

2B CTG – Dividends Matter!
Shanna Rendon

Dividends Matter!




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BETTERINVESTING
The Leader in Investment Education

Classes-To-Go! 2B

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- The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced.



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What are Dividends?

- Portion of the company distributed to shareholders
 - Cash
 - Stock
 - Property
- Stock Dividends
 - Preferred
 - Common
 - Special

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How are Dividends Paid?

- Board of Directors make the decision
 - ✓ How much
 - ✓ When
 - ✓ Declaration Date
 - ✓ Ex- Dividend Date
 - ✓ Date of Record
 - ✓ Date of Payment

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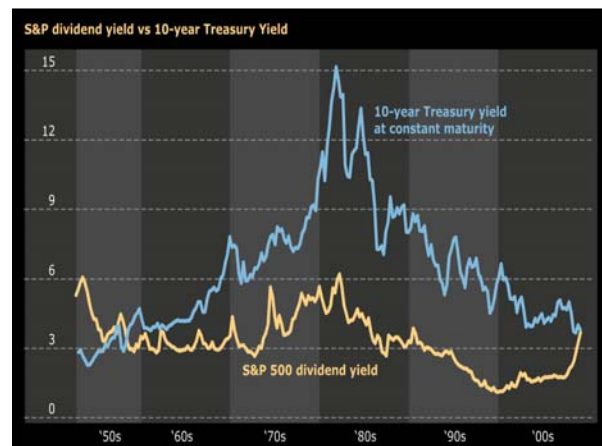
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**Do you know the only thing that gives me pleasure?
It's to see my dividends coming in.**

John D. Rockefeller, 1901

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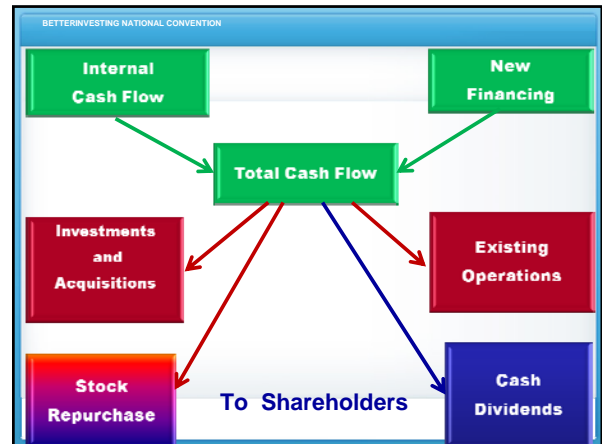


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Where do Dividend payments come from?

- How do dividend payments affect the company?

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Dividends Come from Earnings

- Shareholder Equity
 - Equity = Assets - Liabilities
- Return on Equity
 - Profit relative to the equity required to earn it.
- Sustainable Economic Advantage
- Sustainable Growth Rate
 - $SGR = (1 - \text{Payout Ratio}) \times ROE$

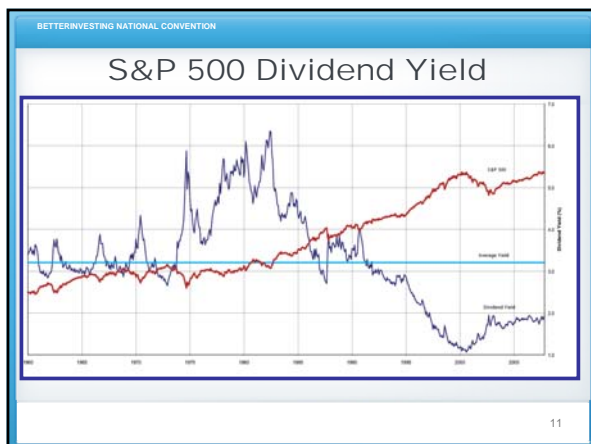
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Net worth of the company after a dividend is paid declines by the exact amount of the dividend

- Your dividend payment was \$.38 from Coke
- Coke's net worth declined from \$18 billion to \$17.2 billion

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What Happened in 2009?

- Banks and insurance companies chop their dividend payments
- GE cut its dividend for the first time in 71 years
- Dow Chemical cut its dividend for the first time since 1912
- S&P states dividends will fall about 25% this year

The Economist 3-5-2009

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What About 2010?

- Are dividend paying stocks back in favor?
- S&P market average dividend March, 2010 is 2%
- Decrease in cash generating assets
- Yield grab is underway

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Dividends or stock repurchase...

Which is better for you?

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Stock Repurchase

- Stock prices increase
- Increases ownership stake
- Company indicating shares are undervalued
- Company can re-issue when the share price is higher
- Upper management can receive compensation tied to the stock price in the form of options

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Are buybacks, a form of dividend?

- The corporate board without shareholder approval, authorizes stock repurchase
- Shareholders have no way of knowing about the execution of the plan
- There is a problem of transparency

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Tax Consequences

- Qualified Dividend Income Tax Rate 5% - 15% until 2011
 - Required to hold stock for 60 of 120 days surrounding Ex-Dividend Date
- Otherwise Taxed as Ordinary Income

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Why Dividends Matter

- They will not mislead you
- Make a statement
- Can't be restated
- The check is yours to keep
- They usually increase

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