

## **A closer look at dividends**

New Zealand companies have one of the highest dividend payout rates in the developed world – and it's been that way for a long time.

In fact, in the early 90s, one fund manager established a fund specifically targeting companies that could provide an income comparable to a term deposit – with the added bonus of potential for capital gains.

Today, many New Zealand shareholders take it for granted that twice a year their dividend cheques will arrive in the mail, and many retired investors depend on those dividends for their income.

New Zealand's high dividends are the reason why there's such a difference between the performance of the NZSE-40 Gross and Capital indices. The Capital index tracks only share price movements, whereas the Gross index includes dividend payouts as well.

The appropriate level of dividend really depends on the type of company concerned. For a company focused on growth, e.g. investment companies like Sir Ron Brierley's Guinness Peat Group, or one in a high-risk sector such as oil exploration where cashflow can be unpredictable and irregular, it makes little sense to make generous dividend payouts year in and year out.

Investors who think they should be getting a steady dividend stream from these investments are in effect saying they can put their money to better use than the company they own shares in.

Nevertheless, there will be times when an investment company will find itself 'flush' with cash and with no decent opportunities in sight. In these circumstances, it may make an 'extraordinary' dividend and return some capital to shareholders.

Blue chip companies are different. They're well established and more focused on running their business profitably than chasing high growth. For the most part, you would expect them to pay out some of their profit as dividends.

There's also an argument that regular dividend payouts are a 'governance' issue. That is, they demonstrate that a company values its shareholders and takes seriously its duty to give them a return on their capital. The question then becomes: what is the 'right' level?

It is, in fact, a trade-off, because shares are primarily a growth investment. Therefore, if your priority is income, having too much of your money in shares may not be a good idea.

To ensure that your investments are best suited to your personal needs and objectives, talk to a professional adviser.

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