

InvestWrite Essay

Jordan N., Spring Brook Elementary

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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

The goal for this assignment was to pick three stocks that would give my parents a steady, strong income return which would come from dividend payments. My strategy was to give my parents a consistent monthly and quarterly income. After researching dividends from many different companies, I choose the following three companies for my parents: Sabine Royalty Trust (SBR) the monthly, AT&T (T) the quarterly Altria Group, Inc. (MO) also a quarterly.

Each of the companies I chose comes from different sectors. (SBR) comes from the financial sector which is one of the reasons I picked it. (T) comes from the telecommunications sector and (MO) comes from consumer staples sector.

Sabine Royalty Trust is a trust set up to receive the royalties and payment for mineral rights and land holding for Sabine Corporation. It has been around publicly since Dec 30, 1987. It has been paying dividends consistently since January 11, 1988. It started by paying a monthly dividend of \$3.95 in 1988 and has already paid \$5.61 this year an 11.3% yield. It has a high dividend compared to average stocks. I liked the consistency of a monthly dividend because it helps my parents have money on a regular basis. Also this company has been steadily increasing for the last 5 years, it is a solid company. (SBR) is trading at a high of \$51.83 and a low of \$39.10 and is currently at \$49.27. Since it is at a high, I would recommend my parents to take the cash instead of reinvesting. The taxes on a dividend payout are 15%. I chose this company because it is in the financial sector and was paying a high dividend.

AT & T is a telecommunication company. It is a well known company that has been publicly traded July 19, 1984. AT & T has been paying dividends since September 24, 1984. It paid \$.4917 in 1985. This year it has paid \$1.33 a 4% yield. It is paid on a quarterly basis. This company has been doing slightly above average. It has gone from a high of \$55.00 and a low of \$20.85 and currently is trading at \$33.00. The last 52 weeks it has traded at a \$35.00 and a low of \$24.00. Since this is also trading at a high for the year, but not an all time high I would recommend for my parents to reinvest and buy more shares of stock. This company is in the telecommunications sector. Also this stock is a reasonably inexpensive stock and the company has a history of being a stable company to invest in.

Altria Group is a cigarette and a tobacco products world-wide company. It also diversified in the sales of packaged foods and beverages. Altria is in the consumer

staples industry sector. The company was founded in 1919 and is based in New York City. It became a public traded company January 2, 1970 and paid its first dividend on June 10, 1970. It pays its dividend quarterly. In 1971 it paid \$0.013 dividend. In 2006 it paid \$3.44 or 4% yield. It is paid on a quarterly basis which is a bonus to my parents every 3 months. This would help them with bigger bills that are due quarterly such as property taxes. This stock is on an upward trend. The high for this year is \$85.55 and the low is \$68.36 and is currently trading at \$84.89. Since this stock is trading high and is expensive, I would recommend to my parent to take a cash payment on this stock.

After a lot of research on stocks that pay dividends, I felt that I should pick stocks that offer consistently higher returns. This would benefit my parents the most. The three companies I chose did well are solid and have a good history of paying high dividends. I picked both quarterly and monthly to have a constant income flow to my parents.