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JOHN NYARDI

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Dec. 1, 2011, 12:02 a.m. EST

## A very bullish development

Commentary: What Disney's dividend hike means for the economy

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By Mark Hulbert, MarketWatch

CHAPEL HILL, N.C. (MarketWatch) — The most bullish thing the market can do, according to the age-old saying, is to go up.

And according to that standard, at least, Wednesday's market action was very bullish indeed — with the major market averages rising by more than 4%.

But there was another very bullish development on Wednesday that was largely overlooked in all the attention being paid to the overall market: **Disney** **DIS -0.11%** **hiked its annual dividend from 40 cents to 60 cents a share.**

DIS 36.90, -0.04, -0.11%

Now, I admit that this news does not, at first blush, seem even remotely as momentous as a 490-point rise in the Dow Jones Industrial Average **DJIA +0.34%**. But I nevertheless think it is, because of **what it signals about Disney's future — and, by extension, the economy as a whole.**

**Notice, for starters, that Disney's dividend hike amounts to a 50% increase. That's a far bigger percentage than is typical for a company as large as Disney. And it comes on top of a 14% increase in its dividend a year ago.**

**Secondly, companies will go to great lengths to avoid ever cutting their dividends. So if Disney's management harbored any significant doubts about the company's ability to maintain its impressive recent profitability into the future, it's a good bet that they would not have increased their dividend.**

Putting these two factors together, **Disney's dividend increase can be seen as a strong vote of confidence by management in the company's future.**

**There's a third factor worth noting as well: Disney is in the entertainment business. Its profitability would suffer if the economy were about to go into a sustained downturn in which the typical consumer had to cut way back on discretionary expenses. So, to that extent, management's vote of confidence extends to the economy as a whole.**

Am I reading too much into the vote of confidence that Disney's management is apparently making?

For insight, I turned to Roni Michaely, a finance professor at Cornell University's Johnson Graduate School of Management. Michaely is one of academia's leading experts on what corporate management is signalling through dividend increases.

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In an interview Wednesday afternoon, Michaely told me that, based on his extensive research into past dividend increases, Disney's recent dividend hike can be seen as increasing the odds that the company will be able to maintain the heightened level of profitability that it has earned in recent years. Because of that dividend increase, he said, the "likelihood that Disney's earnings will decrease in coming years is lower than before."

This doesn't amount to a guarantee, of course. Michaely hastened to point out that his comments are based on an average of thousands of companies he has analyzed over the years, and that there are plenty of counterexamples of companies that increased dividends only to subsequently fall on hard times.

So it's a matter of playing the odds, as it always is in this business. But Disney's dividend hike does increase the probabilities that it will be able to at least maintain its recent heightened profitability. And that has to be a long-term positive for the economy as a whole.

[Click here to learn more about the Hulbert Financial Digest.](#)

Mark Hulbert is the founder of Hulbert Financial Digest in Annandale, Va. He has been tracking the advice of more than 160 financial newsletters since 1980.

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TreyfTips 4 days ago

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Companies either buy back stock or increase dividends when they can't find a way of investing the money. So my first conclusion is Disney lacks growth prospects.



Companies increase dividends rather than buy back stock when they feel the money is going to keep coming in to fund the increase. This speaks well of Disney. But then Entertainment is defensive. So let's not generalize too broadly.

>>>> "So, to that extent, management's vote of confidence extends to the economy as a whole. .... Am I reading too much into the vote of confidence that Disney's management is apparently making? "

LOL! YES!!!!

BTW, Hulbert, read the good professor's remarks again and you will note ... [more](#)

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ybckorea 4 days ago

+1 Vote



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Comments indicate no support for Hulbert's position. Again?



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johnc19 4 days ago

+2 Votes



It's the contrarian thing ... ;-)



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siteleader 4 days ago

+1 Vote



Disney knows that their market will increase because as unemployment continues unabated and more boomers retire what else are they going to do but sit at home and watch TV. The disney channel. Yea, that's it.



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objectivist428 4 days ago

+1 Vote



Wow, Bullbert is really having to reach for things to call bullish these days.



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Rob1221 4 days ago

+2 Votes



Maybe this is Hulbert's most lame bullish argument ever. Mickey mouse pays a dividend so all is well with the market, nobody can manufacture bullish B\$ like Mark



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trendless 4 days ago

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All things considered, unless you're getting hammered on the share price and you've entered a losing proposition, there's nothing wrong with a company that pays you to own their stock.



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401kobsessive 4 days ago

0 Votes



Give Europe all the \$ the Fed can print. You cant change their work ethic or make them honest.



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johnc19 4 days ago

0 Votes



And from far out in right field, let's talk Disney dividends!



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mdmontaigne 4 days ago

0 Votes



it's LEFT field...



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johnc19 4 days ago

0 Votes



Thought about it, and given the content of the message, thought right field made more sense ... ;-)



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DisgustedWithGov 4 days ago

+5 Votes



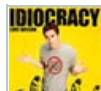
Hey all you doubters, he has a good point. The banksters just ran the market down again to buy cheap from you fools, now they are going to goose it up with the help of QE3.



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johnc19 4 days ago

+1 Vote



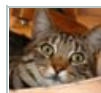
Cheers, who knows? It's undeniably impossible to ascertain anything except that uncertainty will continue while intervention measures prop-up the market until a proper correction occurs.



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Buzzer 1 day ago

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And now they are running it up on several hope so's so you fools will buy into the last suckers rally before next years major tank. Welcome to Bagholders anonymous!



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hoveivei 4 days ago

+3 Votes



During the great depression more people went to the movies. Hollywood studios boomed while America tanked. Not sure it turned out to be a bullish indicator.



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mysak 3 days ago

0 Votes



This been the same during WWI and WWII in Europe. While war was going on, all the entertainments, cabarets, and coffee houses where constantly full. My mom seen more movies during WWII than after the war. In 1945 you cannot find empty chair in coffeeshouses from





Budapest to Paris. When people are living for a present problems, they tend to enjoy the most while they are around, and not when they are not sure to make it to the next weekend.

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GregDoomie 1 hour ago

0 Votes



So you're saying the internet is going to tank too? Because if not, people are NOT going to the movies precisely because of the internet. How old are you people? And by "old", I mean how old are you in centuries? Seriously. Come back from the stone age, people. The only way movies will be big profit is if the internet is obliterated. Otherwise, the gov't will have to give them away for free as a socialized public service. Hmm...

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Buzzer 1 day ago

0 Votes



Hard times means you drive the same car, go to less expensive restaurants, but never stop going to the movies, or watching the Disney channel. The big stuff drops off in a downturn, not the (relatively) cheap simple pleasures.

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