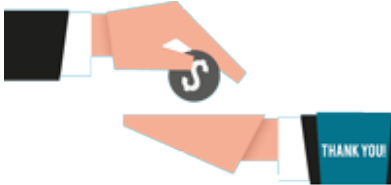


Understanding dividends

In the Game, one of your strategies might be to invest in those companies that have a dividend coming up, in order to take advantage of the additional cash.

Before doing this, it is important to understand what dividends are and how they work.



What are dividends?

Companies use the money they make as profits to pay dividends as a way to reward shareholders. By paying dividends the company makes itself more attractive to investors.

Companies typically like to keep a consistent pattern to their dividend payments as they know a lot of investors, especially retirees, rely on dividends for income. A lot of investors look at what a company has done in the past to try to get a feel for likely future dividend payments. They can also get more of an idea of what is likely to happen, by paying attention to company announcements as well as what company analysts might say.

Some companies, for example, the big banks that have a history of paying good dividends, so a lot of investors like these stocks. It is important to remember however, that a dividend is not guaranteed, as a company may pay a dividend one time but not the next. Or they may change the amount of the dividend. If a company experiences a significant drop in profits you might expect the next dividend to be lower or in some circumstances no dividend paid at all.

You can watch this video to help you understand more about dividends.

What is franking all about?

Franking is to do with tax. When a company pays a dividend, it has often already paid tax on that money. If this is the case, then the shareholder is given a concession called a franking credit which shows that some tax has already been paid on the dividend and the shareholder will pay less tax as a result. We don't take tax into account in the Game so we ignore franking but for investors franking credits can make dividends even more attractive.

So how do you receive a dividend?

Companies need to keep track of who owns their shares so they can pay dividends out to shareholders - therefore they need a cut-off date (the ex-dividend date). To be entitled to a dividend a shareholder must have purchased the shares before the ex-dividend date.

In the real world a dividend will be paid into a shareholder's nominated bank account on the payment date, sometime after the ex-date. In the Game, a dividend gets paid on the ex-date into your Game account as cash.

You can find all of the dividends coming up in the Game and their ex-date on the Dividends plus page.

What happens to the company's share price?

A lot of shares fall in price by the dividend amount the day they go ex-dividend. Why does this happen? Suppose I say to you, "you can buy these shares for \$5.00 plus you will get a dividend of 50 cents." How much

are you really paying? \$4.50 - because you are getting 50 cents back.

So the market is valuing the company at \$5.00 (\$4.50 plus a 50 cent dividend) what do you think people will be prepared to pay for the shares if they aren't eligible for the dividend? Most likely the answer would be \$4.50.

This is why a lot of shares fall in price on the ex-dividend date. Sometimes companies don't fall in price after they go "ex" and this is referred to as "holding their dividend". It is a good outcome for you if you own the shares, you get the dividend and the shares don't drop by the dividend amount.

Because dividends give you more money in your portfolio you may have chosen to invest in these companies in order to get the dividend. Now there is nothing wrong with this, however just remember that the share price will most likely fall on the ex-date, so you would need to wait until the share price recovered from this fall in order to take full advantage of the dividend.

So is a dividend worth chasing?

You can select a share simply based on its dividend. However, you really need to consider more than just the dividend, as companies can only continue to pay good dividends if they are doing well financially so it is also wise to also look into how the company is performing.

Game update

