



By: Cody Wetmore--brass Staffer

## **Dividend Primer: What you need to know about stock dividends**

To the layman (i.e. most of us), it may seem like the only way to profit from the stock market is to buy stock when it's cheap, wait until it gains value, then sell it. But if that's true, why do people own so many shares of Intel stock, even though its earnings per share have only grown 0.6% annually for the last 10 years? It has already made the biggest gains in value it's likely to see, so there must be another way to earn money with stock from established companies. Enter dividend payments.

### **Dividend basics**

Companies often use their profits to expand their business. This expansion can help make the business more profitable, bringing up the price of the stock and keeping investors happy. However, established companies can't always expand as quickly, so they pay out dividends to keep investors from cashing in their shares.

Dividend payments allow a company to share their earnings with their shareholders. The most common form of payment is cash, but it can also be paid in stock or property (though the latter is relatively rare). With a cash dividend, investors are paid a certain amount for each share of the company's stock they own.

### **Take stock of the situation**

With a stock dividend, instead of receiving a set amount of cash based on the number of shares owned, a shareholder receives additional stock in the company. These usually come in fractions of shares. For example, if a company issues a stock dividend of 5%, Joe Blow's 100 shares will earn him 5 additional shares. This may not seem like much, but it could add up if Joe decides to sell, or if the company hands out more cash or stock dividends in the future.

You might be saying to yourself, "why would I want extra stock from a company that doesn't have enough money to give a cash dividend?" Well, just because a company chooses not to pay a cash dividend doesn't mean they aren't doing well. If a company is growing quickly, cash is usually used to purchase new assets like production equipment or property, or to hire more workers. These assets can help grow the company, which should make shares worth more.

### **High yields aren't everything**

While high dividend payments are great, keep in mind that there is no guarantee they will continue in the future. For example, if you buy a stock that usually pays quarterly dividends, the board of directors can decide not to pay dividends at any time.

When investing in stocks, never base your selection solely on whether the company pays dividends; that doesn't tell you the whole story. Make sure to check out the health of the company as a whole before you purchase. For example, if the price of a stock increases quickly, dividend payments could decrease because the stock has gained value-- something that could pay off more than a quarterly dividend payment.

**Bottom Line:** In 2008, 374 companies reduced dividend payments. Make sure not to judge a stock only by its dividends, and keep your portfolio diverse. Dividend payments are a great benefit if awarded, but don't count on them for income.

*Sources:* investopedia.com; fool.com; money.cnn.com

### **Stats**

\$22 million in dividend payments were eliminated by companies in the third quarter of 2008.

*Source:* fool.com

4%--the average dividend yield of the S&P 500 stock index since 1925.

*Source:* forbes.com

*Used with the permission of brass/MEDIA Inc.*

brass|MEDIA Inc. licensed content is provided with the understanding that the publisher, copyright holder and organizations distributing the magazine are not rendering investment, financial or other professional advice. Investment and other financial decisions depend on each reader's individual facts and circumstances. You should not make decisions based on information contained in licensed brass content without the advice of a qualified professional.