marrick wealth monthly

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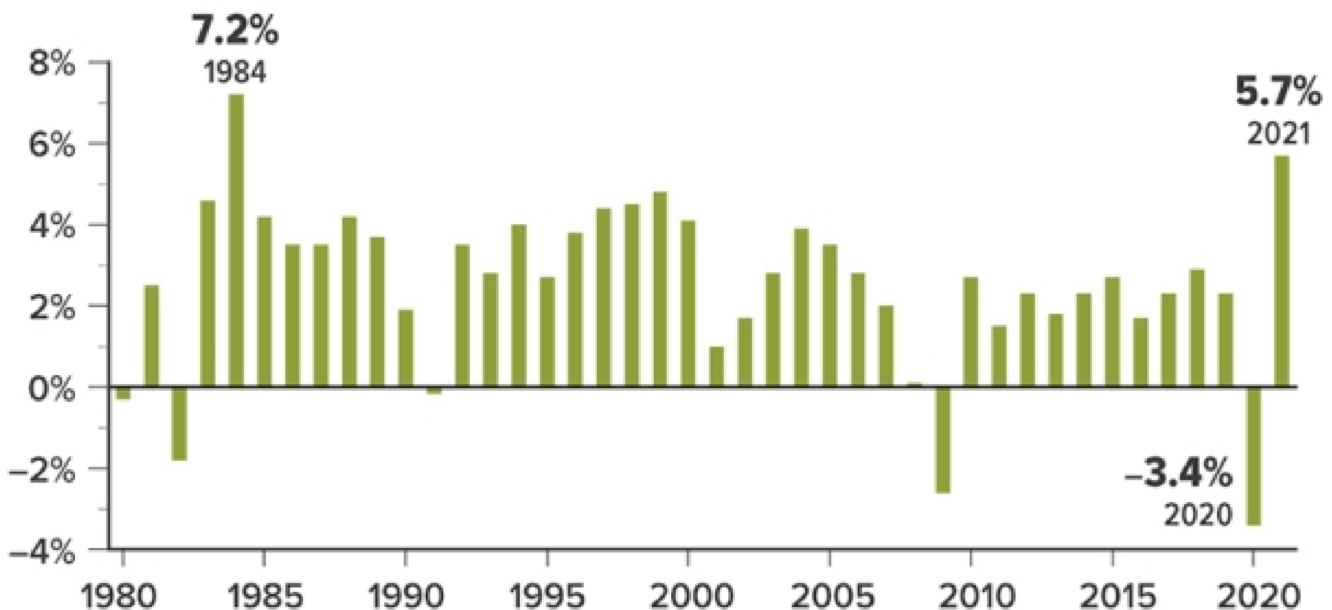
GDP Growth Highest in 37 Years

In 2021, U.S. real gross domestic product (GDP) — the value of goods and services produced in the United States — grew by 5.7%, the highest annual rate since 1984. This marked a strong recovery from 2020, when GDP dropped by 3.4%. Real GDP is adjusted for inflation to more accurately compare economic output at different periods. Current-dollar GDP, typically used to measure the overall size of the economy, increased by an even more impressive 10.1%.



Source: U.S. Bureau of Economic Analysis, 2022

Dividends for Income and Total Returns

John D. Rockefeller, one of the wealthiest Americans in history, loved receiving stock dividends. "Do you know the only thing that gives me pleasure?" he once asked. "It's to see my dividends coming in."[1]

There may be many things other than money that give you pleasure, but you can still appreciate the stabilizing role that dividends might play in your portfolio.

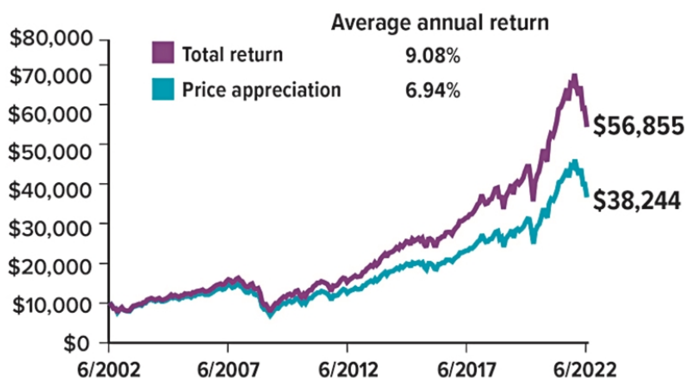
Steady and Dependable

Dividends can be a dependable source of income for retirees and others who want an income stream without selling their underlying investments. If you do not need your dividends for current income, reinvesting these relatively small payments can become a powerful growth engine (see chart). Because dividends are by definition a positive return, they can boost returns in an up market and help balance declining stock prices in a down market.

Whereas stock prices are often volatile and may be influenced by factors that do not reflect a company's fiscal strength (or weakness), dividend payments tend to be steadier and more directly reflect a company's financial position. Larger, well-established companies are more likely to pay dividends, but many midsize and smaller companies do as well. Stock funds usually pay dividends based on the dividends of the stocks held by the fund. Some funds focus specifically on dividend stocks.

The Power of Reinvestment

Growth in value of a hypothetical $10,000 investment in the S&P 500 index for the 20-year period ending in June 2022, comparing price appreciation and total return, which includes reinvesting dividends.



Source: Refinitiv, 2022, for the period 6/30/2002 to 6/30/2022. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Quarterly Payments

Dividends are typically paid quarterly but quoted by the annual dollar amount paid on each share, so your annual income from an individual stock can be estimated by multiplying the dividend payment by the number of shares you own. Of course, the income will change if the dividend increases or decreases, or you obtain additional shares.

Dividends are also expressed as yield — the annual dividend income per share divided by the current market price. By this measure, the yield increases as the share price decreases, and vice versa, assuming the dividend payment remains the same. Current dividend yields can be helpful in deciding whether to invest in a stock or stock fund, and historical yields can provide insight into what you might expect from dividends over the long term.

At the end of June 2022, the average yield of dividend-paying stocks in the S&P 500 (about 79% of companies) was 2.18%, but the yield of the S&P High Dividend Index, which focuses on 80 stocks that pay higher dividends, was 4.11%.[2]

Some Caveats

The flip side of dividend power is that dividend-paying stocks may not have as much growth potential as non-dividend payers that plow their profits back into the company. And there are times when dividend stocks may drag down, not boost, portfolio performance. Dividend stocks can be particularly sensitive to interest-rate changes. When rates rise, as in the current environment, higher yields of lower-risk, fixed-income investments may be more appealing to investors, placing downward pressure on dividend stocks. As long as a company maintains its dividend payments, however, lower stock prices could be an opportunity to buy shares with higher dividend yields.

Investing in dividends is a long-term commitment. Dividends are typically not guaranteed and could be changed or eliminated. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.

Stock funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) BrainyQuote.com, 2022; 2) S&P Dow Jones Indices, 2022

When Two Goals Collide: Balancing College and Retirement Preparations

You've been doing the right thing financially for many years, saving for your child's education and your own retirement. Yet now, as both goals loom in the years ahead, you may wonder what else you can do to help your child (or children) receive a quality education without compromising your own retirement goals.

Knowledge Is Power

Start by reviewing the financial aid process and understanding how financial need is calculated. Colleges and the federal government use different formulas to determine need by looking at a family's income (the most important factor), assets, and other household information.

A few key points:

- Generally, the federal government assesses up to 47% of parent income (adjusted gross income plus untaxed income/benefits minus certain deductions) and 50% of a student's income over a certain amount. Parent assets are counted at 5.6%; student assets are counted at 20%.[1]
- Certain parent assets are excluded, including home equity and retirement assets.
- The Free Application for Federal Student Aid (FAFSA) relies on your income from two years prior (the "base year") and current assets for its analysis. For example, for the 2023-2024 school year, the FAFSA will consider your 2021 income tax record and your assets at the time of application.

Strategies to Consider

Financial aid takes two forms: need-based aid and merit-based aid. Although middle- and higher-income families typically have a tougher time receiving need-based aid, there are some ways to reposition your finances to potentially enhance eligibility:

- Time the receipt of discretionary income to avoid the base year.
- Have your child limit his or her income during the base year to the excludable amount.
- Use countable assets (such as cash savings) to increase investments in your college and retirement savings accounts and pay down consumer debt and your mortgage.
- Make a major purchase, such as a car or home improvement, to reduce liquid assets.

Many colleges use merit-aid packages to attract students, regardless of financial need. As your family explores colleges in the years ahead, be sure to investigate merit-aid opportunities as well. A net price calculator, available on every college website, can give you an estimate of how much financial aid (merit- and need-based) your child might receive at a particular college.

Don't Lose Sight of Retirement

What if you've done all you can and still face a sizable gap between how much college will cost and how much you have saved? To help your child graduate with as little debt as possible, you might consider borrowing or withdrawing funds from your retirement savings. Though tempting, this is not an ideal move. While your child can borrow to finance his or her education, you generally cannot take a loan to fund your retirement. If you make retirement savings and debt reduction (including a mortgage) a priority now, you may be better positioned to help your child repay any loans later.

Some Parents Use Retirement Funds to Pay for College

	Retirement Savings Withdrawal		Retirement Account Loan	
	2020	2021	2020	2021
Percentage of families using each source	14%	16%	7%	6%
Average amount	$3,143	$3,633	$2,806	$3,631

Source: Sallie Mae, 2021

Consider speaking with a financial professional about how these strategies may help you balance these two challenging and important goals. There is no assurance that working with a financial professional will improve investment results.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10% penalty tax if taken prior to age 59½, unless an exception applies. (IRA withdrawals used for qualified higher-education purposes avoid the early-withdrawal penalty.)

1) College Savings Plan Network, 2021

Adjusting Your Tax Withholding

Now that you've seen last year's tax results and can see where this year is heading, it may be a good time to consider adjustments to your income tax withholding.

Getting It Right

If you have too much tax withheld, you will receive a refund when you file your income tax return, but it might make more sense to reduce your withholding and receive more in your paycheck. However, if you have too little tax withheld, you will owe tax when you file your tax return and might owe a penalty.

Two tools — IRS Form W-4 and the Tax Withholding Estimator on irs.gov — can be used to help figure out the right amount of federal income tax to have withheld from your paycheck. This can be beneficial when tax laws change, your filing status changes, you start a new job, or there are other changes in your personal situation.

You might make a more concerted effort to review your withholding if any of the following situations apply to you:

- File as a two-income family
- Hold more than one job at the same time
- Work for only part of the year
- Claim credits, such as the child tax credit
- Itemize deductions
- Have a high income and a complex return

Form W-4

In some circumstances, you will need to give your employer a new Form W-4 within 10 days (for example, if the number of allowances you are allowed to claim is reduced or your filing status changes from married to single). In other circumstances, you can submit a new Form W-4 whenever you wish. See IRS Publication 505 for more information.

Your employer will withhold tax from your paycheck based on the information you provide on Form W-4 and the IRS withholding tables.

If you have a large amount of nonwage income, such as interest, dividends, or capital gains, you might want to increase the tax withheld or claim fewer allowances. In this situation, also consider making estimated tax payments using IRS Form 1040-ES.

You can claim exemption from federal tax withholding on Form W-4 if both of these situations apply: (1) in the prior tax year, you were entitled to a refund of all federal income tax withheld because you had no tax liability, and (2) for the current year, you expect a refund of all federal income tax withheld because you anticipate having no tax liability.

IMPORTANT DISCLOSURES

This publication is not intended to provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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