When Going Gets Tough, Look To Dividend-Paying Stocks

by Phil Davidson for NewsUSA

It's hard to sleep at night when thoughts of Iraq, Iran, North Korea, gas prices, the stock market and retirement drift through your mind. When it comes to investing, there are no sure bets; however, there are ways to make those sleepless nights become a little more bearable.

Dividend-paying stocks may provide investors with solid results and, quite possibly, a smoother ride along the way. An expanding dividend supply is presenting itself when investors need it most: a volatile market and a volatile world.

But this external volatility does not necessarily equate to volatility in your investments. While the need for income is a significant driver behind the demand for dividend-paying stocks, in reality, owning dividend-payers has been a smart move from a risk-reward standpoint for any investor. Dividends continue to be a significant component of the stock market's total returns.

Sitting on near record levels of cash, more than half of the companies in the S&P 500 have increased their dividends in 2005. The sources of the cash? Higher profits, deep corporate cost-cutting and debt-reduction in recent years, and multi-year bear markets that dampened companies' capital spending. Currently, dividends comprise about 32 percent of companies' profits. Historically, businesses have paid more than 50 percent of their profits in the form of dividends to shareholders.

Stocks of companies that pay dividends generally have less price fluctuation than stocks of non-dividend payers. The dividend can create a cushion and smooth out a stock's price volatility. It's important to remember that although dividend-paying stocks can add diversification to your portfolio and help minimize volatility, they still involve risk. However, companies may discontinue their dividend payments regardless of the stock price.

Because dividends are a vital component to total return, investors are seeking several dividend-paying investment vehicles, such as mutual funds, to park their money. For more than a decade, American Century Equity Income (TWEIX) has followed a disciplined, repeatable investment process designed to deliver risk-adjusted results by focusing on dividend-paying companies as opposed to increasing risk by reaching for larger returns from perhaps a more concentrated group of stocks.

You should consider the fund's investment objectives, risks and charges and expenses carefully before you invest. The fund's prospectus, which can be obtained by calling 800-345-2021, contains this and other information about the fund and should be read carefully before investing. Past performance is not a guarantee of future results. Investment return and principal value will fluctuate, and it is possible to lose money by investing.

For more information on value investing and American Century's six distinct value funds, visit www.americancentury.com.

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