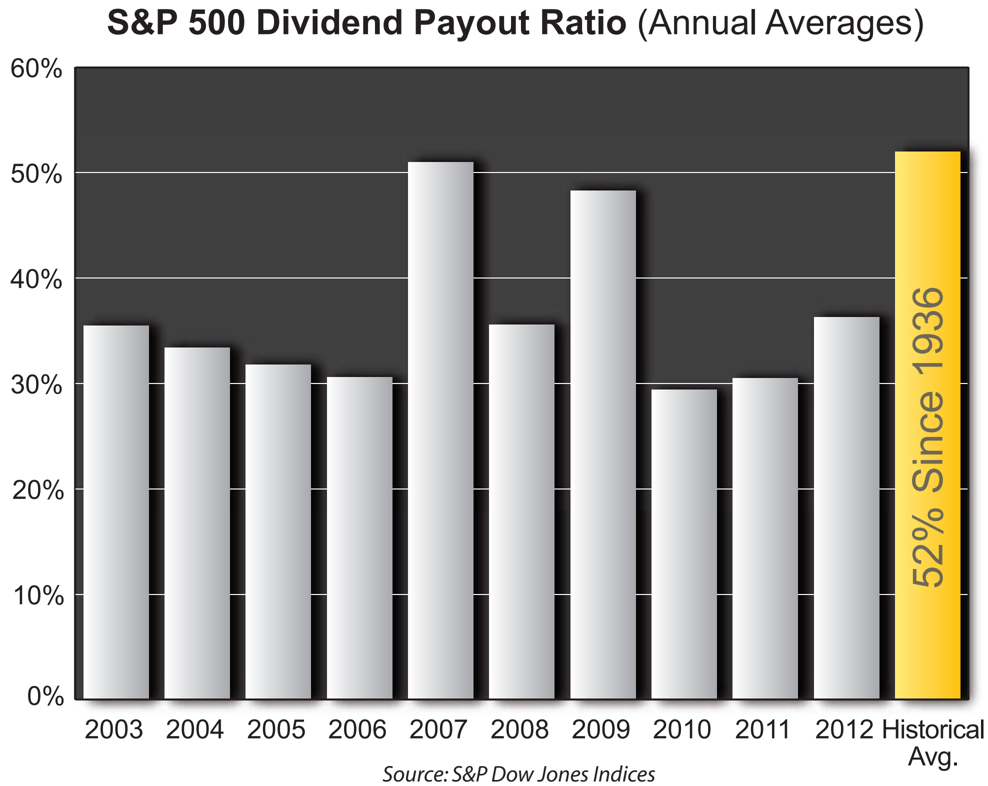
The Epicenter Of The Stock Dividend Story



Source: S&P Dow Jones Indices

View from the Observation Deck

1. As of 4/22/13, the dividend yield on the S&P 500 was 2.10%, according to Bloomberg. Despite hundreds of dividend increase in recent years, the index's yield has not fluctuated much up or down from where it stands today.
2. The fact of the matter is that companies have a number of viable options as to how to spend their capital. Some of the most common are stock buybacks, dividends, mergers and acquisitions and capital expenditures.
3. In many instances, companies increase their cash dividend payouts in an effort to simply maintain their dividend yields as stock prices rise. That is why the yield has not budged too far off the 2.00% level in years.
4. Companies are often conservative, as a rule, when determining how much to raise their dividends. No company wants to raise it too much and then have to announce a cut not long after.
5. The dividend payout ratio on the S&P 500 (the percentage of a dollar's worth of earnings distributed in the form of a cash dividend) has averaged 52% since 1936. In recent years, it's been closer to 30-35% (see chart).
6. Even the spikes in 2007 and 2009 were not the result of dividend increases, but rather a rise in the percentage paid out to offset declining earnings due to the financial crisis and recession.
7. The dividend yield on the S&P 500 has not been consistently above the 3.00% level since the early 1990s. One could say that since then companies have been more committed to growing their businesses.
8. The Federal Reserve claims that 10,000 baby boomers, on average, will be turning 65 years old every day for the next 20 years. That, for many of them, signals retirement.
9. As life expectancies lengthen, many will need a combination of growth and income, in our opinion. It will be interesting to see if companies increase their dividend payout percentages to help them meet their needs.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. Past performance is no guarantee of future results.