View from the Observation Deck

1. The dividend payout ratio (percentage of a dollar’s worth of earnings paid out as a dividend) for the companies in the S&P 500 stood at 32.5% in October 2014, slightly below its 32.9% average since 1999 (see chart).
2. Since the 1930s, the ratio has averaged closer to 52%, according to S&P Dow Jones Indices.
3. The lower payout ratio in recent years is one of the reasons why the dividend yield on the S&P 500 continues to hover near 2.00%, in our opinion.
4. A second reason is that many S&P 500 companies have been aggressively buying back their own stock instead of using their cash for other purposes, including larger dividend distributions.
5. Over the past 12 quarters (thru Q2’14), S&P 500 companies spent approximately $1.36 trillion on buybacks, compared to $886.2 billion on stock dividends, according to S&P Dow Jones Indices.
6. Corporate America is flush with cash. The S&P 500 (ex-Financials) cash and equivalents balance stood at $1.35 trillion at the close of Q2’14, just below the all-time high of $1.36 trillion in Q4’13, according to FactSet.
7. Companies have a multitude of ways to spend their cash. Some of the more common are buybacks, stock dividends, acquisitions and reinvesting back into the business.
8. With the S&P 500 setting new all-time highs, buybacks are growing more costly. We will be monitoring to see if companies choose to commit more of their capital to stock dividend payouts moving forward.

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 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.