Better Income Opportunity for Retirement Now than in 2007

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Investors who held the S&P 500 Index during the market decline of 2008 and early 2009, and who continued to hold it during the recovery, would generate a higher retirement income today if they'd reinvested their dividends than they would have generated if they'd done the same thing at the market peak in 2007.

Based on monthly data, the S&P 500 Index hit its peak on September 30, 2007, and had a dividend yield of 1.82% at that time. As a striking example, an investor putting $1,000,000 into that index would have derived $18,200 of annual income from dividends for retirement for that calendar year. If instead, the investor would have not retired, reinvested the dividends, and ridden the market down and then back up, the account would be worth $951,700 as the total return on the index from September 30, 2007 through May 31, 2012 was -4.83%. The current yield on the S&P 500 Index on May 31, however, was 2.17%, so the current dividend income on the lower $971,700 would be $20,652, a 13.47% raise over what it would have been on the $1,000,000 in late 2007.

For retirement, many investors prefer the higher yields of utility stocks. In 2007, the S&P 500 Utilities Index hit its monthly peak on December 31, 2007. On that date, the Utilities Index had a dividend yield of 2.86%. In other words, $1,000,000 would have generated $28,600 of dividend income. From that peak through May 31, 2012, the Utilities Index gained another 1.25% with dividend reinvestment as the index recovered from its initial decline. This gain meant an initial $1,000,000 would have grown to $1,124,990. The dividend yield on the Utilities Index also increased over that period to 4.20%, meaning the $1,124,990 would produce $47,249 of annual income — a 65.21% raise over what the $1,000,000 would have produced at the peak on 2007.

Why would an investor who'd ridden through the market volatility be better off today in terms of generating retirement dividend income than he would have been at the peaks in 2007? Because corporate earnings have grown to record levels, dividends have grown and, in our opinion, stocks are on sale. The ICON valuation readings indicate that stocks, on average, are priced about 30% below our estimate of intrinsic value, which we interpret as a gift to those who need income for retirement.