endured a Covid shutdown, inflationary correction of 2022, a market rebound led by 7 names, tariff uncertainty due to a volatile trade war, persistently high gas/oil prices due to war with Iran, and elevated interest rate volatility. In Figure 6, we examine how 3 indices performed over these events, 1 of which is dividend growth focused, and the other 2 being high dividend yield focused. The S&P U.S. Dividend Growers Index significantly outperformed the other 2 indices with much lower volatility. While dividend payers across the board provided strong downside capture, we can see that dividend growers didn't sacrifice on upside to accomplish this, which resulted in stronger absolute and risk-adjusted performance.

Figure 6. Dividend Growers vs. High Dividend Yield

Return and Risk Data for S&P U.S. Dividend Growers, Dow Jones U.S. Select Dividend, and S&P High Yield Dividend Aristocrats, March 1, 2020-September 30, 2026

	S&P US DIVIDEND GROWERS	DJ US SELECT DIVIDEND	S&P HIGH YIELD DIVIDEND ARISTOCRATS
Cumulative Return	**137%**	117%	89%
Standard Deviation	**14.42%**	17.40%	16.13%
Sharpe Ratio	**0.78**	0.59	0.50
Upside Capture	**82.4%**	75.5%	72.2%
Downside Capture	**83.4%**	78.0%	84.5%

Source: Morningstar, Standard & Poor's, Dow Jones Indices. Data as of September 30, 2026. Capture ratios are relative to the S&P 500® Index. The S&P U.S. Dividend Growers index tracks U.S. companies that have increased their dividend per share for at least 10 consecutive years while excluding the top 25% highest-yielding eligible companies. The Dow Jones U.S. Select Dividend Index consists of the top 200 companies based on dividend yield in the Dow Jones U.S. Index. The S&P High Yield Dividend Aristocrats is a dividend yield weighted index of stocks in the S&P Composite 1500 that have increased their dividend per share for the last 20 consecutive years. **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.

Lower volatility may mean investors will be less likely to reduce equity exposure following a market drawdown. In a sense, if the drawdown is less severe or perhaps just lower than the overall S&P 500®, an investor may be less likely to reduce equity exposure at an untimely moment. The outcome of owning a lower-volatility portfolio of dividend growth companies may mean not only superior risk-adjusted returns, but also a better "lived outcome"; one that is devoid of the risk of market timing that can limit long-term returns. Such an approach may leave investors in a better position to grow their wealth over the long term—and provide themselves with a more assured financial future.

Glossary & Index Definitions

Annualized Return is the average rate of return on an investment expressed on a yearly basis, accounting for the period over which the return was earned.

Compounding refers to the process by which investment returns generate additional returns over time as earnings are reinvested.

Dividend Growers refers to companies that have increased their dividend payments over time.

Dividend Payers refers to companies that distribute a portion of their earnings or available cash to shareholders through dividends.

Dividend yield is a company's annual dividend payments expressed as a percentage of its current stock price.

Diversification refers to spreading investments across different securities, sectors, or asset classes to help manage portfolio risk.

Downside Capture Ratio is a measure of how an investment or index performs relative to a benchmark during periods when the benchmark declines. A ratio below 100% indicates that the investment declined less than the benchmark during those periods.

Drawdown refers to the decline in an investment's value from a previous peak to a subsequent low.

Market timing refers to an investment strategy that attempts to profit by predicting future market movements and adjusting investment exposure accordingly.

Net Fund Flows refers to the difference between money invested in and withdrawn from investment funds over a specified period.

Risk-Adjusted Returns are investment returns evaluated in relation to the amount of risk taken to achieve them.

Rolling Returns are investment returns calculated over successive overlapping periods of a specified length, such as five or 10 years.

Sharpe Ratio is to a measure of an investment's excess return above a risk-free rate relative to its volatility. A higher Sharpe ratio generally indicates better risk-adjusted performance.

Standard Deviation is a statistical measure of how widely investment returns vary around their average. A higher standard deviation generally indicates greater volatility.

Total Return is an investment's overall gain or loss, including price changes and income, such as dividends, over a specified period.

Upside Capture Ratio is a measure of how an investment or index performs relative to a benchmark during periods when the benchmark rises. A ratio above 100% indicates that the investment gained more than the benchmark during those periods.

Volatility refers to the degree to which an investment's returns or market price fluctuate over time.

Index Definitions

Bloomberg U.S. Aggregate Bond Index is a broad benchmark of the U.S. investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including government, corporate, mortgage-backed, and asset-backed securities.

Dow Jones U.S. Select Dividend Index is an index designed to measure the performance of selected U.S. companies with relatively high dividend yields.

S&P 500® Index is a market-capitalization-weighted index of 500 leading U.S. companies that is widely used as a benchmark for large-cap U.S. equities.

S&P 500® Total Return Index is a version of the S&P 500 Index that measures performance including the reinvestment of dividends.

S&P High Yield Dividend Aristocrats Index is an index of companies within the S&P Composite 1500 that have increased their dividends for at least 20 consecutive years, weighted according to dividend yield.

S&P U.S. Dividend Growers Index is index of U.S. companies that have increased their annual dividends for at least 10 consecutive years. The index excludes the highest-yielding 25% of eligible companies.

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