**Unit 1: The Stock Market Ch.1.9 – Dividend Income**

Use the 4-Step Process to solve the problems below. Start with *Level 1* and move on as you feel ready.

*Level 1*

1. Annalese owns 1,560 shares of a stock which pays a dividend of $0.28 per share. How much is her dividend payment?

STATE:

PLAN:

DO:

CONCLUDE:

1. The Zeescore Corporation pays an annual dividend of $2 per share. On Wednesday it closed at $61 per share. What was the yield?

STATE:

PLAN:

DO:

CONCLUDE:

*Level 2*

1. Vandes is considering buying 20 shares of Walgreens (WAG). As of 9/13/13, WAG closed at $53.46 and pays an annual dividend of $1.26 per share. If WAG pays its dividends quarterly, how much money would Vandes get each quarter from dividends if he owned 20 shares?

STATE:

PLAN:

DO:

CONCLUDE:

1. Vandes wants to compare investing his money in WAG to putting his money in a savings account at Bank of America that earns 0.9% annually. Which is a better investment strategy? Why? Support your answer with calculations. (Hint: use the information above.)

STATE:

PLAN:

DO:

CONCLUDE:

*Level 3*

1. You are a financial advisor and one of your clients has come to you looking for advice. She wants to sell some investments in order to pay a $5,000 tuition bill. A list of her stocks is below. Which stock would you advise your client to sell? Why? Support your answer with relevant calculations.



STATE:

PLAN:

DO:

CONCLUDE:

**Unit 1: The Stock Market Ch.1.9 – Dividend Income ANSWER KEY**

Use the 4-Step Process to solve the problems below. Start with *Level 1* and move on as you feel ready.

*Level 1*

1. Annalese owns 1,560 shares of a stock which pays an annual dividend of $0.28 per share. How much is her annual dividend payment?

STATE: What is Annalese’s annual dividend payment?

PLAN: dividend payment = (# shares)\*(dividend per share)

DO: dividend payment = 1560\*(0.28) = $436.80

CONCLUDE: Annalese makes $436.80 per year in dividends from this stock.

1. The Zeescore Corporation pays an annual dividend of $2 per share. On Wednesday it closed at $61 per share. What was the yield?

STATE: What is the current yield of Zeescore Corp. stock?

PLAN: yield = [(dividend)/(price per share)]\*100

DO: yield = [(2)/(61) ]\*100 = 0.0328\*100 = 3.28%

CONCLUDE: The current yield on Zeescore stock is 3.28%. If you own Zeescore stock, you will earn 3.28% of your initial investment each year.

*Level 2*

1. Vandes is considering buying 20 shares of Walgreens (WAG). As of 9/13/13, WAG closed at $53.46 and pays an annual dividend of $1.26 per share. If WAG pays its dividends quarterly, how much money would Vandes get each quarter from dividends if he owned 20 shares?

STATE: How much money would Vandes get each quarter from dividends?

PLAN: (1) Find the annual dividend payment using equation:

dividend payment = (# shares)\*(dividend per share)

(2) Find the quarterly dividend payment by dividing the annual payment by 4.

DO: (1) dividend payment = (20)\*(1.26) =$25.20

(2) quarterly payment = (25.20)/4 = $6.30

CONCLUDE: Vandes would receive $6.30 in dividend payments each quarter.

1. Vandes wants to compare investing his money in WAG to putting his money in a savings account at Bank of America that earns 0.9% annually. Which is a better investment strategy? Why? Support your answer with calculations. (Hint: use the information above.)

STATE: Which would be a better investment strategy: investing in WAG or opening a savings account at Bank of America?

PLAN: (1) Calculate annual yield for WAG stock:

yield = [(dividend)/(price per share)]\*100

(2) Compare this yield to the 0.9% interest Bank of America pays.

DO: (1) yield = [(1.26)/(53.46)]\*100 = 2.4%

(2) 2.4% > 0.9%, so Vandes will make more investing in WAG stock.

CONCLUDE: WAG stock has a current yield of 2.4%, which is greater than 0.9%, so Vandes will make more money investing in WAG stock. However, investing in the stock market is riskier than putting money in a savings account, so he may not want to take the risk even though he will make more money investing in WAG.

*Level 3*

1. You are a financial advisor and one of your clients has come to you looking for advice. She wants to sell some investments in order to pay a $5,000 tuition bill. A list of her stocks is below. Which stock would you advise your client to sell? Why? Ignore broker’s fees for now. Support your answer with relevant calculations.



STATE: Which stock would you advise your client to sell? Why?

PLAN: (1) Calculate the gross capital gain for each stock.

(2) Calculate annual dividend payment where necessary.

(3) Add dividend payment to gross capital gain to see total gain if sold.

DO:

Stock A: gross capital gain = (40)\*(200) – (31)\*(200) = $1,800

Annual dividend payment = $0

Total gain if sold = $1,800

Stock B: gross capital gain = (102)\*(125) – (100)\*(125) = $250

Annual dividend payment = (2.50)\*(125)\*(4) = $1,250

Total gain if sold = 250 + 1250 = $1,500

Stock C: gross capital gain = (36)\*(150) – (32)\*(150) = $600

Annual dividend payment = $0

Total gain if sold = $600

Stock D: gross capital gain = (68)\*(250) – (63)\*(250) = $1,250

Annual dividend payment = (1.50)\*(250)\*(4) = $1,500

Total gain if sold = 1250 + 1500 = $2,750

Stock E: gross capital gain = (52)\*(100) – (54)\*(100) = –$200

Annual dividend payment = $0

Total gain if sold = –$200

CONCLUDE: Assuming there are no broker’s fees, you should advise your client to sell stocks A, C, and D. When you add the gains of these stocks, the overall gain is $5,150. This would give the client the $5,000 she needs to pay the tuition bill. You might advise her to wait a couple of weeks because of the upcoming quarterly dividend payment.