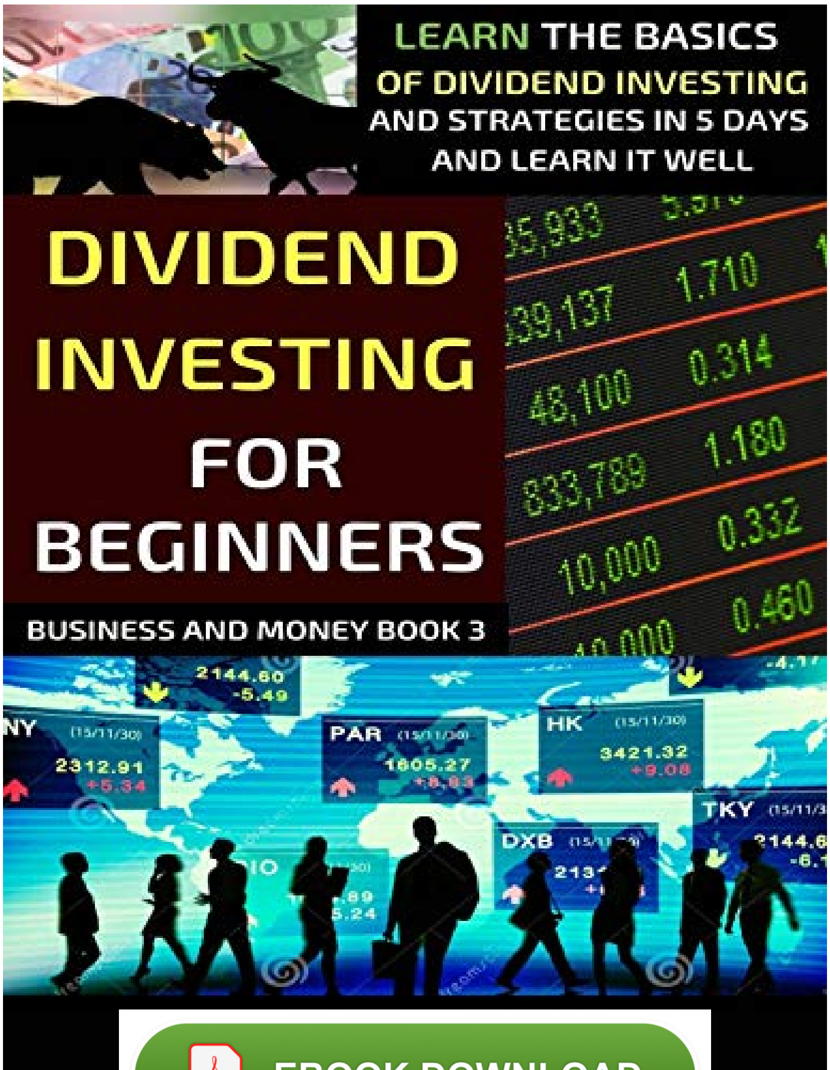
Dividend Investing For Beginners: Learn The Basics Of Dividend Investing And Strategies In 5 Days And Learn It Well (Business And Money Series)

by

Michael Ezeanaka



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Synopsis

This Guide Will Help You Understand The Fundamentals Of Dividend Stock Investing And Strategies In 5 Days..Do you want to discover how to build a profitable dividend stock portfolio that'll provide a stable income for you long after retirement?Do you want to discover costly mistakes beginners make and how to avoid them (thus preserving your investment capital)?Do you want to discover how to create real wealth, financial freedom and live the life you deserve?...If you answered yes to the above questions, you NEED this book. In this book, Ebook Library Bestselling author, Michael Ezeanaka explains in very simple terms how the dividend stock market works and different profitable strategies you can leverage to not only grow but also protect your investment capital.Between the pages of this book, you'll discover:A blueprint for selecting good dividend paying stocks How to manage risks when investing in dividend stocksWhich industry sectors have the best dividend payout ratio and why? The things you need to look out for as a dividend investor reading company financial statements How to figure out the health of a company's balance sheet (and thus their capacity to continue paying dividend - if they already do)How policies and movements in interest rates affect your dividend portfolio (and what you can do to protect yourself)Why investing in dividend stocks can help you benefit tremendously from the “Baby Boomer Boost” How to time your stock purchase around ex-dividend dates so as to take advantage of discounted share prices Why a stock that is showing growth beyond its sustainable rate may indicate some red flags.5 critical questions you need to ask in order to assess if a company’s debt volume will affect your dividend payment A very affordable way to diversify your portfolio if you have limited funds Why you may want to think carefully before selling cyclical stocks with high P/E ratioHow high dividend yield strategy can result in low capital gain taxes ... and much, much more!Five days from today, you'll have all the knowledge you need to begin investing with skill and confidence.Are you ready to begin?Scroll to the top of this page, click the "Buy Now" button and lets get started!

Look inside the book

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StrategyWhy Choose Dividend Growers?Choosing the Largest Stream of Net Present Value DividendsGrowth Is an Indicator of a Healthy BusinessFinancial Gravity and Dividend Growth InvestingDividend Growth Rate Strategy Is not a Fail-Proof StrategyStock Performance of Growth-Oriented Dividend StocksChapter 6 - How to Find the Best Quality Dividend Stocks for Your PortfolioChapter 7 - Where to Find Information on CompaniesUnderstand the Current US Economy and Financial EnvironmentFinding Dividend Stocks to BuyStock Market Industry Sector BreakdownCompany Due DiligenceThe Process of Due DiligenceOther Important Source of Information in Researching for Stock DividendsChapter 8 - Dividend Reinvestment Programs (DRIP)Types of DRIPsBenefits of DRIPs to the CompanyBenefits of DRIPs to the InvestorsDownsides of DRIPsUnderwritten DRIPsThe Impact of DRIP to the Stock PriceStarting a DRIP AccountHow Can Taxes Affect Your Drip InvestmentManaging Volatility through DRIPs and Dollar Cost AveragingHow Dollar Cost Averaging Can Boost Your Dividend IncomeChapter 9 - How to Diversify Your PortfolioWhat is Unsystematic Risk?Why Should You Build a Diversified Dividend Portfolio?Important Risk Factors to Consider in Building Your PortfolioDiversifying Your Investment through Dividend ETFsDividend ETFs Vs Other ETFsChapter 10 - When to Sell a Dividend StockTwo Major Reasons to Sell Dividend StocksSelling Stocks Prior to Ex-Dividend DateHow Ex-Date Affect the Share PricesChapter 11 - Dividend Investing Case StudyMike's DPR ComputationMike's DPR InterpretationSustainable Growth Model for ABC CompanyMike's Timing StrategyMike's Dividend Holding SizeMike's Dollar Cost Averaging StrategyMike's Decision to Sell ABC Company SharesConclusion IntroductionThousands of people in the US have their own business, earning profits regularly, without even showing up at work. For many of us, it is an ideal life - relaxing, watching the business grow, and receiving money from dividend payouts. This is possible if you own an investment portfolio composed of stocks. Not only mere stocks but company stocks that will allow you to earn passive income.In our attempt to build wealth, we have invented stocks, which is now considered as one of the best financial instruments in the world. Savvy investors have a significant percentage of their investment in stocks. In your quest towards financial freedom, you have to understand the nature of stocks, and how you can be successful investing in dividends. Through the years, more and more people are becoming more interested in the stock market. While in the past, this platform was often reserved for members of the high society, at present, the stock market is now accessible to many and it's indeed a popular instrument for growing private wealth.

Why Choose Dividend Growers?Choosing the Largest Stream of Net Present Value DividendsGrowth Is an Indicator of a Healthy BusinessFinancial Gravity and Dividend Growth InvestingDividend Growth Rate Strategy Is not a Fail-Proof StrategyStock Performance of Growth-Oriented Dividend StocksChapter 6 - How to Find the Best Quality Dividend Stocks for Your PortfolioChapter 7 - Where to Find Information on CompaniesUnderstand the Current US Economy and Financial EnvironmentFinding Dividend Stocks to BuyStock Market Industry

 IntroductionThousands of people in the US have their own business, earning profits regularly, without even showing up at work. For many of us, it is an ideal life - relaxing, watching the business grow, and receiving money from dividend payouts. This is possible if you own an investment portfolio composed of stocks. Not only mere stocks but company stocks that will allow you to earn passive income.In our attempt to build wealth, we have invented stocks, which is now considered as one of the best financial instruments in the world. Savvy investors have a significant percentage of their investment in stocks. In your quest towards financial freedom, you have to understand the nature of stocks, and how you can be successful investing in dividends. Through the years, more and more people are becoming more interested in the stock market. While in the past, this platform was often reserved for members of the high society, at present, the stock market is now accessible to many and it's indeed a popular instrument for growing private wealth. This popularity alongside considerable technological advances used in stock trading has liberated the stock market so that anyone can reap its rewards and have the chance to succeed in growing their investments. But despite the popularity, many are still not fully aware of the benefits and drawbacks of dividend investing. Unfortunately, much information about dividend stocks revolve around conversations over the water cooler with people who are not fully knowledgeable of the financial instrument. Chances are, you have already heard your friends saying things like "Never trust the stock market. It is only for the rich. You will just lose your money in seconds!" or "My cousin made thousands of dollars with ABC Inc, so I am also investing my savings..." Much of this misinformation is largely based on the mindset of overnight success, which was specifically popular during the dotcom bubble of the 90s. Unfortunately, people still think that stocks will help them get rich quick without much effort or proper risk assessment. This sad fact was confirmed when the dotcom bubble popped. It is true that stocks can make you rich, and if you invest in dividend stocks, it will allow you to earn passive income. However, at all times, you should be aware of the risks you are exposed to. The best way to combat ignorance is through education. The key to making sure that you will be profitable in dividend investing is to know where you are investing your money. This is the reason why I decided to write this book - to educate you on the fundamentals of dividend investing. This book will help you understand: The advantages and disadvantages of investing in dividend stocksKey technical terms that you will surely encounter while you explore the world of dividend investingDifferent factors that you need to consider when investing in dividend stocksDifferent strategies you can employ when investing in dividends including high dividend yield strategy and high dividend growth rate strategy (The two major schools of thought when it pertains to dividend investing)And a whole lot more! The investment principles discussed in this book are not new. I believe there is no need to reinvent the wheel. There are hundreds of investment experts who are already using and advocating the strategies that you will learn here. But I think I have presented these things in a way that an average investor can easily understand. In the final chapter of this book, a case study will be presented. This case study puts together all the concepts discussed in previous chapters and shows you how a typical dividend investor makes decisions starting from stock purchase to eventual sale – this will help you consolidate your understanding and gain confidence in your ability to invest wisely. Are you excited yet? lets get right into it! Interesting Fact #1 There are few things that income-seeking investors like more than buying into companies that have paid a dividend for decades or longer. The reason is that a steady history of payouts often establishes to investors the health of a business model. Only a handful of currently traded companies have paid out dividends for longer than 100 years, and I can find no company that has paid dividends in a concurrent manner for longer than the Bank of Montreal (), which has been divvying out dividend payments since 1829! Join My Business And Money ARC TeamJoin my Business And Money Series ARC team and participate in the exciting process of launching amazing books on Ebook Library. By so doing, you're one of the first to download the book for free, read and post reviews! Chapter 1Why Invest In Dividend StocksInvesting in dividend stocks can be right for you if you are looking for an investment that provides regular income. Dividend-paying companies regularly distribute a percentage of their profits to investors. Moreover, many dividend stocks in the US are paying investors a fixed amount every quarter, while there are other companies that increase their payouts over time. Hence, it's not unreasonable to expect (after building your portfolio of dividend stocks) a cash stream that resembles an annuity. Why Some Companies Pay Dividends, While Others Don'tThere are several reasons why a company may choose to pass some of its profits as dividends, and another set of reasons why some companies prefer not to issue dividends and instead use all the earnings for growth. For a stable company with regular earnings that doesn't require reinvestments, dividend payouts can be a good idea because: Many investors see dividend payouts as an indicator that the company is strong. It is also a sign that the company has positive projections for earnings in the future that makes the stock more enticing. Remember, higher demand for a company stock will boost its priceMany investors are looking for steady income that is linked with dividends so they will be more likely to purchase the company's stocks. US companies that are paying dividends include Verizon (VZ), Wells Fargo (WFC), Exxon Mobil (XOM), Microsoft (MSFT), and Apple (AAPL). On the other hand, some companies choose not to issue dividends because of the following reasons: Startup companies that are rapidly growing will not issue dividends because it needs to invest as much as possible into their growthEstablished companies also choose not to issue dividends if its directors believe it will do a better job of increasing its share price through reinvestment.Some companies choose to temporarily suspend dividends to begin a new project, buy out another company, or repurchase some of their shares.Companies that choose to reinvest all their profits, rather than issuing dividends may also think about the expensive cost of new stock issuance. To stay away from raising funds through this channel, they decide to keep the profits.The decision to begin paying dividends or to increase a current dividend rate is a huge business decision. Firms that will suddenly cancel or even reduce its current dividend payout could be viewed unfavorably and the share price may decrease as a result. US companies that historically decided not to pay dividends include Tesla, Biogen, Ebook Library, Alphabet, and Facebook. Types of DividendsBasically, a dividend is a cash payout issued by shareholders of a company. But there are different types of dividends, some of which don't involve the payment of cash to stockholders. Below are the different types of dividends: 1. Cash DividendMost dividends are considered as cash dividends in form of electronic transfer or check. The value of the cash dividend will be transferred from the company to the stockholders instead of the former using this percentage of the profit for its growth or operations. If a company decides to issue a cash dividend that is equivalent to the 5 percent of the share price, you can see a resulting loss of 5 percent in the share price. This is caused by the economic value transfer. Another effect of cash dividends is that the recipients of cash dividends should pay tax on the distribution value, which can lower down its final value. However, cash dividends can be beneficial for the investors because it will provide you with regular passive income on your investment on top of the possible appreciation of your capital investment. 2. Stock DividendStock dividends are issued by a company to its shareholders without consideration. Most stock dividends are common stocks. When a company issues less than 25% of the total number of outstanding shares, then the transaction is considered as stock dividends. On the other hand, the transaction is considered a stock split if the transaction is in a higher proportion of the outstanding shares. If a company decides to issue a 5 percent stock dividend, it should increase the number of shares by 5 percent. If you are a stockholder of this company, you will be entitled with 1 share for every 20 shares you own. If you have 1 million shares in the company, you will gain 50,000 additional shares. However, this doesn't increase the company's value. If the share price of a company is at $10/share, then the value of the company will be at $10 million. After the issuance of the stock dividend, the company's value shall remain the same, but the price will be lower at $9.50 because of the settlement of the stock dividend.

But despite the popularity, many are still not fully aware of the benefits and drawbacks of dividend investing. Unfortunately, much information about dividend stocks revolve around conversations over the water cooler with people who are not fully knowledgeable of the financial instrument. Chances are, you have already heard your friends saying things like “Never trust the stock market. It is only for the rich. You will just lose your money in seconds!” or “My cousin made thousands of dollars with ABC Inc, so I am also investing my savings...” Much of this misinformation is largely based on the mindset of overnight success, which was specifically popular during the dotcom bubble of the 90s. Unfortunately, people still think that stocks will help them get rich quick without much effort or proper risk assessment. This sad fact was confirmed when the dotcom bubble popped. It is true that stocks can make you rich, and if you invest in dividend stocks, it will allow you to earn passive income. However, at all times, you should be aware of the risks you are exposed to. The best way to combat ignorance is through education. The key to making sure that you will be profitable in dividend investing is to know where you are investing your money. This is the reason why I decided to write this book - to educate you on the fundamentals of dividend investing. This book will help you understand: The advantages and disadvantages of investing in dividend stocksKey technical terms that you will surely encounter while you explore the world of dividend investingDifferent factors that you need to consider when investing in dividend stocksDifferent strategies you can employ when investing in dividends including high dividend yield strategy and high dividend growth rate strategy (The two major schools of thought when it pertains to dividend investing)And a whole lot more! The investment principles discussed in this book are not new. I believe there is no need to reinvent the wheel. There are hundreds of investment experts who are already using and advocating the strategies that you will learn here. But I think I have presented these things in a way that an average investor can easily understand. In the final chapter of this book, a case study will be presented. This case study puts together all the concepts discussed in previous chapters and shows you how a typical dividend investor makes decisions starting from stock purchase to eventual sale – this will help you consolidate your understanding and gain confidence in your ability to invest wisely. Are you excited yet? lets get right into it! Interesting Fact #1 There are few things that income-seeking investors like more than buying into companies that have paid a dividend for decades or longer. The reason is that a steady history of payouts often establishes to investors the health of a business model. Only a handful of currently traded companies have paid out dividends for longer than 100 years, and I can find no company that has paid dividends in a concurrent manner for longer than the Bank of Montreal (), which has been divvying out dividend payments since 1829! Join My Business And Money ARC TeamJoin my Business And Money Series ARC team and participate in the exciting process of launching amazing books on Ebook Library. By so doing, you’re one of the first to download the book for free, read and post reviews! Chapter 1Why Invest In Dividend StocksInvesting in dividend stocks can be right for you if you are looking for an investment that provides regular income. Dividend-paying companies regularly distribute a percentage of their profits to investors. Moreover, many dividend stocks in the US are paying investors a fixed amount every quarter, while there are other companies that increase their payouts over time. Hence, it’s not unreasonable to expect (after building your portfolio of dividend stocks) a cash stream that resembles an annuity. Why Some Companies Pay Dividends, While Others Don’tThere are several reasons why a company may choose to pass some of its profits as dividends, and another set of reasons why some companies prefer not to issue dividends and instead use all the earnings for growth. For a stable company with regular earnings that doesn’t require reinvestments, dividend payouts can be a good idea because: Many investors see dividend payouts as an indicator that the company is strong. It is also a sign that the company has positive projections for earnings in the future that makes the stock more enticing. 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Firms that will suddenly cancel or even reduce its current dividend payout could be viewed unfavorably and the share price may decrease as a result. US companies that historically decided not to pay dividends include Tesla, Biogen, Ebook Library, Alphabet, and Facebook. Types of DividendsBasically, a dividend is a cash payout issued by shareholders of a company. But there are different types of dividends, some of which don’t involve the payment of cash to stockholders. Below are the different types of dividends: 1. Cash DividendMost dividends are considered as cash dividends in form of electronic transfer or check. The value of the cash dividend will be transferred from the company to the stockholders instead of the former using this percentage of the profit for its growth or operations. If a company decides to issue a cash dividend that is equivalent to the 5 percent of the share price, you can see a resulting loss of 5 percent in the share price. This is caused by the economic value transfer. Another effect of cash dividends is that the recipients of cash dividends should pay tax on the distribution value, which can lower down its final value. However, cash dividends can be beneficial for the investors because it will provide you with regular passive income on your investment on top of the possible appreciation of your capital investment. 2. Stock DividendStock dividends are issued by a company to its shareholders without consideration. Most stock dividends are common stocks. When a company issues less than 25% of the total number of outstanding shares, then the transaction is considered as stock dividends. On the other hand, the transaction is considered a stock split if the transaction is in a higher proportion of the outstanding shares. If a company decides to issue a 5 percent stock dividend, it should increase the number of shares by 5 percent. If you are a stockholder of this company, you will be entitled with 1 share for every 20 shares you own. If you have 1 million shares in the company, you will gain 50,000 additional shares. However, this doesn't increase the company's value. If the share price of a company is at $10/share, then the value of the company will be at $10 million. After the issuance of the stock dividend, the company's value shall remain the same, but the price will be lower at $9.50 because of the settlement of the stock dividend. One primary advantage of a stock dividend is you will have a choice. You may either retain your shares and bet that the company will use the cash to increase its share price or you may choose to sell some of your shares so you can convert your stocks into cash. Cash Dividend Vs. Stock DividendCash dividend seems a better choice if you want an automatic reward for placing your investments in certain companies. But this is not always true. In various ways, it is better for both the shareholder and the company to choose stock dividends at least once a year. A stock dividend is also good as cash with the extra advantage of not paying taxes upon receipt. You are a multi-millionaire today if you are one of the early investors who purchased Microsoft's shares in 1986. At least 100 shares of this stock at $21 per share now increased to 28,000 shares. This was the reason why Bill Gates became the richest man in the world. One of the main reasons for issuing stock dividends instead of cash dividends could be that in doing so, a company and its stockholders can establish stronger links with investors acquiring more of the company with the extra shares. As long as they are not bundled with a cash option, stock dividends are considered superior to cash dividends. Companies that are paying stock dividends are providing their stockholders the option to convert the shares into cash or keep their profit. There is no other option if you choose the cash dividend. However, this doesn't mean that cash dividends are not good. The only downside of this dividend is the limit in your options. You can still choose to reinvest your cash dividends into the company via a reinvestment plan. Meanwhile, choosing stock dividends is not always a better alternative than taking the cash. Remember, the stock market is very unpredictable. The value of shares could drastically be affected by economic turmoils such as the Great Depression of 1929 and the Global Financial Recession of 2008. 3. Liquidating DividendLiquidating dividend are issued when the board of directors of a company decides to return the capital originally paid by stockholders as a dividend. This usually a bad indicator because this dividend is often paid before the business shuts down. Companies issuing liquidating dividends may choose to pay the bill in one or several installments. US companies are mandated to issue Form 1099-DIV to all its stockholders that contain all the information about the payout. Even with several tax benefits, liquidating dividends may not be enough to cover initial investment as the fundamental quality of the company may have significantly plummeted. 4. Scrip DividendScrip dividends are issued by companies who don't have enough funds to issue dividends anytime soon. This type of dividend is basically a promissory note to pay stockholders at a certain date.The promissory note creates a note payable and may or may not include interest 5. Property DividendCompanies may choose to issue the non-monetary dividend as an alternative to stock or cash payment. This type of property dividend may either include shares of a subsidiary organization or any physical assets that are owned by the company like real estate, equipment, or inventories. Property dividends are recorded at the market value of the asset distributed. Investors may choose to hold the asset for possible capital gains, but this is usually for the long-term perspective especially with real estate dividends. This form of payout scheme is less common compared to cash or stock dividend system. From a corporate perspective, property dividends could be distributed if the main company doesn't have sufficient cash on hand to distribute significant payouts or it doesn't want to dilute its existing share position. Even though these are considered non-cash dividends, property dividends still have cash value. How Do Companies Pay DividendsCompanies usually pay dividends in form of a check, but some also issue dividends as stock options.The normal process for dividend payment is a check that is often sent to shareholders a few days after the former dividend date, the date on which the stock begins trading without the declared dividend. On the other hand, some companies issue additional shares equivalent to the amount of dividend payout. This alternative is known as dividend reinvestment and often provided as a dividend payment option by mutual funds and individual companies. Take note that dividends are taxable income regardless of the form you received them. Dividend Reinvestment Plans or DRIPs provide several benefits to investors. If you want to simply add your present equity holdings with any added funds from dividend payments, a plan can simplify the process as opposed to getting the dividend payment in monetary form and then using the money to buy more shares. In-house reinvestment plans are often commission-free because you don't need to pay brokerage fees. This attribute makes it enticing for small investors because commission fees are proportionately bigger for smaller stock purchases. Another advantage of a reinvestment plan is that some companies are offering shareholders the opportunity to buy added shares in cash at a lower price. The price reduction can go between 1 and 10% on top of the additional benefit of waived broker fees. So you can buy more stock holdings at a discounted price over investors who buy shares in cash through brokerage fees. When to Expect Dividend PayoutIf a company decides to issue dividends, stockholders are notified through a press release, and the news will also be reported via major stock quoting services for easier reference.Upon announcement, a schedule will be set or a record date, which means all stockholders on this date will be entitled to the payout. The day after the record date is known as ex-date, which refers to the date that the stock starts trading ex-dividend. Hence, if you acquire shares on an ex-date, you will not be eligible for the payout. Usually, the payable date is 30 days after the record date. When the payable date arrives, the company will deposit the dividends with the Depository Trust Company (DTC). Payouts are then distributed by the DTC to brokerage companies around the globe where stockholders are holding the shares of the company. In turn, the brokerage firms will deposit cash payouts to their client accounts or process reinvestment plans upon the instruction of the shareholder. Preferred Stocks Vs. Common StocksPreferred stockholders are usually prioritized when it comes to claiming the company's earnings and assets. This covers the issuance of dividends, wherein preferred shareholders are paid before common stockholders. Advantages of Dividend InvestingSomehow, receiving dividends is like getting interest on your bank savings. It can be quite nice but doesn't provide the thrill from betting on the rise and fall of share prices. People love the exhilarating experience especially when prices are soaring. However, if you are a conservative investor, dividend stocks provide several benefits over investing on non-dividend stocks. Below are some of the reasons why it is beneficial for investors to choose dividend stocks:1. Passive IncomeDividends from stocks can provide you a regular flow of passive income than you may choose to reinvest or spend. This is the main attribute that attracts many retirees who are looking for supplemental income. 2. Lower RiskDividend stocks have less volatility in share price and they usually have a lower risk-to-reward ratio. Because of these attributes, dividend stocks can experience a minimal decline in the share price during a market downturn. Lower volatility can also temper the appreciation of the share price during market recovery. 3. More Stable CompaniesDividend stocks are often paid by companies that are more stable. Startup companies usually don't pay dividends as they need to reinvest most of their profits to sustain their growth. The board of directors will only decide to pay dividends only when the company has achieved a sustainable level of success. Meanwhile, the need to distribute dividends will compel the management to be more responsible. 4. Hedge Against InflationInflation is the main enemy of earnings from stock investments. A moderate inflation rate could take a huge bite out of your profits. Even if you earn a 10% return, a 3% inflation can result to only 7% earnings. Dividends can offset this loss. As companies increase their prices because of inflation, they will earn more money and pay higher dividends. 5. Baby Boomer BoostThe price for dividend stocks could go up as the demand for it will increase because of baby boomers reaching retirement and seeking sources of supplemental income. While this is somewhat of an expert projection, it is still a projection and there's no guarantee that this will really happen. However, the probability of this happening is much higher. 6. Positive Returns in Bear MarketsCompanies that are paying dividends will still pay its dues even in bear markets when share prices are dropping or flat. The dividends can help in offsetting any loss from a fall in share prices and there are cases that the results are even positive. 7. Two Ways to Make a ProfitThe returns from the dividend stocks could increase when companies pay dividends and when the share prices increase. The only way you can earn positive returns from non-dividend stocks is via appreciation of share price - selling high and buying low. 8. Cash to Purchase More SharesOnce you purchase a certain number of shares of a non-dividend company, you can obtain that certain number of shares. If you like to acquire more shares, you need to use your own money to buy additional units. If you invest in dividend stocks, you can buy additional shares through reinvestment of all or some of your dividends. There is no need to use your money in your pocket to buy more shares. Most investors are also enrolled in special programs, which allow them to automatically reinvest their dividends. 9. Ownership Retention and Profit CollectionAmong the most disappointing attributes of owning shares of non-dividend stock is that all your profits are locked in the investment. You can only access your profits by selling some of your shares. Through dividend stocks, you can retain ownership of the company while still collecting your returns. While dividend stocks pose less risk compared to non-dividend stocks they also carry some risk and may not be suitable for all types of investors. Aside from the benefits, you should also understand the drawbacks of dividend investing. This will help you decide if this type of stock market investment is really right for you. Each time you sign an investment agreement with an intermediary such as a mutual fund manager or a broker, you will usually read a lengthy disclaimer about the results not guaranteed. To put this simply, you may earn money from your investments today, but there is no certainty that it will be the same case tomorrow. Just like any other kind of investment, dividend investing also carries some risk. Disadvantages of Dividend Investing1. High Dividend Payout RiskInvesting in stocks with a high dividend payout ratio comes with risk. Take note that the company's dividend payout ratio reflects how much of its profits are used to reinvest in growth, pay its debts, serve as cash reserve versus how much is being paid to shareholders. It can be a delicate balancing act for most companies to figure out the percentage of its profits to allocate for dividends. They surely like to entice and retain investors with high payouts, but also need to keep enough of their earnings to support further growth, and, at the same time, maintain their capacity to raise dividend in the future. In reality, once the dividend payout ratio of a company becomes too high for sustainability, this can force the business to reduce or cancel payouts altogether. 2. Dividend Policy ChangesDividend policy refers to the company's plan for figuring out its amount for dividends and any possible increases based on projected earnings. Once a company makes changes to the policy, specifically those that result in reducing or canceling payouts, it will have adverse effect on its share price. Based on the clientele effect theory the price of a stock is strongly connected to the reaction of investors to policy changes of the company. So when these changes happen, many investors will purchase or sell their company shares. When a company is forced to cancel its dividends for any reason, you may lose your passive income. 3. Double TaxationAnother disadvantage of investing in dividend stocks is that the payouts are subject to double taxation.First, you need to pay tax when you receive your payouts because the company issuing the dividends from its net profit has to pay tax on its yearly earnings. These earnings generate the dividend payments of the company. Second, you need to pay tax again as you receive the payouts as personal income that you have earned over the course of a certain tax year. Therefore, you are paying tax twice as an individual and as a part owner or a company. In general, dividend investing is less risky compared to non-dividend stock investing. However, before you can maximize the returns from this type of investment, you need to be very familiar with both the benefits and drawbacks before you buy your first shares. Managing Risks in Dividend InvestingThere is always risk in stock market investing due in part to it unpredictable and variable nature. That being said, there are several factors that can increase risk, some are within your control and some are not. Even though we cannot eliminate the risk, it is still possible to minimize our exposure by becoming more aware of the factors the influence the market behavior. As a saavy investor, you can manage the risks in dividend investing by dealing with factors that you can control. 1. Diversifying Your InvestmentsYou must never invest all your money in one company stock regardless of how promising the business is. Its competitors may dominate the market. The management may be corrupt or incompetent. Or the firm or its whole industry may lose the favor of investors for any reason. These are beyond your control. The good thing is that you have absolute control over where you want to pour your money. You can greatly minimize the risk by spreading your stock investments in different stocks. 2. Minimize Human ErrorHuman error is the largest risk factor with dividend investing, and it may result from the following: Lack of knowledgeMisaligned investment strategy and investment goalsInsufficient research and analysisUsing emotions over logic in choosing stocksFailure to keep track of market conditionsAllowing panic and fear influence investment decisions Doing your due diligence is the best way to eliminate human error. You certainly know the risk involved in not being prepared if you have taken an exam you have not studied for. Aside from the unsettling feeling of having not knowing the right answers, you will experience panic that will not help your situation. 3. Use Reason Over EmotionThe Efficient Market Hypothesis is one of the prevailing theories about the mechanics behind the stock market. This hypothesis describes investors as logical people who are capable of understanding all available information in the market to make reasonable decisions for maximum profits. However, most people are not logical or rational. Many investors are buying stocks based on advice from their family or friends and sometimes from people they don't know. Some investors buy or sell their stocks because of what they heard over the news, or because a new company is making a product they adore and they are sure that it will be a big hit in the market. They know nothing about the history of the stock, its management, or the company as a whole. To effectively manage the risks in dividend investing, it is best to avoid these three major emotions: Love, Fear, and GreedLove:You must never fall in love with your investments. Remember, these are lifeless things that are not capable of loving you back. But it is interesting that they can betray you and hurt you.Some investors are so in love with the company they hold stocks in that they refuse to sell even when indicators show that the company's inherent value has deteriorated and the share price is falling. You need to bail out when a stock declines sharply. Review your stocks regularly and scrutinize each investment on its recent performance. If it is not contributing to your portfolio's growth, you can sell your shares, which you can easily do because stocks are very liquid. Fear:Investors who experienced losing money in the stock market are susceptible to fear that it paralyzes them from taking any action. Rather than taking on some risk with high potential investments, they are putting their money in safe investments with low rates of return. GreedGreed is the opposite of fear. Most investors who have made a lot of money in the stock market would usually want more. Some investors are vulnerable to the bandwagon effect, pouring their money into the "hottest" companies and industries. This inflates a bubble that will eventually burst.

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