

Chasing Dividend Yield for Income: Three Reasons to Be Wary

This week's AAI **Weekly Digest** highlights these "must-read" AAI articles:



Chasing Dividend Yield for Income: Three Reasons to Be Wary

Relying on dividends for income is a strategy that has served investors well in the past. Who hasn't heard of the proverbial elderly widow living off the steady stream of General Electric (GE) dividend checks? And many investors believe that high-dividend-paying stocks are preferable to low- or non-dividend-paying stocks for portfolios intended to meet income needs. But as markets have evolved and the retirement investing landscape has shifted, is there anything about this strategy that should concern investors?

What Bond Calls Mean for Your Cash Flow

*H
i
l
d
y
Richelson*



In a falling interest rate environment or in one where interest rates have fallen in the not-too-distant past, it is especially important for investors to understand bond calls if they own individual bonds, bond funds, annuities or life insurance.



Dividend Payout Ratio

When a company starts paying a dividend, the market expects it to maintain the dividend going forward, and the stock price will be punished for any reduction in dividend. A stock with a high dividend yield is not a bargain if it surprises investors with a dividend cut. Therefore, if you are looking to buy a dividend-paying stock, you want to evaluate the safety of the dividend—that is, the likelihood that the company will maintain or increase the dividend going forward. One way to do this is to analyze how much of the company’s earnings are paid out in dividends to shareholders. The payout ratio allows investors to see how much of a company’s earnings is being used to fulfill dividend payments.

Dividend Yield as a Valuation Measurement



Value investors are always seeking undervalued stocks to add to their portfolios while pruning those that are overvalued. However, a stock’s price doesn’t always reflect a company’s true value. The dividend yield is a useful measure of value for selecting undervalued securities and pruning overpriced stocks from your portfolio. Like the price-earnings ratio, the dividend yield attempts to highlight stocks that are out of favor.

Our **Member Question** for this week is:

Based on several widely followed measures, U.S. stocks appear overpriced. Personally, how overvalued or undervalued do you think U.S. stocks are?

[Vote Now »](#)

Vote to answer this week's Special Question: *How do you go about deciding whether the stock market and/or individual stocks are undervalued, overvalued or fairly-valued?*

Last Week's Results:

During a conference call earlier this month Jamie Dimon, the chief executive of JPMorgan Chase & Co., slammed the “dysfunction” in Washington, D.C., calling it an embarrassment to the country. Furthermore, Dimon feels that political gridlock in Washington has undermined growth in the U.S. economy.

In your opinion, what impact does the political climate in Washington, D.C., have on the overall U.S. economy?

It has a significant negative impact: 49%



It has a slight negative impact: 29%



It has little or no impact: 10%



It has a strong positive impact (I would be more worried if politicians started getting things done): 4%



It has a slight positive impact: 4%



I don't know: 3%



Poll results are as of 9 a.m. (Central) on Monday. 2,357 respondents.

AAll's Guide to Direct Purchase and Dividend Reinvestment Plans



Dividend reinvestment plans have long been popular among shareholders interested in reinvesting dividends at a low cost. There are several advantages for investors who participate in these plans: Dividend payments are put to work, transaction costs are eliminated or held to a minimum, and the additional shares are purchased gradually over time. This guide to direct purchase and dividend reinvestment plans, available exclusively to AAll members, highlights some of the best AAll has to offer. It highlights two different types of dividend reinvestment plans and how they work.

The AAll Weekly Digest is one of the many **benefits** of AAll membership. To learn more, consider a **30-day Trial AAll Membership** to start becoming an effective manager of your own assets.