NHBR

JANUARY 11-24, 2013 NEW HAMPSHIRE BUSINESS REVIEW ▪ NHBR.COM VOL. 35, NO. 1

Investing in what you buy pays dividends

Personal Finance

BY DANIEL COHEN

Prices are going up at the pump, the grocery store and just about everywhere else. You open that monthly cell phone, cable, utility or gas card bill and either grimace or just accept the fact that it's only money. Or, do you smile and think, "I wonder how this quarter's dividends will come in?"

Investing in stocks of consumer or business consumable brands that you use all the time can be a good investment strategy, since many companies pay higher dividend rates than the rates earned on government bonds, and many of those companies make or sell the products that you may use every day.

Look at your kitchen and bathroom cabinets. Look at the brand names you buy all the time including household products, food and other consumables. Then consider those publicly traded companies, such as Procter & Gamble, that pay regular dividends. Perhaps owning stock in some of these companies will actually pay for your regular purchases of their brands and more. P&G, for example, has paid uninterrupted dividends since 1890. Buying soap might actually have a "trickle up" effect.

William Baldwin, writing in Forbes magazine, refers to this approach as "Zen portfolio management." His idea came from learning about tactics used by an office printer company that forces customers by way of software compatibility to buy only their brand of replacement ink cartridges that are priced at a premium over generic or refillable cartridges.

Rather than get angry at the cost, why not be an owner and start skimming returns derived in part by those clever tactics and premium pricing? If it's a stock that pays dividends, you can buy those ink cartridge refills with confidence knowing you're also supporting your investment portfolio.

Interest rates are at multi-generational lows, so it is practically impossible formost people to live off the income generated by government bonds or certificates ofdeposits. And, based on comments by the Federal Reserve, it seems likely that interest rates will stay low for at least several more years.

A larger share of many consumers' income is going toward covering the monthly mobile phone expense. If you are tired of paying a larger share of your disposable income to AT&T or Verizon, why not own shares in those companies to collect the 5 percent or 4.65 percent dividends that they currently pay? Even Apple started paying a dividend this year for the first time in its history.

Still more options

The cost of medicine seems to keep increasing, and as the population continues to age, more and more people will likely be taking medicine on a daily basis. Owning shares of some of the leading pharmaceutical companies, like Merck, Pfizer, Bristol-Myers and GlaxoSmithKline will allow you to earn good yields that currently range from 3.5 to 5.1 percent.

That way, when your doctor prescribes medicine to alleviate your ailment, maybe you won't feel so bad.

The high cost of energy is another issue that is upsetting many people. Why not own shares in some of the companies that own the oil reserves that will power our cars and fuel our homes for many years to come? Companies like Chevron, Royal Dutch Shell, Total, BP and Exxon all currently pay dividends ranging from 2.5 to 5 percent. Owning shares in one of these energy companies may be the best revenge for the high cost of oil.

What can I say about the banks? No one seems to love them, but everyone's paychecks and pension distributions keep getting pumped into them. Their dividend history is not great, since many had to cut or eliminate their distributions in 2008, but some are now paying respectable dividends again. J.P. Morgan is now yielding 2.9 percent and Wells Fargo is now yielding 2.6 percent. Increases in their dividends are expected in future years.

Many companies are able to increase the dividends on an annual basis and some have been doing so for decades. You may even feel less guilty taking your kids to McDonald's knowing that the company has been increasing its dividend consistently for the past 35 years and now yields 3.5 percent.

A note of caution: You shouldn't invest in shares of a company just for the dividend alone. The payout ratio, which is the amount paid in dividends divided by the total earnings of a company, should preferably be less than 50 percent. NHBR

Daniel Cohen, CFP® is CEO and Chief Investment Officer at Cohen Investment Advisors, a registered investment advisory firm in Bedford, NH. He can be reached at 603-232-8351 or www.investwithcohen.com.