Why Invest in Dividend Stocks?

Why invest in dividend stocks? Dividend stocks are often recommended for those approaching retirement. The rationale is that you get a quarterly dividend check at a time when your income has been reduced. It turns out that investing in dividend stocks can been an excellent strategy for investors or all ages. The prospectus for the Oppenheimer **Rising Dividends** Fund notes the following.

From 1926 through 2013, dividends have represented nearly 43% of the returns generated by the stock market, as represented by the S&P 500 index.
Stocks of companies that grow and initiate new dividend payments, [such as those the Fund seeks to own] outpaced other alternatives.
What makes these results even more compelling is that stocks with growing dividends have not only outperformed, but have done so with less risk.

Why invest in dividend stocks? Companies that routinely pay dividends have good cash flow. They make money because they have a successful business plan. Companies that pay dividends are often easy to understand. They sell products that people want, will buy and will continue to buy into the future. And strong, stable dividend stocks typically are not bargain stocks. So, how do you find a good deal when looking for dividend stocks?

Bargain Hunting Dividend Stocks

The Street comes to the rescue! The publication lists their ten most ***undervalued dividend stocks****.*

Dividend stocks often fall off the radars of investors looking for total returns but dividend paying stocks greatly outperformed non-dividend paying stocks from the period from 1972 through 2013. The compound annual growth rate of dividend paying stocks and non-dividend stocks from 1972 through 2013:

Dividend Paying Stocks: 9.3% per year
Non-Dividend Stocks: 2.3% per year

Dividend paying stocks have been a better investment than non-dividend paying stocks over the past 40 years. Investing in dividend stocks is not the only strategy that has a long history of outperformance. Value investing has also significantly outperformed the market over long periods. Stocks with the lowest 10% of price-to-book ratios have outperformed stocks with the highest 10% of price-to-book ratios substantially from 1926 through 2013 (an 87-year study). The compound annual growth rate results:

Lowest 10% price-to-book ratio stocks: 12.6% per year
•Highest 10% price-to-book ratio stocks: 8.6% per year

The first suggested stock in the article is Tupperware. There is nothing glitzy about this company. It has a 14.8 P/E ratio and pays a 4.3% dividend. Read the article for more info. Those looking for solid returns over the decades look for value in well run companies that generate steady and reliable cash flow. That is why invest in dividend stocks.

Picking Dividend Stocks

Let us say that you are not bargain hunting but simply want the best dividend stocks for your portfolio. CNN Money has an opinion about how to pick the **best dividend stocks**.

Disney (DIS), Starbucks (SBUX), and TJX (TJX) (parent company of T.J. Maxx) show that investing in businesses with increasing dividends and healthy fundamentals can be the key to outperforming the markets in the long term.

The importance of dividend growth: According data from Goldman Sachs, dividend stocks tend to outperform their nondividend-paying counterparts by a considerable margin over time. A $10,000 investment in nondividend stocks in 1972 would have turned into $26,417 by 2013, while investing the same amount in dividend-paying stocks would have resulted in $413,073.

The point is to look for dividend growth. Companies that are solid very commonly reward their investors as sales and profits rise. Companies do not like to reduce their dividends so they only raise them when they expect continued strong cash flow. That is why invest in dividend stocks, specifically where dividends continue to go up.

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