Chapter 19: Shareholders and Managements: Dividend Policy

Introduction

1. Shareholders are justified in raising questions as to the competence of the management when the results (1) are unsatisfactory in themselves, (2) are poorer than those obtained by other companies that appear similarly situated, and (3) have resulted in an unsatisfactory market price of long duration.
2. In the last 36 years practically nothing has actually been accomplished through intelligent action by the great body of shareholders.
3. It can be stated as a rule with very few exceptions that poor managements are not changed by action of the “public stockholders,” but only by the assertion of control by an individual or compact group. This is happening often enough these days to put the management, including the board of directors, of a typical publicly controlled company on notice that if its operating results and the resulting market price are highly unsatisfactory, it may become the target of a successful take-over move.
4. let us close this section with the plea that shareholders consider with an open mind and with careful attention any proxy material sent them by fellow-shareholders who want to remedy an obviously unsatisfactory management situation in the company.

Shareholders and Dividend Policy

1. It is our belief that shareholders should demand of their managements either a normal payout of earnings—on the order, say, of two-thirds—or else a clear-cut demonstration that the reinvested profits have produced a satisfactory increase in per-share earnings.
2. Such a demonstration could ordinarily be made in the case of a recognized growth company. But in many other cases a low payout is clearly the cause of an average market price that is below fair value, and here the shareholders have every right to inquire and probably to complain.
3. In terms of the past record there is no reason a priori to believe that the owners will benefit from expansion moves undertaken with their money by a business showing mediocre results and continuing its old management.

Stock Dividends and Stock Splits

1. It is important that investors understand the essential difference between a stock dividend (properly so-called) and a stock split. The latter represents a restatement of the common-stock structure— in a typical case by issuing two or three shares for one. The new shares are not related to specific earnings reinvested in a specific past period. Its purpose is to establish a lower market price for the single shares, presumably because such lower price range would be more acceptable to old and new shareholders.* Today, virtually all stock splits are carried out by a change in value.
2. What we should call a proper stock dividend is one that is paid to shareholders to give them a tangible evidence or representation of specific earnings which have been reinvested in the business for their account over some relatively short period in the recent past— say, not more than the two preceding years.
3. a straight stock dividend has an important tax advantage over the otherwise equivalent combination of cash dividends with stock subscription rights, which is the almost standard practice for public-utility companies.
4. The aggregate amount of income tax that could be saved by substituting stock dividends for the present stock-dividends-plus subscription- rights combination is enormous.