In the current low-interest rate environment, investors would be wise to take notice of companies' dividend yields as a means of generating extra income. ANDREA PAGE explains how the internet can be a valuable tool for gathering information about dividends

CASH INJECTIONS

Do you know what your shares are yielding? In a historically low-interest rate environment, it's worth looking at the income paid as dividends to shareholders. Dividend yield is the annual amount of dividend relative to the current share price. Dividends were largely shunned in the growth-obsessed 1990s but, according to Barclays Private Clients' 2002 Equity-Gilt Study, had you invested £100 in 1945 (roughly equivalent to the FTSE All-Share's life) and spent the dividends you'd have received £4,904. That compares to £65,440 if you'd reinvested them.

"It's fundamental that people take account of this for longer-term growth, otherwise you're just dependent on the unreliability of picking growth stocks," says Justin Urquhart Stewart, a director at Seven Investment Management. The *Bloomberg Money* columnist expects an average total return from equities of 7% to 8% a year on a long view and would look for companies to yield 4%-plus for a portfolio bedrock. To get started, try the simple dividend yield calculator at Incademy.com.

FREE INFORMATION

There is free information online although some sites charge a subscription. At ADVFN you can see the current dividend yield for all stocks (plus live share prices) but its broad-based company fundamentals data, including the total annual and most recent dividend amounts, costs £5 a month. Useful features are the date when a company's next dividend will actually be paid out and a round-up of which companies' dividends are due in the near future. Yahoo Money also diarises payment dates and ex-dividend dates (before which you must buy shares to qualify for the dividend) around four weeks in advance.

Several online brokers provide some free data to clients. SelfTrade's new research site includes the last two years' dividends, the current dividend yield and broker forecasts for two years ahead. More active traders receive alerts about upcoming dividends and payout dates.

MAKING COMPARISONS

What the internet really lets you do is put equity income in context. Broker E*Trade's tiered stock search tool helps locate the higher, lower and middle-ground yields while, at the free research site Digital Look, you can compare a share's current dividend yield to the average market or sectoral yield. "We've also launched a new stock selection tool that means you can pick dividend yields in different bands and compare them with the market," says Digital Look director Andy Yates.

The site also lists the 10 overall highest-yielding companies and there is a similar feature at REFS Online. This service isn't cheap but it does provide abundant company financial information plus broker forecasts and consen- ▶

sus, and there's a free 14-day trial. You can also use Digital Look's "heatmaps" to pinpoint higher-yielding shares within a chosen sector.

"A lot of companies at the moment are reporting profits in line with or in excess of expectations, but that's mainly due to cost-cutting rather than revenue growth," warns Jonathan Harbottle, marketing director at Liontrust Investment Funds, whose First Income offering is *Bloomberg Money's* Equity Income Fund of the year. He's adamant that private investors who want equity income should buy a fund. And there's no doubt dividend yields can mislead – a high yield could reflect a collapsing share price with little hope for future dividend growth.

The Online Star system provides some guidance in the shape of three sets of share rankings each month – two for growth and one for growth with income – from the 300 biggest UK-quoted companies. It also generates two listings of 10 and 20 high income shares. "The idea is to create a template that's easy to understand," says John Mulligan, managing director of MD Management, who developed the system and back-tested it to 1985. "This is not stock tipping – it's a methodology related to a constant flow of information." He adds that, since 1999, the 10 income selections have returned over 40%, against a 26% decline in the FTSE All-Share.

Based on broker forecasts about price-earnings ratios and earnings growth, the system selects companies with the fastest and best-value earnings growth prospects, then rejects any whose future earnings growth has recently suffered a downgrade of more than 20%. The income stocks are selected from the remaining pool, based on above-median dividend yields. As a result, they tend to have a reasonably high dividend yield because the focus is on growth first and dividends second, says Mulligan, who also acknowledges that the methodology relies on analysts not calling it dramatically wrong on earnings. You can trial the rankings free for 45 days.

FUTURE EXPECTATIONS

A couple of US sources also give insights into using dividend data. The Dividend Discount Model site calculates the value today of a company's future dividend expectations, to indicate whether it is a bargain. And the income stocks screen at ReutersSelect flags up companies that should be safer bets to consistently pay dividends in future. Its criteria include positive dividend growth at least 10% over the industry average over three years, and a "payout ratio" – the percentage of net income paid as dividends – that is no more than 25% over the industry average.

Urquhart Stewart advises putting together as many company fundamentals, including financial history, as possible. "What I'm looking for is a steady drumbeat of what that company is doing with regard to its products, management and financials," he says. Corporate websites can be useful in this regard, as is the UK-wire.com news service, which aggregates announcements to the London Stock Exchange about quoted companies.

Checking a company's history of dividend growth makes sense, as does looking at broker forecasts of earnings and dividend growth. REFS Online shows five years' dividend per share growth, dividend yield and dividend cover, which shows how many times the company can cover its dividend out of available profits. It also shows detailed broker forecasts on earnings and dividends, including a consensus round-up for two years ahead, whereas Wrights Investor Services' free data shows a 10-year dividend per share history.

Digital Look's company fundamentals snapshot goes back three years and there's also a snapshot consensus of brokers' dividend yield and earnings forecasts two years ahead. Other data to look out for includes the dividend cover ratio and the level of a company's debt or "gearing".

Screening tools are a useful short cut – REFS Online has 38 variables to Digital Look's 31 (the latter's include dividend yield, dividend cover, net gearing and broker forecasts on dividends and earnings). Broker site ShareCrazy's user-friendly stock picker tool lets you specify one of six indices, market capitalisation, dividend yield, historical sales and profit growth as well as the price-earnings ratio.

Finally, your broker may not offer automatic dividend reinvestment. Lloyds TSB Registrars runs a dividend reinvestment plan for 44 major UK companies – some with online application forms via its Shareview site. But with dealing charges for, say, Marks & Spencer of 0.5% with no minimum, it could be cheaper to reinvest through your online broker. BM

Websites in this article

Company	Website
ADVFN	www.advfn.co.uk
Digital Look	www.digitallook.com
Dividend Discount Model	www.dividenddiscountmodel.com
ETrade	www.etrade.com
Incademy	www.incademy.com
Online Star	www.companynews.co.uk
REFS Online	www.hemscott.net
ReutersSelect	www.multexinvestor.com
SelfTrade	www.selftrade.com/uk
ShareCrazy	www.sharecrazy.com
Shareview	www.shareview.co.uk
UK-wire.com	www.uk-wire.com
Wrights Investor Services	www.wisi.com
Yahoo Money	http://uk.finance.yahoo.com

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