

Safe High Dividend Stocks- A Vanishing Breed?

How difficult is it to find a safe high dividend stock in 2009?

The Wall St. Journal recently reported that, in 2009, S&P 500 companies' dividend reductions and suspensions are nearly equal to dividend increases, (60 increases vs. 51 reductions/suspensions).

Compare this to 2007, when there were 129 dividend increases vs. only 2 dividend cuts/suspensions, and you can see why income investors in 2009 face big challenges finding safe dividends, let alone high yield dividends.

Indeed, 8 of the Dow 30 blue chip stocks have cut their dividends in the past year, and even the revered S&P "Dividend Aristocrats" group has seen an unprecedented rise in dividend cuts, and an historic lack of increases. The 2009 Dividend Aristocrats group has had 5 cuts and 32 unchanged dividend payouts, vs. no decreases from 2003–2008. In 2006–2007, all 52 stocks in this group increased their dividends, and in 2008 there were 41 dividend increases and 11 unchanged.

So, where can you find a dependable dividend yield? A good place to start would be the Dividend Aristocrats group, which is comprised of companies which have 25 consecutive years of increased cash payments.

In the broadest sense, it's logical that companies who can sustain and increase their dividend payouts for 25 years or more must have strong business models, that generate substantial cash flow, in order for them to be able to afford these payouts to shareholders.

However, as noted above, circumstances can change dramatically, so, investors hunting for safe high yields should look closely at the most recent performance of stocks in this group.

In 2009, there are 15 Dividend Aristocrat companies that have increased their payouts so far. Looking a bit closer shows us that the Consumer Staples group has the highest concentration of companies with dividend increases:

Consumer Staples (4) Consumer Discretionary (3) Industrials, Materials, and Utilities, (all with 2); Health and Financials, (both with 1).

The actual dividend yields currently vary from a low of 1.3% up to 9.3%. As you'd expect, there are many household names in this elite group – 3M, Abbot Labs, Archer Daniels, Coke, etc. Many of the companies in this group are industry leaders, and have been in business for several decades.

To determine which of these dependable dividend-paying stocks is a good fit for your portfolio, you have to analyze many factors, such as which sector(s) you feel will prosper, or at least maintain their payouts in the coming years, the various company fundamentals, such as return on assets (ROE), return on equity

(ROE), current ratio, debt to equity ratio, and return on capital. In addition, look at where these stocks are, relative to their 1-year and historic prices. Are they at the low end of their price cycle, or are they making new highs, and on how much comparative volume?

Our monthly newsletter, The Double Dividend Stock Alert, features a select few of these elite companies, and shows our subscribers how to further enhance their dividend yields for double-digit returns.

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