



Dividend Stock Investing 101: 3 Must-Know Features

Description

With all the talks of a potential recession on the horizon, you've probably heard about how dividend stocks are good to invest in.

But you'd be surprised at how complex dividend stocks can sometimes be. Make sure you have the basics down before investing. Test your knowledge here to see if you know dividend stocks as well as you think.

What are dividends stocks?

Dividend stocks refer to when a company pays a portion of its earnings to its shareholders regularly. The dividend payments provide investors with additional income. The companies make these payments in cash or additional stock to existing shareholders in a ratio proportional to their current holding.

Dividends are usually paid to investors quarterly. However, you will find some companies that pay dividends semi-annually or annually.

Dividend metrics

The payout ratio is a relevant term to consider here. The higher the payout ratio, the more retained earnings are distributed to shareholders. A payout ratio of 10% means the company pays 10% of its retained earnings to shareholders.

The payout in dollar terms determines the dividend paid per share. A payout of \$0.20 means the company pays a profit of 20 cents to a dollar. If you have 1,000 shares in the company, that means you get a dividend of \$200 for the year.

Lastly, the dividend yield determines dividend paid per share. It helps evaluate the return you get for investing in the share. If a company's share value is \$93, and it pays a dividend of \$2.50 per share,

then the dividend yield is 2.69%.

Dividend payments and company health

In most cases, dividend stocks are well-established companies that have a history of [distributing earnings](#) to their shareholders. It takes more than just a couple of years of dividend payments to qualify as a dividend stock.

Companies are not liable to pay dividends to their investors each year unless the articles of association specifically call for it. However, companies that do provide a dividend each year are seen as more profitable and financially stable by most investors.

A positive image in the market can help boost the share price for the company.

BMO dividend streak

The **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) is one of the safest and most reliable stocks for dividends. The company has consistently paid a reasonable dividend for 190 years!

For the last 20 years, the dividend yield has consistently remained over 2.5%, even during the most difficult economic times. That is higher than the return you can get with most savings accounts.

EPS for Bank of Montreal

For several years now, the Bank of Montreal has managed to grow earnings per share at 7.9% a year. The share price has also seen a growth of more than 3% per annum during the last ten years. The price-to-earning ratio is around 10, which is rather low and suggests the market is reluctant to invest.

Company insiders have been buying the stock, which is always a good indication of financial strength. The total shareholder return is 42% for the last five years.

Conclusion

BMO is an ideal stock if you are looking to get [annual dividends](#) on your investment. The stock price has also grown consistently in the last seven years, so you can be assured about investor value appreciation.

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Author

adamothonman

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