FLORIDA TODAY **TUESDAY, DECEMBER 6, 2016**

Relying on one revenue stream in retirement just a bad idea

Q: I am currently retired and living on dividends from my stocks. Is there a better strategy?

A: A total return strategy will provide you with diversification that is especially useful when markets are volatile.

Cash dividends shouldn't be relied upon exclusively. Dividends must be declared by the Board of Directors and are often eliminated or reduced when profits and earnings falter.

When a company declares a cash dividend, a record date is set and shareholders (on that record date) get the dividend. If you plan to buy a dividend paying stock, wait until after the stock pays the dividend when the price often drops.

Tax payers in the 25% marginal rate pay long term capital gains at a 15% rate. Qualified dividends are also taxed at this preferred 15% rate.

Ordinary dividends are taxed as ordinary income, so using this example, an ordinary dividend would be taxed at 25%.

Qualified dividends have rules. They must be issued by a corporation that trades on a major US exchange. Shareholders have to own shares for more than 60 days of the "holding period" and a four month clock begins two months before the ex-dividend date. There are calendars online that provide dividend dates and amounts.

All dividends are taxed whether they're reinvested to buy additional shares or withdrawn.

Stock dividends are treated differently and are more tax favorable. The ex-dividend date is set on the first business day after the stock dividend is paid. There are no immediate tax consequences for stock dividends. Tax is due after the stock is sold.

Buying only dividend paying stocks will deprive your portfolio of the needed diversification that different asset classes provide. Fixed income has its place, even with these low interest rates. Typically large value stocks pay the higher dividends. Growth stocks provide market appreciation often without dividends. And don't overlook the opportunities available with small cap stocks since large stocks were once small.

If the trillion dollars of cash that US corporations earned overseas is returned to the US tax free, forecasters predict that some of this cash will be used to buy back stock. These companies may be growth companies that don't pay dividends and their share price may be driven up by the demand for the shares.

Don't limit yourself to one form of income; dividends are good but so are capital gains. It's not what you earn that counts, it's what you keep.

Diversify, pursue a total return strategy, and manage portfolios for tax efficiency. Create a withdrawal plan for sustainable income that will result in a peaceful retirement.

Mary Baldwin, CFP® is an independent, fee-only financial planner at Baldwin and Associates, located in Indian Harbour Beach, FL. You can contact her at 321-428-4555 or Mary@MEBaldwin.com. Send your financial questions to Business@floridatoday.com.