

The Dividend Income Cycle

We say this not only based on our cycle studies but because 80 million more American will shortly be considered baby boomers. Many of these baby boomers will leave the workforce adding to a count for the total number of retired people in the area of 150 million.

Retired investors tend to be more conservative in their investing strategies and stock paying dividends add an extra appeal to them. More than 100 years ago, John D. Rockefeller, the American industrialist and philanthropist, said "Do you know the only thing that gives me pleasure? It's to see my dividends coming in." Today, the average stock yields 2.00%, well below the 70-year average of 3.9% and yields seem to be on the rise in this current market cycle.

Dividend yields tend to move up during stock market downtrends. This is because the yield on a security is based on its fixed dividend payout. For example, a company paying an annual dividend of \$1.00 a share and selling at \$25.00 a share will have a Yield of 4%. This is calculated by dividing the annual dividend (\$1.00) by the current share price (\$25) which is 4% paid annually or 1% based on a quarterly dividend of .025 cents per share.

During stock price declines, dividend yields increase if the dividend payout remains the same. Let's say in using our previous example of a dividend payout of \$1.00 a share, if the stock price declined to \$20.00 a share, the annual yield will now increase to 5% for new investors.

A classic example of this situation occurred back on the last day of October in 2006 when a surprise announcement by the government party of Canada crushed the various high yielding Canadian Royalty Trust investments. These Trusts, which distribute and pass through most of their earnings to shareholders had their prices declined 30% to 50% since that announcement and still have not recovered.

Shares that were yielding 9% one day were now yielding 15% the following day assuming the dividend payout was safe. Our analysis suggested at that time that there was nothing fundamentally wrong with these Canadian Royalty Trusts which not only represented some of the biggest energy companies in Canada but in the world.

Our Income Managed Accounts have benefited from this analysis, as a sampling of our trades in these issues will show. We also expect some takeovers and consolidation mergers among these issues and our clients and newsletter subscribers benefited from the first of these expected takeover offers. Prime West Energy (PWI) was purchased and recommended for purchase at around \$20 per share. Prime West Energy was yielding around 15% per year and paying a monthly dividend of .025 cents per share.



As the above chart shows, on the day of the takeover announcement which was an offer to purchase shares of Prime West Energy at \$26.75 per share, the share price jumped from \$20 to \$26.50 with shares currently trading at \$27.12. The cherry on the cake is that all our Manage Accounts and Subscribers also are entitled to receive the next dividend payment which represents \$250 for every thousand shares owned.