

# InvestWrite Essay

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**Question: Lets say you are going to give your parents an allowance by investing in stocks that pay dividends. Pick three stocks in different industries that pay dividends and tell us why you chose them. Did they pay a high dividend compared to other stocks? Have they paid dividends for a long time? Describe why dividends are important when evaluating a stock. Finally, would you tell your parents to reinvest their dividends, to buy more shares of stock, or take cash payment?**

## Dividends as an Allowance

I was thinking of a perfect present for my parents, when I heard the radio talking about the stock market. Yes! I knew the answer; I should give my parents allowances by investing in companies that paid dividends. After researching, I decided I was going to invest in the companies: Citizens Communications (technology), Progress Energy (utilities), and Washington Mutual (financial). To get these companies, I followed the guidelines of if: the company has a high dividend yield, is a big company, is growing, and had a good history. I'm sure my parents would love the gift!

I'm going to tell you the details of how I chose the companies. First I chose the companies because they all had big dividend yields (7.22%, 5.19%, and 4.92%). That meant that it also generally had a higher dividend than other companies. You might think the dividend money is low, but really it isn't. The only reason you think it's low is because of the low stock price. If the stock price is low, you could buy more shares, and get more money for the dividend. You should look at the dividend yield, not just the money you get.

Also, I chose companies that were big. Big companies are usually doing well. Washington Mutual (WM), Progress Energy (PGN), and CZN are all in the S&P 500. If it is a small company, the risks are larger, so the stock price might go down; bringing the dividend down with it (Amwest Insurance Group is a really bad example). A high dividend yield would be useless if you invested in a small company.

One of the most important points I used to search when finding a good company was looking at the growth. If the company doesn't grow, you won't earn much either. To determine how strong a company is, you should look at different things, like the net profit margin. It's the latest year earning per share. The company would have made lots if it were high. Also look at the twelve-month relative strength (it measures the price performance of the company's stock). If the company has a high debt to equity ratio, it means your company has lots of debt to pay. 60% and less for the ratio is good. Finally, you need to consider the coverage ratio. It tells you how much of the profit the company is giving you in dividend. When a company's ratio is 2 or 3 it is good. But if it gets above 4 or below 1.5 it means the company is barely paying you dividends or is giving you too much dividends and not letting the company grow. To calculate the strength and growth of a company, you should consider all these points.

History of the company is also really important. You want the history of the company to be long and growing. Here's how my company's dividend history is. CZN started with a 0.18 in 1990 for the dividend, and now, they have a .25 dividend. PGL has 0.5 for a dividend, and they once had 0.25 dividends in 1982. WM used to have a .02 dividend in 1990, and they now have 0.53. The history of how the company is doing is very important too. If the company is steadily growing, it is likely it would continue. The past of a company could determine the future.

I bought the stocks, and they earned me lots of dividends! I paid my parents the allowance, and they celebrated! But, they asked me what they should do with the dividend, reinvest it, or keep it. I told them to reinvest it, so you would get more money the next quarter. They could keep reinvesting, and then get all the money when they retire. As you must have realized, dividends are really important when looking at a stock. It could tell you how a company is doing and the dividend is also part of the money you get when investing in stock. Now, just remember the points to remember when looking at a company and its dividend: high dividend yield, if the company is big, the growth, and the history. If you follow these tips, you might get rich!