

# Back in Favor and Fashion

## THE GOOD OL' DIVIDEND CHECK

BY HOWARD McEWEN, CFA

Remember dividends, those trusty, quarterly checks from boring, "Blue Chip" companies. They're back and more popular than ever. Spurred on by preferable tax treatment, dividends are back in fashion, according to a survey by Boston-based Eaton Vance.

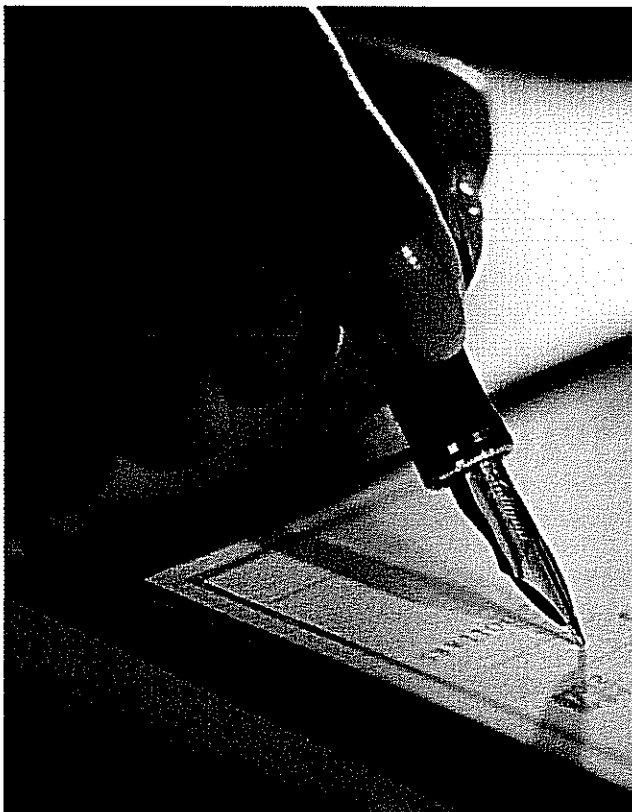
For 25 years prior to 2003, the number of dividend paying companies listed by Standard & Poor's declined. Investors didn't care much for the reliable old dividend check. They wanted higher stock prices. (Guys on the golf course brag about the hot stock they made a bundle on, not the size of their dividend check.) But the 2003 tax code changed that. Taxes on dividends which were as high as 39% were knocked down to 15% - equal to the tax on capital gains.

When a company makes money, it has three things it can do with the cash: keep it (called retained earnings), buy back its own stock (hoping that will raise the stock's price), or pay a dividend to the shareholders - the true owners of the company.

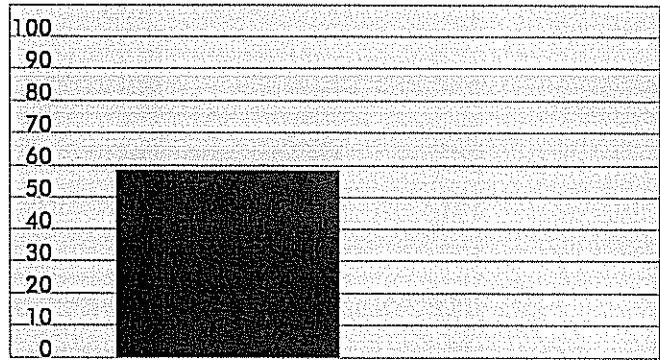
With the new tax rate, suddenly being paid a dividend (a bird in the hand) felt better than hoping your stock goes up (two in the bush).

Before 2003, CEOs who would rather keep more of the company's cash than pay out dividends had the excuse that they didn't want to trigger higher taxes for their investors. Today, management's decision - if made honestly - hinges on one question: Who can get a better return on this cash: the company or the stock holders?

According to Eaton Vance's survey, an increasing number of stockholders and potential buyers are saying "us."



INVESTOR HOLDINGS



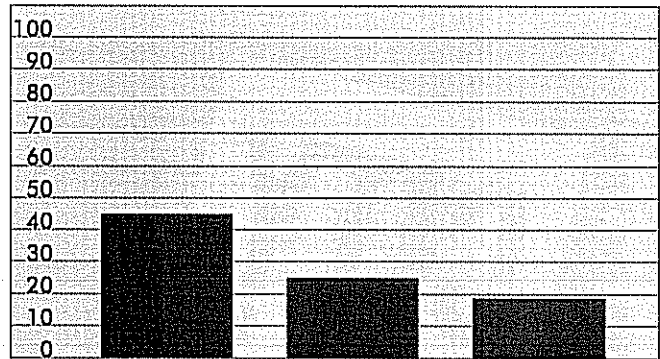
% OF INVESTORS HOLDING DIVIDEND PAYING STOCKS

INVESTOR ACTION OVER LAST 3 YEARS



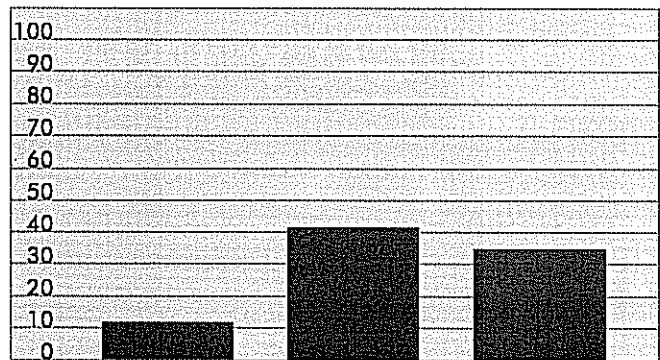
% INCREASED HOLDINGS OF DIVIDENDS PAYING STOCKS      % DECREASED HOLDINGS OF DIVIDENDS PAYING STOCKS

INVESTOR PREFERENCES... "COMPANIES SHOULD..."



% ...PAY A SMALL GROWING DIVIDEND      % ...PAY A LARGE UNCHANGED DIVIDEND      % ...BUY BACK SHARES

INVESTOR OUTLOOK FOR DIVIDENDS



% DIVIDENDS WILL DECREASE      % DIVIDENDS WILL REMAIN THE SAME      % DIVIDENDS WILL INCREASE