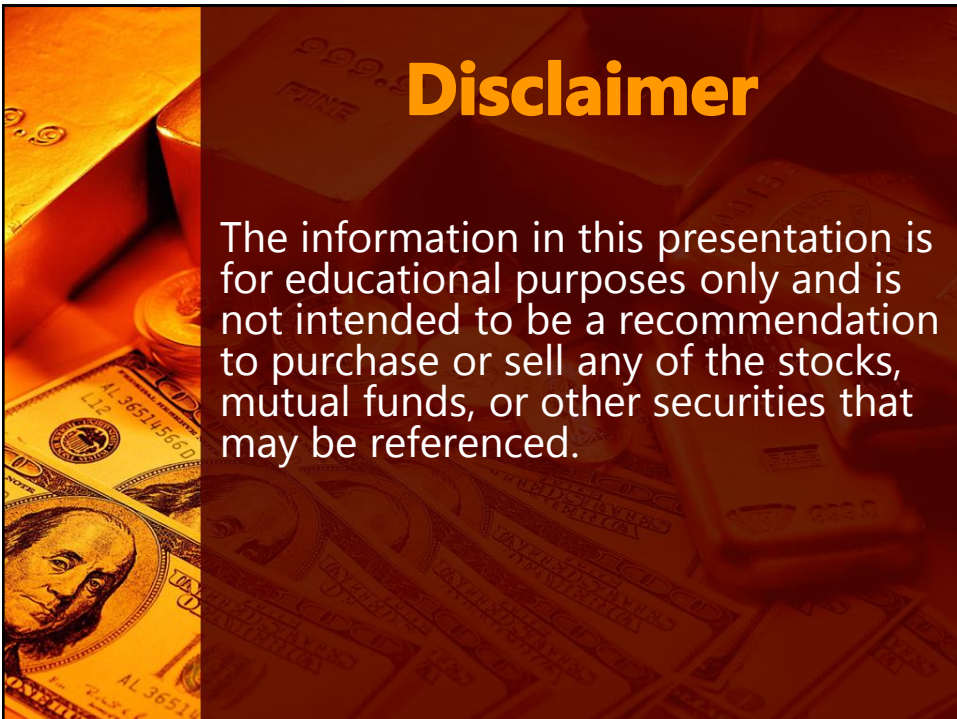


Dividends Matter!

Presented by Kim Martin: Small Talk
11-18-2014

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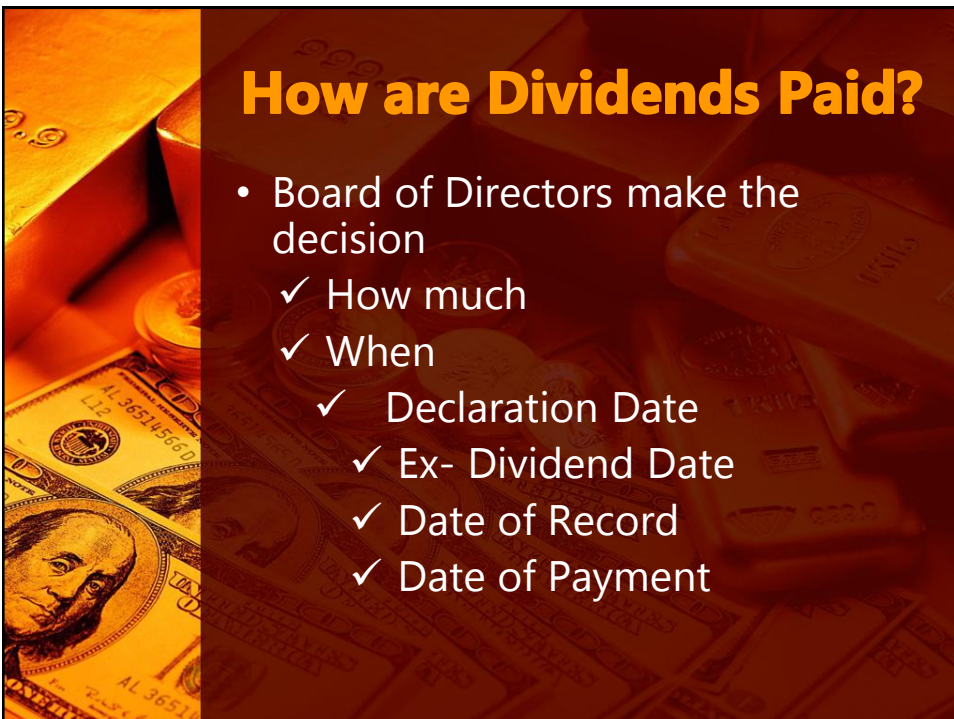
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The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced.



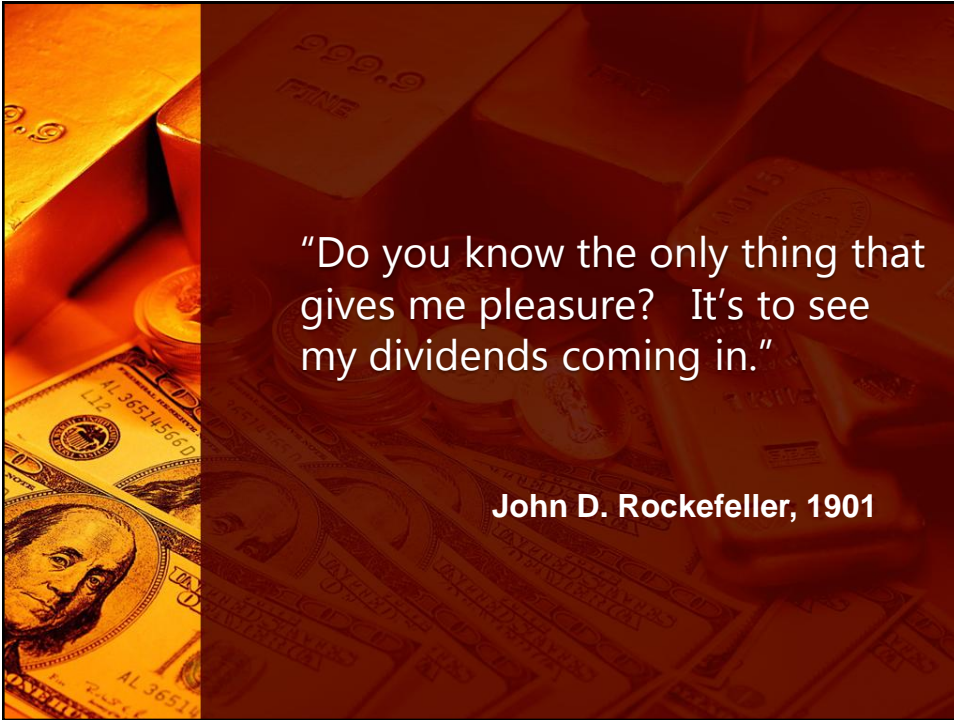
What are Dividends?

- Portion of the company distributed to shareholders
 - Cash
 - Stock
 - Property
- Stock Dividends
 - Preferred
 - Common
 - Special



How are Dividends Paid?


- Board of Directors make the decision
 - ✓ How much
 - ✓ When
 - ✓ Declaration Date
 - ✓ Ex- Dividend Date
 - ✓ Date of Record
 - ✓ Date of Payment





Dividends Come from Earnings

- **Shareholder Equity**
 - $\text{Equity} = \text{Assets} - \text{Liabilities}$
- **Return on Equity**
 - $\text{ROE} = \text{Net income} / \text{Equity}$
- Sustainable Economic Advantage
- Sustainable Growth Rate
 - $\text{SGR} = (1 - \text{Payout Ratio}) \times \text{ROE}$
 - $(1 - .5) \times .2 = 10\%$

- 
- Net worth of the company after a dividend is paid declines by the exact amount of the dividend
 - If Coke has a net worth of 18 billion, after a \$.38 dividend payment Coke's net worth declines by the gross amount of the dividend (#shares outstanding x \$.38/share) to \$17.2 billion



Dividends or
stock repurchase...

Which is better for you?




Stock Repurchase

- Stock prices increase
- Increases ownership stake
- Company indicating shares are undervalued
- Company can re-issue when the share price is higher
- Upper management can receive compensation tied to the stock price in the form of options




Are buybacks a form of dividend?

- The corporate board without shareholder approval, authorizes stock repurchase
- Shareholders have no way of knowing about the execution of the plan
- There is a problem of transparency



Tax Consequences

- Qualified Dividend Income Tax Rate
5% - 15% until 2011
 - Required to hold stock for 60 of 120 days surrounding Ex-Dividend Date
- Otherwise Taxed as Ordinary Income



Why Dividends Matter

- They will not mislead you
- Make a statement
- The check is yours to keep
- They usually increase