

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 have chosen three stocks that are great stocks to buy due to their great dividend payment. All of these stocks are in a different industry. My first company is called National City Corporation (NCC). This company is in the financial business. They are a great company to invest in because they have paid consistent dividends since 1989. They have had little or no gaps in their payment. Even though they do not have the highest dividend yield of 4.30%, it is better than Novastar, which is one of NCC's competitors. Novastar has a dividend yield of 18.60%. I think that this is too extreme, so it may indicate other problems of which I'm concerned about. For example, Novastar might not be as consistent in their payment. I also chose NCC because other competitors have not been paying dividends for a long time like NCC has.

Another company that would be a good company to invest in because of their great paying dividends would be Kellogg's (K), which is in the food industry. Just as NCC has, K has been consistently paying their dividends since 1985 with little or no gaps in their payment. Even though Kraft, one of K's competitors, has a higher dividend yield of 2.9% with K at 2.4%, Kraft has only been paying dividends since 2001. Although Kraft's and K's dividend yields are really close, Kraft still has some gaps in their dividend payment. K's yield has been mostly staying the same with a little climb, but Kraft's dividend yield has a wide range with it going up and down and up and down.

One last company that I have chosen is called BP plc, which is in the Oil/Energy industry. I chose BP this time because it had the highest dividend yield of 3.5% between two other competitors. One of its competitors, Chevron Corporation, has a lower dividend yield of 3%. They have also had a large gap of not paying dividends between 1976 and 1984. Since 1987, BP has been consistently paying their dividends and has had a climb that they will be able to keep up with because the company is at a steady pace. All of these companies that I have chosen are great companies to invest in for their consistent payments and their long history of paying dividends.

Dividends are a great way to earn money. There are a couple of things to look at when investing in a well paying dividend company. First, you need to see how long they have been paying dividends. Also, you should look at their consistency of payments. If you find a company who has been paying dividends for a long time consistently, they will be a good company to invest in. Also, if they are doing that, their stock in general will do well.

I would tell my parents to reinvest their dividend payments for a few reasons. First, if they reinvest their dividend payments received, it will keep them from spending the money on things they do not need. Second, if they reinvest, they would not have to pay the broker's fee, which also saves money. Third, since my parents and I are both

young, with them being nowhere near retirement and me being nowhere near college, it would be better to reinvest their dividend payments. I say this because if the market takes a dive, they would be able to regain their losses before they reach retirement age. On the other hand, if they chose cash payment, they would spend it right away, and they would not make any money off of it. Reinvesting is a great way to save and earn money for later in life.

Sources: Yahoo Finance
Google Finance
Wikipedia