

CHART OF THE MONTH

OCTOBER 2021

Our client portfolios are invested exclusively in stocks and bonds. Stocks represent partial ownership (or equity) in a company. They offer the potential for dividend income and capital appreciation. Bonds are a loan to the issuer (governments, municipalities, and corporations) and provide a fixed rate of interest income and an obligation to repay the principal (or face value) at a stated maturity date.

There are two types of stocks (common and preferred) and two types of dividends (qualified and non-qualified). Common stock dividends from U.S. corporations are considered qualified. Dividends paid by most foreign companies, Real Estate Investment Trusts (REITs), Master Limited Partnerships (MLPs), and money-market funds are non-qualified. Preferred dividends may be qualified or non-qualified. Qualified dividends receive favorable tax treatment under the current law whereas non-qualified dividends are taxed as ordinary income.

There are four key dates when it comes to dividends.

Declaration date. This is the date on which the board of directors approves and announces the payment of a dividend.

Record date. This is the date on which shareholders must own the stock to be eligible to receive the dividend.

Payable date. This is the date when the dividend checks are mailed or credited to the accounts of shareholders.

Ex-Dividend date. The ex-dividend date, which is set by the stock exchange, is the first day that a stock trades without the dividend. Investors who purchased the stock before the ex-dividend date are entitled to the next dividend payment while those who bought the stock on the ex-dividend date (or after) are not.

For example, in the case of Apple Inc. (AAPL), the following table presents the various dates and the amount of the quarterly dividends over the past year.

Declared	Record	Payable	Amount
July 27, 2021	August 9, 2021	August 12, 2021	\$0.22
April 28, 2021	May 10, 2021	May 13, 2021	\$0.22
January 27, 2021	February 8, 2021	February 11, 2021	\$0.205
October 29, 2020	November 9, 2020	November 12, 2020	\$0.205

Apple is likely to announce its next quarterly dividend toward the end of this month with a payable date during the second week of November. We would expect the payment to be \$.22 for each of the next two quarters and then increased once again in April 2022.

The latest quarterly payout equals \$.88 on an annualized basis for a dividend yield of 0.61% (\$.88 divided by the stock price of \$143.76). However, for clients who bought AAPL eight years ago, the dividend yield works out to more than 6% on their cost (rather than the current market price). The value of the stock has also grown tenfold over this time, providing current income and capital appreciation.

Apple has earned \$5.11 per share over the past four quarters. The payout ratio, which is the amount of dividends paid in relation to earnings, is 17.2% (\$.88/\$5.11). The majority of dividend-paying companies tend to distribute roughly one-quarter to three-quarters of their earnings to shareholders. Those that pay out more tend to operate in mature, slower-growing industries that generate a lot of steady cash flow. Those that pay out less generally operate in faster-growing sectors that benefit from reinvesting capital back into the business.

Companies are not required to pay dividends and dividends are subject to being reduced or omitted. Well-managed companies with strong finances (like Apple) generally raise their dividends annually. Our Equity Income Strategy focuses on these types of companies with the goal of producing a growing stream of income and the prospects for moderate capital appreciation over time.

We will discuss bonds in greater detail in our Chart of the Month for November.



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