ADVFN Guide: 101 Ways to Pick Stock Market Winners

by Clem Chambers

Sample Tip: Look at Company Dividends

Dividends are great. The cheques that pop through the letter box are precious things. For a start no one can come and take them back, unlike the promises many companies make.

Dividends are living proof a company has at least the resources to cough up cash to its owners. This might seem like a trivial thing but it is actually a strong indication of a good business.

Many big companies have the sort of finances that would push families into bankruptcy court. Yet there are companies that make piles of money and these companies tend to pay dividends.

The City isn't much of a fan of dividends, mainly because of tax. A growing company that can plough back its cash into growing won't create a year dividend tax bill. Being able to plough back cash into growth should work out much better for shareholders in the long run. So goes the theory anyway.

However, a dividend from an unloved company is a good indication it's not about to go down the pan; what's more it's paying you out. Even big companies can be paying out over 5% of dividends, perhaps even 7 or 8%. That's a lot more than a government bond is paying, so the question is begged: is the company cheap? If a company paying a 5% dividend goes up 20% it will still be paying 4%, so a solid, high dividend-paying company has potential to rise under the pressure of its dividend payout.

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