

January 18, 2005

PAGE ONE

Tax Cut, Shareholder Pressure Stoke Surge in Stock Dividends

By **JEFF D. OPDYKE**Staff Reporter of **THE WALL STREET JOURNAL***January 18, 2005; Page A1*

Out of favor for years, stock dividends have surged back. U.S. companies last year paid out a record \$181 billion in dividends -- which doesn't even include **Microsoft** Corp.'s one-time payout of \$32.6 billion in December. And 2005 looks to be even better.

Behind the trend is pressure from shareholders, who aren't content with the stock market's flat performance in recent months and who are looking to dividends as a sign of healthy, real profits. In addition, the 2003 dividend-tax cut has prompted companies to pay out an increasing share of their profits rather than stash the cash or reinvest it. Some companies, notably Microsoft, have started paying dividends for the first time.

Investors are rushing into the initial public offerings of companies that promise not rapid growth but chunky dividends. They're increasingly pouring money into equity-income mutual funds, which focus largely on owning stocks of dividend-paying companies. All this activity also is helping to close the gap with overseas companies, which in recent years have paid higher dividends generally than U.S. companies.

Standard & Poor's estimates that 2005 will be another blockbuster year, with dividends on an annual basis increasing at least 12% from last year's level. Insurance giant **American International Group** Inc. this month announced that, effective with its March 18 dividend payment, it will raise the quarterly payout by 67%, to 12.5 cents a share from the 7.5 cents it paid previously.


DIVIDEND ARISTOCRATS

[See which companies](#)⁰ made Standard & Poor's list of "dividend aristocrats."

There's a good chance S&P's 12% estimate will prove conservative. February marks the beginning of the annual-meeting season, "and there's no better time than your shareholder meeting to announce you're starting a dividend, increasing one or announcing a one-time special payment," says Howard Silverblatt, S&P's equity-market analyst.

Dividends have always been a key component of stock-market returns. After all, ultimately only three numbers count to investors: what you paid for the shares, what you sold them for, and how much money the company paid you in between -- the dividends.

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

Dividends are measured in terms of "yield," or the annual dividend payment divided by the stock's current share price. The S&P 500-stock index currently yields about 1.8%, but many of the component companies pay substantially more. **Equity Office Properties Trust**, a real-estate investment trust, yields about 7%. **General Motors Corp.** pays dividends equal to about 5%. **SBC Communications Inc.**, the former Baby Bell, kicks out dividends of 5.2%.

Since 1926, dividends have accounted for about 41% of the S&P 500's total return through the end of 2004. Looked at another way: Stocks, alone, returned 6.1% on an average annual basis. With dividends, the return jumps to 10.5%.

The practice of paying dividends declined sharply in the 1980s and 1990s as companies focused on growth, and profits were ploughed back into the business. The resurgence came with President Bush's dividend-tax cut of 2003, which dropped the rate to 15%. Previously, dividends were taxed at much higher ordinary income rates. Meanwhile both professional and individual investors, burned by accounting scandals in recent years, began demanding that companies pay beefier dividends. A dividend check offers solid proof that at least a portion of a company's stated profit stream is genuine.

Companies are responding to the pressure. Since the dividend-tax cut 19 months ago, the companies in the S&P 500 have announced 421 dividend increases, while 24 companies started paying dividends for the first time. These dividend initiations are running at the fastest clip ever. Overall, 1,288 companies on the three major exchanges increased their dividends last year, according Standard & Poor's.

Moreover, the IPOs of companies offering hefty dividends have drawn a rush of investors. Valor Communications Group Inc., an Irving, Texas-based telecom company, recently announced plans to go public and pay a hefty dividend from the outset, \$1.44 annually. At the low end of Valor's expected price range of \$16 to \$18 a share, the company's stock will yield 9% annually.

Foreign companies tend to offer bigger yields than U.S. companies. The MSCI Europe Index, for instance, currently yields 2.8%. During the 1980s and 1990s, foreign companies routinely paid more because U.S. companies were more focused on growth and had moved away from paying dividends. In fact, 25 years ago, 469 of the S&P 500 companies paid dividends. By 2002, that number was down to 351. Today, at 377, it's on its way back up. The current trend means the U.S. is narrowing the dividend gap with foreign companies.

Among the markets that offer the best dividend yields are: New Zealand, with 4.1%; Australia, 3.7%; Finland, 3.5%; Netherlands, 3.5%; Belgium, 3.3%; and Italy, 3.2%. The S&P 500's yield of 1.8% lags behind those and is tiny compared with previous decades. From the end of World War II through the early 1980s, dividend yields on the S&P 500 ranged between about 3% and 6%.

Today's fatter dividends are also showing up in mutual-fund distributions, and investors are flocking to equity-income mutual funds, which are largely focused on owning stocks of dividend-paying companies. Investors last year poured just more than \$25 billion into these funds, a record year, according to AMG Data Services, in Arcata, Calif. That's more than four times the \$6.1 billion that flowed into equity-income funds in 2002, the last full year before the dividend-tax cut took effect.

At Baltimore fund company **T. Rowe Price**, dividend distributions have been rising for many of the equity funds. The firm's Blue Chip Growth fund, not known as a dividend fund, paid out 16 cents a share in dividends in 2004, up from a penny a share in 2003. Microsoft's gargantuan payout accounted for about a dime of that increase, but even without the tech giant's contribution, dividends were up dramatically.

The Alpine Dynamic Dividend fund was launched specifically to benefit from the president's tax cuts, and now manages \$100 million in assets, up from just \$15 million when it opened in September 2003. The fund uses a portion of its assets essentially to buy dividends. It owns stocks of dividend-paying companies for 61 days or slightly longer, just long enough to qualify for the lower tax rate. That gives the fund the ability to pull in dividend payments from a large number of companies each year. The fund's yield: 8.8%.

A big yield isn't always as sweet as it seems. Often, distressed companies maintain their dividend payout, even as profits slide. The upshot is that the dividend remains high relative to a falling share price, ratcheting up the yield up with each dip in the stock. Ultimately, however, companies are generally forced to slash their dividend payment to preserve capital, not only reducing the payout to you but often undercutting the share price even further.

S&P each year publishes a list of so-called dividend aristocrats, companies that have a long history of boosting their dividends. This year's list includes 58 companies from the S&P 500, 18 from the S&P MidCap 400 and nine from the S&P SmallCap 600. Names include **Bank of America Corp.**, **Family Dollar Stores Inc.**, **Clorox Co.**, **Tootsie Roll Industries Inc.** and **Haverty Furniture Cos.**

Many companies are falling into the habit of increasing the dividends more than once in a given year. **State Street Corp.** and even onetime telecom belle **Qualcomm Inc.** both raised their dividends more than once in the past year. Thrift giant **Washington Mutual Inc.** is most notorious: The Seattle-based company has raised its dividend 17 consecutive quarters and 28 times since 1995.

Individual stocks aren't the only dividend plays. Several mutual funds and exchange-traded funds are designed specifically to capture dividends and pass them along to investors. Along with the Alpine Dynamic Dividend fund, another mutual fund focused mainly on dividends is the Eaton Vance Tax-Managed Dividend Income fund. It seeks out dividends that qualify for the lower dividend-tax rate. The no-load shares currently yield about 3.9%.

In exchange-traded funds, the **Neuberger Berman Dividend Advantage** fund invests at least 80% of its assets in stocks yielding in excess of the S&P 500 index. The current yield on the fund: 6.24%. The **BlackRock Strategic Dividend Achievers Trust** has a similar mandate, though it focuses largely on small- to midcap stocks. It currently yields about 6.02%.

Companies have lots of room to continue lifting their dividend payments. S&P 500 companies last year distributed about 34% of their profits as dividends, way off the historical average of nearly 54%. Moreover, those companies combined have \$594.6 billion in cash on their books, up nearly \$100 billion in 2004 alone. That's enough money to pay a one-time, special dividend of \$2.62 a share to every shareholder of an S&P 500 company -- even those that own the 114 S&P members that don't pay dividends.

Write to Jeff D. Opdyke at jeff.opdyke@wsj.com¹

Dividend Aristocrats

25 consecutive years of increased cash payments based on ex-dividend dates from January 1 - December 31 of each year

Data as of the close of January 12, 2005

| Ticker | Company | Sector | Index | Price | Indicated Annual Dividend Rate | Dividend Yield |
|--------|------------------------|----------------------------|--------|-------|--------------------------------|----------------|
| MMM | 3M Co | Industrials | S&P500 | 84.96 | 1.44 | 1.7 |
| ABT | Abbott Laboratories | Health Care | S&P500 | 46.93 | 1.04 | 2.2 |
| AT | ALLTEL Corp | Telecommunication Services | S&P500 | 55.04 | 1.52 | 2.8 |
| MO | Altria Group | Consumer Staples | S&P500 | 61.63 | 2.92 | 4.7 |
| ASO | AmSouth Bancorp | Financials | S&P500 | 25.24 | 1.00 | 4.0 |
| BUD | Anheuser-Busch Cos | Consumer Staples | S&P500 | 49.17 | 0.98 | 2.0 |
| ADM | Archer-Daniels-Midland | Consumer Staples | S&P500 | 21.57 | 0.30 | 1.4 |
| ADP | Automatic Data Proc | Information Technology | S&P500 | 42.32 | 0.62 | 1.5 |
| AVY | Avery Dennison Corp | Industrials | S&P500 | 57.74 | 1.52 | 2.6 |
| BAC | Bank of America | Financials | S&P500 | 45.06 | 1.80 | 4.0 |
| BCR | Bard (C.R.) | Health Care | S&P500 | 64.67 | 0.48 | 0.7 |
| BDX | Becton, Dickinson | Health Care | S&P500 | 54.86 | 0.72 | 1.3 |
| CTL | CenturyTel Inc | Telecommunication Services | S&P500 | 33.44 | 0.23 | 0.7 |
| CB | Chubb Corp | Financials | S&P500 | 76.32 | 1.56 | 2.0 |
| CLX | Clorox Co | Consumer Staples | S&P500 | 58.69 | 1.12 | 1.9 |
| KO | Coca-Cola Co | Consumer Staples | S&P500 | 41.16 | 1.00 | 2.4 |
| CMA | Comerica Inc | Financials | S&P500 | 59.15 | 2.08 | 3.5 |
| CAG | ConAgra Foods | Consumer Staples | S&P500 | 28.97 | 1.09 | 3.8 |
| ED | Consolidated Edison | Utilities | S&P500 | 43.48 | 2.26 | 5.2 |
| RRD | Donnelley(R.R.)& Sons | Industrials | S&P500 | 33.24 | 1.04 | 3.1 |
| DOV | Dover Corp | Industrials | S&P500 | 39.54 | 0.64 | 1.6 |
| EMR | Emerson Electric | Industrials | S&P500 | 67.60 | 1.66 | 2.5 |
| FDO | Family Dollar Stores | Consumer Discretionary | S&P500 | 32.13 | 0.34 | 1.1 |
| FHN | First Horizon Natl | Financials | S&P500 | 42.46 | 1.72 | 4.1 |
| GCI | Gannett Co | Consumer Discretionary | S&P500 | 81.77 | 1.08 | 1.3 |
| GE | Genl Electric | Industrials | S&P500 | 35.68 | 0.88 | 2.5 |
| GWW | Grainger (W.W.) | Industrials | S&P500 | 62.04 | 0.80 | 1.3 |
| JP | Jefferson-Pilot | Financials | S&P500 | 49.50 | 1.52 | 3.1 |
| JNJ | Johnson & Johnson | Health Care | S&P500 | 63.32 | 1.14 | 1.8 |
| JCI | Johnson Controls | Consumer Discretionary | S&P500 | 61.18 | 1.00 | 1.6 |
| KEY | KeyCorp | Financials | S&P500 | 32.10 | 1.24 | 3.9 |
| KMB | Kimberly-Clark | Consumer Staples | S&P500 | 64.61 | 1.80 | 2.8 |
| LEG | Leggett & Platt | Consumer Discretionary | S&P500 | 27.66 | 0.60 | 2.2 |
| LLY | Lilly (Eli) | Health Care | S&P500 | 57.78 | 1.52 | 2.6 |
| LOW | Lowe's Cos | Consumer Discretionary | S&P500 | 57.38 | 0.16 | 0.3 |

| | | | | | | |
|------|------------------------|----------------------------|--------|-------|------|-----|
| MMC | Marsh & McLennan | Financials | S&P500 | 30.90 | 1.36 | 4.4 |
| MAS | Masco Corp | Industrials | S&P500 | 34.93 | 0.72 | 2.1 |
| MAY | May Dept Stores | Consumer Discretionary | S&P500 | 27.52 | 0.97 | 3.5 |
| MCD | McDonald's Corp | Consumer Discretionary | S&P500 | 31.34 | 0.55 | 1.8 |
| MHP | McGraw-Hill Companies | Consumer Discretionary | S&P500 | 91.27 | 1.20 | 1.3 |
| MRK | Merck & Co | Health Care | S&P500 | 31.08 | 1.52 | 4.9 |
| NUE | Nucor Corp | Materials | S&P500 | 49.23 | 0.52 | 1.1 |
| PEP | PepsiCo Inc | Consumer Staples | S&P500 | 53.61 | 0.92 | 1.7 |
| PFE | Pfizer, Inc | Health Care | S&P500 | 26.03 | 0.76 | 2.9 |
| PPG | PPG Indus | Materials | S&P500 | 66.08 | 1.80 | 2.7 |
| PG | Procter & Gamble | Consumer Staples | S&P500 | 56.51 | 1.00 | 1.8 |
| RF | Regions Financial(New) | Financials | S&P500 | 34.34 | 1.33 | 3.9 |
| ROH | Rohm & Haas | Materials | S&P500 | 43.04 | 1.00 | 2.3 |
| SIAL | Sigma-Aldrich | Materials | S&P500 | 59.22 | 0.68 | 1.1 |
| SWK | Stanley Works | Consumer Discretionary | S&P500 | 46.32 | 1.12 | 2.4 |
| STT | State Street Corp | Financials | S&P500 | 47.08 | 0.68 | 1.4 |
| SVU | Supervalu Inc | Consumer Staples | S&P500 | 33.10 | 0.61 | 1.8 |
| SYZ | Sysco Corp | Consumer Staples | S&P500 | 36.32 | 0.60 | 1.7 |
| TGT | Target Corp | Consumer Discretionary | S&P500 | 49.74 | 0.32 | 0.6 |
| USB | U.S. Bancorp | Financials | S&P500 | 30.35 | 1.20 | 4.0 |
| VFC | VF Corp | Consumer Discretionary | S&P500 | 53.97 | 1.08 | 2.0 |
| WMT | Wal-Mart Stores | Consumer Staples | S&P500 | 54.08 | 0.52 | 1.0 |
| WAG | Walgreen Co | Consumer Staples | S&P500 | 41.92 | 0.21 | 0.5 |
| | | | | | | |
| BKH | Black Hills Corp | Utilities | MIDCAP | 29.94 | 1.24 | 4.1 |
| CSL | Carlisle Cos | Industrials | MIDCAP | 62.83 | 0.92 | 1.5 |
| DBD | Diebold, Inc | Information Technology | MIDCAP | 57.04 | 0.74 | 1.3 |
| HB | Hillenbrand Indus | Health Care | MIDCAP | 54.80 | 1.12 | 2.0 |
| HRL | Hormel Foods | Consumer Staples | MIDCAP | 29.73 | 0.52 | 1.7 |
| LANC | Lancaster Colony | Consumer Staples | MIDCAP | 41.87 | 1.00 | 2.4 |
| MRBK | Mercantile Bankshares | Financials | MIDCAP | 51.09 | 1.40 | 2.7 |
| NFG | Natl Fuel Gas | Utilities | MIDCAP | 27.04 | 1.12 | 4.1 |
| PNR | Pentair, Inc | Industrials | MIDCAP | 41.20 | 0.52 | 1.3 |
| STR | Questar Corp | Utilities | MIDCAP | 47.69 | 0.86 | 1.8 |
| RPM | RPM Intl | Materials | MIDCAP | 18.13 | 0.60 | 3.3 |
| TFX | Teleflex Inc | Industrials | MIDCAP | 49.92 | 0.88 | 1.8 |
| TDS | Telephone & Data Sys | Telecommunication Services | MIDCAP | 83.54 | 0.66 | 0.8 |

| | | | | | | |
|-----|---------------------------|------------------------|--------|-------|------|-----|
| TR | Tootsie Roll Indus | Consumer Staples | MIDCAP | 31.70 | 0.28 | 0.9 |
| VAL | Valspar Corp | Materials | MIDCAP | 47.70 | 0.80 | 1.7 |
| VVC | Vectren Corp | Utilities | MIDCAP | 26.14 | 1.18 | 4.5 |
| WGL | WGL Holdings | Utilities | MIDCAP | 29.41 | 1.30 | 4.4 |
| WPS | WPS Resources | Utilities | MIDCAP | 48.04 | 2.22 | 4.6 |
| | | | | | | |
| ABM | ABM Indus Inc | Industrials | SCI600 | 18.41 | 0.42 | 2.3 |
| AWR | Amer States Water | Utilities | SCI600 | 24.88 | 0.90 | 3.6 |
| FUL | Fuller (H.B.) | Materials | SCI600 | 26.66 | 0.46 | 1.7 |
| HVT | Haverty Furniture | Consumer Discretionary | SCI600 | 17.84 | 0.25 | 1.4 |
| MYE | Myers Indus | Materials | SCI600 | 12.32 | 0.20 | 1.6 |
| NWN | Northwest Natural Gas | Utilities | SCI600 | 32.95 | 1.30 | 3.9 |
| PNY | Piedmont Natural Gas | Utilities | SCI600 | 22.14 | 0.86 | 3.9 |
| KWR | Quaker Chemical Corporati | Materials | SCI600 | 22.89 | 0.86 | 3.8 |
| RLI | RLI Corp | Financials | SCI600 | 40.82 | 0.56 | 1.4 |

Source: Standard & Poor's

URL for this article:

<http://online.wsj.com/article/0,,SB110599926403228151,00.html>

Hyperlinks in this Article:

(1) <mailto:jeff.opdyke@wsj.com>

Copyright 2005 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones

Reprints at 1-800-843-0008 or visit www.djreprints.com.