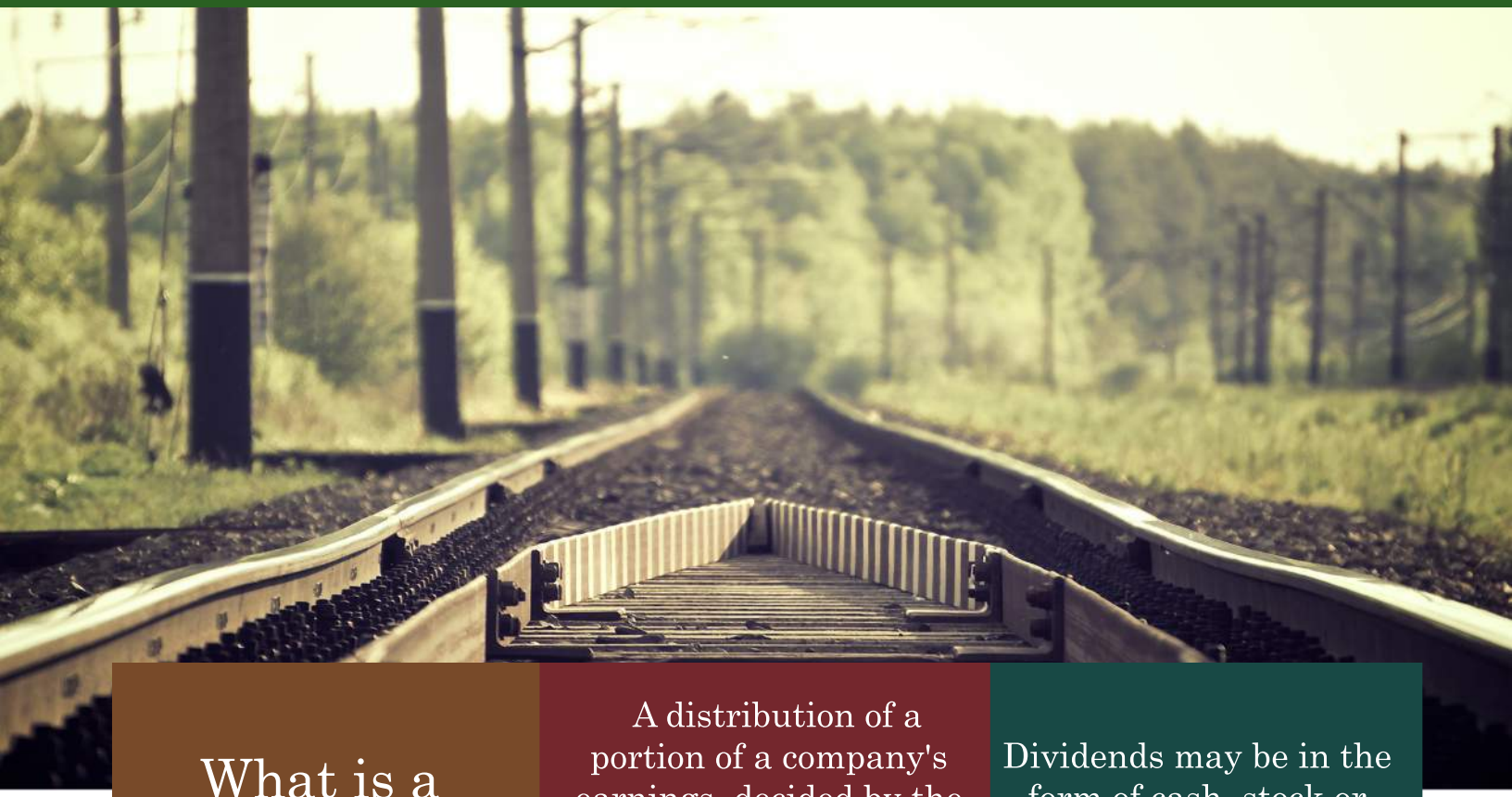
Dividends 101



What is a Dividend?

A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.

The dividend is most often quoted in terms of the dollar amount each share receives (dividends per share). It can also be quoted in terms of a percent of the current market price, referred to as dividend yield.

Dividends may be in the form of cash, stock or property. Most secure and stable companies offer dividends to their stockholders.

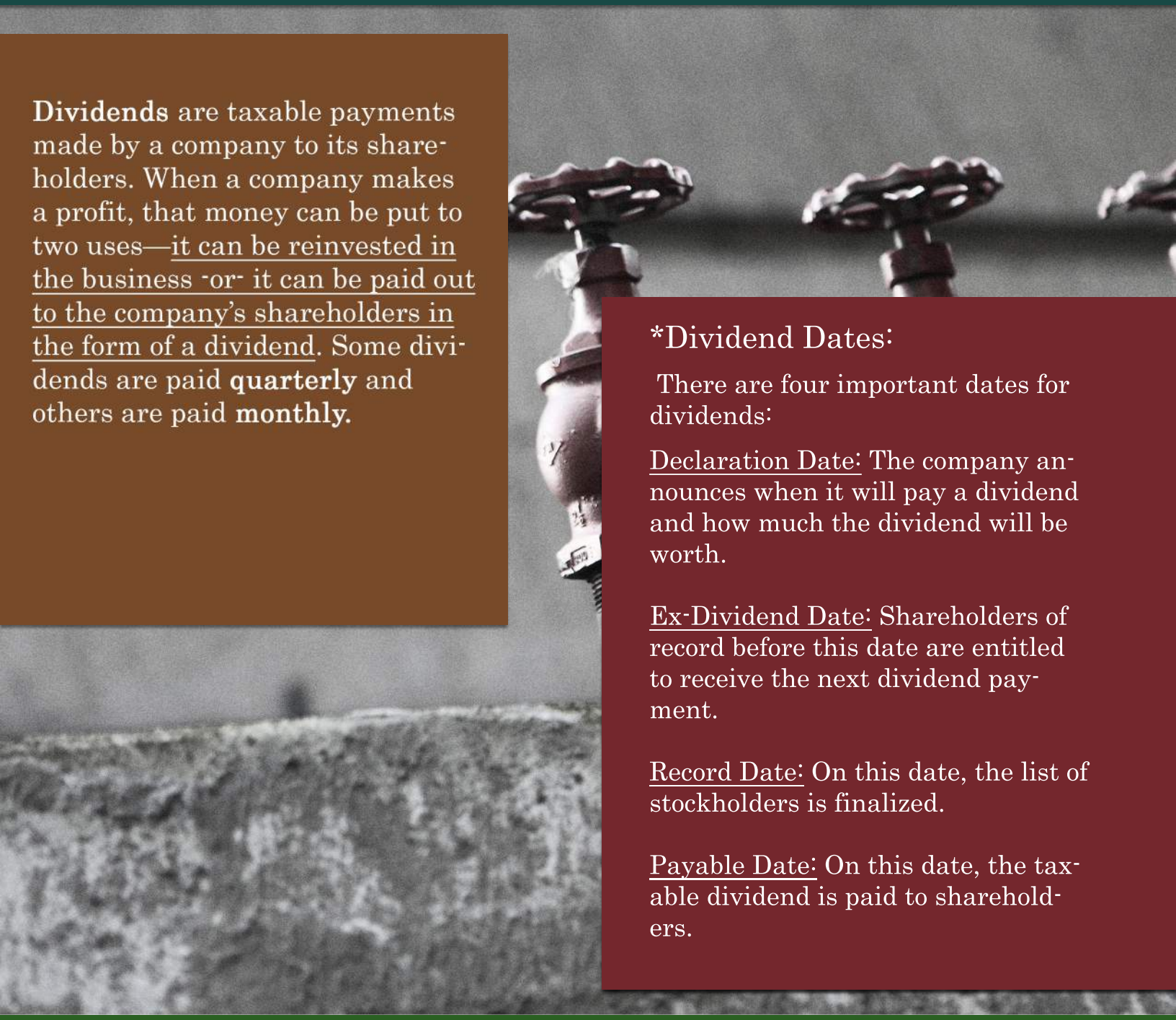
High-growth companies rarely offer dividends because all of their profits are reinvested to help sustain higher-than-average growth.

Investors track dividend-yielding stocks by examining a pair of ratios:

Dividend per share measures how much cash an investor is scheduled to receive for each share of dividend-yielding stock. It is calculated by adding up the total dividends paid out over a year (not including special dividends) and dividing by the number of shares of stock that are outstanding.

Dividend yield measures how much cash an investor is scheduled to receive for each dollar invested in a dividend-yielding stock. It is calculated by dividing the dividends per share by the share price.

Dividends are taxable payments made by a company to its shareholders. When a company makes a profit, that money can be put to two uses—it can be reinvested in the business -or- it can be paid out to the company's shareholders in the form of a dividend. Some dividends are paid **quarterly** and others are paid **monthly.**



*Dividend Dates:

There are four important dates for dividends:

Declaration Date: The company announces when it will pay a dividend and how much the dividend will be worth.

Ex-Dividend Date: Shareholders of record before this date are entitled to receive the next dividend payment.

Record Date: On this date, the list of stockholders is finalized.

Payable Date: On this date, the taxable dividend is paid to shareholders.

Other Dividend Considerations

Investing in dividend-paying stocks can create a stream of taxable income. But the fact that a company is paying dividends is only one factor to consider when choosing a stock investment.

Dividends can be stopped, increased, or decreased at any time. Unlike interest from a corporate bond, which is normally a set amount determined and approved by a company's board of directors. If a company is experiencing financial difficulties, its board may reduce or eliminate its dividend for a period of time. If a company is outperforming expectations, it may boost its dividend or pay shareholders a special one-time payout.

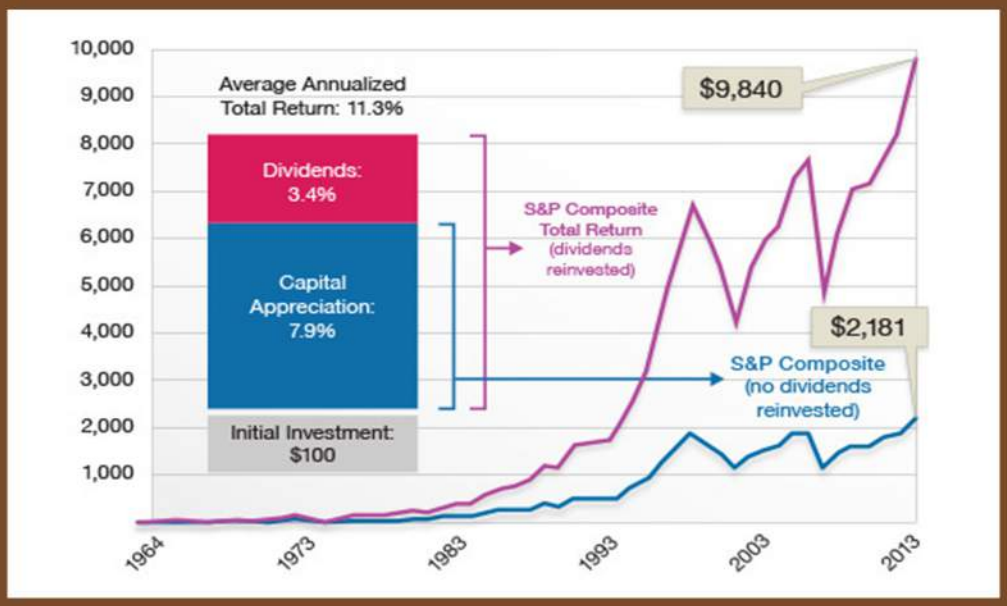
When considering a dividend-yielding stock, focus first on the company's cash position. Companies with a strong cash position may be able to pay their scheduled dividend without interruption. Many mature, profitable companies are in a position to offer regular dividends to shareholders as a way to attract investors to the stock.
Dividend income is currently taxed at a maximum rate of 20%.

- Be cautious when considering investments that pay a high dividend. While past history cannot predict future performance, companies with established histories of consistent dividend payment may be more likely to continue that performance in the future

- In a period of low interest rates, investors who want income may want to consider all their options. Dividend-yielding stocks can generate taxable income but, like most investments, they should be carefully reviewed before you commit any dollars.

Dividends Can Make a Difference

This chart shows the role dividends have played in stock market performance during the past 50 years ended December 31, 2012. Past performance does not guarantee future results.



Thomson Reuters, 2014. The S&P 500 Composite Index and S&P 500 Composite Index (Total Return) are unmanaged indices that are generally considered representative of the U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

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Living off of Dividends for Retirement:

It is possible to live off dividends -if- during the savings period of your life you accumulate enough shares of stock to provide you with the desired amount of income when you retire. Below illustrates that even though the share prices of stocks go up and down and the percentage yield fluctuates, the dividend per share does not change so your income would stay steady throughout the fluctuations of the market.

Shares	Price Per Share	Dividend Per Share	Dividend Yield	Dividend Income	Account Value
1000	$100.00	2.50	2.5%	$2,500.00	$100,000.00
1000	$75.00	2.50	3.33%	$2,500.00	$75,000.00
1000	$50.00	2.50	5.0%	$2,500.00	$50,000.00
1000	$125.00	2.50	2.0%	$2,500.00	$125,000.00
1000	$175.00	2.50	1.43%	$2,500.00	$175,000.00

Why is this possible?

It is possible, however investors often need to use more money than is planned for in retirement, due to unforeseen circumstances. In order to use this money shares of stock are sold. Selling a single share of stock reduces the amount of dividend income by the quantity of dividends per share paid by that particular company. For example if you were receiving $30,000 in dividends and you sold ½ of your shares of stock, after the sale you would only receive $15,000 in dividends.

Factors which safeguard against this are:

- owning a diversified group of stocks
- focusing on companies that are larger, with a long track record of stable dividend payouts, or increasing their dividend annually.

Companies do not typically reduced their dividend unless they start to have a shortage of cash or stop having favorable earnings.

If you have accumulated enough shares and have a well balanced portfolio of stocks of larger sized companies the dividend can be a viable source of retirement income.

Synopsis of Dividend Stocks

- Companies that pay dividends are generally companies that have stable cash flows and strong balance sheets

- Most growth companies do not pay dividends
- Companies who pay dividends are taking cash off of their books and put the money on yours.

- Dividends can be paid in cash, stock, or property

- The dividends can be reinvested back into the company who paid the dividend or could be paid to you in cash for your discretion for use.

- Living off of your dividend income is possible if your expenses are below the income coming in. It is not recommended to only have one stock for this. A diversified portfolio of stocks is more prudent.

- The board of directors could reduce or even eliminate the companies paying of a dividend. This is a big reason to not have all of your eggs in one basket.

- Focus on companies that have a long track record of paying and increasing their dividend pay-out.

- Do not chase companies that offer a very high dividend yield. Often times this a disaster waiting to happen.

- Reinvesting dividends has been a proven way to grow your assets through compound interest

- Investing in dividend stocks is not a guarantee of investment results nor is it a guarantee that a company is good or not.

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