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Investing in **dividend paying stocks?**

5

things to **watch out for**

Dividend paying stocks:

Investors looking to create a steady source of income with a lower risk appetite prefer dividend paying stocks in which a company pays a sum to its shareholders as a gesture of goodwill for holding an equity in the business.

#1

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Is the company strong and sustainable?

Research and learn about the company and the sector. Choose one that is fundamentally strong and sustainable, has a robust corporate governance framework, and holds high regulatory and compliance standards.

#2

What's the debt to market cap ratio?

Debt is an extremely important indicator of a company's financial health. Take a look at the debt to market cap ratio. The lesser the ratio, the more stable a company is. If this number is increasing or hasn't reduced over a period of time, the company may not be a good bet, despite the high dividend payout.

#3

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Focus only on high dividend yield?

It is natural to get attracted to stocks with a high dividend yield. However, it may be a sign of trouble and a result of an underperforming security. Ensure that your analysis is holistic, and check the consistency of dividends and overall stability and growth prospects of the company.

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#4

What's the payout ratio?

Payout ratio indicates the company's capacity to support dividend payouts. A ratio of more than 1 indicates that the company is giving more dividends than its earnings and poses a question at the company's long-term stability and ability to pay dividends consistently.

Simple solution:
Look for consistency

A consistent payout is a sign of a healthy company. This means the company is constantly growing, well-managed, and has long-term stability. Even if the dividends increase by a small number every year, the compounding effect can make the earnings pronounced as time goes by.