

10

Best Dividend Paying Stocks

*in the Dow Jones
Industrial Average*

TRACEY EDWARDS

The 10 Best Dividend Paying Stocks in the Dow Jones Industrial Average

Tracey Edwards

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CHAPTER 1

Why Use A High Dividend Investment Strategy?

Investing for the income is often a strategy that people take in volatile markets because even if the stock price isn't doing that great you still receive checks from the company every month or quarter (depending on how often they pay) for investing with them.

Nice!

Of course if you have time on your side and are able to wait it out, then you can profit by stock price increases (*nine out of the ten stocks listed in this book increased in price over the past twelve months – some by really good gain's too as you'll see in just a moment*), but why not have a strategy that gives you income in both good and bad times.

That way you can have the best of both worlds – price gains when the market is good and income no matter what the market is doing.

That's why I think it's a good strategy to choose a few high dividend stocks for the income, especially if you choose to reinvest the dividends which I'll talk about later. It can help diversify your portfolio and buffer the ups and downs of the market.

So what is a good dividend yield to consider?

If you are investing for the income then generally anything that is higher than the current interest rate on most high interest savings accounts is considered favourable. And since most savings accounts currently only offer around 1% to 2% p.a. then a good yield is usually anything above this. However personally I consider anything above 3% p.a. to be a good yield, and anything above 5% to be great.

Now in this book I'll be concentrating on only those companies within the Dow Jones Industrial Average. Sure if you look further than the Dow you can find stocks that offer yields over 10%, and while some of these companies may be stable and a good investment, I prefer to stick with blue chip stocks for the stability that they offer.

Many people think that the higher the dividend yield the better, but it's still important to choose a company that has the potential to increase in value as well. Getting a great dividend yield is one thing, but you don't want to the company to fold and take your initial investment with it. I'm not saying this will happen, but it's good to be cautious when investing in the stock market.

Besides, in the Dow Jones twelve of the thirty blue chip stocks have dividend yields of 3% or higher anyway, so why not make it easy on ourselves and choose these more stable companies.

The reason I'm not a fan of choosing companies based JUST on their div yields is because often times you are looking at poor growth stocks that don't really change in price year to year. Also often these high yield companies are only set up for the short term. This is fine if you are aware of that going in and only want a short term solution. But if you want consistent income year after year then it also pays to look at those with strong fundamentals and a good record of return. That way you can take advantage of both high income and strong growth.

How do you find the dividend yield of a company?

It's pretty simple to find the dividend yield of a company. It's usually listed quite prominently on the company's key statistics page.

Here is an example from Yahoo Finance showing the dividend yield of AT&T.

Dividends & Splits	
Forward Annual Dividend Rate ⁴ :	1.72
Forward Annual Dividend Yield ⁴ :	5.80%
Trailing Annual Dividend Yield ³ :	1.72
Trailing Annual Dividend Yield ³ :	5.90%
5 Year Average Dividend Yield ⁴ :	4.90%

What's the difference between forward annual dividend yield and trailing annual dividend yield?

You'll notice that they usually list two different dividend yield figures. The forward annual dividend yield and the trailing annual dividend yield.

The forward annual dividend yield is based on an estimate of the year's projected dividend by taking into account the most recent dividend and working out the twelve month yield based on that payment.

The trailing dividend yield is the company's actual dividend payments over the past twelve months.

Most of the time these figures are pretty similar and it generally doesn't matter which one you use to determine the current dividend yield of a stock. Usually if the company has stable dividend payments or have announced a dividend payout forward dividend yield is more reliable as to what you may get.

For this reason, this book will look at the company's forward dividend yields to determine the dividend payment.

CHAPTER 2

Using Blue Chip Stocks from the Dow Jones

I like to invest in companies with strong fundamentals. I mention it a lot on my blog because I think if you stick with well-known blue chip companies that have good financials then you have a really high chance of picking stock market winners. But just investing for the capital growth is one thing; it can get even better if you invest in those that also have high dividend yields as I've already mentioned.

When I'm investing in stocks for capital growth there is usually a bit of research into the different fundamentals that I look for including looking at the Return on Equity, Earnings Growth and so on. But you just want to invest for the income then all you really need to look at is the dividend yield.

Dow Jones Components and their Dividend Yields (sorted from highest to lowest)

So here are the thirty companies from the Dow Jones Index listed from highest dividend yield to lowest (*correct as at 26 October 2011 but likely to change over time*). As you can see they range in yield's from as high as 5.8% for AT&T to as low as 0.60% from Bank of America. It's also good to see that all of the companies with the Dow DO pay dividends (not all companies do).

Div Yield	Symbol	Name
5.80%	T	AT&T Inc.
5.30%	VZ	Verizon Communications Inc.
4.60%	MRK	Merck & Company, Inc.
4.20%	PFE	Pfizer, Inc.
3.70%	GE	General Electric Company
3.60%	DD	E.I. du Pont de Nemours
3.60%	JNJ	Johnson & Johnson
3.50%	INTC	Intel Corporation
3.30%	KFT	Kraft Foods Inc.
3.30%	PG	Procter & Gamble Company (The)
3.00%	CVX	Chevron Corporation
3.00%	JPM	JP Morgan Chase & Co.
2.90%	MSFT	Microsoft Corporation
2.90%	TRV	The Travelers Companies, Inc.
2.80%	KO	Coca Cola Company (The)
2.70%	HD	Home Depot, Inc. (The)
2.70%	MCD	McDonald's Corporation
2.70%	MMM	3M Company
2.60%	WMT	Wal-Mart Stores, Inc.
2.60%	BA	Boeing Company (The)

2.50%	UTX	United Technologies Corporation
2.30%	XOM	Exxon Mobil Corporation
2.10%	CAT	Caterpillar, Inc.
1.90%	HPQ	Hewlett Packard Company
1.70%	IBM	International Business Machines
1.50%	AXP	American Express Company
1.40%	CSCO	Cisco Systems, Inc.
1.20%	AA	Alcoa Inc.
1.10%	DIS	Walt Disney Company (The)
0.60%	BAC	Bank of America Corporation

Now that we have our list, let's look in more detail at the top ten companies by dividend yield.

CHAPTER 3

The Top 10 Best Paying Dividend Stocks

From our list of dividend yields, the top ten best paying dividend stocks are AT&T, Verizon Communications, Merck & Company, Pfizer, General Electric Company, E.I. du Pont de Nemours, Johnson & Johnson, Intel Corporation, Kraft Foods, and Procter & Gamble Company.

So let's have a look at those in more details and start with the company with the highest dividend yield, AT&T.

AT&T Inc.

With the highest dividend yield of all stocks within the Dow Jones it's definitely one that you should consider in your portfolio.

Stock Code: T

Dividend Yield: 5.80%

Dividend Re-Investment Plan: Yes

(While this booklet is primarily focuses on dividends, it can't hurt to have a look at the stock price over the past twelve months to see how the stock has fared).

12 Month Stock Price: 4.28% gain



12 Month Stock Chart for AT&T | Image Credit: finance.yahoo.com

Verizon Communications Inc.

Stock Code: VZ

Dividend Yield: 5.30%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 15.86% gain



12 Month Stock Chart for Verizon | *Image Credit: finance.yahoo.com*

Merck & Company, Inc.

Stock Code: MRK

Dividend Yield: 4.60%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 5.51% loss



12 Month Stock Chart for Merck & Co | *Image Credit: finance.yahoo.com*

Pfizer, Inc.

Stock Code: PFE

Dividend Yield: 4.20%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 13.89% gain



12 Month Stock Chart for Pfizer | *Image Credit: finance.yahoo.com*

General Electric Company

Stock Code: GE

Dividend Yield: 3.70%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 7.68% gain



12 Month Stock Chart for General Electric | *Image Credit: finance.yahoo.com*

E.I. du Pont de Nemours

Stock Code: 3.60%

Dividend Yield: DD

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 4.40% gain



12 Month Stock Chart for DuPont | *Image Credit: finance.yahoo.com*

Johnson & Johnson

Stock Code: JNJ

Dividend Yield: 3.60%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 2.92% gain



12 Month Stock Chart for Johnson & Johnson | *Image Credit: finance.yahoo.com*

Intel Corporation

Stock Code: INTC

Dividend Yield: 3.50%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 24.59% gain



12 Month Stock Chart for Intel | *Image Credit: finance.yahoo.com*

Kraft Foods Inc.

Stock Code: KFT

Dividend Yield: 3.30%

Dividend Re-Investment Plan: Yes

12 Month Stock Price Increase/Decrease: 9.70% gain



12 Month Stock Chart for Kraft Foods | Image Credit: finance.yahoo.com

Procter & Gamble Company (The)

Stock Code: PG

Dividend Yield: 3.30%

Dividend Re-Investment Plan: Yes

12 Month Stock Price: 1.82% gain



12 Month Stock Chart for Procter & Gamble | *Image Credit: finance.yahoo.com*

CHAPTER 4

Should You Take Cash or Reinvest your Dividends?

Many companies offer a dividend re-investment plan (often called DRIP), so if yours does should you re-invest your dividends back into the company or keep the cash instead?

If you are investing for the income and need that dividend check then keep doing that. There is actually nothing wrong with taking the cash if that's what you prefer.

But if you don't need it right away and want to increase your profits then re-investing your dividends back into the company is a wise move. Let's see why.

The way dividend payouts work is that you are paid a certain amount per share that you own. So if you own 1000 shares at ten dollars each and the dividend yield is, for example three percent per annum, then you'll receive approximately four checks per year (*depending on how often the company pays out and if they had any special dividends that year or not*) totalling \$300.

But let's say that you chose the dividend reinvestment plan instead of taking the cash. And the company pays a discount on these shares of 10%. So at the end of the first year you were given around 33 extra stocks so you now hold 1033.

Now you get paid dividends on the 1033 shares of the stock that you hold. If you take the dividend re-investment plan again (and assuming that the stock price and yield remains the same for ease of maths) you'll end up with 1067 shares of the stock. Each year the amount of stock that you hold will be increasing.

And because you are being paid on the 'free' stocks that you are receiving you get to use the power of compounding interest. Over time this can really build up and in five or ten years' time you could have doubled or tripled the size of your investment (depending on the dividend payout of the company).

It's been proven many times that over the long term most companies rise in price. Sure there are exceptions and crappy times like now, but OVERALL most companies do increase in value. Your chances of choosing good companies that do this are much higher too if you can choose strong companies to begin with.

But even if they don't increase and stay the same or worse fall, then if you own MORE of that company then your loss isn't as dramatic so it actually helps reduce the volatility of the stock market making it a win for investors.

And each year if you are increasing the size of your investment then the amount of profit that you are going to make (assuming a stock price increase) is going to increase substantially as well. Let's use the above example and say that the company only rose 7% over the two year period (very conservative).

If you took the dividends as cash then you would still only have 1000 shares but they are now worth \$10.70, giving you a profit of \$700 plus the \$600 in dividends that you would have received totalling \$1,300.

But if you reinvested the dividends you'd now have $1067 \times \$10.70 = \$11,416$ giving you a profit of \$1,416. \$116 more profit than if you took the cash.

Fees for taking the DRIP

So far taking the dividend re-investment plan sounds great, but there are a few extra considerations that you need to be aware of before you jump right in.

For starters you need to hold a certain amount of stock before you can take part. It's usually pretty low, around \$500 to \$1000 worth of stock in the company (it varies per company) but it means you can't do it if you hold below this amount (it wouldn't be worth it if you held less anyway).

There is a one-time fee for setting up the plan that's usually around \$10. You only have to pay this at the beginning to set it up and it's good for as long as you participate in the scheme. If you decide to cancel the reinvestment plan, and then take it up again at a later stage you may be charged this fee again however.

And finally you get charged a small fee for the transaction of buying stock with your dividends. This fee doesn't usually cost too much, and it's definitely much less than brokerage fees were you to buy the stock directly however it's wise to know that this fee will be deducted every time you acquire new stock through the scheme.

Taking the dividend re-investment plan is a smart move for investors that have time on their side and can take full advantage of the compounding interest and increasing number of stocks that you hold. And if more wealth is your ultimate goal then it's probably a no brainer to take the plan. But like I said if you like the check and don't want to give that up that's ok too.

SUMMARY

Just to summarise what we've learnt so far.

- Investing for the income is a good strategy because it reduces the amount of volatility in the stock market (you receive income no matter what the stock price is doing).
- A good dividend yield is above 3%, a great dividend yield above 5%.
- It's still important to choose a company with strong fundamentals to lower your risk in the market – for this reason choosing stocks within the Dow or S&P500 is a wise move.
- The ten highest paying dividends within the Dow are: AT&T, Verizon Communications, Merck & Company, Pfizer, General Electric Company, E.I. du Pont de Nemours, Johnson & Johnson, Intel Corporation, Kraft Foods, and Procter & Gamble Company.
- Choosing to reinvest your dividends can help build your holding in the company over time lowering your risk by increasing your gains and reducing your losses.

I hope you've found this guide helpful in choosing stocks to invest in.

Tracey xx

ABOUT THE AUTHOR - Tracey Edwards

Tracey Edwards (me) is a financial blogger and author and has written many books and articles on getting rich, savings plans, budgeting and the stock market.

She lives in Australia with her family and spends far too much time on the computer.

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