

## Market's plunge brings out the dividend investors

By **Jeff Benjamin**  
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The stock market's historic implosion over the past year has only worked to bolster the spirits of true dividend-investing junkies. Lower stock prices equal higher dividend yields and, if approached properly, those yields can be locked in almost as if they were bond yields.

"Bonds aren't stable, and there's no return in money market funds, so I started using dividend stocks for my bond money," said Ted Feight, president of Creative Financial Design in Lansing, Mich.

Sure, it is easy to point out that companies have been cutting dividend payouts at a record pace, and that the trend is likely to continue through the year.

By some estimates, the dividends paid out by the companies making up the Standard & Poor's 500 stock index could drop more than 20% this year.

That would rank 2009 as the second-worst year for dividends since 1938, when companies in the index cut dividends by 36%.

So far this year, more than 40 companies in the S&P 500 have trimmed dividend payments to shareholders.

This compares with the first quarter of 2008, when 12 companies in the index cut dividends, and the first quarter of 2007, when only two companies made reductions.

It was only a few years ago that we subscribed to the idea that a dividend cut was the kiss of death for a company's stock price.

But these days, as we learn to accept that there is no longer such a thing as "too big to fail," dividend cuts seem less likely to send investors running for cover.

Of course, that doesn't discount the significance of a smart dividend-investing strategy.

"Avoid any company that accepted stimulus money," said Don Schreiber, president and chief executive of WBI Investments in Little Silver, N.J., which manages \$300 million.

"There are plenty of companies across all industries with good-yielding dividends, because stock prices have come down so much," he said. "In this environment, locking in dividends will look like a nice return."

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The math behind the dividend argument is relatively simple, but it still requires some research and a few assumptions for it to make sense inside a portfolio.

For example, one of Mr. Schreiber's favorites, Pittsburgh-based U.S. Steel Corp. (X), is expected to emerge as a major beneficiary of upcoming infrastructure spending, which should be good for the stock price.

The company is paying a \$1.20-per-share dividend, which equates to a yield of about 5% at the stock's current \$24 trading range.

Buying that stock means locking in a 5% yield, assuming that the stock continues to rise, and assuming that the company doesn't decide to cut the dividend.

The stock is up more than 40% from where it traded when the market rally began in the first week of March, but it is still down about 33% from the start of the year.

The S&P 500 is up about 19% for March and down about 8% from the start of the year.

The case for U.S. Steel as a dividend play boils down to the company's short-term debt exposure and cash flow levels, Mr. Schreiber said.

"We like to see 120% worth of cash flow for every dollar of dividend payments," he said.

U.S. Steel more than passes the test with \$1.7 billion worth of cash flow and \$380 million worth of dividend obligations.

In this case, the cash flow equals 447% of the dividend payments. Fans of dividend investing are familiar with the historical impact of dividends, which have contributed almost half the total return of the S&P 500 index.

One can only imagine how that pattern will unfold over the next year.

Or, as Mr. Schreiber warned, "It doesn't pay to be greedy when shopping for dividend yield."

*A new Investment Insights column appears every Monday on InvestmentNews.com. E-mail Jeff Benjamin at [jbenjamin@investmentnews.com](mailto:jbenjamin@investmentnews.com).*

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