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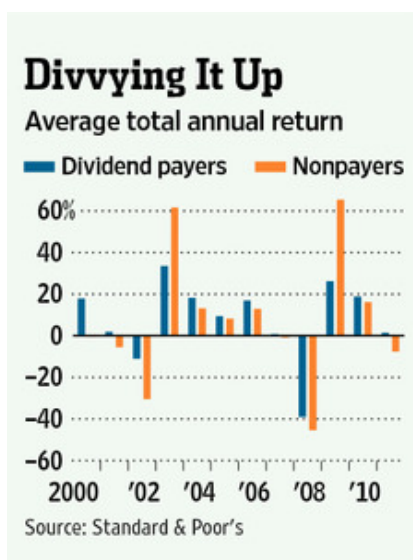
HEAD OF THE TAPE | JANUARY 11, 2012

Right Kind of Dividend Makes a Difference

By KELLY EVANS 

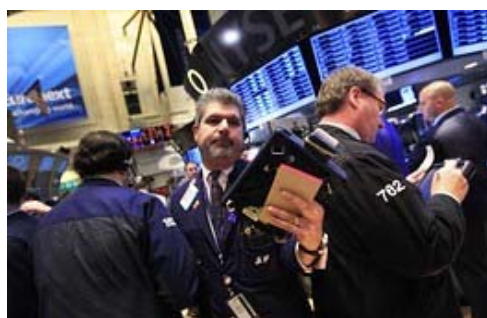
Dividends still pay.

Sure, it isn't the most original idea in the world. Dividend-focused investment strategies, in fact, have become so popular lately that contrarians worry the trade is now too crowded. But it isn't. Investors can still do well in 2012 by betting on big, dividend-paying companies amid a volatile environment. Indeed, these payers were often the difference between making or losing money on the S&P 500 last year.



The S&P 500 index finished 2011 slightly in the red, but its total return, including dividends, came to 2.1%. This isn't unusual; except during sharp rebound years, market returns are typically driven by dividend-payers. The total return for dividend stocks has topped nonpaying stocks every year since 2000 except for 2003 and 2009, according to S&P. And the gains that dividend-focused investors might have missed in those years are partly offset by their shallower losses during steep market selloffs.

Given where we are in the current market cycle, with the strong rebound year of 2009 past, it would be highly unusual for dividend-payers to lag behind the market this year. Investors should also keep the power of compounding in mind: \$10,000 invested in nondividend-paying stocks in 1979 would be worth about \$250,000 as of 2010. The same amount put into dividend-paying stocks—and continually reinvested—would have returned \$413,600, notes S&P's Howard Silverblatt.



On top of this, companies are likely to ratchet up their payouts this year, continuing a trend from 2011. Corporate cash levels are near all-time highs, after all, and as BofA Merrill Lynch points out, the S&P 500's current payout ratio is hovering at all-time lows.

Montreal-based brokerage Brockhouse Cooper expects that partly for this reason, the S&P 500's dividend yield over the next few years will rebound to 2.7% from its current 2.2%. While still low by historical standards, that handily tops the yield on 10-year U.S. Treasuries,

Reuters

he S&P 500 index finished 2011 slightly in the red, but its total return, including dividends, came to 2.1%. Traders work on the floor of the New York Stock Exchange on Tuesday.

which is less than 2%.

Still, investors should go after the right kind of dividend. Fat yields can be a sign of heightened risk. Grocery chain [Supervalu](#), for example, sports a 4.3% payout—but is also expected to report its 15th

consecutive quarter of same-store sales declines on Wednesday. That is why Gluskin Sheff economist David Rosenberg emphasizes SIRP, or, safety and income at a reasonable price. Better SIRP than sorry, one might say.

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