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The Number That Matters: Income

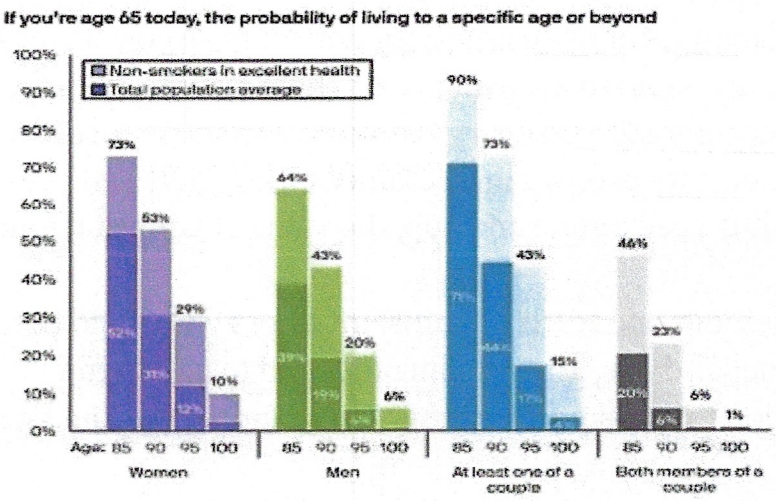
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As we approach the end of 2025, investors could be forgiven for feeling a little dizzy. Over the past few years we've witnessed a global pandemic, inflation not seen in decades, rapid interest-rate hikes, wars in Europe and the Middle East, political gridlock at home, and technological breakthroughs reshaping entire industries overnight. It's been a whirlwind. And yet, despite all that movement, one theme persists: uncertainty.

Life expectancy probabilities

If you're age 65 today, the probability of living to a specific age or beyond



Not

Yet amid all the noise, we believe something far more important deserves attention: income. Because when you step back from screens and tickers, the reason most people invest isn't for excitement, it's for income. Whether that income is needed today or decades from now, the goal is the same: to create a stream of cash flow that supports a lifestyle, a family, a legacy.

The problem is that some people tie their income directly to the performance of the market. After all, this is a common approach to investing. Step one, buy a bunch of your desired asset class (stocks, bonds, gold, real estate). Step two, hope their value improves over time. Step three, sell the asset when the price has improved using the proceeds for income. We think "buy and hope" is not a great strategy. But this is akin to a farmer selling off acres of his land. As the area shrinks, so does his ability to grow crops. It becomes a downward spiral, eventually leading to asset depletion. This is what we refer to as a Growth for Income strategy, whereby growth is necessary for continued income. No growth means it's time for the farmer to sell some land, which makes generating income next year even more difficult.

The other risk is that of inflation. At a mere three percent inflation rate, the prices of food, fuel, and just plain living doubles every 24 years. That might seem like a long time, but that's the age range of 60 to age 84. With better access to healthcare, science, innovation, and taking better care of yourself during the retirement chapter of your life, reaching age 84 is more likely. If your income has not doubled from 60 to 84, your standard of living is lower, and for many retirees, this is a problem. Often people do not realize this until it is too late.

So what can be done to protect income, and grow it at a rate that outpaces inflation?

There are many ways to approach this challenge, and you should ask your financial advisor if there's one that may be a good fit for you. From my perspective, dividends are a solid way to grow income since companies distribute a portion of their profits from the business to investors, usually in the form of cold hard cash. Though not always, these companies are typically successful and established. Their dividend is a point of pride and offers them a vehicle to reward investors for owning their shares.

As a result, some companies maintain a long track record of paying a consistent dividend and even grow that dividend over time. Companies like Colgate, 3M, Coca- Cola, and Clorox all have a long track record of paying and adding to their dividends. As in our farmer example, dividends paid are like income from the sale of the crops. The land is only a vehicle for generating revenue. We call this a Growth of Income strategy.

We believe Growth of income is a better strategy rather than Growth for income.

In times of extreme volatility and uncertainty, it's easy to get thrown off your plan. But as we've seen time and again, abandoning a well- constructed plan in favor of an emotional reaction almost always leads to a poor outcome. This is why we encourage investors to keep an eye on their income, not their portfolio value. My guess is your real estate agent doesn't call you every 15 minutes with an update on the value of your home. This would make even the best investors a little cranky, although this is precisely what investors do with the stock market. Using a cell phone and app, the value of your portfolio is only a glance away.

The coming year will no doubt bring more surprises, but one truth remains: investors who build their investment portfolios around businesses that are dependable, growing income tend to fare better through all seasons. Dividend-paying companies don't need a perfect economy to thrive; they just need customers, profits, and discipline.

So as you wrap up 2025, resist the temptation to obsess over your portfolio's market value. Instead, flip to the income line on your statement. Has your income grown? Is it keeping pace with inflation? Those are the measures that matter. Because over time, growing income leads to something even more valuable than short-term performance: stability, freedom, and dependability.

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