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Dividend yield is an easy way to compare various dividend-paying stocks. It tells an investor that they strongly believe in buying yield stock. This allows a comparison between other investments such as bonds, certificates of deposit, etc. A high dividend yield is similar to a stock that is low tariff - it promises more but may deliver little. Some of the highest-yielding stocks on the market may be some of the worst investments. Dividend yield tells how much income receives in relation to the price of the stock. Buying stocks with a high dividend yield provide a good source of income. A dividend yield compares two or more investing opportunities by applying a common measurement.

Dividend yield usually a financial ratio that reflects how a company makes the dividend payments at the end of the year and it is indeed relative to the price of the company's shares. However, when there is no mention of capital gains, then the dividend yield is simply the return on investment earned for investment made on a stock. It is a way of measuring how much return you are getting for the money put in. In other words we say that the Dividend Yield compares Cash Dividends Per Share to the Market Price of Common Stock, and measures how much of a return from one share of stock. Dividend yield is an important factor in determining the true value of dividend stocks. This fact holds true when investors are seeking to acquire dividend income from their investments.

Importance of Dividend Yield

All companies do not pay out asx dividends, but by the use of this ratio they can do this. Established and big companies often give out dividends. The Dividend Yield will change more often due to fluctuations in stock price than the cash dividend per share figure, but both values should be watched.

This is important because it can be used to compare a stock to other forms of investments that generate income to the investor - such as bonds. The dividend yield can be an important consideration if you are looking to invest in stocks for an income stream in addition to investing in stocks for gain by a rising stock price. The dividend yield represents your income as a percentage of the investment. This is similar to the interest earned on money deposited in a bank.

Calculate Dividend Yield

We can easily calculate a stock's yield by dividing (the annual amount, not individual payments) by the current market price. To calculate the dividend yield, divide the annual dividend by the current stock price. For example if company is trading for \$10 per share and pay a \$1 dividend, how much will the stock yield each year for the investor? By the using formula ($\text{Annual Dividend} \div \text{Current Stock Price} = \text{Dividend Yield}$), we find the answer is 10%.

Dividend yield ratio

Dividend yield ratio is the relationship between dividends per share and the market value of the shares. Share holders are real owners of a company and they are interested in real sense in the earnings distributed and paid to them as dividend. Therefore, dividend yield ratio is calculated to evaluate the relationship between dividends per share paid and the market value of the shares.

Formula of Dividend Yield Ratio:-

Dividend Yield Ratio = Dividend per Share / Market Value per Share

Types of dividend yield

1. Preferred Share Dividend Yield:-

The amount of dividend of a preferred share is determined by the prospectus. The preferred shares are mentioned by the initial name. The initial name of the preferred share also represents the dividend yield of that share.

2. Common Share Dividend Yield:-

The common shareholders receive no specified Australian dividend. Dividends for common shareholders depend on the earnings of the company in that particular year and at the same time the management of the company also plays a definite role in deciding the dividends for these types of shareholders. There is no such provision that the future dividend on the common share is going to match the previous dividends of the company.

There are four basic ASX dividend dates associated with the dividend declaration and payment

1. Dividend Declaration Date: The date on which the board of directors announces the dividend to be paid to shareholders.

2. Record Date: The Record Date is the date when a company closes its share register to determine which shareholders are entitled to receive the current dividend. It is the date where all changes to registration details must be finalized or we say Cutoff date for eligibility of dividend. You should be holding the shares in your account to be eligible for dividend.

3. ASX ex-dividend Dates: The date when the share is traded minus the dividend. If you buy on or after this date, you won't get it.

4. Dividend Payable Date: When the company mails dividend cheques or transfers money to shareholder's account.

Conclusion

High dividend yield stocks are a safe shelter for investors where safety has greater priority compared to high returns. Hence, even if the market remains volatile, going ahead, an investor can still get a decent return on investment, thanks to good dividend yielding stocks. The dividends are paid no matter what direction the Australian dividend stocks move and can provide a higher yield on investment in a weak market.

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