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Dividend

The word "dividend" is comes from the Latin word "dividendum" ("thing to be divided"). Dividend means any cash dividend per share announced and payable by ASX.

Australian Dividend Laws

According Section 201(1) of the corporation's law dividends is payable only out of profits or compatible to section 191. Section 191 requires that dividends must not be paid out of capital.

Sections 304 and 305 of the corporation's law stated that, the directors of Australian dividend company report details of the amount of dividends paid in the past financial year and the amount of any dividends which are proposed. This brief overview of the law on dividends demonstrates that there is minimal regulation of Australian dividends.

Tips of investing in Australian dividend paying stocks

There are number of distinct tips from investing in dividend paying stocks

1. Watch you're holding period: In array to receive the preferred tax rate on dividends you must hold your dividend stock minimum of 61 days within the 121-day period surrounding the asx ex dividend dates. The period begins from 60 days before the ex-dividend date. The base line is that you should avoid trading your dividend stocks frequently during the course of the year if you would like to capture the preferred tax rate.
2. Don't use dividend trapping strategies: Do not use any dividend trapping strategies that try to venture a weakness in the minimum holding period. Commissions, taxes and the natural petty downward price movement of the stock at the record date to adjust for the dividend payment are not worth the effort. In some cases, the downward adjustment is hardly noticeable during the course of the normal trading for the week.
3. Keep eye on red flags: Consider following red flags that the dividend yield may be too high:
 1. If the yield is 3% or more than the yield of stocks in its sector. The Value Line Investment Survey found in many libraries has average yields for sectors.
 2. If the yield is more than 4 times the overall market yield for the Dow Jones Industrial Average or the S&P 500. Barron's Market Laboratory section has the weekly market averages. Once again check with your local library.
 3. If the yield is more than twice its historical long-run average yield. Value Line is a good source of current info.

Why pay attention to high yields? Usually, extraordinary high yields don't give any result when company increasing its dividends. It is usually the result of falling stock prices due to a systemic problem.

4. Be aware of DRIPs

Do not avoid dividend reinvestment program feature offered by dividend providers for the reinvestment of your dividend payments where additional partial and full shares of stock are automatically purchased on your behalf.

This gives you many advantage of mispricing in the market, as well as has the flexibility to move into and out of positions easier.

5. Avoid dollar cost averaging

Dollar cost averaging is the automatic distribution of investment capital to purchase stock at specific time intervals.

The theory behind dollar cost averaging is that you invest on a monthly basis and reduce your overall risk of getting into the market with a lump sum of money in a bad day when the stocks are overvalued only to see the stock price drop the next day.

Studies have shown that during bull markets, where stock prices are rising, dollar cost averaging actually decreases your returns. Sometime after stocks increase in value to higher and higher prices. The simple proof is a 20 or 30-year graph of the S&P 500 Index.

The simple solution is to purchase your stock in blocks when the stock is experiencing a slight pullback in price or the market is going through a slight correction. By buying on these slight dips you build in a margin of safety into your stock purchases.

6. Be open to opportunities

The name of the game in today's investing environment is the mobility of your money.

Avoid particular stock or brand and persistently hold onto it while it begins to experience a major price decline. There is a tendency to get too emotionally attached to particular holdings that we hold whatever reason.

Try to use a little more reason in assessing whether a particular holding is still meeting your overall expectations. When you treat each of your holdings as if you are simply making a business transaction that moves you closer to your dreams, then you will be better positioned to quickly take advantage of opportunities.

7. Avoid swapping positions

It is important to be open to opportunities. However, only consider swapping your dividend stocks when a new candidate offers a materially higher prospective overall return than the least attractive dividend stock you already own.

Look at your new opportunity based on the following simple criteria:

• Generate at least a percentage point higher in my overall return than my least-attractive holding?

• See new prospect capable of meeting minimum expectations of any stock in my portfolio? If not, wait until a better opportunity presents itself.

When trading up dividend stocks you can offer better yield or better rate of dividend growth. Ideally, seek out both.

If your core positions are frequently growing over time and nothing has changed to signal that the

dividends are no longer safe, use your cash as long as possible.

8. Try to build a position

Whenever possible try to purchase a total of 300 or 400 shares in round lots of 100 so that you can also layer in options plays for additional cash flow.

Should you decide to you sell 3 or 4 covered call option contracts (where 1 option contract is equal to 100 shares of stock) at a time you reduce the effects of commissions decreasing your net premium.

Keep in mind that the fewer the contracts being sold, the more commissions will begin to deteriorate your premium profits.

9. Use tax favored accounts carefully

We would like to protect our compounding cash flow within a tax-favored or tax-exempt account, especially when selling covered on our dividend-paying stocks. However, dividend stocks are the natural choice for a simple margin account that does not provide any tax advantages, since the turnover rate is typically low and dividends are currently taxed at a favorable rate.

I hope that at least one of these tips oscillates you and moves you into a position to increase your overall returns. So take a step toward the success as an investor.

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