

<b>Dividend Screening</b>						
by John Bajkowski						
Many investors turn toward the dividend yield as a measure of value in their quest for selecting underpriced securities. A stock's dividend yield is computed by taking the indicated dividend - the most recent quarterly dividend multiplied by four and dividing it by the share price. If a stock's price rises faster than its dividend, the dividend yield will fall, indicating that the price may have been bid up too far and may be ready for a decline. Conversely, if the dividend yield rises to a high level, the stock may be poised for an increase in price, if the dividend can be sustained.						
This article will focus on strategies used to screen for high dividend yielding stocks, while the Stock Investing Basics article that follows covers the dividend valuation process.						
The Dividend-Yield Strategy						
Like all basic value-oriented techniques, the dividend-yield strategy attempts to identify investments that are out-of-favor. Contrarian techniques such as this are based on the premise that markets tend to overreact to good and bad news and push the price of a security away from its intrinsic value. Value investors hope to identify these mispriced securities through the use of a consistent set of rules called a valuation model.						
Screening is the first stage in this process and it involves scanning a group of securities to find those that merit further in-depth analysis. Absolute or relative levels may be used in screening for high-yield stocks. A screen requiring an absolute level might look for a minimum dividend yield of 4% before an investment would be considered. Absolute screens can lead to passive market timing - cash levels tend to build up when investors cannot find suitable investments that meet the minimum requirement during times of market extremes. Also, screens that only look at absolute levels can be weak because they may turn up companies from a single industry that traditionally has higher dividend yields, such as utilities.						
Screens based on relative levels compare the yield against a benchmark that may fluctuate, such as the current dividend yield for the S&P 500. In this case the investor does not require that the yield meet some minimum level, but instead that it maintain its historical relationship with the benchmark figure. Common screens examining relative yields include comparisons against some overall market level, industry level, historical average or even some interest rate						

benchmark. The screens for this article were performed using a historical average as the benchmark.						
Investors looking to perform custom screens can use one of a number of software programs or information services that provide fundamental data on companies.						
(See the January 1994 Analyst's Corner for information on computerized investing tools and a listing of available screening tools.)						
For those without a computer, a number of publications provide regular listings of high-dividend stocks and rapidly expanding dividend stocks. (See the table on page 33 of this issue for more information on these sources.)						
Applying the Screens						
AAll's Stock Investor program was used to perform the screening for this article.						
The first filter excluded utilities, real estate investment trusts, closed-end mutual funds, and financial firms. Each of these groups has unique financial characteristics requiring that they be analyzed separately.						
The next screen required that a company have five years of both price and dividend records. When screening against a historical level, remember to include a historical period that covers both the up and down periods of a market and economic cycle.						
Selecting a time period is a balance between using one that is too short and only captures a segment of the market cycle and one that is too long and includes a time period that is no longer representative of the current company, industry, or market. Periods of between five and 10 years are most common for these types of comparisons.						
Dividend analysis is geared toward established firms that are past their explosive growth and capital-intensive stage. To help filter out companies paying just token dividends, a minimum dividend yield of 2% was specified.						
Beyond a minimum level of dividends, we screened for companies that have paid a dividend for each of the last five years and never reduced their dividend.						
Dividend levels are set by the board of directors based on consideration of the current company, industry, and economic conditions. Because dividend cuts are tantamount to an announcement that the firm is financially distressed, dividends are set at levels that the company should be able to afford throughout the economic cycle.						

The next filter required that the company's current dividend yield be higher than its five-year average dividend yield. This filter seeks out companies whose dividends have increased faster than increases in share price, or whose current share price has dipped recently.						
While it might seem that the screening process should be over with this last screening filter, before a company can be considered a buy the security of the dividend must be examined. A high dividend yield may be a signal that the market expects the dividend to be cut shortly and has pushed down the price accordingly. A high relative dividend yield is a buy signal only if the dividend level is expected to be sustained and hopefully increased.						
Measures exist that help to identify the safety of the dividend. The payout ratio is perhaps the most common of these and is calculated by dividing the dividend per share by earnings per share. Generally the lower the number, the more secure the dividend. Any ratio above 50% is considered a warning flag. However, for some industries, such as utilities, ratios around 80% are common. The current payout ratio for the Dow Jones utility group is 82%, versus 55% for the Dow Jones industrial group. A 100% payout ratio indicates that a company is paying out all of its earnings in the form of dividends. A negative payout ratio indicates that a firm is paying a dividend even though earnings are negative. Firms cannot afford to payout more than they earn in the long term. For the final criterion we required a payout ratio between 0% and 50%, leaving 86 companies.						
To highlight a cross section of stocks, along with any differences due to company size, the stocks were divided up into three groups based upon market capitalization. The top 15 dividend-yielding stocks for each group are listed in Table 1. Market capitalization is determined by multiplying the number of shares outstanding times a firm's stock price. The largest firms have a market capitalization above \$1.5 billion dollars, the middle capitalization firms range in size between \$250 million and \$1.5 billion, and the small capitalization firms are those below \$250 million in market capitalization.						
The three groups, while similar in fundamentals differ slightly. The mid-cap stocks have the highest dividend yield among the three groups. It was also surprising to find a number of S&P 500 stocks among these mid-cap securities. This, along with the 52-week relative strength measure points to a collection of companies that have stumbled slightly, and the relative performance of their stock prices indicates this. The 52-week relative strength measures the relative stock price performance versus the market as a whole. Figures above 100% indicate that a stock has outperformed the market, while figures below						

100% indicate underperformance. The vast majority of the companies that passed the screens have underperformed the market over the last year. The small caps, however, showed the weakest performance, both fundamentally in terms of earnings growth and technically in terms of price strength.						
Screening for relative high dividend yield is based upon the time-honored rule of buying low and selling high. Examining a stock's dividend yield provides a useful framework to identify potential candidates.						
To succeed at this strategy, you need to develop a set of tools to not only identify which stocks have relatively high dividend yields, but also which of these stocks have the strength to bounce back.						
<b>A key to screening terms</b>						
Dividend Yield: Indicated dividend divided by current price. Provides a relative valuation measure when compared against historical average dividend yield.						
Five-Year Average Yield: Average company dividend yield during the last five years.						
Indicated Dividend: Expected per share dividend payment for the next year.						
Dividend Growth Rate: Annual dividend growth rate in dividends per share over the last five years. An indication of the past company strength and dividend payment policy.						
Cash Dividends Paid Since: The number of consecutive years that a cash dividend has been paid. An indication of the stability of the company's past dividend payment policy.						
Payout Ratio: Dividends per share for the last 12 months divided by earnings per share for the last 12 months. Provides an indication of the safety of the dividend. Figures between 0% and 50% are considered safe. Figures ranging between 50% and 100% are considered early warning flags. Negative values and values above 100% are considered red flags for a dividend cut if the levels persist. Beyond examining a single year, look for trends.						
EPS Growth Rate: Annual growth rate in earnings per share over the past five years.						
52-Week Relative Strength: The price performance of a stock during the last						

year relative to the performance of the overall stock market. The market is						
defined as the Media General Composite Market Value Index of over 7,000 stocks.						
A figure of 100% indicates the stock had the same percentage price performance						
as the market. A figure of 105% indicates that the stock outperformed the						
market by 5%.						
<b>Here is the list of Stock Investor criteria used to create the following results:</b>						
You must first exclude all financial stocks from this screen:						
IND_2_DIG <> 04						
IND_2_DIG <> 59						
IND_2_DIG <> 60						
IND_2_DIG <> 13						
IND_2_DIG <> 26						
IND_2_DIG <> 27						
IND_2_DIG <> 43						
IND_2_DIG <> 44						
IND_2_DIG <> 54						
IND_3_DIG <> 092						
INDCAT_DIV >= DIV_12M						
DIV_12M >= DIV_Y1						
DIV_Y1 >= DIV_Y2						
DIV_Y2 >= DIV_Y3						
DIV_Y3 >= DIV_Y4						
DIV_Y4 >= DIV_Y5						
DIV_Y5 >= 0.00						
PAYOUT_12M > 0.00						
PAYOUT_12M <= 50						
YIELD >= 2						
MARKET_CAP >= 1500 for large cap or <1500 and >= 250 for mid cap or < 250 for small cap						
YIELD > UDEF_03						
<b>UDEF_3 = ( UDEF_1 +UDEF_2 ) / 2</b>						
UDEF_1 = ( Div_Y1 / PriceH_Y1 + Div_Y2 / PriceH_Y2 + Div_Y3 / PriceH_Y3						
+ Div_Y4 / PriceH_Y4 + Div_Y5 / PriceH_Y5 ) / .05						
UDEF_2 = ( Div_Y1 / PriceH_Y1 + Div_Y2 / PriceH_Y2 + Div_Y3 / PriceH_Y3						
+ Div_Y4 / PriceH_Y4 + Div_Y5 / PriceH_Y5 ) / .05						
<b>Large Cap Companies</b>						
<b>Company</b>	<b>Ticker</b>	<b>yield</b>	<b>5 Yr Avg Yield</b>	<b>indicated div</b>	<b>div growth</b>	<b>Payout ratio</b>
Penney, JC	JCP	4.4	4.3	1.92	5.3	37.8
U.S. Healthcare	USHC	3.7	1.66	1	63.8	34

Stanley Works	SWK	3.5	3.46	1.4	4.9	48.3
Warner-Lambert Co	WLA	3.3	3	2.6	12.6	47.2
Genuine Parts	GPC	3.3	3.26	1.26	6.2	48.7
Hubbell Inc B	HUBB	3.2	3.1	1.72	7	50
Quaker Oats Co	OAT	3.2	2.79	1.14	11.2	31.1
Pitney Bowes	PBI	3.2	2.74	1.2	14.7	41.6
Schering-Plough Cp	SGP	3.1	2.72	2.32	16.6	40.7
May Dept Strs	MA	3.1	2.92	1.14	7	33
Rite Aid Cp	RAD	2.9	2.69	0.68	9.3	37.1
Anheuser Busch	BUD	2.8	2.49	1.6	12.8	39.2
Giant Food A	GFSA	2.8	2.7	0.74	9.9	45.3
Merck & Co	MRK	2.8	2.6	1.2	15.5	47.3
Knight-Ridder	KRI	2.7	2.68	1.48	2.2	44.4
Dayton Hudson	DH	2.6	2.25	1.76	6.2	29.1
Temple Inland	TIN	2.5	2.28	1.08	6.3	34.9
ConAgra Inc	CAG	2.5	1.94	0.83	16	37.9
WMX Technologies	WMX	2.2	1.5	0.6	15.3	40.3
Am Stores Inc	ASC	2.2	1.99	0.56	14.4	19.8

<b>Mid Cap Companies</b>						
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Company	Ticker	yield	5 Yr Avg Yield	indcated div	div growth	Payout ratio
Handleman Co	HDL	4.1	3.31	0.44	3.1	45.4
Stanhomes	STH	3.7	2.89	1.06	6.3	47.7
Linc Telecom	LTEC	3.6	3.19	0.56	8.9	45.3
Kimball Int B	KBALB	3.5	2.99	0.92	10.7	44.9
Luby's Cafe	LUB	3.5	2.66	0.66	8.7	42.4
Family Dollar	FDO	3.4	2.25	0.4	13.9	36.3
Longs Drg Strs	LDG	3.3	2.95	1.12	4.5	47.7
Sbarro Inc	SBA	3	0.33	0.76	NA	37.4
Universal Foods	UFC	3	2.62	0.96	7.8	34.4
Block Drugs Co	BLOCA	3	2.06	1.08	15.3	43.5
Crompton & Know	CNK	3	2.04	0.54	23.1	47.1
Weis Markets	WMK	2.9	2.51	0.76	5.4	41.9
Illinois Central Cp	IC	2.8	1.31	1	NA	31.1
Smith's Food	SFD	2.8	1.58	0.6	16.7	30.2
Mine Safety Appl	MNES	2.4	1.93	1.08	3.5	36.4
Dean Foods	DF	2.4	1.99	0.68	10	33.5
Smucker J.M. A	SJMA	2.4	1.53	0.52	15.3	43.6
Scitex Cp	SCIXF	2.3	1.4	0.52	NA	34.9
Gen Binding	GBND	2.3	2.25	0.42	9	40
Bemis Co	BMS	2.3	2.29	0.64	10.7	40
U.S. Healthcare	USHC	2.3	1.01	1	59.7	29.8

<b>Small Cap Companies</b>						
<b>Company</b>	<b>Ticker</b>	<b>yield</b>	<b>5 Yr Avg Yield</b>	<b>indicated div</b>	<b>div growth</b>	<b>Payout ratio</b>
Hathaway Cp	HATH	7	1.39	0.22	NA	20.6
Venture Stores	VEN	5.3	3.14	0.58	42.7	37.9
Wolf, Howard	HBW	4.7	4.18	0.32	11.3	38.7
Ennis Business	EBF	4.3	3.44	0.58	8.1	47.5
Minuteman Internat	MMAN	4.2	3.43	0.4	14.2	40
Ryland Grp	RYL	4.1	3.44	0.6	0	46.5
Marsh Supermkt A	MARSA	4.1	2.99	0.44	5.9	45.4
Ecology Envir A	EEI	4	1.61	0.32	16.9	30.9
Chemi-Trol Chem	CTRL	3.9	2.63	0.36	55.4	43.4
Sands Regent	SNDS	3.6	1.08	0.2	NA	15.7
Halifax Cp	HX	3.6	2.78	0.26	14.4	35.1
Beauticontrol Cosm	BUTI	3.4	1.71	0.42	41.4	34.6
Super Food Svcs	SFS	3.4	2.64	0.38	3.8	44.6
Electro Sensors	ELSE	3.3	3.03	0.1	0	50
Insteel Ind	III	3.2	2.56	0.24	10.7	25.8
Zero Corp	ZRO	3.2	3.13	0.44	0.6	44.4
Blessings Cp	BCO	3.2	3.01	0.4	12.8	28.3
McGrath Rentcorp	MGRC	3.1	1.86	0.48	NA	27.7
Pulaski Furniture	PLFC	3.1	2.76	0.6	3.9	47.9
Superior Surg	SGC	3	1.9	0.36	15.5	27.3
U.S. Healthcare	USHC	2.3	1.01	1	59.7	29.8
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2.6	94	
9.4	110	
6.8	101	
4	83	
3.4	103	
14.2	90	
17.8	115	
12.1	80	
-25.8	112	
7.2	100	
-4	110	
11.9	135	
1.7	84	
1.6	79	
-13.5	86	
9.7	110	
2.1	97	
16.4	95	
EPS growth	Relative strength 52-wk	
-7.4	91	
-3	81	
8.6	89	
-4.4	101	
5.5	74	
20.6	72	
-5.4	97	
18.1	102	
0	93	
1.3	106	
13.2	85	
-2.4	99	
19.5	95	
6.2	106	
-13	106	
3.9	101	
0.5	91	
20.4	106	
3.8	100	
9	110	
78.8	104	

EPS growth	Relative strength	52-wk
NA	93	
-7.2	43	
7.1	82	
2.5	90	
11.6	88	
-4.2	68	
-7.5	97	
1.1	59	
-11.6	82	
25.5	51	
73.7	88	
-10	90	
-15.6	86	
4.7	66	
-4.9	74	
-5.6	95	
6.8	95	
8.4	94	
-14.7	79	
4	88	
78.8	104	