

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.
- Do you think investing some of your money in the stock market is a good idea?
 - How would you decide which company to invest in?
 - How soon would you expect to earn money from an investment?

2 Key words

- a. Choose the key words that match the definitions. Check your answers and your understanding of the words by completing the example sentences immediately after each definition. Then read the complete article to see how the key words are used in context.

bond	buyback	disbursement	equity	gain	mindset
payout	quarter	return	shareholder	stock	yield

- one of four periods that a year is divided into for financial calculations _____
They have just announced the financial results of the last _____.
- an amount of profit that is made _____
I don't have investments. Most of my money is in a high _____ savings account.
- someone who owns shares in a company and gets a part of its profits _____
The CEO is presenting the new business strategy to the _____ at the annual general meeting.
- the act of paying out an amount of money _____
The bank approved a loan _____ of 10 million pounds.
- the amount of money a company has made by selling shares to people or the part of ownership of a company that the public can buy _____
The company sold over a million pounds in _____ this month.

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

The sports apparel company launched its share _____ programme.

7. a large amount of money paid to someone _____

The settlement could lead to very large _____ to wronged customers.

8. the value of a company divided into many equal parts owned by shareholders

He works at a private _____-owned tech company.

9. an amount of money that an organisation borrows and promises to pay back on an agreed date

with a set amount of interest _____

A green _____ is a security used to finance projects that contribute positively to the environment.

10. the profit that you get from an investment _____

You can expect a 12 per cent _____ on your investment if you invest in these mutual funds.

11. an increase in an amount _____

These stocks enjoyed double-digit _____ in the last three months.

12. your way of thinking and opinions _____

Even when the markets are down, she has always maintained a positive

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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Intermediate

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.

FT

Katie Martin, 6 February, 2024.

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3 Understanding the article

a. Complete the statements about the text with the numbers below.

0 0.42 2 4 26 39 40 70 90 700 half a dollar

1. Meta investors will receive _____ per share each quarter, starting next month, which means an annual dividend yield of just _____ per cent.
2. Over the past 10 years, Meta’s publicly traded stocks have delivered gains of almost _____ per cent.
3. Meta bought back more than _____ billion dollars worth of stock from 2021 to 2023.
4. Today, about _____ per cent of companies in the S&P 500 stocks index pay a dividend.
5. In the US, yields have remained under _____ per cent for two decades.
6. On the tech-heavy Nasdaq index, only about _____ per cent of companies paid a dividend at all by the end of 2022, leaving the median yield at _____.
7. Last year, for example, the S&P 500 gained _____ per cent on a total return basis.
8. Italy’s FTSE MIB, meanwhile, gained _____ per cent on a total return basis in dollars. Dividend yields there now stand at more than _____ per cent.

4 Business language – collocations

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

buy back create have manage overcome pay provide put up receive

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

Intermediate

5. _____ a fight
6. _____ a profound effect
7. _____ a feeling
8. _____ a fund

b. Complete the sentences with the correct collocations from task a.

1. Everyone experiences self-doubt, but as a leader, you have to learn to quickly _____.
2. He _____, buying and selling a diverse portfolio of investments.
3. The government hopes to _____ by providing tax breaks and spending more on new infrastructure.
4. The uncertainty of the merger and the threat of job losses _____.
5. The news and media can _____ on investor sentiment and can greatly impact stocks.
6. Shareholders will _____ bigger _____ than last year.

5 Discussion

a. Discuss these questions.

- Why do you think the investor mindset was so different a century ago?
- Do you agree with Hans-Jörg Naumer that investors are not purely rational and that investing feels like a loss? Why (not)?
- Do you think companies that are paying dividends attract more investors? Why (not)?
- What are the most important things to consider 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.

- 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.

Consider what you know about the industry, the impact of the wider market and economy, external risks, and time frames.

- b. Complete your role card, which will provide the core of your agenda during the meeting.
- c. Hold a meeting to make a decision. Decide what percentage of your money you want to invest in each company (if any).

a. Stocks

<p>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</p>	<p>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</p>
<p>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</p>	<p>Allstar cast (founded 1993) Uncertainty rating: medium Industry: telecom services Price/Fair value rating: 0.7 Other: It includes several content franchises and theme parks, as well as a core cable business with significant competitive advantages.</p>

b. Role cards

Student A

You believe investing most of your money in a company with a proven track record will be best. 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 think the best thing to do is to spread the risk.

Student D

You are focused on shorter-term wins. You want to bet on something that will turn profits fast. You can always cash out!

c. Extension

Write an email to the wider team explaining what was discussed in the meeting, the outcome and any action points.