BUSINESS NEWS LESSONS

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Go where the smart money is

1 Warmer

a. Briefly discuss these questions with a partner and then share your answers with the rest of the class.

- What percentage of your savings would you invest in the stock market?
- What criteria would you use to select the companies to invest in?
- How long-term would such investments be? Would you be willing to play a long game? Why (not)?
- Would you expect to receive dividends in the shorter term? Why (not)?

2 Key words

a. Read the definitions and find key words in the article that match the definitions. The paragraph number is given in brackets to help you. Check your answers and understanding of the words by using them to complete the example sentence immediately after each definition. Then read the complete article to see how the key words are used in context.

1. existing in a specific place or time ________________________ (paragraph 1)

   Bureaucratic management was the ________________________ management theory in the 1930s.

2. an amount of profit that is made ________________________ (paragraph 1)

   High ________________________ debt means the investor takes on more risk compared to investment grade bonds.

3. causing activities to lose energy or value ________________________ (paragraph 2)

   The stock market experienced a ________________________ decline from 1973 to 1974.

4. someone who owns shares in a company and gets a part of its profits ________________________ (paragraph 2)

   The board of directors proposed integrating AI into its daily operations in its latest letter to ________________________.

5. the act of paying out an amount of money ________________________ (paragraph 2)

   The Commission for Environmental Protection approved a ________________________ of up to 13 million dollars for reforestation projects.

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6. when a business sells shares and then buys them back again according to an agreement

   ________________________ (paragraph 2)

   The ride-share company is extending its share ________________________ programme to tackle its share dilution dilemma.

7. a large amount of money paid to someone, especially in the form of expected financial returns from investments ________________________ (paragraph 2)

   The ________________________ is an indicator that can dramatically influence investors' decisions to purchase shares.

8. the value of a company divided into many equal parts owned by shareholders; the capital a company gets from selling its shares ________________________ (paragraph 5)

   There are fears that the childcare industry will be overtaken by private ________________________ instead of being managed by the federal government.

9. small in amount or degree ________________________ (paragraph 6)

   Today, stocks averaged ________________________ gains after a week of fluctuations.

10. the worst moment, or the point at which something is at its lowest value

    ________________________ (paragraph 6)

    The pound reached its ________________________ in the mid-1980s when it was almost at par with the dollar.

11. an amount of money that an organisation borrows and promises to pay back on an agreed date with a set amount of interest ________________________ (paragraph 7)

    One of the country's largest lenders returned to the dollar ________________________ market with a dual-tranche offering of over a billion dollars.

12. without strength, power or energy; weak ________________________ (paragraph 7)

    The oyster market is finally facing headwinds after a ________________________ two-year period.

13. make something stronger and support or improve it ____________________ (paragraph 7)

    The tech giant has announced that it will offer free tools to ____________________ online security.

14. exciting or attractive ____________________ (paragraph 10)

    While investors find these new tax rebates ____________________, experts are uncertain if this will be enough to sustain longer-term foreign investment.

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How the humble dividend might rise again

META'S MOVE TO START THE PAYOUTS COULD SIGNAL AN UPCOMING SWITCH IN INVESTOR MINDSET

KATIE MARTIN

6 FEBRUARY, 2024

1 Shareholders in Meta are about to start receiving a dividend for the first time. Most of them probably won't notice. Investors will receive a piddling 50 cents per share each quarter, starting next month. Given the prevailing share price of the social media monster, this equates to an annual dividend yield of just 0.42 per cent. This sounds tiny. It is tiny. But this particular form of microdosing sent out a big signal, for the company and potentially for the wider market.

2 Meta encapsulates the grinding decline in dividend culture in US equity markets over the past two decades. Few of its shareholders will have missed these disbursements over the past 10 years, during which its publicly traded stocks have delivered gains of almost 700 per cent. Instead, share buybacks have provided the primary way to return capital to shareholders – Meta bought back more than $90bn worth of stock from 2021 to 2023 and intends to buy much more, at a pace that far exceeds the scale of the new dividend payouts.

3 But the message matters. Analysts welcomed the move as a "coming of age" and a signal that Mark Zuckerberg's empire would tilt in favour of staid, sensible rewards for shareholders over ventures in the metaverse.

4 A century ago, companies paid a dividend even at the point of listing on the stock market, as Daniel Peris, a specialist dividend-focused investor at Federated Hermes, explains in his new book *The Ownership Dividend*. It was considered an integral part of the investment process, and for decades afterwards, the biggest signal came from a failure to pay out – often seen as an outright sign of financial distress.

5 Those that pay dividends have tended to stick to them in all but the most dire of circumstances (such as the Covid-19 era), providing a steady income stream for equity investors whatever the performance of the share price itself. But the anything-goes low interest rate world created a "hostile environment" for this investment style, Peris says.

6 Today, about 70 per cent of companies in the S&P 500 stocks index pay a dividend, but generally a slender one. In the US, yields have largely been stuck under 2 per cent for two decades – a nadir only partly explained by taxes. On the tech-heavy Nasdaq index, only about 40 per cent of companies paid a dividend at all by the end of 2022, leaving the median yield at zero, Peris notes. The practice has simply fallen from convention, especially among ambitious tech companies that plough earned dollars back into growth and development, and especially in the US.

7 As long as stocks always go up, and, importantly, as long as bonds put up a feeble fight for investment dollars with their own low yields, this arguably does not matter. But dividend enthusiasts argue this is starting to change now that money has a cost again. Meta's new small offering bolsters their case.

8 Already, ignoring dividends gives a faulty impression of investment returns. If you include them – better representing the real-world experience of holding shares – the global hierarchy of top-performing equity markets gains a curious new tinge. Last year, for example, the S&P 500 gained 26 per cent on a total return basis – a couple of percentage points above basic price gains in the index. Italy's FTSE MIB, meanwhile, gained a stonking 39 per cent on a total return basis in dollars. Dividend yields there now stand at more than 4 per cent.

9 This level of payouts has a profound impact on investor mindset, says Hans-Jörg Naumer, global head of thematic research at Allianz Global Investors in Frankfurt. "As investors we are not purely rational. Investing feels like a loss," he said. "An income stream helps to overcome that feeling." This path is not smooth. In 2022, the dire performance of largely low- or zero-dividend stocks provided a boost for investors like Stuart Rhodes, who manages the M&G Global Dividend Fund. As the usual high-growth low-payout tech stocks struggled, "the market seemed to accept that period was over", he said. "It was a useful reminder that you can have long periods when the same thing works, but nothing works for ever."

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10 Last year was again humbling. The scorching ascent of the small clutch of low-dividend tech stocks known as the Magnificent Seven again put off a lot of investors who hopped on to these easy gains. "We had a quiet year," said Peris. For him the dream is that now bonds bear higher yields and are a more alluring bet, companies will routinely place a predictable layer of dividends on their stocks to keep investors sweet.

11 A return to the lavish dividend days of a century ago is unlikely, but Meta's example suggests the message still rings a bell in the back of investors' brains.

3 Understanding the article

a. Are these statements True (T) or False (F) according to the article? Correct any that are false.

1. Meta investors will receive significant dividends paid out annually starting in March 2024.
2. The writer thinks Meta's dividends could impact the wider market.
3. Historically, share buybacks, as opposed to dividends, have provided the primary way to return capital to Meta's shareholders.
4. With a new dividend culture, Meta will lessen its focus on buybacks.
5. A hundred years ago, it was assumed that you would earn dividends as an investor even when the company was publicly listed.
6. Nowadays, most companies in the S&P 500 stocks index pay a slender dividend.
7. Dividends in the US have hit an all-time high in the past two decades.
8. Many people believe that dividends are not important if the value of stocks is on the rise.
9. Naumer argues that, while investment is rational, dividends still sweeten the blow when stock prices go down.
10. Rhodes thinks it is important to spot new trends, especially at the end of long-lasting ones.
11. Peris believes that since bonds offer higher yields, fewer companies will pay dividends to their investors.
12. The writer believes that investors will still find dividends alluring.

4 Business language – collocations

a. Use the verbs below to complete collocations from the article. Then, find and circle each collocation in the article to check your answers.

buy back	create	deliver	have	hop	manage
overcome	pay	plough	provide	put up	receive

1. ______________ / ______________ a dividend / 50 cents per share
2. ______________ stock
3. ______________ a steady income stream / a boost
4. ______________ a hostile environment
5. ______________ gains

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6. ______________________ dollars into

7. ______________________ a fight

8. ______________________ a profound effect

9. ______________________ a feeling

10. ______________________ a fund

11. ______________________ on to easy gains

b. Choose five collocations and use them in questions to ask your classmates.

5 Discussion

a. Discuss these questions.

- How would you describe a successful investing mindset?
- Do you agree with Hans-Jörg Naumer that investors are not purely rational and that investing feels like a loss? Why (not)?
- How much weight would you give dividends in the investment decision-making process?
- What other factors should you take into account when deciding which shares to buy?

6 Wider business theme – building an investment portfolio

Task

You are attending a meeting to decide what to do with your investable money, balancing risk and high rewards with steady gains.

a. First, list the pros and cons of each investment. Look at the information for each company. The fair value is based on expected cash generation in the future, so the share price/fair value rating can help you analyse each potential investment.

b. Now consider the following: current and historical market trends, what you know about the industry, the impact of the wider market and economy, external risks, and the time horizon. Complete your role card, which will provide the baseline for your personal agenda during the meeting.

c. Then, hold a meeting in which a decision must be made. Decide what percentage of your funds you want to invest in each company or other option (if any).

a. Stocks	
Yumyum (founded 2019) Uncertainty rating: medium Industry: restaurants Price/Fair value rating: 0.5 Other: strong brand in a USD600 billion food market with strong growth opportunities	**Orga** (founded 1934) Uncertainty rating: low Industry: drug manufacturers Price/Fair value rating: 0.62 Other: French drug and diagnostics giant with quality products and a strong brand
Roar Recreational vehicles (founded 1954) Uncertainty rating: medium Industry: recreational vehicles (RVs) Price/Fair value rating: 0.6 Other: longest operating brand in the market; strong R&D and great quality; rivals are innovating quickly, though	**Soulfood** (founded 1960) Uncertainty rating: medium Industry: packaged foods Price/Fair value rating: 0.67 Other: cost advantages, strong brands; expecting steady earnings per share growth in the next decade
Petal (founded 1983) Uncertainty rating: medium Industry: cosmetics Price/Fair value rating: 0.7 Other: premium beauty products with a strong digital presence; luxury goods might not sell during a recession	**Allstar cast** (founded 1993) Uncertainty rating: medium Industry: telecom services Price/Fair value rating: 0.7 Other: includes several content franchises and theme parks; core cable business with significant competitive advantages

b. Other	
Bonds Fixed interest; lower long-term returns, low uncertainty	**Index fund** Spread risk, low management fees

c. Role cards	
Student A You believe it best to bet most of your funds on a company with a proven track record. You prefer slow and steady and want to minimise risk.	**Student B** You think that the best investment is in a new industry. You believe that all successful businesses are flexible and keep up with the times.
Student C You believe that diversity is the key. You don’t want to put all your eggs in one basket. You think the best thing to do is to spread the risk.	**Student D** You are focused on shorter-term gains. You want to bet on something that will turn profits fast. You can always cash out!