Article published on January 9th 2012 | Investing

If you happen to be looking for the best dividend stocks around, then there are thousands of companies operating in diverse sectors listed on stock exchanges. Any person with even a little sense will understand that all these companies are definitely not worth investing in. One needs to understand the business model of the company,forecast its growth and sales, check out its dividend paying history and look at its debt position and profitability before investing in its stock.

So, here are some of the important points which will help you to determine if the stock dividend is sustainable & will grow over time:

1. Dividend Yield

Investors can actually do better by investing in above-average dividend yield stocks with the potential for significant dividend growth over time or stocks that have a long history of boosting dividends each year. Although such companies donâ€™t declare large increases, when dividend payments are hiked regularly the yield on your original investment or cost (YOC) can climb dramatically over time. Generally it is advisable that one should look for stocks that have at minimum of 2% dividend yield.

2. Dividend Payout Ratio

Dividend Payout provides us the percentage of earnings that is paid out to shareholders as dividends. The payout ratio is also a good indicator for growth stocks. A higher payout ratio indicates an implicit admission by management that future growth prospects are limited& if it shows quick growth, it means that company has plowed back its earnings. Sometimes the management has to cut the dividends or raise debt to pay the dividends, both of which are bad for future earnings and dividend growth.It is generally suggested to look for companies whose payout ratio is between 20% - 50% as it allows the company to retain the rest of the earnings for further re use â€“ in acquisitions, capital investments or to retire debt as well as have sufficient rooms for further dividend increases.

3. Dividend Coverage Ratio

This important ratio tells us how safe the dividend is based on the free cash flow generated by the company. Free Cash Flow (FCF) is the cash that is left over after the company has made the necessary investments back into the business or is the amount of cash that can be taken out of the business without impairing future results.Dividend Coverage Ratio is calculated by dividing the Free Cash Flow per share by dividend per share. A ratio less than 1 suggests that dividend cut is likely to happen as the company is burning cash rather than it is bringing in. A ratio of 2 or higher indicated that the company is in a better position to pay the dividends.

4. Quick Ratio

The Quick Ratio indicates whether the company has enough liquidity to pay for its dividends at the current level. It is calculated by amount of liquid current assets by current liabilities. Liquid assets are those assets that can be converted into cash quickly & it excludes inventory and other current assets that are not liquid.

Therefore, a higher ratio indicates a more liquid current position.

5. Short Term Debt Coverage Ratio

Short term debt coverage ratio is used to determine if the company has the ability to successfully service its short-term debt obligations by using the cash generated from operations which is calculated by dividing the income from operations (from cash flow statement) by current liabilities or short-term debt (from balance sheet).A ratio of 2 or more indicates that dividend is secure and that there is enough cash to offset any liquidity concerns raised from calculating the quick ratio. Hope this article will help you to easily research about the dividend stocks as a well-researched dividend stock can be held on for long periods of time providing a continuous stream of inflation-adjusted income.

Article Source:
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a Stock Dividend | a Dividend Yield | a Best Dividend Stocks

Article Keywords:
Dividend, dividends, ex dividend date, dividend stocks , dividend yield , high dividend stocks ,ex dividend , best dividend stocks , stock dividend , high dividend yield stocks , dividend paying stocks , dividend date , preferred stock ,best dividend payi

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