What is so great about dividends? Alot of misinformation?

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Author	Message
usnaron Joined: 28 Oct 2009 Posts: 13	Posted: Tue Dec 01, 2009 5:43 pm Post subject: What is so great about dividends? Alot of misinforma So many analysts discuss dividend paying stocks and make it seem like buying a stock wi **dividends** is a bone head move that causes you to miss out on guaranteed income. Altho definition of **dividends** that I have read online explain that a dividend does not increase stock at all. It is exactly like a stock split to a lesser degree. For example, when microsof dividend about 5 few years back, the stock dropped 10% that day. It would essentially be 10% of your shares, but not being charged any commission (which is good for retired folk steady stream of income). On the other hand, the company is taxed on their profits, and taxed again on the **dividends** they pay you with the profits. This double taxation concept reasons Buffett says that his company does not offer **dividends**. Am I missing something
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mudfud  Joined: 20 Feb 2007 Posts: 941	Posted: Tue Dec 01, 2009 5:51 pm Post subject: You are not the first to be flummoxed by this. For some more depth, you could look at Fisher Black's classic article on the "Dividend Puz Black of the Black-Scholes equation. Scholes won the Nobel in 1997, but Black had recent away, and Nobels are not awarded posthumously). **Black, Fischer. "The Dividend Puzzle." Journal of Portfolio Management, 2 (197** http://books.google.com/books?....w#PPA10,M1 Another good reference is from the Nobel laureates Merton H. Miller and Franco Modigliar **Merton H. Miller and Franco Modigliani. "Dividend Policy, Growth, and the Valua Shares"** Journal of Business, October 1961, volume 34, page 411-433 http://www.journals.uchicago.e....086/294442 A classic paper, surprisingly readable. Highly recommended. "For investors, however naive they may be when they enter the market, do sometimes le experience; and perhaps, occasionally, even from reading articles such as this". (!)

____
"Are you sure you have tested an *a priori* hypothesis?"

WORK THE WIKI

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eurowizard

Joined: 10 May 2008
Posts: 941

Posted: Tue Dec 01, 2009 6:04 pm Post subject: Re: What is so great about dividends? Alot of misinformatio

> **usnaron wrote:**
> For example, when microsoft gave a 10% dividend about 5 few years back, the stock d
> 10% that day.

This is a fact of life that many people who invest in dividend-stocks do not understand. Th
stock is based on the underlying enterprise value of the company. To illustrate my point,
company that is worth $1000 and has 100 shares worth $10 each.

The company decides to give a 10% dividend of $1 per share. At 100 shares this dividend
going to cost the company $100. Thus the company is now worth $1000 minus $100 = $9
still 100 shares but now each is worth $9 each.

Stocks MUST drop by the value of the issued dividend the day after the ex-dividend date
EQUAL. Some people claim that there is so much noise in the stock market that this is no
Those people are wrong.

The worst part about **dividends** is that they are taxed twice. The company had to pay cc
income taxes to earn the cash. Then when you get the dividend, you are taxed on that ag
company issues a bond and has to pay the interest, that money is a tax-writeoff. Dividen
are not a tax-writeoff. You being the owner of the company are being taxed twice on you

The second worst part about **dividends** is that sometimes a company is doing bad but dc
cut the dividend because then dividend-seeking shareholders get mad. So the company h
money at 10% in order to pay out the dividend. You as a shareholder are part owner so y
this 10% debt used to pay yourself the cash. You basically took out a 10% loan for the va
dividend.

People argue that without **dividends**, no one would invest in stocks because there would
The payout comes when you sell it.

People argue that without **dividends**, the irresponsible overpaid CEOs will use the excess
million dollar corporate jets and with **dividends**, the CEOs have to be more responsible v
money. I would argue that if you really feel this way, you shouldn't be investing in this co

Stock buybacks are the BEST way to return capital back to the investor. This effectively d
thing as a dividend payout except without double taxation. Essentially the company buys
stock with their excess cash.

Proponents of **dividends** will argue that share buy-backs are used to mask overpaid exe
compensation through stock options hidden in this buyout. I would argue that this compe
going to occur anyway, and whether it is paid through a stock option or cash, the net effe

Married men shower at the gym after work before going home. Just because SOME marri
this shower to "mask" the perfume of their mistress does not mean that showering is bad
indicative of bad behavior.

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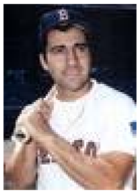
Petrocelli



Joined: 19 Feb 2007
Posts: 1555
Location: Fenway Park, between 2nd and 3rd base

Posted: Tue Dec 01, 2009 6:27 pm Post subject:

I own some stocks.

I won't buy a stock unless it pays at least a 2% dividend. Primarily for two reasons:

First, I think paying a regular dividend keeps managment honest. I am a part owner in a
"real life". We distibute profits at the end of the year. When I buy stock in a company, I v
the profits on a regular basis.

Second, my goal is to use the **dividends** as an insome stream when I retire. I don't wan
sell the stock to make money. Right now, the stocks pay about 3.3%, and the **dividends**
increasing steadily each quarter.

I don't think **dividends** are in any way magical, or that dividend stocks outperform non-
payers, or that you should seek **dividends** at all costs.

This is the opinion of a guy who admits he doesn't know jack. I could be wrong.

____
Petrocelli (not the real Rico, but just a fan)

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DiscoBunny1979

Joined: 21 Oct 2007
Posts: 805

Posted: Tue Dec 01, 2009 6:32 pm Post subject:

So what is the OP's point? To not buy stocks that have **dividends**? That's crazy. In today
environment when CD pay only 2%, one can invest in great companies that are paying 4
dividends. This 4-5% return, if one one wants to place their $$ in more risk, can benefit
from the quarterly paid **dividends** - especially if one invests by a DRIP plan by the comp
offers.

Mutual Fund NAVs also drop the same way as an individual stock. While there isn't double
se . . . there still is double taxation in that one has to pay taxes on the "income" in the ye
and if they reinvest those **dividends** for more fractional shares of the mutual fund, then
those reinvested **dividends** are taxed again once sold. So what's the point? Don't invest
paying mutual funds? That's rediculous.

I wouldn't follow everything Buffett does just because of his name. Although I absolutely
Candy!

Last edited by DiscoBunny1979 on Tue Dec 01, 2009 6:33 pm; edited 1 time in total

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spam

Posted: Tue Dec 01, 2009 6:32 pm Post subject:

I love **dividends**

Joined: 10 Jun 2008
Posts: 744

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Wagnerjb

Joined: 19 Feb 2007
Posts: 3181
Location: Houston, Texas

Posted: Tue Dec 01, 2009 6:33 pm Post subject:

I think there is a lot of psychology involved here. Many retirees are (naturally) fearful of money, and so they attempt to preserve their capital by not selling shares. Once they ha themselves in this manner, they try to "cheat" by increasing their cash flow for spending. by purchasing high-yield investments, whether they be high dividend stocks or mutual fu yield bonds or mutual funds. This is the allure of high dividend stocks. The retiree can lull thinking he is preserving principal, while spending more.

Many investors don't understand the **dividends** come at the expense of capital appreciat many high dividend payers are actually cannibalizing themselves slowly but gradually. As retiree doesn't recognize that the company (or fund) is declining in asset value, he is hap rising market, this is masked. Sometimes, the company masks this by adding leverage t borrowing, just to keep the distributions constant. But when a recession hits, the asset va Even so, some retirees don't even focus on the asset values.....as long as their income st constant. It takes a dramatic cut in **dividends** - like during this recession - to highlight to of this strategy.

Folks like you, MudFud and Eurowizard clearly understand the relationship between **divid** gains and principal. But I suspect most investors don't. They happily pay a "convenience steady high dividend paid to them.

Best wishes.

____
Andy

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neverknow

Joined: 05 Jun 2009
Posts: 891

Posted: Tue Dec 01, 2009 6:37 pm Post subject:

I have a very good teacher in my husband, a retired CEO type of mid size International e companies. And this stuff is very complicated.

What all might a company do with their profits?

Grow. Invest in R&D or factories or whatever - grow. This strategy would be a company i were investing in for their growth -- and anticipated capital gains as earnings grew.

Return some of the profits to the owners in the form of **Dividends**. This would be the mo utility company - no growth, big regulation ... other reasons --- like perhaps simply too b is really hard for mega size companies to grow at any rate, because of the huge numbers

Yes, I am aware **dividends** are profits taxed twice ... there are many gotcha glitches in
But don't get me started.

Share buybacks? I think the record here is that companies are pretty dumb about this an
but it does reduce the float, thus increase earnings per share.

Microsoft - I think is the perfect example of a company that doesn't know what to do with
They claim to want to grow, but still they are a Windows / MS Office Business. There divic
refuse to invest in this company because they are terrible at managing their profits in the
their shareholders.

Logically, a companies value does decrease by the dividend paid, but I do not see this ha
sure happens in a mutual fund - which does not trade inter day, which explains why this c

Buffet doesn't want **dividends** because of the number of shares he owns he would have t
on a bunch of **dividends**. Why should he ask for paying more taxes? Even Buffet doesn't

It depends on what you expect for your investment. Are you taking a flier on growth pros
you are looking for capital gains. Are you lending your money? Then you expect to be pai
you want to participate in the earnings of a well established company? Then you look for

I have shifted to **dividends** with my 2009 profits, and this is the reason why - interest st
next to nothing short term, and subject to interest rate risk longer term. My guess, is the
reasonable chance we are seeing a repeat of the 2003 market rally, which churned sidew
the economy got it's feet under itself. If it is going to churn sideways, I want to collect my
If there are folks a plenty out there right now pushing dividend stocks, this could be the r

There is another reason in a taxable account, **dividends** have a preferred tax treatment
which is taxed at ordinary income rates.

Just don't expect growth - capital gains from your dividend payers. They have chosen inst
profits to their shareholders instead of investing in growth.

And yes - my husband read the 10-Q's filed with the SEC balance sheets. There are many
out there borrowing money to pay their **dividends**. This is the "house of cards" --- abyss
in the short term commercial paper market, that freaked out the government. By a long
only sub prime borrowers that were subject to default based on short term interest rates,
feeds up the entire food chain - into the corporations and government entities themselves
raise interest rates. Or the whole thing comes tumbling down.

I hope this helps. It is complicated what a company decides to do with profits.

Basically - I went to dividend payers, because interest rates are too low, and only likely t
preferred tax treatment, over interest earned.
neverknow

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eurowizard

Posted: Tue Dec 01, 2009 6:38 pm Post subject:

Joined: 10 May 2008

Posts: 941

> **DiscoBunny1979 wrote:**
> In today's environment when CD pay only 2%, one can invest in great companies that paying 4% or 5% in **dividends**.

You can get a 20% yield on a C rated corporate bond. I don't see how comparing a risk-fr insured CD is the same as a dividend paying stock, that may go completely bankrupt, or dividend entirely.

You could always buy a stock that doesnt pay **dividends** and sell 5% of it every year for effect. Use something like a Wells Fargo PMA account and do it commission free.

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usnaron

Joined: 28 Oct 2009
Posts: 13

Posted: Tue Dec 01, 2009 6:51 pm Post subject:

> **eurowizard wrote:**
>> **DiscoBunny1979 wrote:**
>> In today's environment when CD pay only 2%, one can invest in great companies that are paying 4% or 5% in **dividends**.
>
> You can get a 20% yield on a C rated corporate bond. I don't see how comparing a FDIC insured CD is the same as a dividend paying stock, that may go completely ba or may cut the dividend entirely.
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> You could always buy a stock that doesnt pay **dividends** and sell 5% of it every ye the same effect. Use something like a Wells Fargo PMA account and do it commissic

DiscoBunny: Exactly! You missed the point. The great companies are paying you 4-5% of No money earned or lost. When a stock does a reverse stock split, you don't make 100%

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danbek

Joined: 23 Aug 2007
Posts: 221

Posted: Tue Dec 01, 2009 6:57 pm Post subject:

More fuel to the fire:

1) A Schwab report:

http://www.schwab.com/public/s....ities.html

From 1990-2008, they found that dividend-paying stocks have "average 12-month return compared to 18.0% for non-dividend paying. However, the dividend payers were much le 15.7% STD vs 24.7%. I don't know what the t-bill rate over that period was, but definitel sharpe ratio for dividend stocks.

2) There a paper by Arnott & Asness:

http://papers.ssrn.com/sol3/pa...._id=295974

THey find that that when the market as a whole is paying out a high proportion of earning **dividends**, that subsequent earnings growth is high and vice-versa. This is not what you if retained earnings were used to fund projects that increased growth. However, they are market as a whole, not individual companies.

Two quotes:

> **Quote:**
>
> We find the empirical facts conform to a world in which managers possess private infor that causes them to pay out a large share of the earnings when they are optimistic, an share when they are pessimistic, so that they can be confident that they can maintain payouts. Alternatively, the facts also fit a world in which low payout ratios lead to ineffi empire building, the funding of less-than-ideal projects and investments, leading to pc subsequent growth, while high payout ratios lead to more carefully chosen projects wit relatively high returns.
>
> At this point, these explanations are conjecture, and more work on discriminating amo competing explanations is appropriate. But, the positive link between payout ratios anc subsequent earnings growth appears to be empirical fact, not conjecture.

About buybacks:

> **Quote:**
>
> Firstly, as observed in Fama and French [2000], the companies that are engaged in stc buybacks are not the companies with the lowest payout ratios. The companies that pay **dividends** typically also pay no hidden **dividends** in the form of stock buybacks; they spend the cash.

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profile pm

nisiprius

Joined: 26 Jul 2007
Posts: 7405
Location: North America; Western Hemisphere; the Earth; the Solar System; the Universe; the Mind of God

Posted: Tue Dec 01, 2009 7:08 pm   Post subject:

Just to repeat... this does not have much to do with stock selection... but **dividends** are fundamental sense the whole point of owning stock. They are the only reason stock is wo (I've argued this point in other threads and don't want to go over it again here, other tha still think so... and so does Jeremy Siegel).

But someone who buys stock in company X that pays no **dividends** is not necessarily bei or foolish. It all depends on the company. She is taking higher risk in order to get higher choice of "pay me now or pay me later." She believes that company X knows how to proc future wealth, grow faster, pay more **dividends** in future when it eventually pays them, companies. Therefore she is willing to be paid later. She prefers to leave their **dividends** X management to reinvest, so that company X can build a new plant or hire more people because she's confident that company X management can earn more with her money tha out in **dividends** and reinvested it somewhere else. But there have to be **dividends** *son*

The other obvious point is that a lot of this is legacy thinking from the old days. Back ther decisions about them were *granular*. You bought individual stocks, preferably in lots of 10 cost a hundred dollars or so in commissions, so you tried not to do it very often, and "odc transactions had nasty expenses hidden in the bid/asked spread, so you tried not to buy c 100 shares at a time. There was no convenient or inexpensive way to get a steady incom steadily selling small numbers of shares.

I think that's one of the reasons people thought of stock investments as the province of th wealth. The normal unit of transaction was 100 shares of stock, maybe $5,000--maybe th of $20,000 today. If you wanted to have a dozen stocks for diversification, 100 shares ea the equivalent of about a quarter of a million dollars today. Even 100 shares was too sma commission would take a 2% nibble every time you bought or sold. *Very* different from p month into an S&P 500 fund in a 401(k), and being diversified from the word go.

And, to get steady income out of stocks there were really only two choices: zero (i.e. divi reinvestment plan if available), or all of the **dividends**, whatever they were. Having the paid out was the only way to receive a small steady dribble of income from a stock.

Obviously, then, if you needed regular income, the only way to fine-tune the relationship payout and reinvestment was to choose stocks on the basis of how much **dividends** they Hence "growth" stocks versus "income" stocks.

All this is moot today, when you can buy or sell mutual funds at a mutual fund company i dollar amount, no matter how small. So it is perfectly possible *today* to buy a mutual fun pay almost no **dividends**, but still tell Vanguard to send you a check for $100.00 every n whatever fractional number of shares is needed to make up that much. Conversely, you c mutual fund of high-dividend-paying stocks--and tell Vanguard to reinvest all the **dividen**

So, the old and important distinction between low- and high-dividend stocks, that you use amount of income you received because that was really the only way to do it, is gone.

In theory, if company X and company Y were equal in all ways except **dividends**, then if all **dividends** the value of your holdings in both companies ought to grow at the same ra

So, what we're left with is a bunch of loose and debatable theories about how dividend pa correlate with future performance. Perhaps the no-dividend-paying company will use mor have gone into **dividends** to do wonderful things that will result in far higher **dividends** than if they had paid them now. Or perhaps they will just waste that money.

____
Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happ income twenty pounds, annual expenditure twenty pounds ought and six, result misery.

Last edited by nisiprius on Tue Dec 01, 2009 7:17 pm; edited 3 times in total

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DiscoBunny1979

Joined: 21 Oct 2007
Posts: 805

Posted: Tue Dec 01, 2009 7:09 pm Post subject:

> **eurowizard wrote:**
>
> > **DiscoBunny1979 wrote:**
> >
> > In today's environment when CD pay only 2%, one can invest in great companies that are paying 4% or 5% in **dividends**.
>
> You can get a 20% yield on a C rated corporate bond. I don't see how comparing a FDIC insured CD is the same as a dividend paying stock, that may go completely ba or may cut the dividend entirely.

> You could always buy a stock that doesnt pay **dividends** and sell 5% of it every ye
> the same effect. Use something like a Wells Fargo PMA account and do it commissic

----

Yes, and if the FDIC ever goes bankrupt, you may loose everything in your CD if the banl
is guaranteed 100%. ....

What I'm saying is that I want to take the risk with a stock. I want to see stock appreciat
years and I want to reinvest those **dividends** for more shares of stock. I'm not saying a
same risk . . . what I am saying is that the reward I'm looking for in the stock I hold is be
reward of owning a CD for me.

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stevewolfe

Joined: 10 Oct 2008
Posts: 220

Posted: Tue Dec 01, 2009 7:12 pm Post subject:

usnaron wrote:

> **eurowizard wrote:**
>
> > **DiscoBunny1979 wrote:**
> >
> > > In today's environment when CD pay only 2%, one can invest in great companies that are paying 4% or 5% in **dividends**.
> >
> > You can get a 20% yield on a C rated corporate bond. I don't see how compar
> > a risk-free FDIC insured CD is the same as a dividend paying stock, that may
> > completely bankrupt, or may cut the dividend entirely.
> >
> > You could always buy a stock that doesnt pay **dividends** and sell 5% of it eve
> > year for the same effect. Use something like a Wells Fargo PMA account and d
> > commission free.
>
> DiscoBunny: Exactly! You missed the point. The great companies are paying you 4-
> your money. No money earned or lost. When a stock does a reverse stock split, yo
> make 100% profit.

So WHICH are those great companies I can invest in for a 4-5% return <u>with no gain or los</u>

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DiscoBunny1979

Joined: 21 Oct 2007
Posts: 805

Posted: Tue Dec 01, 2009 7:16 pm Post subject:

usnaron wrote:

> **eurowizard wrote:**

> > **DiscoBunny1979 wrote:**
> >
> > In today's environment when CD pay only 2%, one can invest in great companies that are paying 4% or 5% in **dividends**.
>
> You can get a 20% yield on a C rated corporate bond. I don't see how compar a risk-free FDIC insured CD is the same as a dividend paying stock, that may completely bankrupt, or may cut the dividend entirely.
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> You could always buy a stock that doesnt pay **dividends** and sell 5% of it eve year for the same effect. Use something like a Wells Fargo PMA account and d commission free.

> DiscoBunny: Exactly! You missed the point. The great companies are paying you 4- your money. No money earned or lost. When a stock does a reverse stock split, yo make 100% profit.

------

that is not quite true. A company pays for **dividends** out of their income, or if they have income, they borrow. The stock price might reflect the payout on the day the payout is m we all know stock prices are elastic. . . they go up and down. For instance COP paid a div about 8/26/2009 to shareholders at a reinvested price of 45.2189 if you participated in th program. Today, COP trades at 52.26. Where is the no money earned or lost? The stock one day and then trading resumes based on news. So, in an up market I benefit from the stock price of 45.2189 and now have a 15.5% gain in those reinvested shares in just 3 m like a deal to me.

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profile pm

GRT2BOUTDOORS

Joined: 05 Apr 2007
Posts: 532
Location: New York

Posted: Tue Dec 01, 2009 7:21 pm Post subject:

> **neverknow wrote:**
>
> I have a very good teacher in my husband, a retired CEO type of mid size Internationa engineering companies. And this stuff is very complicated.
>
> What all might a company do with their profits?
>
> Buffet doesn't want **dividends** because of the number of shares he owns he would hav taxes on a bunch of **dividends**. Why should he ask for paying more taxes? **Even Buffe doesn't do that.**
>
> neverknow

Curiously enough, he doesn't pay **dividends** out on BRK.A or B shares and yet, if you loo reports most of the investments in public companies pay **dividends**. I suspect he uses th **dividends** some of which are substantial to make investments in other securities.

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eurowizard

Joined: 10 May 2008
Posts: 941

Posted: Tue Dec 01, 2009 7:23 pm Post subject:

> **nisiprius wrote:**
> Just to repeat... this does not have much to do with stock selection... but **dividends** ar
> fundamental sense the whole point of owning stock. They are the only reason stock is w
> anything.

If this is true, then why is Berkshire Hathaway with 0 dividend trading at over $100k per

A stock's worth is based on the underlying value of the company and future earnings pote
are stock-valuation models based on dividend growth in perpetuity but they are not accur

> **DiscoBunny1979 wrote:**
> Yes, and if the FDIC ever goes bankrupt, you may loose everything in your CD if the ba
> Nothing is guaranteed 100%. ....

The FDIC is backed by the full faith of the US Government which is considered risk-free as
bonds.

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roamin survivor

Joined: 20 Nov 2009
Posts: 4

Posted: Tue Dec 01, 2009 7:42 pm Post subject:

Isn't this how the Magic of Compounding™ is supposed to work for mutual funds and stock
from the stocks that make up the funds are re-invested back?

Otherwise, it seems to get compounding, one whould have to sell high and buy low consta

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fishnskiguy
Moderator

Joined: 27 Feb 2007
Posts: 973
Location: Eagle, CO

Posted: Tue Dec 01, 2009 7:46 pm Post subject:

Total return folks, total return. **That's all that matters**.

Where is the beautifully eloquent Ozark when we need him?

Chris

____
Trident D-5 SLBM- "When you care enough to send the very best."

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dumbmoney

Joined: 16 Mar 2008
Posts: 1373

Posted: Tue Dec 01, 2009 8:02 pm Post subject:

> **nisiprius wrote:**
> Just to repeat... this does not have much to do with stock selection... but **dividends** ar
> fundamental sense the whole point of owning stock. They are the only reason stock is w
> anything. (I've argued this point in other threads and don't want to go over it again he
> than to say that I still think so... and so does Jeremy Siegel).

Suppose **dividends** were taxed at a 100% rate for all investors, effectively banning them assume that everyone believed this would be a permenant condition.

Would the stock market crash to zero? I would say no. Indeed, it should have little effect would still represent an ownership claim, and if these claims were priced below fair value companies could be taken private and the value unlocked that way.

So I disagree with Siegel, if we use the common everyday definitions of "stock" and "**divi** (economists may have a more flexible definition which makes the statement true).

____
I am pleased to report that the invisible forces of destruction have been unmasked, mark point chapter when the fraudulent and speculative winds are cast into the inferno of extin

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eurowizard

Joined: 10 May 2008
Posts: 941

Posted: Tue Dec 01, 2009 8:19 pm Post subject:

> **roamin survivor wrote:**
>
> Isn't this how the Magic of Compounding™ is supposed to work for mutual funds and s **Dividends** from the stocks that make up the funds are re-invested back?
>
> Otherwise, it seems to get compounding, one whould have to sell high and buy low cor

If you reinvest **dividends** into the same fund or stock then you effectively are taking a ta the **dividends** with no net value gain for you.

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Stipachio

Joined: 04 Oct 2008
Posts: 7

Posted: Tue Dec 01, 2009 8:20 pm Post subject:

> **nisiprius wrote:**
>
> But someone who buys stock in company X that pays no **dividends** is not necessarily l either wise or foolish. It all depends on the company. She is taking higher risk in order higher reward. It's a choice of "pay me now or pay me later." She believes that compa knows how to produce more future wealth, grow faster, pay more **dividends** in future eventually pays them, than other companies. Therefore she is willing to be paid later. S prefers to leave their **dividends** with company X management to reinvest, so that com can build a new plant or hire more people or whatever, because she's confident that co management can earn more with her money than if she took it out in **dividends** and re it somewhere else. But there have to be **dividends** *someday*!

I agree that it seems like **dividends** should be the whole point in owning stocks, but it ce seem like that's the case in reality. In reality, it's worth owning anything you think someo willing to pay more for later.

I don't think most people are thinking about whether or not a non-dividend-paying-stock pay a dividend when they buy one.

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tetractys

Joined: 17 Mar 2007
Posts: 1898
Location: Salish Sea Region

Posted: Tue Dec 01, 2009 8:45 pm Post subject: Re: What is so great about dividends? Alot of misinformatio

> **eurowizard wrote:**
> The price of a stock is based on the underlying enterprise value of the company. To illu
> my point, imagine a company that is worth $1000 and has 100 shares worth $10 each.

Of course this is only true sometimes. Often right after a dividend is paid the stock price c
to that immediately previous to the dividend. And further, index funds behave the same v
similar behavior to the underlying stocks. Further, even if only intermittent, this behavior
the whole idea that "the price of a stock is based [entirely] on the underlying enterprise v
company."

Personally I feel cash on the barrel head is just fine. Also, it's naive to believe that what's
company is best for all. Every shop, even within sectors and sub-sectors, is different.

Best regards, Tet

____
LINK TO WIKI

profile pm

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nisiprius

Joined: 26 Jul 2007
Posts: 7405
Location: North America; Western Hemisphere; the Earth; the Solar System; the Universe; the Mind of God

Posted: Tue Dec 01, 2009 8:49 pm Post subject:

> **Stipachio wrote:**
> In reality, it's worth owning anything you think someone will be willing to pay more for

That's the "greater fool theory," the driving force behind bubbles.

> **eurowizard wrote:**
>> **nisiprius wrote:**
>> Just to repeat... this does not have much to do with stock selection... but **divider**
>> are in a fundamental sense the whole point of owning stock. They are the only
>> reason stock is worth anything.
>
> If this is true, then why is Berkshire Hathaway with 0 dividend trading at over $100
> share?

Because people think it will pay big **dividends** someday. Sooner or later every company
growth stage and enters a mature stage, and at that point the shareholders insist on **divi**

With various unusual exceptions pointed out to me in other threads, **dividends** are the o
dollar value you receive from a company's stock. It is all very well saying that a stock is a
company's assets, but that's, dare I say it, propaganda, because there's no way you can
value directly. It's not meaningful. It's no more meaningful than the scene in *Mary Poppin*
Messrs. Dawes & al. explain to Michael that his tuppence deposit will make him

> **Quote:**
> ...part of
> Railways through Africa
> Dams across the Nile
> Fleets of ocean greyhounds
> Majestic, self-amortizing canals
> Plantations of ripening tea
>
> All from tuppence...

Your only direct interaction is by voting your shares and by drawing your **dividends**... fo voting for a dividend increase.

____
Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happ
income twenty pounds, annual expenditure twenty pounds ought and six, result misery.

Last edited by nisiprius on Tue Dec 01, 2009 9:01 pm; edited 3 times in total

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profile pm

Snowjob

Joined: 28 Jun 2009
Posts: 53

Posted: Tue Dec 01, 2009 8:59 pm Post subject:

I'm squarely in the dividend camp. Historically they have accounted for a huge percentag the market. I dont know if the market will head up or down and I doubt my ability to sell opportune time. Relying on a dividend to capture a large share of my "potential total retu forgive my inability to accurately forecast price movements.
Additionally in the current environment, if you want to take additional risk you can borrov play the spread game.

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profile pm

Jack

Joined: 27 Feb 2007
Posts: 1133

Posted: Tue Dec 01, 2009 9:06 pm Post subject:

> **Petrocelli wrote:**
> This is the opinion of a guy who admits he doesn't know jack.

Hi, Petro. Nice to meet you.

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profile pm

neverknow

Joined: 05 Jun 2009
Posts: 891

Posted: Tue Dec 01, 2009 9:07 pm Post subject:

> **GRT2BOUTDOORS wrote:**
>
> > **neverknow wrote:**
> > I have a very good teacher in my husband, a retired CEO type of mid size International engineering companies. And this stuff is very complicated.
> >
> > What all might a company do with their profits?
> >
> > Buffet doesn't want **dividends** because of the number of shares he owns he woul have to pay taxes on a bunch of **dividends**. Why should he ask for paying more taxes? **Even Buffet doesn't do that.**
> >
> > neverknow
>
> Curiously enough, he doesn't pay **dividends** out on BRK.A or B shares and yet, if y at his annual reports most of the investments in public companies pay **dividends**. he uses those **dividends** some of which are substantial to make investments in oth securities.

Yes, this is what we think also. He is growing Berkshire Hathaway. And not having to pay **dividends** out of all the shares he owns. The very definition of tax efficient for Mr Buffet

for myself -- he holds a bunch of value companies - no dividend, no investment from me considering risk of the founding father getting old. Berkshire Hathaway is essentially a ve conglomerate, that also invests in other companies.
neverknow

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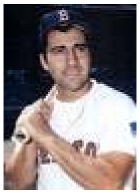
Petrocelli



Joined: 19 Feb 2007
Posts: 1555
Location: Fenway Park, between 2nd and 3rd base

Posted: Tue Dec 01, 2009 9:11 pm   Post subject:

> **Jack wrote:**
>
> > **Petrocelli wrote:**
> >
> > This is the opinion of a guy who admits he doesn't know jack.
>
> Hi, Petro. Nice to meet you.

I guess now I know Jack.

____
Petrocelli (not the real Rico, but just a fan)

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LH

Joined: 14 Mar 2007
Posts: 2216

Posted: Tue Dec 01, 2009 9:19 pm   Post subject:

> **mudfud wrote:**
>
> You are not the first to be flummoxed by this.
>
> For some more depth, you could look at Fisher Black's classic article on the "Dividend F (this is the Black of the Black-Scholes equation. Scholes won the Nobel in 1997, but Bl recently passed away, and Nobels are not awarded posthumously).
>
> **Black, Fischer. "The Dividend Puzzle." Journal of Portfolio Management, 2 (197 58.**
> http://books.google.com/books?....w#PPA10,M1
>
> Another good reference is from the Nobel laureates Merton H. Miller and Franco Modigli
>
> **Merton H. Miller and Franco Modigliani. "Dividend Policy, Growth, and the Valu Shares"**
> Journal of Business, October 1961, volume 34, page 411-433
> http://www.journals.uchicago.e....086/294442
>
> A classic paper, surprisingly readable. Highly recommended.
>
> "For investors, however naive they may be when they enter the market, do sometimes from experience; and perhaps, occasionally, even from reading articles such as this". (

Dividend Policy, Growth, and the Valuation of Shares
http://www.bilgehanyazici.com/....cy1963.pdf

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alec

Posted: Tue Dec 01, 2009 9:41 pm   Post subject:

Joined: 02 Mar 2007

Posts: 1190

Snowjob wrote:

> I'm squarely in the dividend camp. Historically they have accounted for a huge percent gains in the market. I dont know if the market will head up or down and I doubt my ab sell at the most opportune time. Relying on a dividend to capture a large share of my " total return" helps forgive my inability to accurately forecast price movements.
> Additionally in the current environment, if you want to take additional risk you can bor cheap and play the spread game.

The other huge percentage of market return is earnings growth. See my Roger Ibbotson this conversation:

Quote:

> **Roger Ibbotson**: ...the dividend model is only deceptively simple. This is because it i assumes a constant payout ratio and explicitly ignores another important "moving part contrast, the earnings model explicitly takes into account the payout ratio, which, as w know, has been in a long-term secular decline. By using today's low dividend yield and ratios, Rob's dividend model ignores the extra earnings retention as a source of future growth. This violates the basic Miller and Modigliani dividend proposition for which they Nobel prizes....
>
> ...Investors receive their payouts through **dividends**, share repurchases, and buyouts activity) from other corporations. Since there are so many other ways for investors to g cash out of corporations, dividend yields have little meaning today....
>
> ...I disagree that history refutes Miller and Modigliani. For example, payout ratios were relatively low in the 1990s, and growth was very high. Payout ratios are now at an all-t and they will likely never return to historical levels, except during recessions when earn temporarily drop. Corporations no longer need to pay out their returns as **dividends**, s their taxable investors to an extra layer of taxation.

____
"You will never correct by logic a man's error, if that error did not get into his mind by log Twain

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Beagler

Joined: 21 Dec 2008
Posts: 913

Posted: Tue Dec 01, 2009 9:49 pm Post subject:

In the words of Mr. Bogle:

(from *Bogle on Mutual Fund*s by John C. Bogle, pages 34-36)

"Many investors do not give much thought to income generation until after they reach ret they seek not only a reasonable level of income, but income that tends to increase steadi Of our three asset classes, only common stocks - by growing their **dividends** - can delive objective. Of course, by investing in common stocks you assume the risk that **dividends** during periods of recession or depression - sharply, as during the early 1930s, or more m from 1941 to 1943.

What is truly remarkable is that the record of dividend payments by U.S. corporations he rising **dividends** over declining **dividends**, almost irrespective of prevailing business co the 1926-92 base period, annual **dividends** increased in 57 years, declined moderately (in four years, and declined by more than 10% in another five years. In one year, **divide** unchanged. On average, **dividends** increased at an annual rate of +4.5% since 1926, nic the inflation rate of 3.1%, resulting in real income growth of +1.4% per year."

http://tinyurl.com/p4fgt

____
beagler
"Complexity doesn't add returns or reduce risk. (Diversification does.) And simplicity doe: returns or reduce risk. Portfolio construction of the right kind does." Larry Swedroe

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Beagler

Joined: 21 Dec 2008
Posts: 913

Posted: Tue Dec 01, 2009 9:50 pm Post subject:

duplicate

____
beagler
"Complexity doesn't add returns or reduce risk. (Diversification does.) And simplicity doe: returns or reduce risk. Portfolio construction of the right kind does." Larry Swedroe

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Snowjob

Joined: 28 Jun 2009
Posts: 53

Posted: Tue Dec 01, 2009 9:53 pm Post subject:

alec wrote:

> **Snowjob wrote:**
>
> > I'm squarely in the dividend camp. Historically they have accounted for a huge percentage of gains in the market. I dont know if the market will head up or dow and I doubt my ability to sell at the most opportune time. Relying on a dividend capture a large share of my "potential total return" helps forgive my inability to accurately forecast price movements.
> > Additionally in the current environment, if you want to take additional risk you ca borrow cheap and play the spread game.
>
> The other huge percentage of market return is earnings growth. See my Roger Ibb quote from this conversation:
>
> **Quote:**
>
> > **Roger Ibbotson**: ...the dividend model is only deceptively simple. This is becau: it implicitly assumes a constant payout ratio and explicitly ignores another important "moving part." In contrast, the earnings model explicitly takes into account the payout ratio, which, as we all know, has been in a long-term secular decline. By using today's low dividend yield and payout ratios, Rob's dividend mc ignores the extra earnings retention as a source of future earnings growth. This violates the basic Miller and Modigliani dividend proposition for which they won Nobel prizes....
> >
> > ...Investors receive their payouts through **dividends**, share repurchases, and buyouts (M&A activity) from other corporations. Since there are so many other wa for investors to get their cash out of corporations, dividend yields have little meaning today....
> >
> > ...I disagree that history refutes Miller and Modigliani. For example, payout ratios were relatively low in the 1990s, and growth was very high. Payout ratios are nov an all-time low, and they will likely never return to historical levels, except during recessions when earnings temporarily drop. Corporations no longer need to pay o their returns as **dividends**, subjecting their taxable investors to an extra layer of taxation.

Earnings growth, should the economy recover in the near term, would be icing on the cak
fed can keep rates low for another year or two I'd be in heaven!

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profile pm

fishnskiguy
Moderator

Joined: 27 Feb 2007
Posts: 973
Location: Eagle, CO

Posted: Tue Dec 01, 2009 9:56 pm Post subject:

So some Dude drills for oil in Pennsylvania in 1880 and finds same. Sells the oil and uses profit to buy new drill rigs.

Rinse and repeat.

Goes public in 1920. Somebitch, the company sells for a thousand times what the first rig that be? The company never paid a dime in **dividends**!

Keeps drilling, keeps plowing every dime into rigs, geologists and exploration.

Sells out to Standard Oil of New Jersey for 100,000 times the IPO in 1950. Aren't you glac that stupid non-dividend paying stock?

Chris

____
Trident D-5 SLBM- "When you care enough to send the very best."

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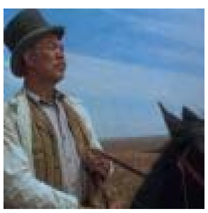
profile pm

wbond



Joined: 10 Dec 2008
Posts: 399

Posted: Tue Dec 01, 2009 10:00 pm Post subject:

> **alec wrote:**
> The other huge percentage of market return is earnings growth. See my Roger Ibbotso from this conversation:
>
> > **Quote:**
> > **Roger Ibbotson**: ...the dividend model is only deceptively simple. This is becau: it implicitly assumes a constant payout ratio and explicitly ignores another important "moving part." In contrast, the earnings model explicitly takes into account the payout ratio, which, as we all know, has been in a long-term secular decline. By using today's low dividend yield and payout ratios, Rob's dividend mc ignores the extra earnings retention as a source of future earnings growth. This violates the basic Miller and Modigliani dividend proposition for which they won Nobel prizes....
> >
> > ...Investors receive their payouts through **dividends**, share repurchases, and buyouts (M&A activity) from other corporations. Since there are so many other wa for investors to get their cash out of corporations, dividend yields have little meaning today....
> >
> > ...I disagree that history refutes Miller and Modigliani. For example, payout ratios were relatively low in the 1990s, and growth was very high. Payout ratios are nov an all-time low, and they will likely never return to historical levels, except durinc recessions when earnings temporarily drop. Corporations no longer need to pay o their returns as **dividends**, subjecting their taxable investors to an extra layer of taxation.

Yes, but that Ibbotson quote is bizarre - the "growth" in the 1990's was the greatest bubb
and unsustained!

Here's a simple challenge:

For the long-term, diversified holder of equities, total return=
Dividend yield + earnings growth/share +change in valuation.

Earnings growth/share of publicly traded companies has averaged 1.3%/year real as com
1.8%/year real for GDP growth per capita, and is fundamentally linked to that number, n
Earnings growth/share is thought to be lower than GDP growth/capita due to share dilutio
that some/much of GDP growth is in entrepreneurial private companies.

The arithmetic is very easy for the market as a whole (as opposed to individual companie
return of equities to remain the same with a lower dividend yield and identical P/E ratio t
seen historically then earnings growth/share must rise through buybacks – the opposite o
this happened in the era of lower dividend yields? Have earnings growth/share met or ex
of GDP/capita? The answer is no.

(I suppose I cannot rule out also the possibility that GDP/capita itself might grow faster w
horribly inefficient **dividends**. Of course, that hasn't occurred either).

I would be happy to be corrected on this, but until someone produces data that this – ear
growth/share meeting or exceeding GDP growth/capita - has happened in the era when **d**
have fallen then no one should buy the argument that you can have the same total returr
dividends.

(Again, I am referring to the market, not individual companies – the plural of anecdote n

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MrMatt2532

Joined: 15 Mar 2009
Posts: 210

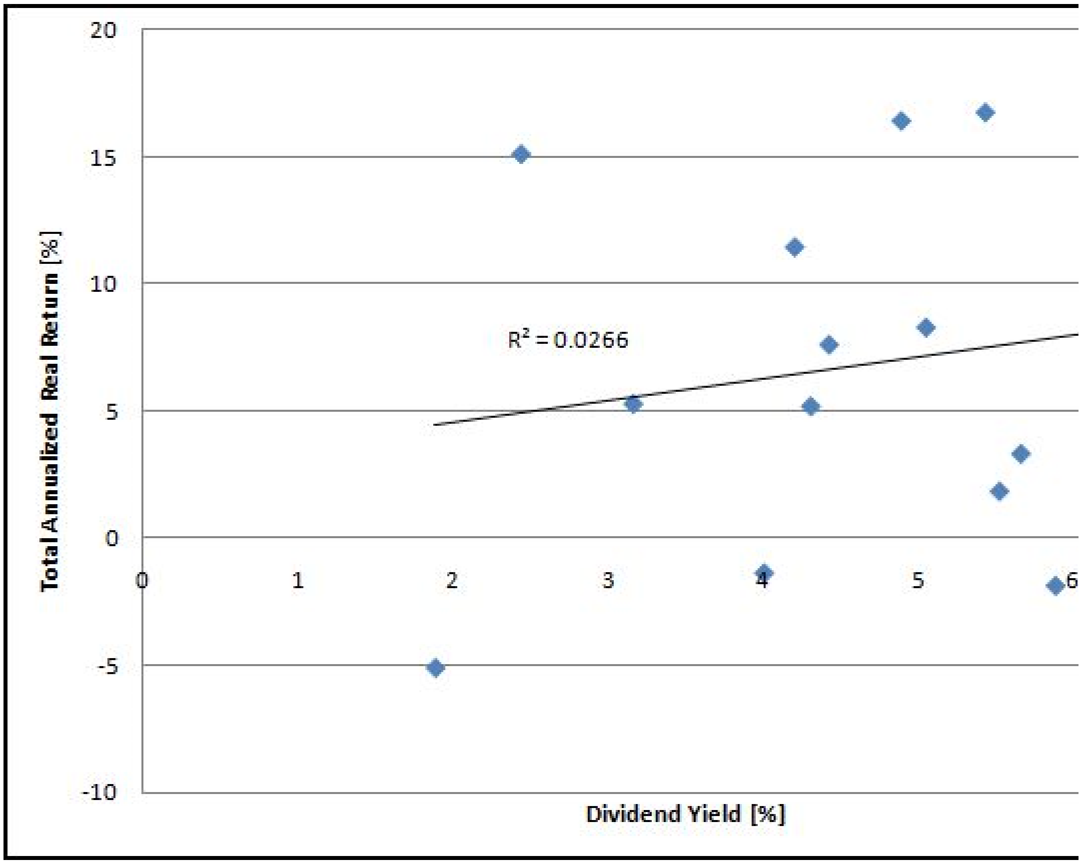
Posted: Tue Dec 01, 2009 10:07 pm Post subject:

> **Snowjob wrote:**
> I'm squarely in the dividend camp. Historically they have accounted for a huge percent
> gains in the market. I dont know if the market will head up or down and I doubt my ab
> sell at the most opportune time. Relying on a dividend to capture a large share of my "
> total return" helps forgive my inability to accurately forecast price movements.
> Additionally in the current environment, if you want to take additional risk you can bor
> cheap and play the spread game.

Sure, but that doesn't mean that the non-dividend stocks would have had a total return o
paying stocks minus the **dividends**.

In actuality, the TOTAL return would be very similar for dividend stocks compared to the
stocks, and any difference in returns can mostly be explained by factor loading.

I once made a chart to demonstrate that there is very low correlation between TOTAL ret
dividend yield. Some of you may find this interesting. I took the total annualized return a
average dividend yield for each decade starting for the 1870s and up to the 2000s from r
data:



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profile pm

Gekko

Joined: 11 May 2007
Posts: 3039
Location: USA

Posted: Tue Dec 01, 2009 10:13 pm   Post subject:

"I have a couple of ideas. I am thinking of expanding a speech I gave at Princeton five ye "Don't Count on It: The Perils of Numeracy." It gets into this reliance we have on number concerned that we've moved to a society where everything can be counted and nothing c We think earnings produced by corporations are the gospel truth, but they are anything b Earnings are whatever they are, but **dividends** are reality." - John Bogle

"The prime purpose of a business corporation is to pay **dividends** to its owners. A succes is one that can pay **dividends** regularly and presumably increase the rate as time goes c Graham, David Dodd - Security Analysis

Q: Tell us why **dividends** are important.
A: In 1995 I said, "**Dividends** don't matter." I've been eating those words ever since. I a reinvestments [the cash that companies put back into the business instead of paying out a would earn the same rate of return. I was wrong. Managements are more careful when t floating in cash.
Q: Hugh Liedtke, the former CEO of Pennzoil, used to joke that he believed in the "bladde Companies pay **dividends** so that management can't piss all the money away.
A: It's hard to improve on that. In the 1960s, in "A Modest Proposal," I suggested that co should be required to pay out 100% of their net income as cash **dividends**. If companies money to reinvest in their operations, then they would have to get investors to buy new c stock. Investors would do that only if they were happy both with the **dividends** they'd re future prospects of the company. Markets as a whole know more than any individual or g individuals. So the best way to allocate capital is to let the market do it, rather than the r

of each company. The reinvestment of profits has to be submitted to the test of the mark
want it to be done right. – John Mauldin

"Peter Minuit, Governor of the Dutch West India Company, purchased the island of Manha
from the Manhattan Indians. For this land, he paid $ 24 worth of cloth, beads and trinkets
tout this real estate deal as a disgraceful example of how the European immigrants took a
the Native Americans. Minuit is considered to have stolen the property from the native pe
didn't have an understanding of the island's real value. Perhaps, he did. If, however, the
Indians had invested the proceeds of the land sale in enterprises that appreciated at an a
compound rate of 8%, their holdings would be worth $ 75,979,380,000,000 - $ 76 trillion.
now have had enough money to buy back Manhattan, and then buy with the change Toky
of the companies in the S&P500. But had the Manhattan Indians failed to reinvest just 2%
portfolio would have been worth only about $ 44 billion ($ 43,869,010,000). Squandering
would have cost more than $ 75 trillion." - "The Dividend Investor" by Harvey C. Knowles
Damon H. Petty

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profile pm

pkcrafter

Joined: 04 Mar 2007
Posts: 2400
Location: CA

Posted: Tue Dec 01, 2009 10:31 pm Post subject: dividends

I frequently suggest to retirees that they hold a fund that pays decent **dividends**. That w
basically a large value fund. Too bad S&P **dividends** are now around 2% when they usec
that.

The big debate on **dividends** is with retirees, many of whom believe it's somehow bette
high **dividends** (can only come from companies of lower quality) than to reinvest and sir
the same amount from shares. It not only does not make sense, but the investor who rei
dividends allows the dividend to add to appreciation. Advocates of income investing nev
realize they are limiting the growth potential of the fund. Taking the dividend also elimina
of choosing the optimal asset class to make withdrawals.

fishnskiguy, you've got a good memory. Who can forget the great Ozark and his frustrati
Lobo.

Paul

____

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profile pm www

eurowizard

Joined: 10 May 2008
Posts: 941

Posted: Tue Dec 01, 2009 10:38 pm Post subject:

> **fishnskiguy wrote:**
>
> So some Dude drills for oil in Pennsylvania in 1880 and finds same. Sells the oil and us
> penny of profit to buy new drill rigs.
>
> Rinse and repeat.
>
> Goes public in 1920. Somebitch, the company sells for a thousand times what the first
> How can that be? The company never paid a dime in **dividends**!

If he paid **dividends** instead of reinvesting to buy new drill rigs then his stock would be v substantially less. If he paid out even half of his profits on **dividends**, then his stock wou substantially less.

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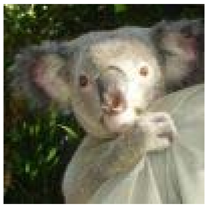
Ron



Joined: 23 Feb 2007
Posts: 2968
Location: Lehigh Valley, PA

Posted: Tue Dec 01, 2009 10:45 pm   Post subject: Re: dividends

> **pkcrafter wrote:**
> The big debate on **dividends** is with retirees, many of whom believe it's somehow bett receive high **dividends**...

Guess I'm one of the exceptions, then. I'm retired, reinvest all distributions, and sell the fund when it meets my personal sell criteria.

No different than when I was in the accumulation stage.

- Ron

____
7AF, 377 CSG, Tan Son Nhut, Vietnam 68-69...

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profile pm www

Gekko

Joined: 11 May 2007
Posts: 3039
Location: USA

Posted: Tue Dec 01, 2009 10:46 pm   Post subject:

i think a nice steady stream of stock fund **dividends** would be nice to have in retirement your cash and bond yields.

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profile pm

grabiner

Joined: 20 Feb 2007
Posts: 2975
Location: Columbia, MD

Posted: Tue Dec 01, 2009 10:48 pm   Post subject: Re: What is so great about dividends? Alot of misinformatio

> **tetractys wrote:**
>
> > **eurowizard wrote:**
> > The price of a stock is based on the underlying enterprise value of the company. T illustrate my point, imagine a company that is worth $1000 and has 100 shares worth $10 each.
>
> Of course this is only true sometimes. Often right after a dividend is paid the stock quickly returns to that immediately previous to the dividend.

Market fluctuations may move stocks up or down, but the expected loss on the dividend c the dividend. If a stock is trading at $20 a share and pays a dividend of $1 a share tomor be expected to be worth $19 a share tomorrow; if tomorrow's expected value were $19.5

investors who were aware of this would bid the price up to $20.50 as they could get a fre
lower price.

It also makes economic sense. If this company has one million shares outstanding and $3
then after it pays out the dividend, it will have only $2M in cash, so the company should b
less, which is $1 less per share.

> **Quote:**
>
> And further, index funds behave the same way, reflecting similar behavior to the unde
> stocks.

The mutual fund does not pay the dividend on the same day the stock pays it, so there is
expect any relationship other than the payout. If a mutual fund has a million shares outst
has $20M in assets, then its share price is $20. If it pays out $1 a share in distributions, th
has only $19M in assets, so its price must drop to $19 a share (and may then go up or do
on what the market does).

____

David Grabiner

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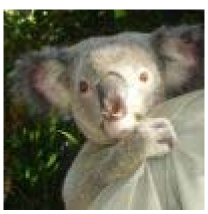
Ron



Joined: 23 Feb 2007
Posts: 2968
Location: Lehigh Valley, PA

Posted: Tue Dec 01, 2009 10:53 pm   Post subject:

> **Gekko wrote:**
>
> i think a nice steady stream of stock fund **dividends** would be nice to have in retireme
> addition to your cash and bond yields.

Well, that's why I (for one, along with my wife) have a cash bucket with a 3-5 year targe
withdrawals for taxes) to keep me sleeping at night in retirement.

I'm like the old farmer. When the harvest is good, I fill the "silo" (cash bucket) by selling
the harvest is bad, I just let the crop (e.g. funds) in the field (plow it under to use as ferti
from the silo ...

Nothing fancy at all...

- Ron

____

7AF, 377 CSG, Tan Son Nhut, Vietnam 68-69...

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Gekko

Posted: Tue Dec 01, 2009 11:00 pm   Post subject:

> **Ron wrote:**
>
> > **Gekko wrote:**
> >
> > i think a nice steady stream of stock fund **dividends** would be nice to have in
> > retirement in addition to your cash and bond yields.

Joined: 11 May 2007
Posts: 3039
Location: USA

> Well, that's why I (for one, along with my wife) have a cash bucket with a 3-5 year
> (includes withdrawals for taxes) to keep me sleeping at night in retirement.
>
> I'm like the old farmer. When the harvest is good, I fill the "silo" (cash bucket). Wh
> harvest is bad, I just let the crop in the field (plow it under to use as fertilizer) and
> from the silo ...
>
> Nothing fancy at all...
>
> - Ron

i agree - but i think it's also nice to have a steady stream of stock **dividends** coming you
get the best of both worlds - diversified long term growth appreciation of the stock fund N
stream of tax-advantaged dividend income to either spend to live on OR just reinvest if y
it that particular month.

the beauty of a fund like VFINX/VFIAX is that it pulls double duty.

yields
money markets = .25%
high yield savings = 1.55%
muni bond = 4.5% tax free
stock **dividends** = 2%

i'm still relatively young, but i'm building my muni bond fund and my index 500 fund and
yields/**dividends** now but someday plan on drinking from that revenue stream to live on

i wouldn't want to be a retiree trying to live on .25% money market yield. yield risk is ug

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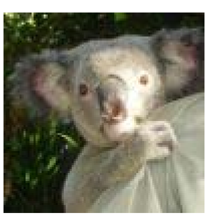
profile pm

Ron



Joined: 23 Feb 2007
Posts: 2968
Location: Lehigh Valley, PA

Posted: Tue Dec 01, 2009 11:08 pm Post subject:

> **Gekko wrote:**
> i wouldn't want to be a retiree trying to live on .25% money market yield. yield risk is

In my case, I look at my "cash bucket" (held in tax deferred MM accounts) as a "safe" - y
any return on money held in one of those things, either if you have one in your home

It's simply a place that I know that I can go to regardless of market conditions to get my
retirement income in order to live the way, and in the manner I wish. It is not a place tha
for any specific returns; that's why the rest of my/wife's portfolio holdings do the "heavy
funding.

You may be young (I was once, also). However once I was actually retired (rather th
thinking/planning about it), you find that things are not exactly how you planned and you

re-plan to make it work for you.

This works for us; that's all that matters ... If you find some value in my words, great ok also (just don't debate me)...

- Ron

____
7AF, 377 CSG, Tan Son Nhut, Vietnam 68-69...

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fishnskiguy
Moderator

Joined: 27 Feb 2007
Posts: 973
Location: Eagle, CO

Posted: Tue Dec 01, 2009 11:10 pm Post subject: Re: dividends

> **pkcrafter wrote:**
>
> fishnskiguy, you've got a good memory. Who can forget the great Ozark and his frustra
> El Lobo.
>
> Paul

I darn sure can't! It was one for the history books.

chris

____
Trident D-5 SLBM- "When you care enough to send the very best."

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Gekko

Joined: 11 May 2007
Posts: 3039
Location: USA

Posted: Tue Dec 01, 2009 11:18 pm Post subject:

i want to build a diversified growth and income portfolio where i never have to touch prin need to. i am trying to accomplish this by a basic mix of cash, bond, and stock funds. i an looking at how much this allocation will kick off to me in net tax income and i ask myself this without touching principal? net tax income is not my primary objective - but it is an o

if you can build an engine that grows and will kick off enough income for life and you neve into principal, you are virtually financially bulletproof IMO (assuming no catastrophic ever such as crazy inflation or health care costs).

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Harold

Joined: 03 Mar 2007
Posts: 898
Location: San Francisco

Posted: Tue Dec 01, 2009 11:39 pm Post subject:

> **nisiprius wrote:**
>
> **dividends** are in a fundamental sense the whole point of owning stock. They are the o
> reason stock is worth anything

Remarkable to me how resistant folks are to seeing this.

I wonder if those same folks would hand over their money if presented with an opportuni shares in an IPO of an enterprise generating truly massive earnings, and guaranteed to d

rest of their lifetimes. The only catch being that the 18 year old wunderkind owner is reta
the company, and clearly states upfront that he's never handing over a dime to the share

In effect, the shareholders would be just giving their money away. Maybe some greater f
would buy the shares for more (maybe in hopes that the owner will die and descendants
some cash or sell the company or whatever). But the true value in the shares would com
prospect of eventually, somehow, getting money returned to them (preferably with a ret
commensurate with the risk).

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xerty24

Joined: 15 May 2007
Posts: 804

Posted: Wed Dec 02, 2009 1:00 am Post subject:

You dividend lovers have convinced me. I'm selling all my tech companies "bubble" stock
pay out a cent and putting all my money into something stable and reliable with a high di
the 11-15% range.

> **nisiprius wrote:**
>
> > **Stipachio wrote:**
> >
> > In reality, it's worth owning anything you think someone will be willing to pay m
> > for later.
>
> That's the "greater fool theory," the driving force behind bubbles.

True, but bubbles aren't the only reason stocks go up. Don't we believe in the (mostly) ef
around here? Sometimes there's good economic news and then everything goes up too.

What about commodities? They don't pay **dividends**, yet they have value. You can buy
a year, and given the current state of contango, and expect to sell it for more money in t
today agree to sell a year from now at a gain, via a futures contract). The oil clearly has
will clearly buy it from you, and there's no dividend in sight.

At the end of the day, for successful investing it only matters that you buy for less than y
that is doesn't matter. We've got plenty of history to show us that both dividend paying a
non-dividend paying stocks go up on average at approximately the same rate. Surely tha
enough that **dividends** aren't necessary for stocks to have value.

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traineeinvestor

Joined: 26 Nov 2008
Posts: 187
Location: Hong Kong

Posted: Wed Dec 02, 2009 1:50 am Post subject:

I keep some of my money in individual stocks.

Like other "dividend lovers", I will be looking to these **dividends** to provide part of my r
income (along with rent and interest payments). While I fully appreciate that it does not
whether the return on equities comes in the form of a distribution or a capital gain, takin
distribution is preferred because (i) I do not have to make the decision about when to sel
companies do it for me (ii) when a company pays a dividend, I regard it as a sign of good
health (iii) I would rather cash rich companies pay the cash back to shareholders than lea
their balance sheets (particularly in a low interest rate environment) or wasting it in vari

To address the issue of companies paying more **dividends** than they can really justify, a

buying criteria are (i) low debt to equity ratios (several companies I invest in have net ca
payout ratios well below 100%.

For completeness, I am not adverse to investing in companies which pay low or no **divid**
a few such companies in the portfolio.

Under Hong Kong law, I am tax neutral on whether I receive my returns in the form of ca
dividends - both are tax free here.

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