

Go For Dividend Growth, Not Yield

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Whether you receive your dividends in cash or reinvest them to buy additional shares, you should care more about a company's dividend growth than its current yield.

A stock's dividend yield is found by dividing the 12-month dividend rate by the stock price. For example, a stock with a price of \$20 per share that pays a dividend of \$1 per share over the course of 12 months has a yield of 5% (1 divided by 20).

Too often, investors look only at a stock's current yield when determining the attractiveness of the investment. However, if you are investing for long periods of time, what truly matters, in my opinion, is not so much the current dividend yield but the growth potential of the dividend.

Indeed, a fast-growing dividend can provide a huge lift to a stock's total return over a 15- or 20-year period. For example, a company that is boosting its dividend 10% per year will see the dividend increase more than six fold in a 20-year period. Over that 20-year time frame, the dividend growth will more than compensate for the lower yield you may have to accept at the time you purchase the stock.

Bottom line: Don't discard a stock merely because the current yield may be skimpy. If the company's earnings are growing at a rapid clip and the stock is in an industry destined for good long-term gains, the expected growth in the dividend should more than make up for the low yield.