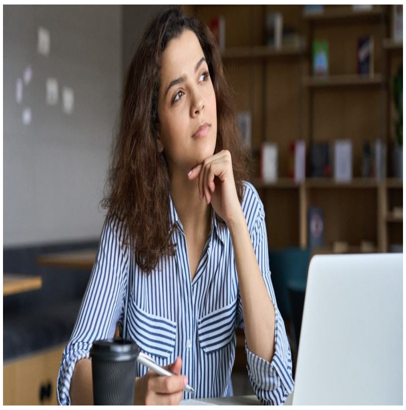

Why Do Dividend Stocks Drop on Their Ex-Dividend Dates? Should You Even Care?

Description

Yesterday was **Algonquin Power & Utilities's** (TSX:AQN)(NYSE:AQN) latest ex-dividend date. You'll notice that dividend stocks tend to drop on their ex-dividend date. Indeed, Algonquin stock dipped about 1.2% on the **TSX** during the early market trading hours. Why is that and should you, as a buyer or seller of a stock, care? First, let me explain the ex-dividend date.

The ex-dividend date explained

Dividend stocks aim to pay out dividends regularly. The payments are scheduled commonly for every quarter or every month, but dividend payments made once a year or every half a year also exist.

Common stock shares exchange hands on the stock market during days the market is open. Dividend-paying companies set an ex-dividend date for each declared dividend to determine investors that they would pay to. Therefore, you must have bought shares *before* this date to receive the dividend.

AQN stock dipped about 1.2% in early market trading on March 30, on its latest ex-dividend date, which is roughly the quarterly dividend payment amount. (The dividend stock yields about 4.5%. Divide this yield by four, and you get about 1.1%.) The dividend stock is paying out cold, hard cash, which was a piece of its asset, for the dividend. So, the corresponding stock drop makes sense.

To be clear, if you started a new position of 100 shares in Algonquin stock on January 1, 2022, and bought another 100 shares on March 30, 2022, you would only receive a dividend payment for the first 100 shares for this quarterly dividend.

Should you trade around ex-dividend dates of dividend stocks?

Some new investors try to trade around the ex-dividend dates of dividend stocks. They try to grab the dividend by buying a dividend stock a short period before the ex-dividend date and sell soon after. However, in the grander scheme of things, investors should ignore the stock drop.

Although you could jump around different dividend stocks to aim to buy before their ex-dividend dates to grab their dividends, it would be a lot of work to do so. Importantly, short-term stock volatility is highly unpredictable. It would be a risky strategy to buy and sell stocks quickly, as you could lose money from stock price depreciation. Instead, investors should focus on the prospects of the underlying business and the long-term total-returns potential.

Dividend stocks' prospects

Ask questions about the dividend stock that you plan to buy. What's most valuable about dividend stocks is their durable dividend payments. I should add that *you* need to determine if the stock in question pays a durable dividend that is sustainable and ideally growing.

Only dividends that are declared must be paid. Most dividend stocks declare only the dividend that's coming up, which means that after declaring the first quarterly dividend of a year, the management of a dividend stock can choose to cease dividend payments for the rest of the year — and after that, for that matter. Most dividend stocks want to maintain their dividends to attract long-term shareholders.

News has been swirling that Algonquin's growth is slowing, which could lead to its upcoming dividend hike to be slower than in the past. However, that's not necessarily a reason for shareholders to sell the stock, as utilities like Algonquin are meant for long-term holding to collect dividend payments. Interested investors should focus on buying the stock when it trades at a good valuation.

Allow me to close off with Brian Madden's commentary on Algonquin stock from last week:

> "Algonquin is good for income and growth with a history of dividend growth. There is a need to strengthen the grid in generation, transmission, and distribution so this makes for a good opportunity for the utility companies. There is a real opportunity in utilities in renewable generators of power. An opportunity of the decade. Algonquin is a lower beta company."
> *Brian Madden, chief investment officer at First Avenue Investment Counsel*

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/25
Date Created
2022/03/31
Author
kayng