The Truth About Dividends - Transcript

Tom Mullooly: In episode 113 of the Mullooly Asset Management show, we're going to talk about dividends.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 113. Thanks for tuning in. I want to talk today about stock dividends. It's not something that we talk about that much, but it's something that does come up in conversations that we have here in the office and in person and on the phone with folks. A lot of people say if a stock isn't doing anything, well, I'm getting a dividend. I'm getting paid to wait. Is that really such a good idea?

Let's talk about this a little bit. Stock dividends, it's funny. Over and over throughout my career I've heard people say, "Well, I can sit with X, Y, Z," fill in the blank, "stock, because they pay me a good dividend so I'm getting paid to wait." I'm going to name a few names in the course of this video. I want to be clear right up front, we're not recommending any of these names. These are not recommendations to buy or sell.

The most glaring example recently has been General Electric. GE. At the end of 2016, now, we're recording this in November of 2018, so just two years ago, at the end of 2016 GE raised their quarterly dividend to 24 cents a quarter. That's 96 cents a year. That's almost a dollar a share. At the time, General Electric, GE, was yielding 3% because the stock was trading around $32 a share. Pretty good. If you think back two years ago, getting 3% at the bank was nearly impossible.

Exactly one year later, or one year back from now, they cut their dividend in half in 2017 in the December quarter, and now that dividend went from 24 cents a quarter to 12 cents a quarter. Now you say, "We're talking about pennies. What's the difference? 12 cents a quarter on 1000 shares, 2000 shares, 5000 shares. Do the math. This stuff really starts to pile up after every 90 days," so the dividends are very important for people who are looking for income, or as they like to say, "getting paid to wait," so a year ago GE cut their dividend from 24 cents a quarter to 12 cents a quarter. That means that their dividend was 48 cents a year, and at the time, a year ago, the stock was yielding 2.8%.

Now, wait a second. A moment ago when they raised their dividend in 2016 I said the stock was yielding around 3%, so put your algebra hat back on. We know the yield, we know the dividend. What's the stock price? If you do the math, last December GE had been trading around $17 per year, so the stock, while you were getting paid to wait, the stock went from the 30s down into the mid-teens. Not so good.

Now, fast forward to today. GE has announced recently that their December quarterly dividend is now going to be one penny. One penny. They're going to pay four cents per share per year. The stock is now trading somewhere between 9 and $10 a share, so getting paid to wait hasn't really paid off, has it, because the stock two years ago, $32, today it's 9 or 10 bucks. You've got a couple of dividends. That doesn't really help, does it?

Companies cut their dividends, cut their dividends when business slows down or when business is bad, and in recessions, a lot of these blue-chip stocks, they'll reduce their dividends or they'll eliminate their dividends. I just want to give you an example. Let's just take a walk down memory lane 10 years ago. In 2008 and 9, GE cut their dividend back then. They cut it by two thirds. Bank of America cut their dividend in 2008 and then they cut it again in 2009.

JP Morgan, pretty good stock; cut their dividend by 88%. Wells Fargo cut their dividend, Pfizer also cut their dividend, but Pfizer was buying another company so they really needed the cash in a short term and they raised it pretty quickly. City Bank cut their dividend twice between 2008 and 2009. When these companies are in trouble, they're going to cut their dividend. Banks cut their dividends. A lot of companies do when they need the cash.

So, when you're looking at dividend-payers, you want to look for companies that have really strong cash-flow. Again, not recommending any particular name or a sector, but you look at a company like Apple, they have really strong cash flow. They may not have a large dividend, but these companies with strong cash flows don't get hurt as much when the markets go down. Electric utilities is another good example of that.

Another example from the other end of the spectrum: Master Limited Partnerships. Be really careful with these things. A lot of clients buy them because they like the cash flow. They're really sexy yields, but there comes a lot of risks with these things and you got to know what's going on. Institutions for most part can't own Master Limited Partnerships, so it's a retail product. It's an individual invest ... individual investors get involved in these things.

When they have hard times, these Master Limited Partnerships, they'll cut the dividend, they'll eliminate the dividend, and the stock gets destroyed. There's no support for these things. It's very, very important to know what you're getting involved in.

Dividend payers throwing a blanket over it and just saying, "Hey, I'm getting paid to wait;" some salesman probably taught you that line. Don't buy into that.