Johnson, Johnson, and the Dividend Dilemma

How viable is income investing in this American conglomerate?

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Johnson & Johnson (NYSE: JNJ), **General Electric** (NYSE: GE), and **3M** (NYSE: MMM)are some of the most recognizable companies that have been paying steady dividends to American income investors for decades. However, with recent speculation regarding the potential cuts of the GE dividend, criticism has arisen regarding the legitimacy of income investing in American conglomerates.

Pulling impressing numbers in the 3rd quarter of this year, Johnson & Johnson has largely stayed out of the fray. Its increasing investments into the healthcare sector has solidified its already impressive balance sheet and prevented Wall Street analyst criticism.

JOHNSON AND JOHNSON LOGO

But how safe is this dividend?

Johnson & Johnson has not just paid out a dividend for the past 54 years, but has managed to increase its dividend payment year-over-year since it began in 1963 . Any fool can see the strong trend towards profitability and shareholder value, but only a Fool could see the potential for underlying market shifts that may affect this $376 billion-dollar company.

American investors are losing confidence in the idea of conglomerates, whose businesses are too complicated for the average stockholder to understand and lack the transparency many desire. While inherently diversified, these companies seek to integrate their business practices as much as possible- using their massive scale to penetrate global markets. Johnson and Johnson is no exception on either front. While its vast empire may span across the world, one look at the company about page makes it clear why so many Americans recognize its subsidiaries instead of the parent company.

If Johnson & Johnson is not able to return company and stock growth that matches the broader market and economy, it is positioning its predictable dividend for increased criticism. In fact, Q2 earnings made investors cautious- revenues in both the pharmaceutical and consumer businesses were down. Much like the adverse power sector affected GE's earnings , a tougher retail environment could expose Johnson & Johnson to declining cash flows.

Perhaps even more concerning is the risk to the dividend given falling cash flows. If the company is not able to continue to grow its dividend like many investors expect, its entire business model may face backlash from shareholders who see the company as spread too thinly across many sectors.

While Johnson & Johnson is no doubt propelling ahead with impressive performance, the external market forces which seek to scrutinize the business practices of even the most robust American conglomerates pose a risk to halt the company- and its impressive dividend- in its tracks.

Emily Flippen does not own shares of Johnson & Johnson, GE, or 3M. All information contained in the article is personal opinion based on publicly available information. See: disclosure policy.

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A previous Fool intern on the Investment team, I completed my undergraduate degree at NYU Shanghai. The experiences I had at the Fool were unparalled. I sincerely appreciate being considered for this position.

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