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### Expectations Versus Dividends

There are fifty one (51) security analysts who follow Apple Inc (symbol AAPL).<sup>[1]</sup> Yesterday, Apple reported third quarter revenue of \$35.0 billion and net profit of \$8.8 billion. In the same quarter last year, revenues were \$28.6 billion and net profit was \$7.3 billion. This year's third quarter results were 22.4% higher for revenues and 20.5% higher for net profits when compared to last year's third quarter.

### **This Quarter Does Not Meet Expectations**

The market says that these results “do not meet the expectations of the analysts,” and accordingly the stock declines immediately. This would be like telling General Eisenhower that he did not penetrate far enough into German lines on D-Day in Normandy. The same line of thinking can be applied to the expectations of analysts. While there are 51 security analysts, there are millions of users of iPhones and iPads. The Normandy landing was a success and so was Apple's third quarter.

### **Where the Rubber Meets the Road**

Buried in the fine print yesterday was Apple's revolutionary announcement that it will pay a dividend. On August 16, 2012, Apple will pay \$2.65 per share to shareholders of record as of August 13. Nothing was said in the announcement whether this would be a recurring quarterly event. After yesterday's conference call to analysts, I sent an email to Ms. Nancy Paxton, Senior Director of Investor Relations, asking whether this dividend is a one-time payment or whether it would turn into a continuous stream of income to shareholders. She replied to me:

*“Today's dividend is the only one that has been declared. Going forward, subject to declaration by our Board, we expect to announce record and payment dates for future dividends concurrently with our quarterly earnings announcements.”*

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<sup>[1]</sup> Source: [finance.yahoo.com](http://finance.yahoo.com)

Academic research points out that dividends play an important role in the performance of stocks. Apple's new policy on dividends will bring a new breed of investors into its fold of stockholders. Some investors may cash out because they do not like dividends and want only capital gains. New investors who seek both dividends and capital gains will become new shareholders. It is reasonable to assume that new investors will outweigh those leaving as shareholders, since the economy is slowing down and people seek income.

## Total Return

For me the dividend is like the saying, "a bird in the hand is worth two in the bush." The August 16 dividend is a "sure thing." Once a new iPhone and iPad are announced later this year, expectations can change rapidly. Investors should not forget that dividends help keep one's feet on the ground by adding to shareholder's "total return" whereas "analysts' expectations are like a yo-yo.

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