

Why Dividends?



Mini Investment Class by the OKI Tri-State Chapter

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Based on "Dividends: Cash Flow for Your Portfolio" Presented by Shanna Rendon, Director, BIVA Board, BINC 2011

NON-PROFIT VOLUNTEER BASED MEMBER DRIVEN



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Dividends 101:

General views of the world of dividend stocks:

TYPICAL:

“old economy”

Large, mature, profitable

Slow growth rate

Low total return

OR ALSO:

A less volatile investment (as a group)

Provide real return (cash)

You chose what to do with the payout

Offer an inflation hedge when companies increase payouts

History and lessons of the last decade:

MULTIPLE “BEAR MARKETS”

Tech Bubble and Bust

The Great Financial Recession

By 2009 “solid” stocks with financial exposure had to cut dividends

EXAMPLES:

GE cut its dividend for the first time in 71 years from \$1.24 to \$.40

Banks and Insurance Companies were forced to cut or suspend their dividends (traditional stocks for widows and orphans!)

And now we have the problems of the EURO-Zone.....

Dividends

History of S&P Dividend Yield:

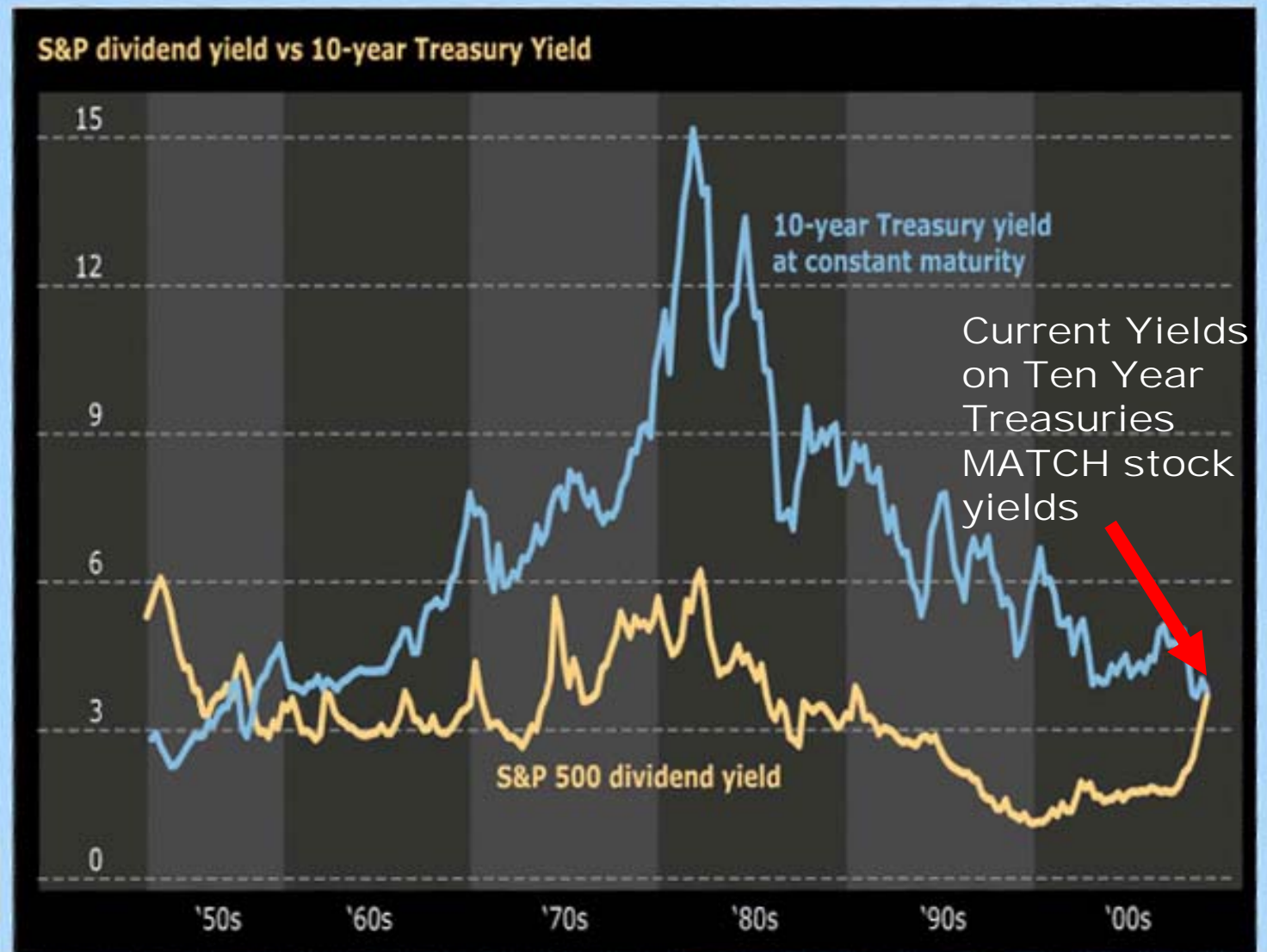
Companies are paying out 28% of their earnings versus the historic average of about 50%



Dividends

S&P
Dividend
Yield vs.
10-year
Treasury:

What are
your
options in
a low
yield
world?



What is your GOAL? Can dividends help you?

- Dividends as income stream
- Replace paycheck
- Reinvest
- Increase portfolio total return
- Hedge during BEAR market



Where Do Dividends Come From?

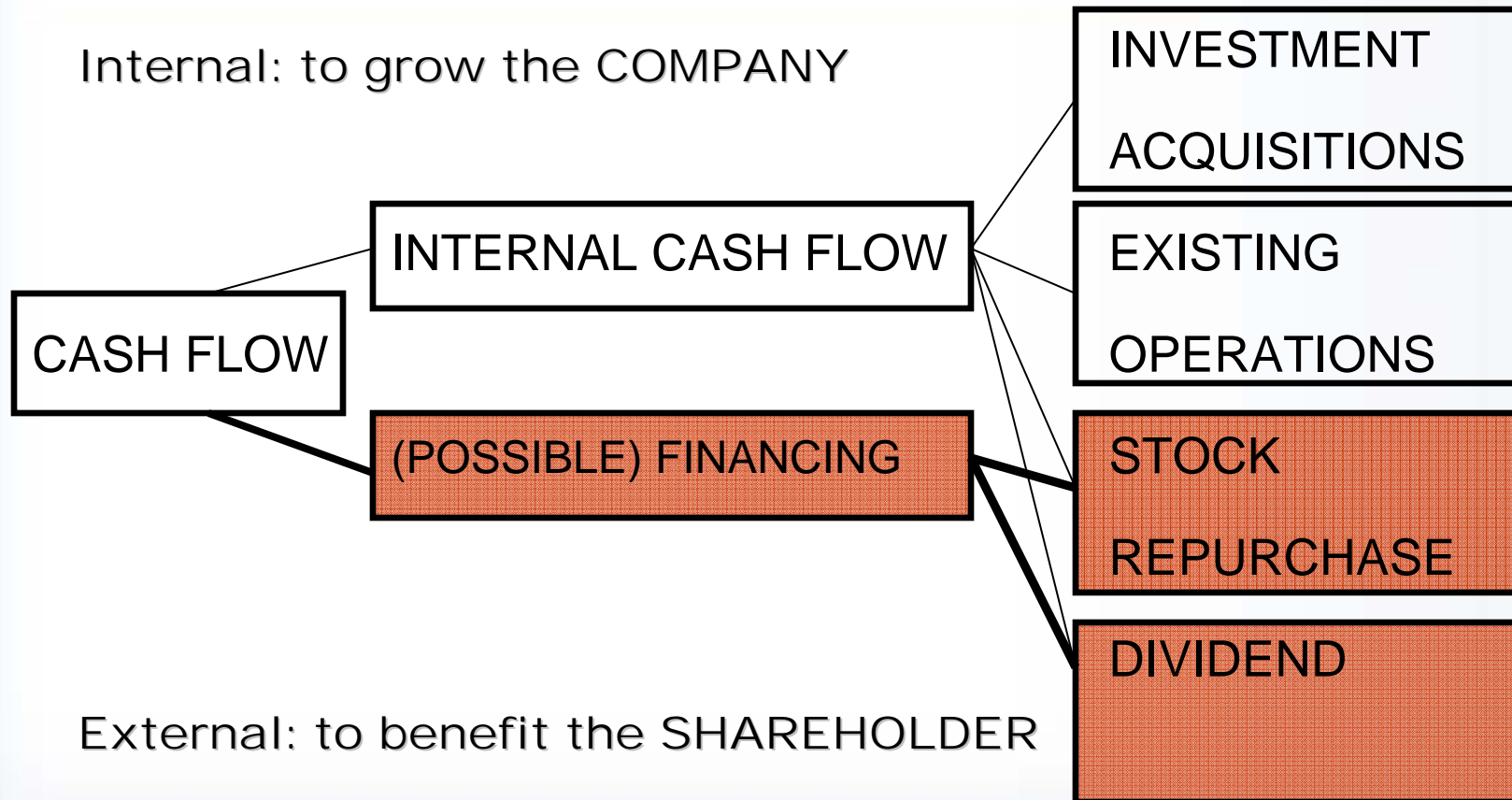
What are dividends?

“a dividend is a transfer of assets (almost always cash) from a corporation to its shareholders.”*

Josh Peters, CFA, author of *The Ultimate Dividend Playbook*

Dividends

How a company can use its (cash flow) assets:



How Dividends Are Paid

- Declaration Date
Board of Directors made public announcement
- Ex-Date or Ex Dividend Date
On or after this date the security trades without its dividend
The ex-date is the second business day before the date of record
- Date of Record
Shareholders on this date will receive the dividend
- Date of Payment
The dividend check is mailed to shareholders

Why all these dates?

Companies need to make sure the dividend payments go to the correct shareholders.

Owners of Record:

Settlement of stock trades is a T+3 process

Purchase the stock Today = "T"

Become "Owner of Record" 3 days after purchase or "T+3"

Dividends

Example of Dividend for Coke (KO):

Declaration Date:	2-21-2008
Ex-Dividend Date:	3-12-2008
Date of Record:	3-15-2008
Date of Payment:	4-1-2008
Payment was	\$0.38
Dividend paid since	1893

Consequences of dividends:

Company: net worth declines by the exact amount of the dividend (on ex-dividend date).

Taxes: Qualified dividend tax rate – 2% or 15% depending on your tax rate and tax rules.

Required to hold stock for 60 of 120 days surrounding Ex-Dividend Date; otherwise dividend is taxed as ordinary income.

Which is better: Dividends OR Stock Buy-backs?

Stock Repurchase:

Stock price increase

Increase ownership stake

Company indicating shares are undervalued

BUT:

Company can re-issue when share price is higher

Upper management can receive compensation
 tied to the stock price in the form of options

The corporate board, without shareholder approval, authorizes stock repurchase, not a shareholder decision

Shareholders have no way of knowing about the execution of the plan

There is a problem of transparency

WHY DIVIDENDS?

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