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Dividends, buybacks, mergers are positive signs for investors

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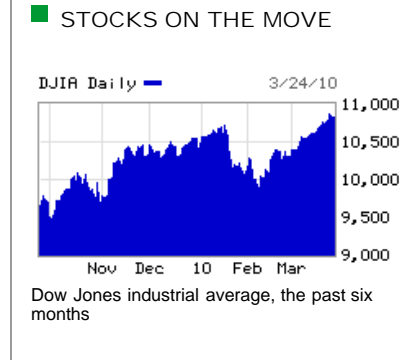
By Matt Krantz, USA TODAY

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Some people say that bad news comes in threes. But now investors are seeing that good news can, too.

Companies are generating three simultaneous trends that arguably offer bright signs about their health and view of the future. Specifically, companies are busily boosting their dividends, buying back their stock and heating up merger-and-acquisition activity.

"These are some of the most powerful things going on for the market right now," says Michael Cannivet, portfolio manager at Palo Capital.



So while economic data seem to oscillate from good news to bad each week, investors are keying on encouraging clues from companies including:

- Recovering dividends.** One of the brightest trends is the cash payments made by companies to shareholders. February was the best month for dividends in two years with 47 companies in the Standard & Poor's 500 index either boosting or starting to pay a dividend, and just one company, Tesoro, cutting its payout, S&P's Howard Silverblatt says. The trend continued Wednesday when General Dynamics boosted its quarterly dividend by 10.5%.
- Rising buybacks.** Companies are famous for buying back their stock at the wrong time, but they're at least confident enough to use some of their cash. Stock buybacks are expected to be 37% higher in the fourth quarter compared with the third quarter of 2009, Silverblatt says. For companies, "There's no better way than dividends and buybacks to prove to everyone, 'I'm OK,'" he says.
- Increasing M&A activity.** The track record for companies successfully buying other firms is spotty, but again, an uptick in M&A shows confidence and appetite for risk. The number of U.S. deals is up 13% this year to 1,579, Dealogic says. And the dollar value of deals targeting U.S. companies is up 46% to \$144 billion, Thomson Reuters says.

The fact that U.S. companies are willing to spend at least part of their record \$820 billion hoard of cash shows they're moving away from the stuff-cash-under-the-mattress mentality, says Jack Ablin of Harris Private Bank.

Still, none of these three developments pronounces the end of companies' woes.

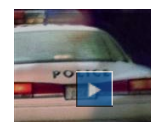
While more companies are increasing their dividends, the dollar value of the payments is still down 15% this year from last year and won't match 2008 levels until 2012, S&P says. Buybacks have been mainly soaking up extra shares created by giving employees stock options and they're still down 66% from the fourth quarter of 2007. And the dollar value of all U.S. M&A deals is down 13% this year vs. the same period last year, Dealogic says.

These factors make some investors worry the seemingly good news could be fleeting if the economy can't sustain itself without government help. "We're seeing really good signs" says Michael Farr of Farr Miller & Washington. "But we're not sure how long they will last."

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