Introduction

The dividends paid by listed companies can be rather attractive — especially for those investors looking for income, rather than capital gain. However, the selection of stocks to buy for the dividend, combined with the timing of any share purchase and sale, is not straightforward and can be fraught with danger.

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At one extreme, buy-and-hold investors might buy shares in a dividend paying company and hold them for a several years so as to receive the dividend year after year — regardless of the performance of the share price, and regardless of any capital destruction. If we study the numbers, in some cases we can see that the amount of capital lost can outweigh the dividends that are paid.

For example, the AMP share price over the years has lost more than 90 per cent from its peak in 2001 until early August 2019 (see the price chart in Figure 1 — from $21.99 to $1.84). I haven't done the sums, but we should consider whether the dividends paid out over the years outweigh the reduction in the share price?

Figure 1: AMP's share price performance 2001 to July 2019

At the other extreme, some very short term investors and traders might buy shares and hold them just long enough to qualify for the dividend. This practise is referred to as a *dividend capture* strategy (or *dividend harvesting*, or *dividend stripping*), and it can be profitable sometimes, but it is not always profitable and there are pitfalls to watch out for. The ASX frowns on this strategy, and depending on the exact circumstances the Australian Tax Office might have an opinion with governing law that is relevant (refer to the *Income Tax Assessment Act 1997*) — so beware.

The discussion on the following pages approaches the topic of *dividend investing* and *harvesting* from the point of view that capital protection is very important, and that some form of stop loss approach or other exit strategy ought to be used to protect against a falling share price. Longer term buy-and-hold investors might find this discussion contrary to their current thinking, but interesting.

One consideration that is a trap for some investors and an advantage for others, is that many investors / traders anticipate a share price fall on the ex-dividend date, and actually lock in a capital gain on the share price by selling the stock before the ex-dividend date. They miss out on the dividend, but they capture a capital gain.

** - The two words *trading* and *investing* are often used somewhat interchangeably.

Exactly what is a company dividend?

In the context here, a *dividend* is the payout from a company's profit to the eligible share holders. The total dividend payout to all share holders might be all of the company's profit, or just a portion of it. Most of the companies on our market that do pay a dividend, actually pay the dividend twice each year (an *interim dividend* and a *final dividend*). For many of these the payout time frame is soon after the bi-annual reporting season, and the announcement of the company's results which occurs for most companies in February and August each year.

There are numerous ways to find out which companies usually pay a dividend, and when they pay it, and the ex-dividend date which is used as the key date to determine share holder eligibility to receive the dividend. However, the dates are not normally announced until a few weeks prior, and can change from year to year.

The key dividend dates

There are several key dates related to the payment of dividends as follows.

1. **Announcement, or Declaration, Date** — The date on which the company announces the dividend amount and payment dates for the upcoming dividend payment period. This can be days or weeks ahead of the *ex-dividend date*.
2. **Ex-dividend Date** — The date from which the shareholders will not be eligible to receive the dividend. That is, the shares will trade "excluding the dividend" from this date onward. Prior to this date, the shares trade "cum dividend" (ie. including the dividend). Consider the following:
   (a) If a shareholder holds the shares on the day before this date, they will receive the dividend.
   (b) If a shareholder sells the shares on the ex-div date (or after this date) they will receive the dividend.
   (c) If a shareholder sells the shares before the ex-div date they will not receive the dividend.
   (d) If a shareholder buys the shares on the ex-div date, or thereafter, then the current dividend is not payable to the shareholder.
3. **Record Date** — The date very soon after the ex-div date when the company records the list of eligible shareholders. The shareholder does not need to hold the shares on this date — only up until the day before the ex-dividend date.
4. **Payment Date** — The date on which the company will dispatch the dividend (to the shareholder's bank if applicable, or a cheque in the mail).

The traps... are listed over.../

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