# Dividend Facts

$$\text{Dividend Yield} = \frac{\text{Annual Dividends Per Share}}{\text{Price Per Share}}$$

## Some clients ask, "Shouldn't I own stocks that pay dividends?" We believe, "Maybe, but not because they pay dividends."

### What are dividends?
Dividends are not earnings; dividends are the company providing money to shareholders rather than keeping it available for the company to use. Usually, a company's earnings exceed the dividends paid, but not always.

### Do all companies with earnings pay dividends?
No, if a company thinks that earnings should be invested by the company into marketing, capital projects, acquisitions, etc. then the company will retain earnings.

### What kinds of company's pay dividends?
Companies whose capital needs are small relative to their cash stock and cash flow will typically pay dividends. Examples are regulated utilities, like Duke Energy and PG&E.

### What kinds of companies do not pay dividends?
Companies that have many growth opportunities relative to their cash stock and cash flow will tend not to pay dividends. Examples are Amazon and Moderna.

### What are better, dividend or non-dividend paying companies?
Maybe that's not the right question. How about, "What are the characteristics of the companies you want to own?"

### Would they be on the right or wrong side of long term trends?
Would they be brands people love or companies people are indifferent to?
Would they be companies that are easy to compete with or companies insulated from competition by network effects, economies of scale, and complicated products?

### Would dividend yield take priority over any of the above considerations?
The companies you choose to own may pay dividends or not, but dividends should probably not be the sole reason to invest in a company.



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