



Dividend Payouts Are Climbing After Plunging to a Record Low



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Corporate America may be getting ready to share a bigger chunk of its record profits with investors, who lately have been getting a record-low piece of the pie.

Dividend payouts already are rising and the total dollar amount by S&P 500 companies could reach a record high this year. Standard and Poor's analysts expect the dividend payout for the S&P 500 to surpass the record \$247.9 billion paid out in 2008.

Yet, payout ratios-or the percentage of earnings paid out as dividends-are currently at a record low 27 percent. Wells Fargo (NYSE: WFC - News) analysts argue in a note that there could be a long-term opportunity in dividend paying stocks. Historically, payout ratios have averaged 53 percent.

"I think there's a change in investor appetite for risk, and that in the last couple of years that has resulted in better performance for

dividend paying stocks...to the extent dividends are being paid. There are also plenty of companies choosing to do share buybacks," said Gina Martin Adams, Wells Fargo institutional equities strategist.

Dividends have provided the bulk of return to long-term shareholders for quite a while, and companies are just beginning to catch on to the fact that investors are seeking dividend-paying stocks and will reward them, according to Adams.

While the price return on the S&P 500 (INDEX: ^GSPC - News) since 2001 has been a stagnant 2.3 percent, the total return, including dividends, is 26.4 percent, the Wells Fargo analysts note. S&P 500 dividend payers averaged a price return of 0.6 percent and total return of 3 percent, relative to a negative return for non payers of 5.7 percent.

Whether companies will pay out a whole lot more has yet to be seen.

"I still think it's kind of mixed," said Adams. "To the extent that dividend paying stocks perform

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better and corporates are beginning to recognize that long-term growth prospects are stable...It's almost the best of all worlds because investors are going to reward them for paying out cash."

She added: "I do think they are getting ready to step up and share more. What's happening now is they are dipping a toe in the water."

Adams said the investor mentality has shifted as sources of yield have dried up in the current record low interest rate environment. Two of the top 10 ETFs with the biggest inflows in 2011 were dividend stock ETFs-SPDR S&P Dividend (NYSEArca: [SDY - News](#)) ETF and Vanguard Dividend Appreciation (NYSEArca: [VIG - News](#)) ETF.

The hunt for yield-and dividends-is also a very different tactic from that favored by investors in the not-too-distant past.

"In the 1990s, they were cast in a negative tone," Adams said. "Investors sometimes thought dividends were evidence the company didn't have tremendous long-term growth prospects, but it seems now that dividends are highly valued, and it's taking time for companies to recognize that."

Bespoke Investment Group co-founder Paul Hickey said already this year, there seems to be an increase in dividend raises already, as companies become more confident.

"Compared to the last three years, I think we're going to see much more in the way of dividend raises," Hickey said. "There's more clarity out there. There's a general view that the worst is behind us. Most people would think that companies have a little bit more visibility now. With increased visibility, they'll be more likely to part with some of their cash."

Hunting for Yield

There are a variety of strategies to play dividends. Wells Fargo analysts note that one way is through the S&P 500 "artisticrats," or dividend payers with long-term track records of increasing payouts. These stocks returned 6.4 percent beyond the index return over the past three years.

Adams said another way is to look at industries that have been slow to declare payouts but may be ready to change. She notes compared to other sectors-technology, health care and consumer discretionary-have been the stingiest when it comes to dividends.

"Technology and health care are paying more on average than they have in the last 10 years," she said. "They are recognizing the trend that they do have too much cash and aren't deploying it."

Standard and Poor's index analyst Howard Silverblatt said that Cisco's decision to pay a dividend last year for the first time was a major turn for technology companies. It made for the largest dividend initiation ever, with a \$1.5 billion annual payout, which it has since raised. There is now speculation that Apple(NASDAQ: [AAPL - News](#)) may share some of its giant cash horde with investors.

"In technology and health care, they are holding a lot of the cash overseas because of taxation. There is also a political concern to this," Adams said.

Another strategy Adams recommends is to look at the highest yielders in the S&P index. There are 13 companies in the S&P 500 with better yields than the average corporate credit yield of companies with similar ratings. (see list below) There are also 227 companies in the S&P 500 that have a higher yield than the 10-year Treasury.

Some companies also choose to do stock buybacks instead. "It's a very short-term impact. Media comes to mind as an industry that focused on share buybacks rather than dividend payments," she said.

She likened corporate buybacks to 'casual dating,' versus the 'long-term commitment' companies make when they pay their investors quarterly dividends.

Dividend Catch Up

The dividend rate, or the payout rate by S&P 500 companies, hit an all-time high, in terms of cash

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paid out, in June 2008, but it fell sharply by August 2009 as the recession caused companies to clamp down on capital outlays.

It is now up 31.8 percent since then, but still lags the 2008 level by about 2.5 percent, according to Standard and Poor's data.

For all of last year, S&P 500 companies paid out a total \$241 billion, versus the \$247.9 billion they gave shareholders in 2008.

Standard and Poor's Silverblatt, senior index analyst for Standard and Poor's indexes, expects the total rate paid out by S&P 500 companies to come in at a record this year. "I'm looking for \$263 billion by the time this year is over," he said.

Uncertainty about tax law changes, and the pending expiration of the Bush tax cuts, have probably also impacted corporate decisions on payouts. Adams said if the taxation of dividends is raised above the capital gains tax rate, "the dividend theme could die on the vine."

On Monday, President Obama proposed raising the [tax on dividends](#) for households making more than \$250,000 to a maximum of nearly 40 percent next year, the highest tax rate set to take effect in 2013.

Obama also proposed raising the current 15 percent long-term capital gains tax rate to 20 percent for the wealthy. He had earlier also sought to set a 20 percent tax on dividends.

Who Pays What

Financials were responsible for more than 31 percent of the S&P 500 payouts in 2007, and they provided just 11.8 percent of the payout in 2011.

Consumer staples in 2011 were the biggest contributor, providing 15.5 percent of the total S&P 500 payout, while [technology](#), seen as an underachiever when it comes to dividends, provided a surprising 10.4 percent of the total last year, according to Silverblatt.

The [S&P 500](#) is currently yielding 2.09 percent but if stocks are removed that don't pay dividends, the average yield of the remaining 396 issues averages 2.46 percent, says Silverblatt. He said the historic yield, going back to the 1930s, is 3.76 percent and the average for the last decade was 1.9 percent.

"From 1962 to currently, the S&P dividend yield divided by the 10-year yield was 43 percent, less than half," Silverblatt said. Now with the 10-year yielding less than 2 percent, the yield is 7 percent higher, he notes.

So far this year, 68 companies in the S&P 500 have announced dividend actions, with 66 increasing their payout rate and two companies initiating dividends, according to Standard and Poor's.

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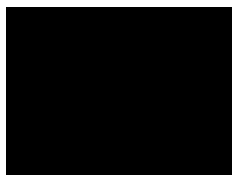
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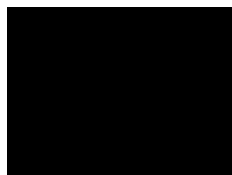
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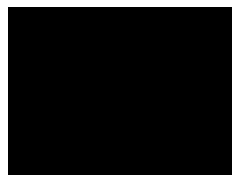
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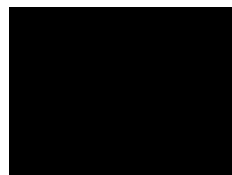
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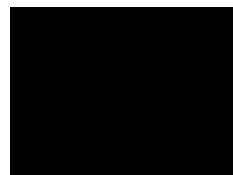
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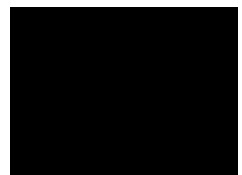
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