

Investors switching to dividend stocks

Dividend rates grew \$13.4B this year

After the stock market recently posted one of the worst quarters of the decade, investors are looking for options. One that Dayton-area money managers have turned to is stocks that pay a dividend.

Steve Wenstrup, principal with Centerville-based [Tillar-Wenstrup Advisors LLC](#), said there has been a trend



to get more returns in hand. When an investor owns a dividend stock, he or she will automatically be paid a dividend, usually

once a quarter, but some stocks pay as often as every month.

During the boom years of the dot-coms in the early 2000s, investors were hunting for growth. But now, many find comfort in dividend stocks because they know that they will at least be paid the dividend, even if they lose on stock value.

"It's a bird in the hand," Wenstrup said. "When they pay the dividend, you don't have to give it back. But if a stock goes up 1 percent one day, you can pay it right back the next."

For the first half of the year, there was a \$13.4 billion increase in dividend rates compared with a \$48.6 billion decline in the first half of last year. This marked a \$62 billion turnaround. The [S&P](#) expects second-half payments to increase 7.6 percent.

Like any investment, dividend stocks have their pluses and minuses.

Dividends can be paid in cash or investors can set up dividend reinvestment plans, using the dividend pay-out to buy more shares. Wenstrup said using the compounding method of reinvesting the dividends is a nice benefit, but he likes to use the money to buy other stocks.

There's one upcoming wrinkle in getting into dividend stocks. The Bush tax cuts will end at the close of the year, raising the tax rate on dividends from 15 percent to 39.6 percent. So the money made on dividends is going to be taxed at a much higher rate.

Income-oriented investors benefited since the rate was slashed in 2003, but now they have to look for ways to reduce the hit to their returns.

Wenstrup said investors should look at a stock's ability to pay the dividend and compare it to what the company is currently paying out.

Cash flow is necessary to pay out a dividend, so make sure the company has plenty to pay out. When a company pays a dividend, that money is distributed out to investors and it comes off the price before the market opens the next day.

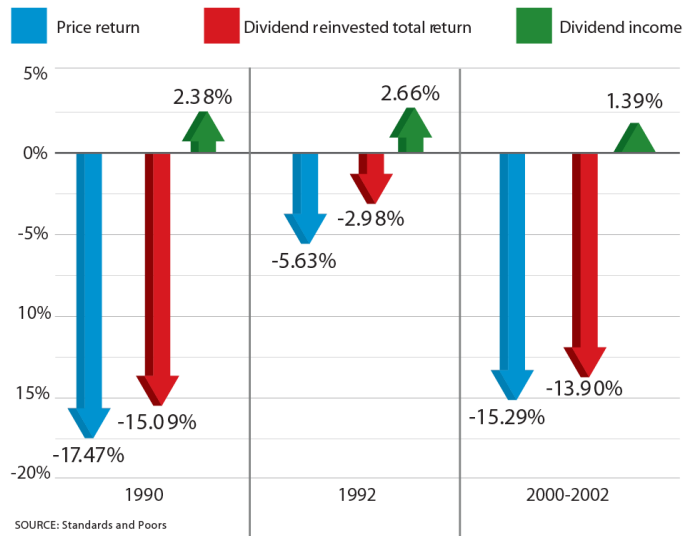
"If they don't have cash flow, they can't pay a dividend," Wenstrup said.

For example, DPL, which paid a quarterly dividend of 30.3 cents, had less than a quarter of its cash flow being paid out in the form of dividends last year. Standard Register had more than 57 percent of its total cash flow from operating activities going to dividends paid.

Also, investors should look for companies that are consistently raising their dividends.

Sometimes a company will lower its dividend for other reasons, such as acquisitions. For example, Thor Industries lowered its dividend from 57 cents to 7 cents in December after it acquired an ambulance manufacturer for approximately \$20 million cash.

Dividend income during down markets



Investing in dividend stocks is part of a long-term strategy. Mangan said investors shouldn't be married to a stock, but dividend stocks aren't a quick play either. Dividend stocks are also beneficial to investors who are income oriented, or those who are pulling money out for living expenses.

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