VEROTRADE™

Dividends

What is Dividend Investing?

In short, dividend investing is the strategy of buying stocks that pay dividends. Dividends are payments that a corporation sends out to shareholders as a "thank you" for investing in the particular stock. This allows the investor to receive a regular income from their investments. This income is in addition to any growth your portfolio experiences as the stock itself gains value. The dividend payments can occur yearly, quarterly, or in some cases monthly.

Buying stocks that pay dividends can be especially rewarding over the long run when it is combined with "DRIP" investing. DRIP investing is when you take the dividends one receives to reinvest into the company to purchase additional shares. DRIP method(s) can build up a larger quantity so that later the dividends can be much larger. Dividend investing is one of the safest forms of investing, considering the majority of dividend stocks are grounded in reputable, stable companies and positions that are heavy in cash flow.

A Closer Look

A dividend yield is a calculation that determines how much money one will earn for each dollar invested at the current price based on the current dividend rate. A company with a high dividend yield may seem like a good bet. Still, due diligence (diligent research) is crucial whenever investing as a "high yield" may sometimes indicate that the company is in financial trouble. Dividend investing is a great way to build wealth through compounding, which provides more shares as the dividends payout. The dividends are rarely decreased, so the income will be stable and reliable as long as the company pays the dividends. Dividends are not completely risk-free and can be subject to certain company-related and economic risks.

Furthermore, companies that pay dividends are generally not high-growth leaders. Growth companies spend more of their hard-earned money on research and development, capital expansion, and employee retention than on stock dividends. Therefore, very rarely do growth companies pay out dividends to their shareholders.

In the dividend world, there are many types of dividend stocks and dividend ETFs. SPHD, a specific dividend ETF, is a bundle of stocks that pay a collected dividend and is low volatility, high dividend yield while still being a safe investment. A more specific dividend investment would be investing into single dividend companies such as Chevron (Oil & Energy), Coca-Cola (Retail Conglomerate), and AT&T (Telecommunications). All of these single stocks listed are highly stable with a steady stream of cash to pay out dividends, as well as consecutive annual dividend increases.

Dividends are generally considered a sign of good financial health, both for you as the investor and for the company you are invested in. Creating an investing strategy where you invest in companies with an excellent quarterly dividend history can add stability to your portfolio and can provide you with the opportunity to derive steady income and cushion stock price declines.
