

Making Everything Easier!™

# Dividend Stocks

FOR  
DUMMIES®

## Learn to:

- Successfully add dividend stocks to your investment portfolio
- Effectively research companies
- Gauge risk, growth, and return
- Increase your dividend investments

**Lawrence Carrel**

Author, *ETFs for the Long Run*



# Dividend Stocks For Dummies®

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# ***Dividend Stocks For Dummies***<sup>®</sup>

**Lawrence Carrel**



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## About the Author

**Lawrence Carrel** is a seasoned financial journalist and author of *ETFs for the Long Run: What They Are, How They Work, and Simple Strategies for Successful Long-Term Investing* (Wiley). He currently writes a blog of the same name at [www.ETFsForTheLongRun.com](http://www.ETFsForTheLongRun.com).

After working as a newspaper reporter and editor, Carrel got in on the ground floor of the online publishing business when financial news entered the Internet age. As a founding staff member of The Wall Street Journal.com, he was one of the original writers of its *Cyber Investing* column and among the first to write about small stocks for the Web. Later at SmartMoney.com, his daily market commentary tracked the dot-com bubble and the crash of 2000. A year later, he created *SmartMoney's* daily online hot stocks column, *The One-Day Wonder*. Over five years, he reported on nearly 1,200 different companies in almost every industry.

In 2006, Carrel originated SmartMoney.com's *Under the Radar* column, which looked for investments among small

stocks, and the *ETF Focus* column just as the exchange-traded fund (ETF) industry began its era of explosive growth. In 2007, he took over the weekly ETF and mutual funds columns at TheStreet.com. While there, Carrel predicted the 2008 stock market decline in August 2007 and told readers to start shorting the market with ETFs. He was also the first to report on the connection between the subprime mortgage crisis and the plunge in municipal bonds. And a year before it happened, he was the first to focus on the possibility of money market funds “breaking the buck.”

For three years, Carrel served as a daily contributor to *The Wall Street Journal This Morning* radio show and has been a guest commentator on MSNBC, CNN, and numerous other news networks. He has addressed the NASDAQ Stock Market as an ETF expert, and served as a founding featured journalist on The Investor Network, a social network for investors. In addition, his work has appeared in *The Wall Street Journal*, *Barron's Online*, *Bankrate.com*, *The Big Money*, *ETF Report*, *Financial Planning*, *Hard Assets Investor*, *IndexUniverse.com*, and *Structured Products*. In a break from financial journalism, Carrel worked as a contributing editor on the college humor compilation, *Lunacy: The Best of the Cornell Lunatic* (Lunatic Press). A native of Buffalo, New York, and a graduate of Cornell University, he lives in New York City with his two sons.

## **Dedication**

To Judy Hayes, who believed in me when no one else did.

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# Introduction

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The purpose of the stock market is to enable companies to raise the capital they need to start or grow their businesses. Instead of borrowing money from a bank and paying interest on it, a company can sell shares of itself to investors. Over the years, the stock market has gone from being a respectable venue for investors to purchase partial ownership in companies to something more akin to a casino. Seduced by reports of individuals earning millions nearly overnight by investing in high-growth stocks, speculative investors poured money into many companies that offered nothing more than a promise of sales and profits, further inflating share prices. When the needle point of reality finally popped the bubble, the poor unfortunates who failed to cash out their chips early enough were blown away like dust.

Fortunately, the deflated bubble (along with some dividend-friendly tax legislation) brought many investors down to earth and back to the basics — investing in companies with a proven track record of earning profits and paying dividends. As they return to the fold, investors are beginning to realize what their parents, grandparents, and great-grandparents already knew — dividend investing offers a host of benefits that provide a safer and often more profitable way to invest in the stock market.

Dividend investing is nothing new. In fact, since 1602, when the Dutch East India Company became the first corporation to issue stock, dividends have been the primary way for investors to receive profits from their investments without dissolving the company or selling the investment. However, following a dividend-investment strategy is new to many modern investors

who've been focused solely on growth investing. If you count yourself among this crowd or are just starting out and plan on investing in dividend stocks, you've come to the right place. *Dividend Stocks For Dummies* contains all you need to know to develop your strategy, find and evaluate potentially good dividend stocks, manage your portfolio, and avoid the most common and critical mistakes.

## About This Book

I'd love to be able to hand you a list of stocks and send you off with instructions to buy each one, but investing doesn't work that way. Every investor is different. You have a unique personality, specific goals, and a tolerance for risk that's different from your neighbors next door or across the street. Every company is different, too, operating in a specific industry, offering unique products and services, and being managed to varying levels of success. As an investor, your goal is to pair yourself up with investment opportunities that are a suitable match. That's what this book is all about.

In *Dividend Stocks For Dummies*, I present the idea of dividend investing and lead you through a process of self-examination to determine the type of investor you are, identify your goals, and develop an overall strategy that can move you most efficiently (and safely) from point A to point B. I show you how to find promising candidates and how to then evaluate them by using time-tested criteria so that you choose the best stocks to meet your needs. I mention some historically well-performing stocks you may want to check out, show you various ways to buy and sell

shares, and offer guidance on managing your portfolio after you've purchased some shares.

The best part about this reference book is that *you* decide where to start and what to read. I've written every chapter to stand on its own, so you can start at the beginning of the book or pick any chapter from the table of contents and dig in.

As you read, keep one important point in mind: Past performance of a stock is no guarantee of future returns. I know, I know — you've heard that one before. But it's worth repeating. What it boils down to is this: If I mention a company in this book that I think is a potentially good dividend stock, don't assume I'm telling you to buy it. You may want to look into it, but I'm not necessarily recommending it. After all, by the time you read this book, that stallion of a stock may be a bust. Whatever you invest your money in or spend your money on is entirely your choice. I provide some guidance in picking stocks that may be likely to outperform other stocks, but I provide no specific recommendations. Take all the credit for your good investment decisions, but take all the blame for bad ones, too.

## **Conventions Used in This Book**

I use several conventions in this book to call your attention to certain items. For example:

*Italics* highlight new, somewhat technical terms that I follow up with straightforward, easy-to-

understand definitions.

**Boldface** text indicates key words in bulleted and instructive steps numbered lists.

Monofont highlights Web and e-mail addresses.

When this book was printed, some Web addresses may have needed to break across two lines of text. If that happened, rest assured that we haven't put in any extra characters (such as hyphens) to indicate the break. So, when using one of these Web addresses, just type in exactly what you see in this book, pretending as though the line break doesn't exist.

## What You're Not to Read

You can safely skip anything you see in a gray shaded box. We stuck this material in a box (actually called a *sidebar*) for the same reason that most people stick stuff in boxes — to get it out of the way, so you wouldn't trip over it. However, you may find the case studies and brief asides in the sidebars engaging, entertaining, and perhaps even mildly informative. You can also pass over text tagged with a Technical Stuff icon; it's technical or historical information that isn't vital to understanding the topic at hand.

## Foolish Assumptions

While writing this book, I made a few foolish assumptions, mainly about you and how much you know about

investing:

You have a general understanding of investing and your investment options, including CDs (certificates of deposit), money market funds, stocks, bonds, mutual funds, real estate, and so on. If you don't, check out *Investing For Dummies*, 5th Edition, by Eric Tyson (Wiley).

You grasp the basics of stock market investing. I provide a brief refresher in Chapter 2, but to develop a deeper understanding, check out *Stock Investing For Dummies*, 3rd Edition, by Paul Mladjenovic (Wiley).

You realize that investing always carries some risk, that some risks are greater than others, and that *not* investing can also be risky.

You have some money (capital) to invest. It doesn't need to be stuffed in your pocket or sitting in a bank account. It can be money you already have invested, perhaps sitting in an IRA or 401(k).

You want a safer way to invest your hard-earned dollars, so you're interested in introducing or adding more dividend stocks to your portfolio.

## **How This Book Is Organized**

Although I encourage you to read this book from cover to cover to maximize the return on your investment, *Dividend Stocks For Dummies* presents the information in easily digestible chunks so that you can skip to the

chapter or section that grabs your attention or meets your current needs, master it, and then skip to another section or simply set the book aside for later reference.

To help you navigate, I divvy the 22 chapters that make up the book into six parts. The following sections provide a quick overview of what's covered in each part.

## **Part I: Introducing Dividend Investing Basics**

Share prices grab headlines. Dividends don't. As a result, investors are often in the dark about dividend investing, even if they're well-schooled in picking stocks based on share price alone.

In this part, I bring you up to speed with a brief primer on dividend investing, explore dividend stocks in a little more detail, and then reveal over a half-dozen advantages that dividend stocks offer.

## **Part II: Selecting an Investment Approach and Picking Stocks**

Picking stocks is like playing matchmaker for yourself. When you're looking for a date, you need to know who you are and what you're looking for before you start skimming the personal ads. In the same way, you need to know what type of investor you are and your overall investment strategy so that you can find a suitable match.