

## Dividend-Paying Stocks.... Going, Going, Gone?

By Larry Eiben  
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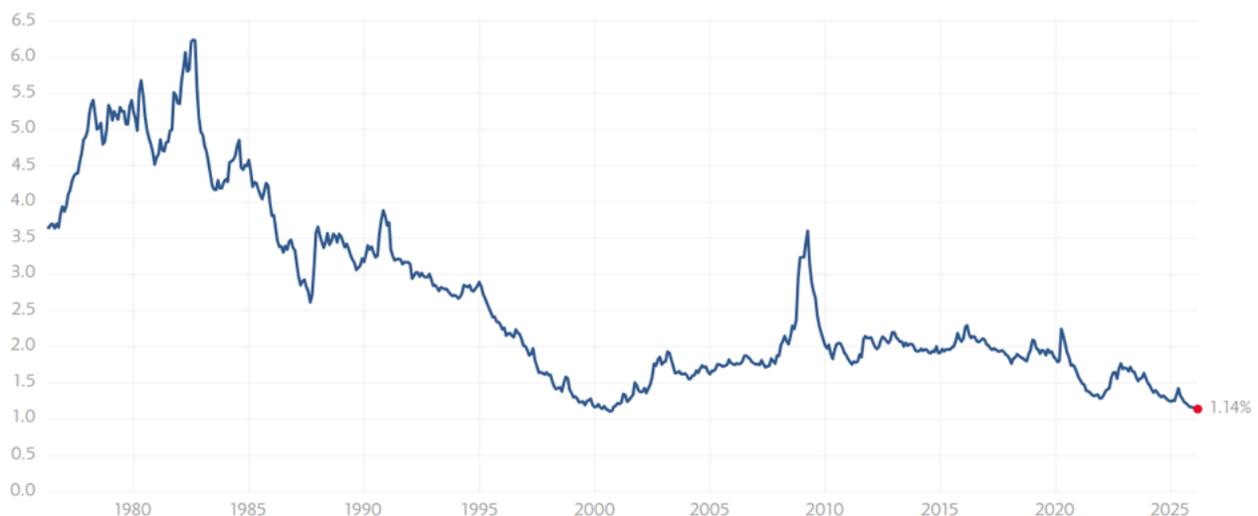
As a manager of an income-focused fund, we are constantly tracking and evaluating the various income “tools” available to investors. In other words, we like to keep tabs on the competition. Historically, one of the best income tools was dividend-paying stocks. Dividend-paying stocks are appealing because they offer (potentially increasing) quarterly cash payments while also benefiting the investor with any long-term capital appreciation in the stock price. Sounds great, right? Well, there’s a problem. Over the past few decades, dividend-paying stocks have all but vanished. In this article we’ll examine this trend, explore some of the causes and offer some tips on where to hunt for yield today.

### Down Goes the Dividend

The downward trend in dividend payments is unmistakable. Let’s look at the average dividend payments of the S&P 500 Index. Figure 1 below shows the “Dividend Yield” for the past 50 years. Dividend Yield equals the trailing-twelve-months dividend payments as percentage of index price. While dividends once averaged above 5% (and even higher going further back in time), we’ve seen a steady downward trend beginning in the mid-1980s. It’s stunning to note that the average dividend payment, as a function of index price, is now down to ONLY around 1%.<sup>1</sup>

**FIGURE 1**

S&P 500 Index (Dividend Yield)



Source: <https://www.multpl.com>

So, why is this happening? Figure 2 below shows the “Earnings Yield” of the S&P 500 Index over the past 50 years. The Earnings Yield equals the trailing-twelve-months earnings divided by the index price. We can (roughly) think of this chart as the “upper bound” on what could be paid in dividends (note that we say “roughly” because earnings are not equivalent to cash flows). In looking at this chart, we see that it is the same general shape as the Dividend Yield time series. So, it’s clear that one of the drivers of falling dividend payments as a function of stock price is, not surprisingly, falling earnings as a function of stock price. So, one should not expect a material increase in dividend yields without a material drop in equity prices as earnings levels cap the yield potential.

**FIGURE 2**

### S&P 500 Index (Earnings Yield)



Source: <https://www.multpl.com>

### Share Buybacks – The Modern “Dividend”

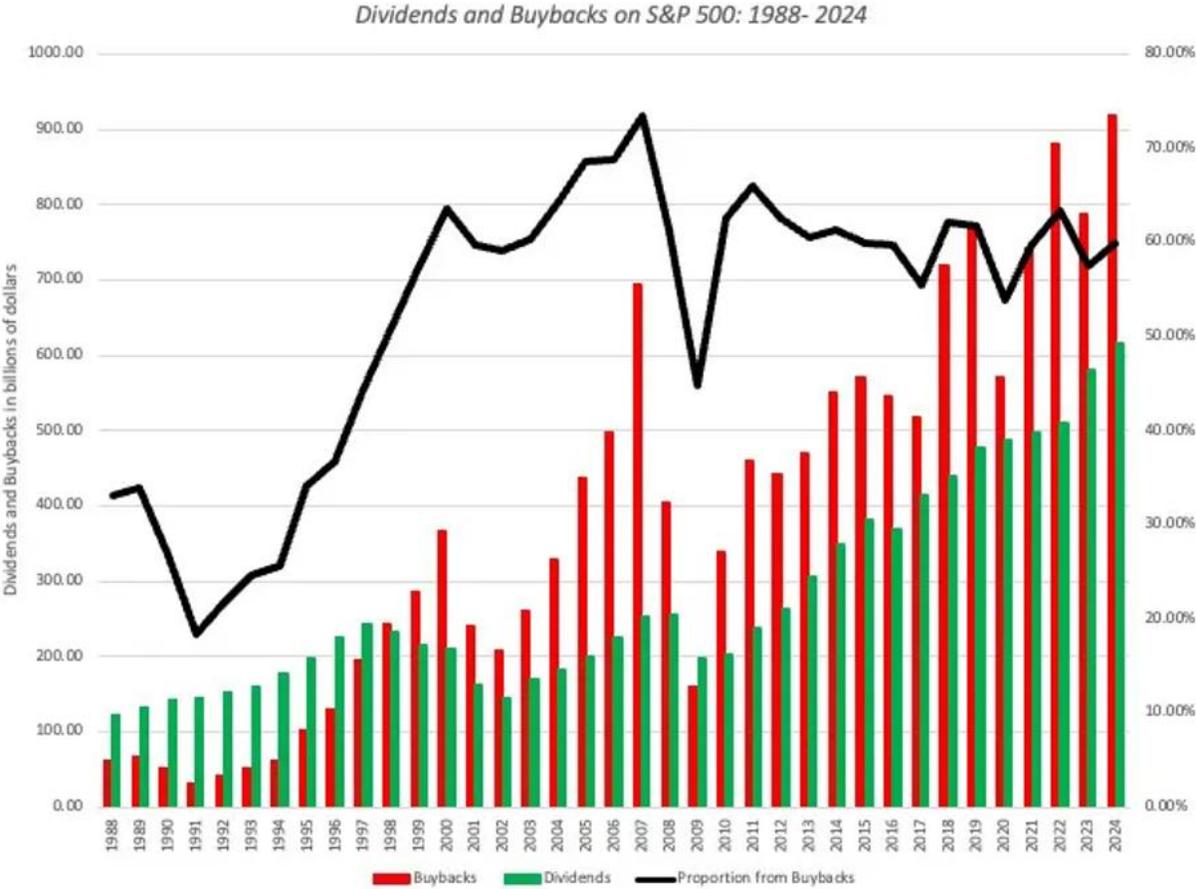
Rising stocks prices relative to earnings are a contributing factor to disappearing dividend yields, however, another key factor is the rise of share buybacks. Buybacks occur when a company chooses to use earnings to *buy back* outstanding shares rather than, say, pay them out in dividends or reinvest them. This action reduces the number of shares outstanding and thereby increases the earnings per share. In recent history, companies have come to favor share buybacks over dividends for two main reasons, listed below.<sup>2</sup>

**Tax Treatment** – While buybacks and dividends can both be considered accretive to shareholders, dividends are taxable in the year received whereas share buybacks generally increase share price – a non-taxable event.

**Greater Flexibility** – Companies that pay a large and steady dividend are often expected to maintain dividend levels regardless of fluctuations in earnings. Some companies even incur debt to pay dividends to avoid negative headlines that may come with material dividend changes. Buybacks, on the other hand, offer tremendous flexibility. Companies can hoard cash and buy shares at their discretion when opportunities are most attractive rather than distribute cash on a set calendar schedule.

Not surprisingly, share buybacks have risen in popularity and now exceed dividend distribution levels (see Figure 3 below). For the 12-month period ending September 30, 2025, U.S. companies completed over \$1 trillion in share buybacks (i.e., about 1-2% of overall market cap). Buybacks were widespread with 333 companies reporting buybacks of at least \$5 million for Q3 of 2025. Large companies continue to drive the overall volume with the twenty largest companies completing nearly 50% of the volume.<sup>3</sup>

**FIGURE 3**



Note that the chart above comes from the Substack of Aswath Damodaran who wrote a great article on this subject for anyone seeking more information.<sup>4</sup>

**Wait, What About REITs, UTEs and Energy?**

Ok, so we all know the market is dominated by mega-cap tech companies and that dividends are lower in that sector. But what about the sectors that are traditional dividend leaders? While it is true that these sectors provide more attractive yield than the overall market, the yield is still underwhelming. Below are the trailing-twelve-month dividend yields of the top 3 yielding “SPDR Sector ETFs” by State Street.<sup>5</sup>

**FIGURE 4**

ETF	Sector	TTM Dividend Yield
XLU	Utilities	2.77%
XLE	Energy	3.44%
XLRE	Real Estate (REITs)	3.54%

So, yes, a few sectors will get you into the 3%+ range but, in the current environment, that after-tax (real) yield is likely negative. So, when combined with the potential volatility that comes from owning an equity investment, we do not like stock portfolios as income tools.

### **Wherefore Art Thou Yield?**

So, alas, what is an income investor to do? Put us firmly in the camp that using equity investments is not the best answer for income seekers. Don't get us wrong, we don't mind "getting paid" (i.e., having a positive carry value via the dividend) to hold something like energy or REITs in the current environment, but we're not doing it for the income. Rather, we like the upside capital appreciation potential or inflation hedge.

As you know by now, we're big fans of the private markets for the income side of portfolios. We believe that the premium over exchange-traded income tools is substantial and worth the reduced liquidity that is required to obtain it. We are private real estate credit specialists, but we also like other forms of private asset-backed credit and private corporate credit. Note that we think it is important to avoid pure "beta" plays where managers are simply seeking exposure to a credit sector. We encourage using managers that do their own sourcing, vetting an underwriting. Moreover, we recommend boutique managers that limit fund size thereby providing some opportunity for "alpha" generation.

Stepping away from the private markets, there are a few exchange-traded tools that catch our attention. We like some of the lower-risk preferred equity stocks (e.g., those from utilities and top-rated REITs). For more information on those investments, please see our Insight titled, ["Exchange-Traded Preferred Shares – An Income Tool Worth Considering."](#)

We also believe there are some unique opportunities in the exchange-traded CMBS market. These securities tend to be harder to access and analyze as they are generally not actively utilized by the retail market. Moreover, to gain attractive yields, an investor generally needs to participate in higher-risk tranches of these securities which require specialized knowledge. For example, the largest CMBS ETF, "iShares CMBS ETF" (ticker: CMBS), is a turnkey access tool for lower-risk CMBS but only yields 3.44%.<sup>6</sup>

Lastly, there are a handful of other more esoteric exchange-traded securities that produce noteworthy yield. Among these are Master Limited Partnerships (MLPs), which generally represent ownership in energy infrastructure. There is also a wide array of income strategies found in traditional exchange-traded close-end-funds ("CEFs"). In any case, MLPs and traditional CEFs are a topic for another day but are worthy of consideration. Best of luck in your pursuit of yield!

## About the Author

Mr. Eiben is Co-Founder and Co-Portfolio Manager at Thirdline Capital, an investment advisor and manager of a real estate credit interval fund and other private real estate investments. Prior to Thirdline, Mr. Eiben spent over 15 years at TFS Capital, a firm that specialized in developing liquid alternative investment strategies, where he served as a Portfolio Manager and Chief Operating Officer.



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## Notes

1. <https://www.multip.com/s-p-500-dividend-yield> , “Dividend Yield” (March 2025)
2. <https://corporatefinanceinstitute.com/resources/accounting/dividend-vs-share-buyback-repurchase/> , Tim VyPond, “Dividend vs Share Buyback” (March 2020)
3. <https://www.spglobal.com/spdji/en/corporate-news/article/sp-500-q3-2025-buybacks-post-modest-62-gain-to-249-0-billion-after-declining-20-1-amidst-uncertainty-in-q2/> , “S&P 500 Q3 2025 Buybacks” (December 2025)
4. <https://aswathdamodaran.substack.com/p/data-update-9-for-2025-dividends> , Aswath Damodaran, “Data Update 9 for 2025: Dividends and Buybacks - Inertia and Me-tooism” (March 2025)
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6. <https://www.ishares.com/us/products/239459/ishares-cmbs-etf> (March 2026)

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