Dividend Investors: Now May Be the Time to Avoid Wal-Mart Stores, Inc.

Description

Income investors pursuing a stable dividend yield and a relative margin of safety in purchasing a value stock (think Warren Buffett's **Berkshire Hathaway Inc.**) have moved away from mega-retailers such as **Wal-Mart Stores, Inc.** (NYSE:WMT) recently. In seeking a return on investment, it appears that a new wave of business is taking over the "big-box store" retailing model which has dominated global consumption trends for the better part of the past century.

Wal-Mart's dividend doesn't cut it

Over the past decade, we can see an interesting trend with Wal-Mart. The company has issued a steady dividend with a yield hovering around 3%, and the company's stock price has also remained relatively stable, appreciating approximately 40% in aggregate over the past 10 years (approximately 3% annual compounded growth since 2007).

The underlying stock's strength has been a direct result of its dividend; however the fact that the stock's annualized appreciation resembles that of the company's dividend means that investors are pricing in little value, as compared with the elephant in the room, **Amazon.com, Inc.** (NASDAQ:AMZN). Amazon's stock has soared over the past 10 years, rising nearly 2,100% (that's 21 times its January 2017 valuation), although the company has never issued a dividend.

For a company like Amazon, the safety investors lose with the stability of a bricks-and-mortar business, as well as a stable dividend, is more than compensated for by the massive growth potential this industry-leading internet-retailing business provides. Investors have flocked away from the slow and steady growth of Wal-Mart toward the speedy and steady growth of Amazon.

Financial markets have simply placed more trust in the future potential of growth retailers like Amazon; pitting the two companies against each other, we can see that the money is very clearly talking. Amazon's market capitalization is now approaching twice that of Wal-Mart due in part to the fact that the company's return on invested capital is so much higher than its peers. The Amazon snowball has grown to an impressive size, and investors are now hoping that the decades of growth Amazon has experienced will begin to manifest itself in dividends or share repurchases down the road.

For the time being, Amazon appears committed to continuing to invest its earnings from operations in innovative growth initiatives. It may be some time before income or dividend investors can take a hard look at Amazon, but right now, the internet retailer appears to be the safer bet.

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