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Powerful Keys for Finding the Best Dividend Paying Stocks by Isol

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Secure and Consistent Earnings

It's surprising how often people overlooked secure and consistent earnings. Only profitable companies are considered as good companies even if they are not dividend paying stock companies. Always remember that the successful income investor's portfolio is totally dependent on the companyâ€™s earnings. If the dividend payout of a company' is strong then its earnings must be solid and consistent. Be sure to review company's earnings over the previous five to ten years to see how well they held up under a variety of economic conditions. Earnings can be manipulated, of course, so it's also a good idea to review related metrics such as cash flow and revenue figures over the same time period.

Strong Balance Sheets

Good businesses maintain strong balance sheets & generally a company with excessive debt raises two red flags in the mind of the potential investor:

â€¢ How did the company accumulate the excessive debt in the first place? A successful operation produces lots of cash, not lots of debt.

â€¢ A company already saddled with debt faces extra headwinds. Heavy debt puts pressure on profits, free cash flow, and the ability to invest in additional growth opportunities.

There are, of course, certain industries that require a capital intensive structure but then the question becomes of free cash flow and how easily a dividend paying company can service its debt load.

Sustainable Dividend Payout Ratio

The dividend payout ratio is simply the percentage of the total earnings that the dividend payout represents. A company's dividend payout ratio is another important metric to consider before investing in stocks with dividends & the best use of this metric is to compare it to other dividend paying stocks in the same industry.

A high dividend growth rate is unsustainable if the dividend payout ratio is rising just as fast. Ideally, the payout ratio would remain relatively steady within a certain historical range for that particular stock. Certain industries have higher (or lower) dividend payout ratios than other industries. And, in the short term, the payout ratio will fluctuate wildly if there is a big change to earnings.

Long Term Competitive Advantages

Capitalism is totally based on competition including number of items: a significantly high barrier to entry by potential competitors, a vastly superior distribution system, or a particularly strong brand.

Healthy Dividend Growth Rate

Dividend growth rate only tells you how much the dividend has grown in the past which has become one of the biggest disadvantages of tracking a dividend paying stock. If the stock has seen recent rapid growth rates then there are no guarantees that the future dividend growth rate will mirror the past growth rate.

You can get a general idea of how successfully the company has been growing by tracking dividend growth rate of at least five year period.It will also give you a good sense of management's attitude toward, and commitment to, the dividend. Is the dividend growing? Is the dividend growth rate consistent or does it fluctuates with no real pattern?

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