# MANAGING YOUR MONEY

## What Do Dividends Tell You?

*by John Buckingham*

(NAPSA)—Investing in stocks that offer a significant dividend can be a strategy that pays off in more ways than one.

**Buckingham**

It may surprise many investors to learn that in the past 15 years, the largest dividend-paying stocks posted superior returns relative to the market—and to their non-dividend-paying peers. And they tended to do this while offering lower levels of risk.

Surprised? During the time of the "bubble"—1999 in particular—the largest non-dividend stocks outperformed the dividend payers.

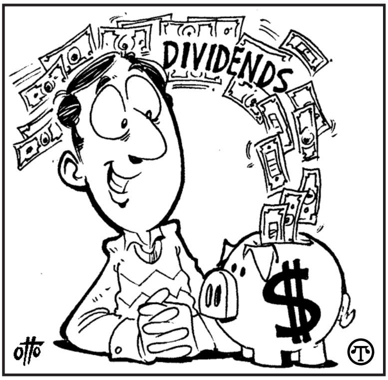
However, when the market turned south in 2000, the lower volatility associated with large-cap stocks started to work in their favor.

Since the end of March 2000, large-cap dividend payers as a group lost 1 percent annually, compared to 18.2 percent lost by non-dividend payers annually. That's just slightly less than the tech-heavy Nasdaq which lost 18.5 percent.

Extending our analysis to mid-cap stocks that paid solid dividends over the same period, we found a similar—although a less dramatic—pattern of strong returns and lower volatility.

When we started to look for reasons behind the pattern, we found what we believe is a relationship between dividends and volatility. Volatility is a measure of a stock's tendency to have sharp price swings within a period of time—and is often used by investors and analysts to measure risk.

It's our belief that dividends, in addition to being part of the return to investors, are an indicator of stability—and less volatility.




**When a company pays dividends, it can be a sign of stability and that management believes increased earnings lie ahead.**

In general, companies begin to pay dividends once they reach a level of business maturity, where attractive opportunities for investment may be less available while cash flow is stable or growing more slowly than in the past.

Dividends convey information. They suggest that a company's leadership is assured of a sustainable increase in earnings.

We believe the characteristics associated with dividend-paying large-cap stocks— market-beating returns, dividend income and lower volatility—make a compelling case for an investment strategy based on holding a select group of dividend-paying stocks for five to 10 years.

*John Buckingham is president, chief portfolio manager and director of research for Al Frank Management as well as editor of "The Prudent Speculator" newsletter.*

*To learn more, call 1-888-994-6827 or visit the Web site at www.alfrank.com.*