

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Dividend Yield Strategy

By [www.ProfitableInvestingTips.com](http://www.ProfitableInvestingTips.com)

Many investors choose dividend stocks based on their dividend yield. This dividend yield strategy can be risky as companies that are failing may choose to pay high dividends in order to keep shareholders from selling shares as the price falls. A dividend is a cash payment from company profit to shareholders who are eligible, usually on a quarterly basis. As a rule, dividends are a sign that a company is making money, has a strong margin of safety, and is a safe place to invest your money. The caveat is that when a company starts to falter, it may continue paying the same dividend. The rate goes up because the stock price falls. Investors who only look at the dividend yield may be fooled into thinking that a failing stock is a good investment.

### Dividend Yield per Month

A company will always show its dividend yield as the amount of money paid in dividends for one share of stock divided by the value of one share. This is always expressed as a percentage. To calculate the dividend yield per month, simply divide the annual dividend yield by twelve. It should be noted, however, dividends are rarely if ever paid per month. Quarterly is most common but some companies pay dividends twice or even once a year. However, the dividend yield per month is useful for retirees as it gives you a clearer idea of how much money will be available for expenses every month.

### Dow Jones Historical Dividend Yield

When devising a dividend yield strategy, it is useful to have a little perspective. For example, the Dow Jones historical dividend yield is a good place to start. All of the current Dow companies pay dividends. The current range of dividend yields in this group is 0.66% to 5.7% per year. The average number of years the companies have been paying dividends is 70 years with JPMorgan Chase & Company at the long end at 192 years. Within this group, the average number of years that companies have increased dividends every year is 18 years.

### Dividend Rate and Yield

Make sure that you know the difference between rate and yield when dividend investing. The rate of the dividend is the amount of money you receive per year in dividend payments. The yield is that amount divided by the share price and expresses as a percentage. When you are looking for a good return for your investment, look for dividend yield. But, when calculating how much you will receive, or be able to reinvest, look at the dividend rate! The rate is important to look at when you see the stock price going down but the yield going up. This means that the company is buying your allegiance with dividends when they are not growing but rather shrinking!

### Dividend Yield Model

Some investors use a dividend yield model or dividend discount model to assess the value of a stock based on

its forward-looking dividend payments. This approach is similar to the assessment of [intrinsic stock value](#) as it attempts to predict the future earnings and dividend payments of a company. The point of this approach is that you can arrive at a fair market value based on dividends instead of variable market sentiment. This approach is especially useful for companies that have paid dividends for decades and usually increased dividends on a yearly basis.

### **Dividend Yield Factor**

Our stock investments are always based on several factors. These include the prospect of growth of the company and the growth of its stock price. Companies are rising to dominance in their sectors, companies with a strong margin of safety, and companies with a lock on given technologies are all ones with strong factors that we take into consideration when investing. The dividend yield factor plays into this as well. Companies whose dividend yield keeps going up along with their stock price are ones that are doing things right and likely to reward your investment for years to come.

### **Dividend Yield Enhancement**

Many investors view dividend stocks as an alternative to bonds and make the mistake of thinking these sorts of investments are the same. They are not. When you choose well when buying dividend stocks you not only get a dividend that is comparable to a bond but you get the likelihood of dividend yield enhancement. As we noted, the average number of years that stocks in the Dow have increased their dividend payment every year is 18. With this sort of dividend yield enhancement, you get a better return for your original investment as a stock that is probably growing in price as well!

### **Dividend Yield Calculation Example**

Value investors looking for reliable dividend income should look at dividend yield as it tells you what a company pays to shareholders each year in relation to its share price. Here is a dividend yield calculation example. Start with the dollar value of the yearly dividend and divide by the price of one share.

In June of 2020, Microsoft announced a dividend of \$0.51 a share per quarter or \$2.04 per year with the first payment at this level to start September 10, 2020, to shareholders of record on August 20, 2020. The current yearly dividend of Microsoft is \$2.04 and the current share price in September 2020 is \$214.25.

Thus the dividend yield of MSFT is  $\$2.04/\$214.25 = 0.9\%$ .

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