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When Markets Turn Dark, Dividends Shine

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Days like Friday remind investors that the stock market can change temperament suddenly and saddle them with losses. Such big down days also put the value of plain old dividend checks in stark relief.

Quarterly dividend checks seemed like small potatoes in the 1990s, when the Standard & Poor's 500-stock index averaged an 18% annual gain. More often than not, dividend-paying stocks were tagged as "Old Economy" has-beens that paid those checks because they lacked new ideas or the gumption to buy a rival.

Over the past 80 years, however, investors have earned a significant chunk of their stock returns -- more than 40% -- from dividends, according to S&P. And since stock prices peaked in 2000, dividends have begun to loom large again.

The steady stream of cash looks particularly good on unnerving days like Friday, when the Dow Jones Industrial Average dropped more than 200 points or nearly 2%, wiping out what had been a strong start for 2006. The Nasdaq Composite Index and Standard & Poor's 500-stock index fell 2.35% and 1.83%, respectively.

Last year, the companies in the S&P 500 paid out a record \$201 billion in dividends, averaging almost 2% of stock prices, up from a low of just over 1% in 2000. "Dividends are definitely making a comeback," says Milton Ezrati, chief economist at Lord Abbett Funds in Jersey City, N.J.


Room for Growth

Dividends are on the upswing partly because these checks have helped keep impatient investors from bolting in the bumpy years since 2000. Dividend fans say the payouts also instill fiscal discipline in corporate managers.

"A company that pays a dividend is like an investor who commits to a 401(k) or saving plan -- because the money isn't in your pocket, it can't be wasted elsewhere," says Patrick Dorsey, head of stock analysis at Chicago researcher Morningstar Inc.

Many analysts believe there's ample room for corporate dividends to start a long growth spurt. The average company in the S&P 500 is paying just about a third of its profits out in dividends, compared with a "payout ratio" of a little over half historically. And dividend yields are still well

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below the S&P 500's 4.5% average since 1926. A stock's yield is its dividends paid over the past 12 months divided by its current share price.

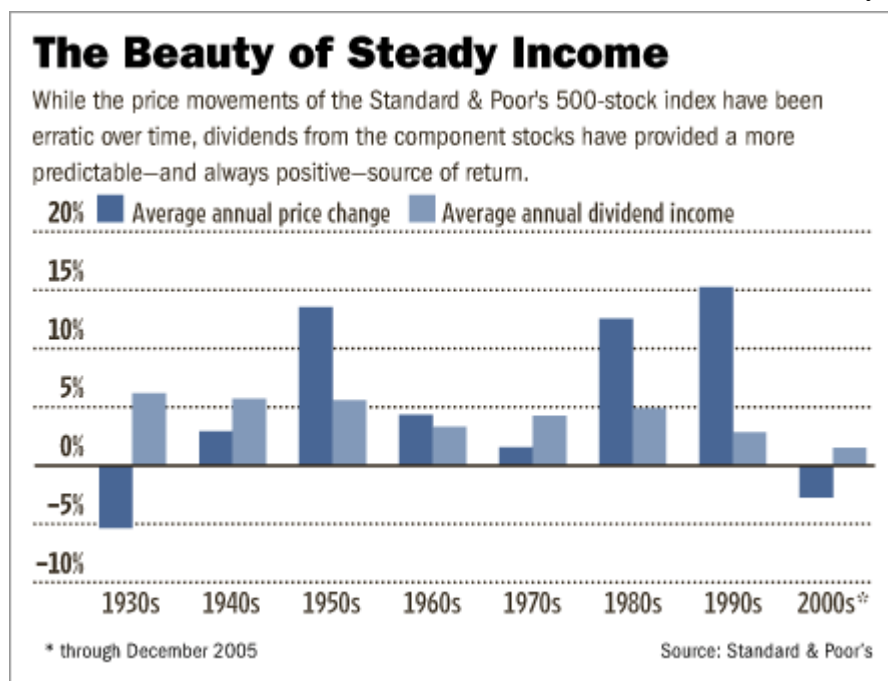
At the same time, company coffers are brimming with cash, buoyed by corporate profits that have grown at a double-digit rate for a record 15 consecutive quarters. Last year, 306 S&P 500 companies raised their dividends compared with just nine that cut them.

For several quarters, money managers have pointed to shares of many of the nation's biggest companies as bargains. Some have particularly favored stocks with rising dividend payouts. A simple search turns up a handful of big, well-known companies that fit that bill and are worth a closer look.

Worth a Look

Like all screens, of course, this is just a starting point and not a buy list. Still, here are five companies, in alphabetical order, that have ample cash, have a higher yield and lower valuation than the average stock in the S&P 500 and have boosted dividends for at least 10 consecutive years.

- **3M.** Based in St. Paul, Minn., 3M is probably best known for its Scotch tape and Post-it notes. But the company makes a broad range of stuff, from dental products to brightness-enhancing films for TV screens. With about a \$57 billion market value, 3M currently has more than a 2.2% yield.



3M has raised its dividend for 46 years straight, according to researcher Mergent Inc., and there appears to be room for more increases in coming years. Wall Street analysts expect 3M to grow its earnings at a more than 10% clip over the next five years, according to Thomson Financial.

- **Citigroup.** The world's biggest financial-services company has more than a \$230 billion market value, but some investors are wary. The stock fell more

than 4% Friday, bringing the yield to nearly 4%, after fourth-quarter results fell short of some analysts' targets. Citigroup is shifting from an aggressive strategy of growth driven by acquisitions to a more staid approach to maximize profits and minimize costs.

The company has a nearly 20-year streak of annual rising dividends and has been repurchasing its shares. Analysts believe there's ample room for both dividend raises and price increases, with projections of 10% annualized profit growth over the next five years. Friday, the company announced plans to boost its dividend by 11%, starting with a payout next month.

- **Coca-Cola.** The world's biggest beverage company, with 400 brands sold in more than 200 countries, Coca-Cola could tempt stock investors looking for income. The company, which has about a \$95 billion market value, currently yields almost 2.8%.

It has raised its dividend in more than 40 consecutive years. Over the past decade, dividends have averaged a little less than a 10% annual growth rate and analysts expect the company's profits to keep that pace over the coming five years, thanks partly to growing sales in emerging markets like Brazil, China and Russia.

At the same time, analysts' average target price for the stock is more than 18% higher than its current share price, implying there may be room for capital appreciation, too.

- **Colgate-Palmolive.** Beyond toothpaste and dishwashing liquid, this New York-based consumer-products giant makes shampoo, shower gel, deodorant, shaving cream, laundry detergent, cleansers, and pet food that are sold world-wide.

Colgate has upped its dividend payout more than 40 years in a row. Today, the shares yield more than 2.1%. At the same time, the company pays out less than 45% of its profits in dividends, leaving room for some growth even if profits dip in a given year. Analysts project 10% profit growth for the company over the next five years.

- **Sysco.** This Houston company is the nation's biggest seller of food and related products to restaurants, schools, hotels and hospitals. Still, Sysco has just 15% of that market, giving the company ample room to grow. Its shares have more than a 2.2% yield and dividends have risen nearly 30 years in a row.

Future increases seem likely given that Sysco's payout ratio has averaged less than 40% of profits over the past decade and analysts expect 13% annualized profit growth over the next five years, according to Thomson Financial.

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