newsworthy trends

Investors and Financial Execs Agree: Dividends Are On the Rise

(NAPSA)—In a recent study released by Boston-based investment manager, Eaton Vance, senior finance executives at dividend-paying American corporations agreed that stocks that pay dividends are growing in appeal. The nationwide survey of executives from all major corporate sectors also projected long-term dividend growth.

The survey, conducted by Penn, Schoen & Berland Associates, Inc., revealed that 47 percent of finance executives anticipate dividend growth to continue to outpace earnings growth in 2006. These projections dovetail with research by Standard & Poor's, which found that dividends rose faster than corporate earnings over the past year. Duncan Richardson, executive vice president and chief equity investment officer of Eaton Vance remarked, "With strong balance sheets and cash flows, American companies have the means and motivation to continue to increase dividends."

How long is this trend likely to continue? Of executives who believe dividends will continue to outpace earnings, a majority (60 percent) expect the trend to last for one to two years. An additional 25 percent anticipate the trend will last up to five years. However, the duration of this trend may depend on whether Congress extends the current reduced tax rate on dividends. According to Mr. Richardson, "Businesses may not continue increasing their dividends if the tax cut extensions fail to go through and dividends once again are taxed at a higher rate."

Regardless of the possible extension to current tax act provisions, "the important takeaway is companies are increasingly returning more to investors in the form of dividends," said Mr. Richardson. As many dividend-paying companies use excess cash to increase dividends, six out of seven finance executives polled said they consider a company's track record of increasing annual dividends as a way of displaying shareholder friendly behavior. Furthermore, four out of five believe a firm's dividend growth rate can give investors confidence in the company's projected long-term growth potential.

Investors who were polled last year in Eaton Vance's sixth annual investor survey agreed with these sentiments. A majority of investors polled held a very positive view of companies that pay dividends (78 percent), seeing them as predictable cash generators and viewing dividends as a sign of financial strength.

"There has been a significant shift in investor preference from an emphasis on growth investing towards a more value-oriented conservative investment style," said Mr. Richardson. "In the 1990s, investors preferred companies that offered buybacks—which increase reported earnings per share—over dividends." As the results of the Eaton Vance study reveal, a majority of polled individual investors (57 percent) now say they prefer regular quarterly dividends over stock buybacks (23 percent) or special dividends (8 percent).

According to Mr. Richardson, "Dividends have returned to popularity, and value investing has emerged from the doghouse."

Eaton Vance Corp. is a Boston-based investment management firm whose stock trades on the New York Stock Exchange under the symbol EV. Eaton Vance and its affiliates managed over $113.3 billion in assets as of January 31, 2006, for more than 100 investment companies, as well as individual and institutional accounts, including those of corporations, hospitals, retirement plans, universities, foundations and trusts.

Penn, Schoen & Berland Associates, Inc. is a Washington, D.C.-based full-service strategic polling and market research firm.

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