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RETIREMENT & FINANCIAL PLANNING CORNER

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Revisiting Dividend Reinvestment Stock Plans (DRIPS)

What is DRIP Investing?

A dividend reinvestment plan, or DRIP, automatically uses the proceeds generated from dividend stocks to purchase more shares of the company.

This strategy allows investors to compound their returns over time by accumulating more shares, which themselves pay dividends that will be reinvested.

Note that dividends paid into DRIPs are taxed as ordinary dividends even though they are used to purchase shares.

https://www.investopedia.com/terms/d/dividendreinvestmentplan.asp#:~:text=A%20dividend%20reinvestment%20plan%20(DRIP)%20is%20a%20program%20that%20allows,on%20the%20dividend%20payment%20date.

The Pros and Cons of DRIP Investing

DRIPs Benefit 1: Increase your position with no fees

Most brokers will reinvest your dividends for you for free, and the purchases will be completed without fees (although you will owe income taxes on the dividend amount).

DRIPs Benefit 2: Automatically invest, without having to think about it

Company-operated DRIP plans allow investors to buy shares directly from the company, and in exchange, dividends are automatically reinvested in the company's stock, sometimes at below-market prices.

DRIPs Benefit 3: The power of compounding adds up fast

When you reinvest dividends, you increase the size of your investment, thus also increasing the dividends you'll receive next time. So, each reinvestment will be slightly larger than the last (assuming dividend payments don't decrease).

DRIPs Drawback 1: You may need the dividend income

The most obvious reason is that you need the income. If you're in the "distribution" phase of your investing life, dividends are a perfect source of passive income. Income from qualified dividends is taxed at the long-term capital gains rate.

DRIPs Drawback 2: You may need to reallocate your positions

You might also choose to stop reinvesting your dividends for allocation reasons. Reinvesting your dividends, through DRIP plans or otherwise, will cause your stock positions to grow over time, and if you've owned a particular issue for a long time, it may already be a large enough percentage of your portfolio. Higher-yielding positions will grow faster, which can throw your allocations out of whack pretty quickly.

DRIPs Drawback 3: You may not want to buy that stock at that time

Finally, you may also have stock-specific reasons not to reinvest dividends—if a stock is temporarily overvalued, or you simply don't want to buy any more of it at current prices.

https://cabotwealth.com/daily/income-investing/pros-cons-drip-plans/

Types of DRIPS & Strategy

Several industrial sectors are filled with dividend-paying companies, and some sectors provide better investments than others for your dividend stock investment portfolio. The following sectors offer the top options for dividend stock investing; when you're researching for good dividend stocks, you can improve your likelihood of finding some steady DRIP performers by reviewing these sectors:

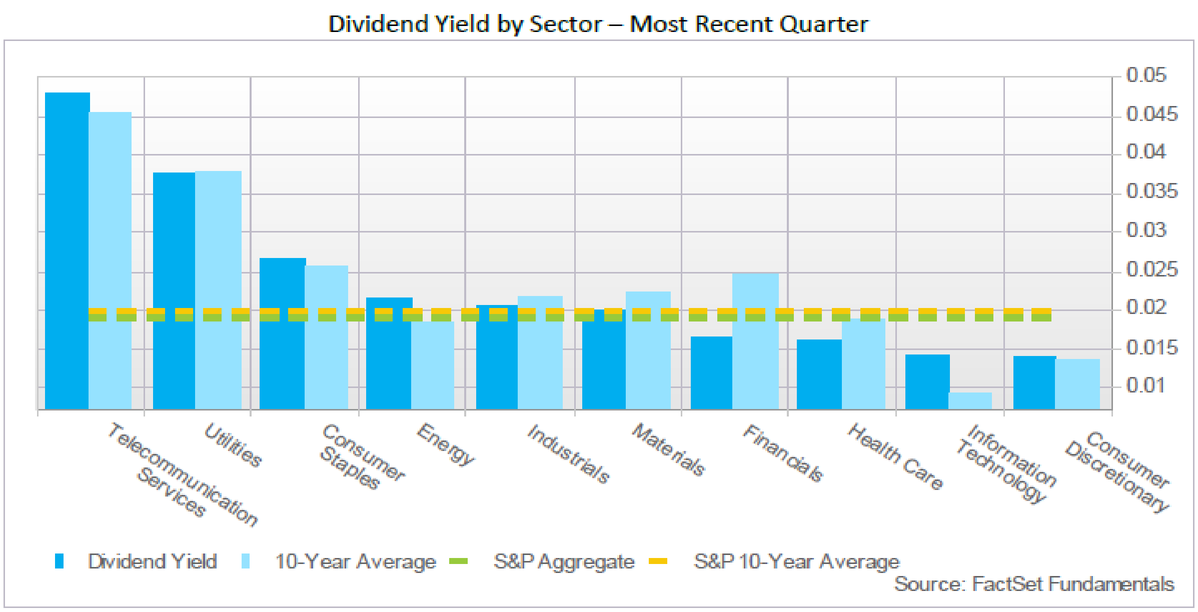
Utilities: Electricity, water, and natural gas (suppliers, not producers)

Energy: Oil, natural gas (producers, not suppliers), and master limited partnerships (MLPs)

Telecommunications: Carriers (U.S. and international) and wireless services

Consumer staples: Food/beverages, prescription drugs, household products, tobacco, and alcohol

Real estate: Commercial, residential, or office buildings inside real estate investment trusts (REITs)



https://www.dummies.com/article/business-careers-money/personal-finance/investing/investment-vehicles/dividends/investing-in-the-top-sectors-for-dividend-stocks-193296/

How to Get Started with DRIPS

1. Find companies that offer DRIPs. Before you can decide on which companies you want to invest in, you'll first have to locate companies that offer DRIPs.

2. Select the stock or stocks you want to buy. Remember, you're investing in a company. Be sure to pick a great company that has a proven track record of performance over the years and has the potential for continued growth.

3. Ensure you have a balanced portfolio. You don't want all your eggs in one basket. If all of your DRIP stocks are from the same industry, and that industry experiences a recession, then your portfolio value could plummet.

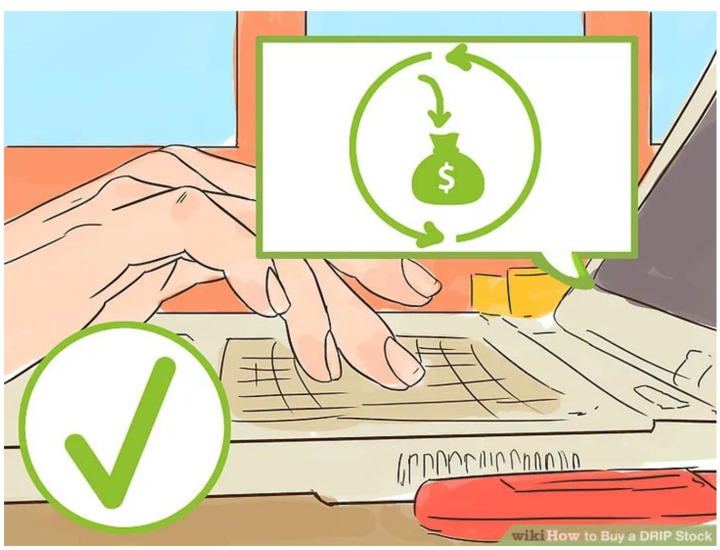
4. Purchase company stock. Before you can even enroll in the DRIP program for a company, you must already be a shareholder. In most cases, you only need to own one share of stock. You can buy that share of stock with your favorite online brokerage.

5. Invest in DRIPs through your online brokerage account. Many of the major online brokerages allow you to do almost any type of investing, including DRIP investing.

6. Pay attention to fees. There are some fees associated with DRIP programs. You don't want excessive fees taking a bite out of your return on investment.

7. Set up an automatic investment schedule. Once you've purchased the initial shares, plan to invest a little each month through an automatic withdrawal from your savings or checking account.

8. Prepare for taxes. Even though your dividend income is reinvested, it's still considered income for tax purposes. Be ready to pay taxes on what you've earned.



https://www.wikihow.com/Buy-a-DRIP-Stock