
Stock Dividend Analysis-Updated 18 July 2017

In this brief we will be taking a closer look at dividend paying activities of the public traded stocks in the U.S. and how it compares with previous time periods. Earnings are always a focal point at this time of year and is even called “earnings season”. To go along with the numerous reports there are an equal number of ways to analyze the data. Everyone seems to have their own proprietary way of trying to determine what the numbers mean. This is needed because financial reporting analysis can sometimes lead a person to exhaustion trying to determine what gyrations a CFO used to make the report look favorable. (Remember ENRON?) There are rules that CFO’s must strictly follow, but then an investor must still make sense of unadjusted values, adjusted values, one-time adjustments, extraordinary charges, changes in reporting periods, stub-periods, free cash flow, earnings before interest and taxes and the many variations of alphabet soup that follow.

One simplistic way of looking at a stock company’s relationship with shareholders is looking at how much of the success in earnings is shared with stockholders. Since an important part of holding a dividend paying stock is the amount of dividend paid to shareholders it is useful to compare how the universe of stocks is fairing on this measure. It has proven to be a fairly good indicator as to the expectations management has in being able to continue growing and managing the business. The most recent period we can compare is the 2nd quarter of 2017 that ended in June.



There are several statistics that we believe are important in examining dividend payouts. One of the most interesting is the number of companies, or percent of the companies that pay dividends to their shareholders. Over the past 100 years of investing there have been periods of time where dividends have been viewed as more important than other periods. Numerous reports have analyzed these time periods and attributed the paying, or not paying of dividends to changes in social and cultural behaviors and the importance of future values. While this is interesting, dividend payouts appear to be more closely tied to the tax code of the country and how corporations and individuals can treat dividend payments. The tax rate on income, both at the corporate and individual level, influences whether a company should retain earnings and reinvest in the enterprise, or share success with investors. I am sure both social and tax conditions influence payouts. In any case the real value is determining whether or not the payouts are increasing over time or decreasing.

In the most recent quarter, 82.2% of large cap companies paid a dividend. This percentage drops for mid cap and small cap companies to 67.8% and 51.2%, respectively. As can be seen from these percentages, dividends are an important part of the investing process, especially in large cap allocations and even in the “growth” classification of small cap. Over ½ of the entire market pays a dividend at some level.

Yields are more generous in large cap stocks at 1.99% overall, and if we just look at those that pay a dividend, the yield increases to 2.39%. Mid cap stocks are almost as generous at 1.53% across all mid cap stocks and 2.19% of those that pay dividends. As expected, small cap stocks are the least generous, but not far off of the other groups at 1.30% as a broad measure and 2.30% within the small cap dividend

paying stocks. If an investor focused on dividend paying stocks only, you could buy small cap dividend paying stocks and receive an income stream better than the large cap as a broad group and better than most government debt securities. So much for the belief that small cap stocks should not be part of an “income” portfolio.

The average dividend increase for Q2 was 10.5% which was better than Q1 and Q2 of last year, 2016. The median increase was 8.2% which was slightly better than Q1, and about equal to Q2:2016 at 8.3%.

Overall, the companies paid out \$6.7 billion more in dividends during the 2nd quarter than the 1st quarter. This aggregate number is composed of increases of \$9.8 billion and decreases of \$3.0 billion. There were 522 companies paying an increased dividend and 72 companies declaring a lower dividend. Over the past year, 2,614 companies paid an increased dividend and 487 lowered their dividend payments. The number of companies declaring an increase is about the same as last year. The number of companies declaring a decreased dividend dropped significantly by over 25%.

While the amounts declared for dividend payments are modestly better than last year and last quarter, they are indicating a favorable view into the future that goes along with the view we have verbalized for a long time, steady and slow growth. It is not the most exciting view, and certainly does not read as well as new “wonder companies” that are seeking IPO declarations and proclaiming to have “the next great cure” or invention, but it does have a long-term value view that can be beneficial, especially for income.
