

Reinvest Dividends for Long-Term Success



POCKET THE CASH

OR

REINVEST



When a stock you own pays dividends, you have two options: pocket the cash and use it as you would any other income, or reinvest it by purchasing additional shares of stock. Although having a little extra cash on hand may be appealing, reinvesting your dividends may really pay off in the long run.



INVESTMENT
ESSENTIALS

INCOME INVESTING

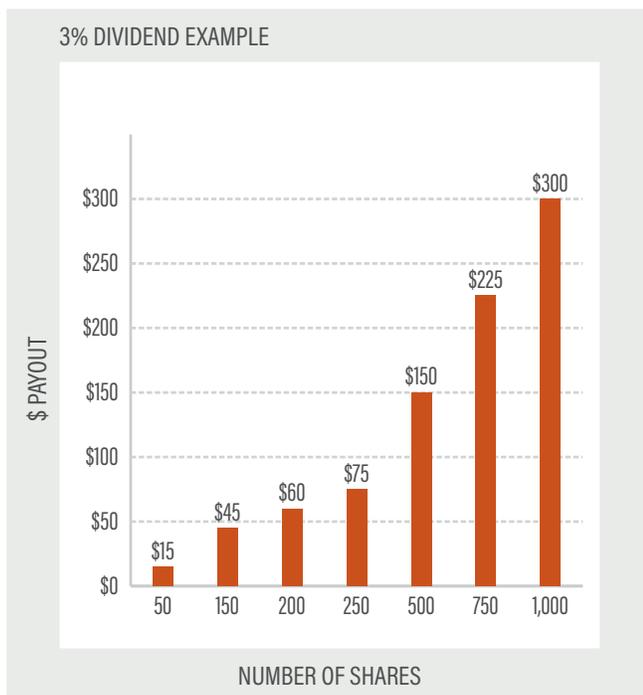
Dividends: The Basics

Companies pay dividends to their shareholders to reward them for their investments and continued support. Dividends are taken from a company's retained earnings, which is the amount of cumulative profits that remains after accounting for all expenses and any reinvestment in the company's expansion. While dividends can be issued in shares of stock, they are commonly issued as a cash payment.

Dividend Example

Dividends are issued to shareholders based on the number of shares outstanding. The greater the number of shares investors own, the larger the dividend payment they receive.

Assume company ABC has 4 million shares of common stock outstanding and issues a \$.30 dividend. In total, ABC pays out \$1.2 million in dividends. A shareholder who owns 50 shares receives \$15, while an investor that owns 1,000 shares receives \$300.



Hypothetical example shown for illustrative purposes only. Does not represent any actual investment products.

Dividend Reinvestment

Reinvesting your dividends simply means purchasing additional shares of stock with the money you receive. On most trading platforms, you can choose to have this done automatically on your behalf by simply checking a box. Proponents of this tactic highlight the fact that, by reinvesting your dividends to purchase new shares of a stock, you may grow your investment at a quicker rate than if you pocket the cash and rely solely on capital gains to generate wealth.

In some cases, companies may provide a program for automatic dividend reinvestment that lets you purchase additional shares at a reduced price.

One of the chief benefits of dividend reinvestment lies in its ability to grow your wealth quietly, so that when you need to supplement your income, usually after retirement, you already have a stable stream of investment revenue at the ready.

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Reinvestment Growth Example

Assume ABC pays an annual dividend of 3% per share, and its stock price increases by 10% each year. If you invest \$10,000 when the stock price is \$25, you own 400 shares (not including any brokerage fee that may be charged for the transaction).

At the end of the first year, you receive a dividend payment of 3% which amounts to a payment of $3\% \times \$11,000$, or \$330.¹ The stock price increases to \$26.68, so your reinvested dividend purchases approximately additional 12 shares.

At the end of the second year, you earn the 3% dividend on all 412 shares, yielding a total payment of \$363. The stock price rises to \$28.46, so reinvesting this dividend buys another 12.8 shares. You now own 425.12 shares valued at \$12,100.

Three years after your initial investment, you receive a dividend of $3\% \times \$13,310$, or \$423.62. Since the stock price has risen to \$30.37, your dividend purchases another 13.2 shares.

At the end of just three years of stock ownership, your investment has grown from 400 to 438.3 shares. In addition, due to the stock's capital gains, the value of your investment has grown from \$10,000 to \$13,310.00. Because your reinvestment is automatic, you have not paid any commissions or other transaction fees for the privilege of growing your investment.

DIVIDEND REINVESTMENT EXAMPLE

Stock \$25 per share | Initial purchase 400 shares | \$10,000
3% Dividend
Stock price increase 10% each year

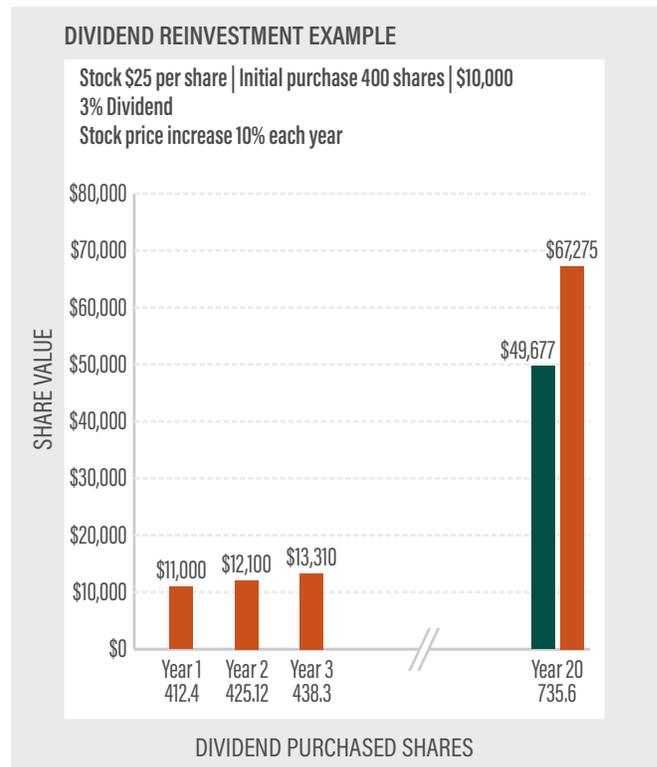
	Initial Investment	Year 1	Year 2	Year 3
Number of Shares	400	412.4	425.1	438.3
Stock Price	\$25.00	\$26.68	\$28.46	\$30.37
New Shares from 3% Dividend	—	12.4	12.8	13.2
Share Value	\$10,000	\$11,000	\$12,100	\$13,310

Hypothetical examples shown for illustrative purposes only. Does not represent any actual investment products. This example also does not reflect any tax consequences or investment fees that may result from the payment of dividends.

Planning for the Future

If ABC's stock performs consistently and you continue reinvesting, your dividends for another 17 years would be a 20-year holding period. You will own 735.6 shares valued at \$67,275. If you have stopped working, you may choose to start taking your cash dividends to supplement your retirement income. Your 3% dividend is now worth \$2,018.25 and will continue to increase as the value of your stock goes up.

If you had pocketed your dividend payments instead of reinvesting them, your original 400 shares would be worth \$36,583.76, plus \$13,093.50 in dividends, for a total of \$49,677.26. By simply reinvesting your dividends each year, you could increase your gains by 135%!



- POCKETED DIVIDEND AND NOT REINVESTED (400 SHARE OWNERSHIP)
- REINVESTED DIVIDEND

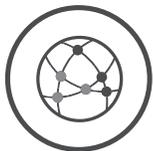
¹ As mentioned previously, dividends are issued to shareholders based on the number of shares owned. However, for illustrative purposes, we are showing calculations on this page using a dividend payment percentage based on the shareholder's account value.

Conclusion

Dividend-paying stocks may be a good way to add income to any portfolio, but their utility does not end there. Over the long run, reinvesting dividends may boost returns significantly, so investors may want to consider keeping their money invested for the long-term.

Contact your financial advisor to learn more about INVESTMENT ESSENTIALS or please visit amgfunds.com/essentials for more information.

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