

# Dividend Safety Signs and Warning Flags

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

- **Dividend Safety Signs and Warning Flags:** Many investors seek shelter from stock market storms in more mature dividend-paying companies since the income from these firms provides at least some positive return in an otherwise bleak environment. But the last economic downturn tested even the most mature and stable firms, with some forced to cut dividend payments. What signs can you look for that indicate the safety of a company's dividend payment stream?
- **Chasing Dividend Yield for Income: Three Reasons to Be Wary:** Financial advisers use a variety of investment strategies to replace retiree employment salaries or business income. But one of the most common approaches is the dividend yield strategy. Relying on dividends for income is a strategy that has served investors well in the past. The dividend yield strategy has been so attractive because it professes to meet the "golden three" outcomes for retirement-oriented investing: income, capital preservation/growth and liquidity. But as markets have evolved and the retirement investing landscape has shifted, is there anything about this strategy that should concern investors?
- **Beating the Street With the Buyback Yield:** As companies strive to return excess cash to shareholders, they can pay out dividends as well as repurchase outstanding shares that have been issued to the public. When a company reduces the number of outstanding shares, remaining shares gain a slighter larger proportional claim to the company and its profits. This allows earnings per share to expand more quickly than net income. A share buyback is also a signal to the market that management thinks that the stock is undervalued and the company is repurchasing shares at a discount.
- **The Power of Compounded Growth and Reinvested Dividends:** What's the allure of dividend-paying stocks? Dividends provide a segment of return that is always positive. Increases in dividends provide an increased positive cash return and, consequently, increase the value of the instrument producing that return. Positive fluctuations are normal in the world of cash payments to shareholders; negative fluctuations are a rarity. Over time, reinvesting income that increases can result in yield from income alone that's far higher than anyone can reasonably expect from the total return in the equity market.

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

***What is your view of activist investing?***

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Last Week's Results:

***If you prefer mutual funds or exchange-traded funds (ETFs) over individual stocks, what is your primary reason?***

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*Poll results are as of 9 a.m. CST on Monday. 1161 respondents.*

## Stock Investing Strategies



One of the biggest difficulties for individuals interested in investing in stocks is getting started. Many books have been written about each and every aspect of fundamental stock analysis, but the detail and complexity often leaves newcomers perplexed. This e-book, available exclusively to AAI members, provides a general outline for analyzing stocks and walks you through the process as it is practically applied to specific types of investment approaches. In the end, you should have a general understanding of fundamental stock analysis and its practical application.

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