

Buy, Sell, or Hold?

Lesson Summary

Buy, Sell, or Hold? teaches students to use key resources to help them determine whether to buy, sell or hold a stock. It includes tips on how to read an annual report and compare a company with others in the same industry.

Lesson Objectives

- Draw conclusions on whether to buy, sell, or hold based on group and individual research.
- Compare and contrast companies based upon stock market statistical data.
- Analyze basic financial data.
- Use the Internet to obtain annual reports and research companies across the same industry.

NCTM Standards

- 1A - Understand numbers, ways of representing numbers, relationships among numbers, and number systems.
 2A - Understand patterns, relations, and functions.
 5A - Formulate questions that can be addressed with data and collect, organize, and display relevant data to answer them.
 5B - Select and use appropriate statistical methods to analyze data.
 5C - Develop and evaluate inferences and predictions that are based on data.
 5D - Understand and apply basic concepts of probability.
 6D - Monitor and reflect on the process of mathematical problem solving.
 7B - Make and investigate mathematical conjectures.
 7C - Develop and evaluate mathematical arguments and proofs.
 8A - Organize and consolidate mathematical thinking through communication.
 8B - Communicate mathematical thinking coherently and clearly to peers, teachers, and others.
 8C - Analyze and evaluate the mathematical thinking and strategies of others.
 8D - Use the language of mathematics to express mathematical ideas precisely.
 9A - Recognize and use connections among mathematical ideas.
 9B - Understand how mathematical ideas interconnect and build on one another to produce a coherent whole.
 9C - Recognize and apply mathematics in contexts outside of mathematics.
 10C - Use representations to model and interpret physical, social, and mathematical phenomena.

Mathematical Strands

	Thinking Algebraically	Students practice using formulae to calculate dividends, net income, and shares outstanding.	
	Interpreting Statistics	Students interpret commonly presented statistics that describe a company. Students examine and compare statistics from two different companies to determine whether a stock should be rated a "buy," "sell," or "hold."	
	Communicating Quantitative Information	Students decide whether to buy, sell, or hold by picking the most relevant information. Individually, they will write a persuasive memo defending their position.	
	Tackling Complex Problems	Students are presented with information on a company's net income and reinvestment allocation, outstanding shares, and/or dividend worth. Students analyze the information provided in each word problem to answer each question.	

THINKING ALGEBRAICALLY

Calculating Dividends

Use the formula below to calculate the appropriate answer for each question.

$$d = \frac{p \cdot i}{n \cdot s},$$
 where d is the value of the dividend given out n times per year,

p is the proportion of the net income, i is the annual net income of the company, and s is the number of outstanding shares.

1. If a company is dedicating 15% of the \$31.2 million annual income to pay quarterly dividends for the 7,850,000 outstanding shares, how much will each dividend payment be per share?
2. A company has decided to allocate 11% of its annual net income, which was \$1.56 billion, to pay dividends. It would like to give out three equal dividends during the year for each of the 800,000,000 shares they have outstanding. How much will the dividend payment be per share?
3. A company awarded \$0.274 dividends twice during the year, when they had 44,000,000 shares outstanding. If the net income for the company was \$2.78 billion dollars, what proportion of their income was dedicated to dividend payments?
4. A company awarded \$0.327 dividends during each of four quarters. The company reported that it used 16% of its net income of \$695,000,850 to do this. How many shares outstanding did the company have?
5. A company has \$45,922,000 of net income, and it wants to give out three equal dividends annually of \$0.31 to each of its 4,650,000 shares. What percentage of its net income would it need to use to do this?
6. A stock pays a dividend of \$0.68 annually for each of its 120 million shares. If the company stated that this total amount represents 8% of its annual net income, what was the company's annual net income?



INTERPRETING STATISTICS

Using Data to Decide Whether to Buy, Sell, or Hold 1

There are many statistics that describe companies' and stocks' performance. For each of the statistics below, write a description of what each tells you.

1. One-day price change %
2. Market Cap
3. Price to Earnings Ratio (P/E)
4. Dividend Yield %
5. Earnings Per Share

INTERPRETING STATISTICS

Using Data to Decide Whether to Buy, Sell, or Hold 2

You are a junior analyst for a financial management company, and your boss has asked you to develop a preliminary recommendation for whether the following companies should be rated "Buy," "Sell," or "Hold."

For both companies below, compare each of the statistics provided to the same statistic for the sector, industry, and the competitor. Then use that analysis to decide whether each company should be rated a "Buy," "Sell," or "Hold."

Statistics for the Sector

<i>1 Day Price Change %</i>	<i>Market Cap</i>	<i>P/E</i>	<i>Div. Yield %</i>	<i>Long-Term Debt to Equity</i>
-1.76	4421.1B	14.62	2.22	0.71

Statistics for the Industry

<i>1 Day Price Change %</i>	<i>Market Cap</i>	<i>P/E</i>	<i>Div. Yield %</i>	<i>Long-Term Debt to Equity</i>
-1.49	92.8B	13.00	2.62	0.72

Company A

<i>1 Day Price Change %</i>	<i>Market Cap</i>	<i>P/E</i>	<i>Div. Yield %</i>	<i>Long-Term Debt to Equity</i>
-2.73	24.6B	16.12	0.80	0.29

Answer:

Company B

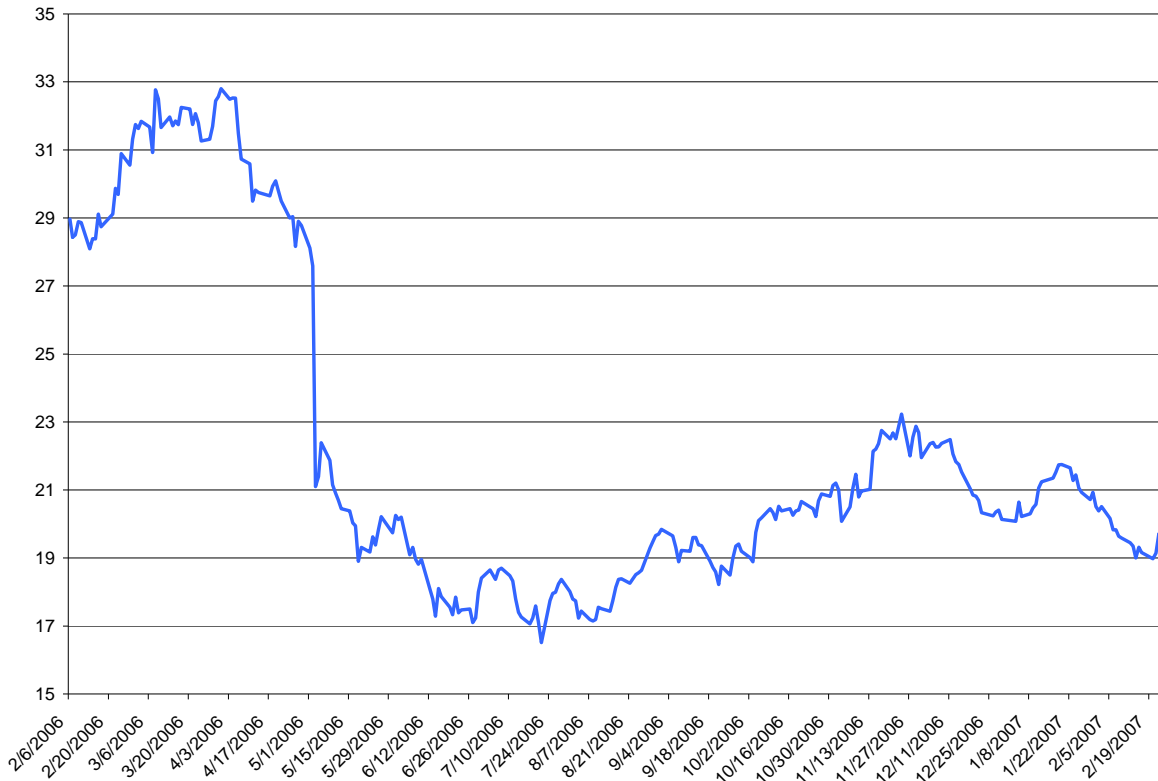
<i>1 Day Price Change %</i>	<i>Market Cap</i>	<i>P/E</i>	<i>Div. Yield %</i>	<i>Long-Term Debt to Equity</i>
-3.18	17.8B	21.63	0.60	0.20

COMMUNICATING QUANTITATIVE INFORMATION

Convincing Others to Sell

Your task is to write a persuasive memo convincing a team member that it is time to sell shares of Lending & Leasing, Inc. Use the pieces of the data below that you think are the most persuasive in making your case. After you have written your memo, share it with the rest of your group and come to a decision about how to convince the rest of the class that this stock should be sold.

Lending and Leasing, Inc.



This company missed its fourth quarter earnings mark. Its P/E ratio is 15.91, while the P/E ratio for the industry is 14.26. Its market cap is \$106.3 billion, while the industry's average market cap is \$230.4 billion. The company was started 55 years ago, and has been publicly traded for the last 13 years.

Below are more statistics you may find helpful.

Stock Price History	
Beta	0.79
52-Week Change	-12.56%
S&P500 52-Week Change	8.52%
52-Week High (20-Mar-06)	52.09
52-Week Low (01-Aug-06)	30.94
50-Day Moving Average	43.29
Shares Short	3.26M

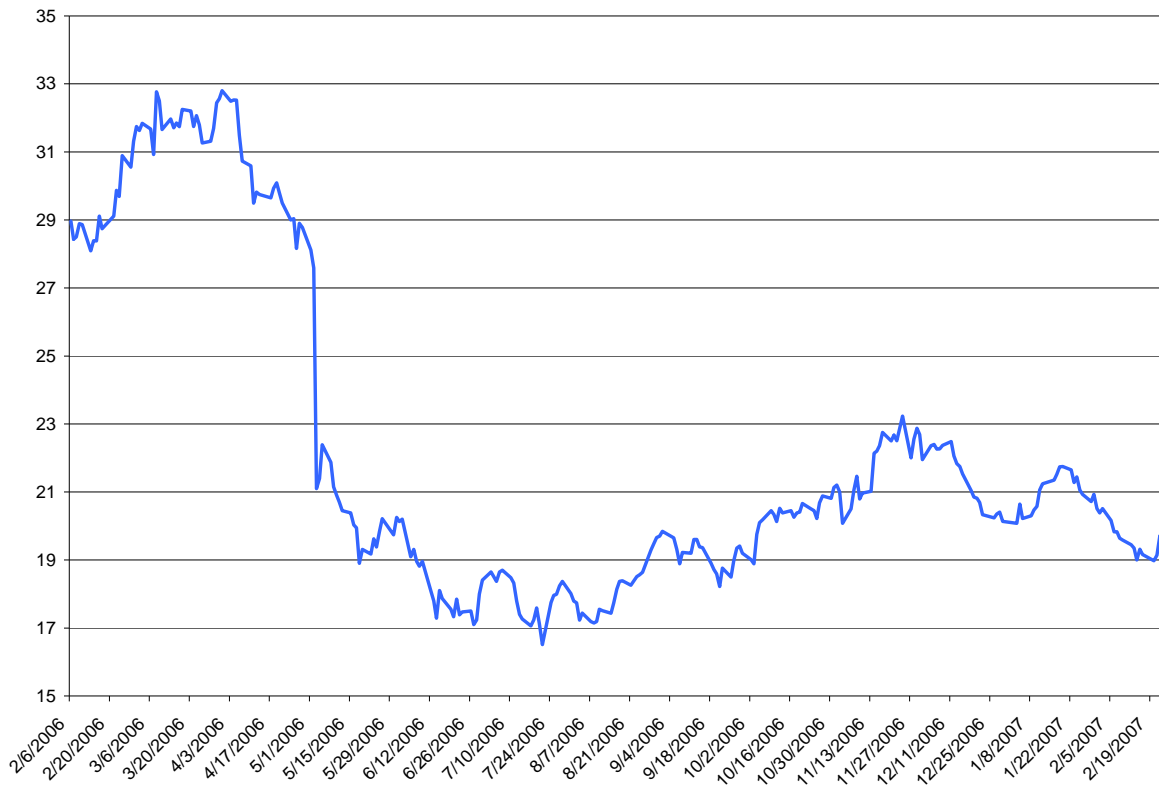
Average Volume (3 month):	3,085,410
Average Volume (10 day):	3,556,510
Shares Outstanding:	516.40M
Float:	515.88M
% Held by Insiders:	0.07%
% Held by Institutions:	86.30%
Short Ratio:	1.1

COMMUNICATING QUANTITATIVE INFORMATION

Convincing Others to Buy

Your task is to write a persuasive memo convincing a team member that it is time to buy more shares of Lending & Leasing, Inc. Use the pieces of the data below that you think are the most persuasive in making your case. After you have written your memo, share it with the rest of your group and come to a decision about how to convince the rest of the class that more of this stock should be bought.

Lending and Leasing, Inc.



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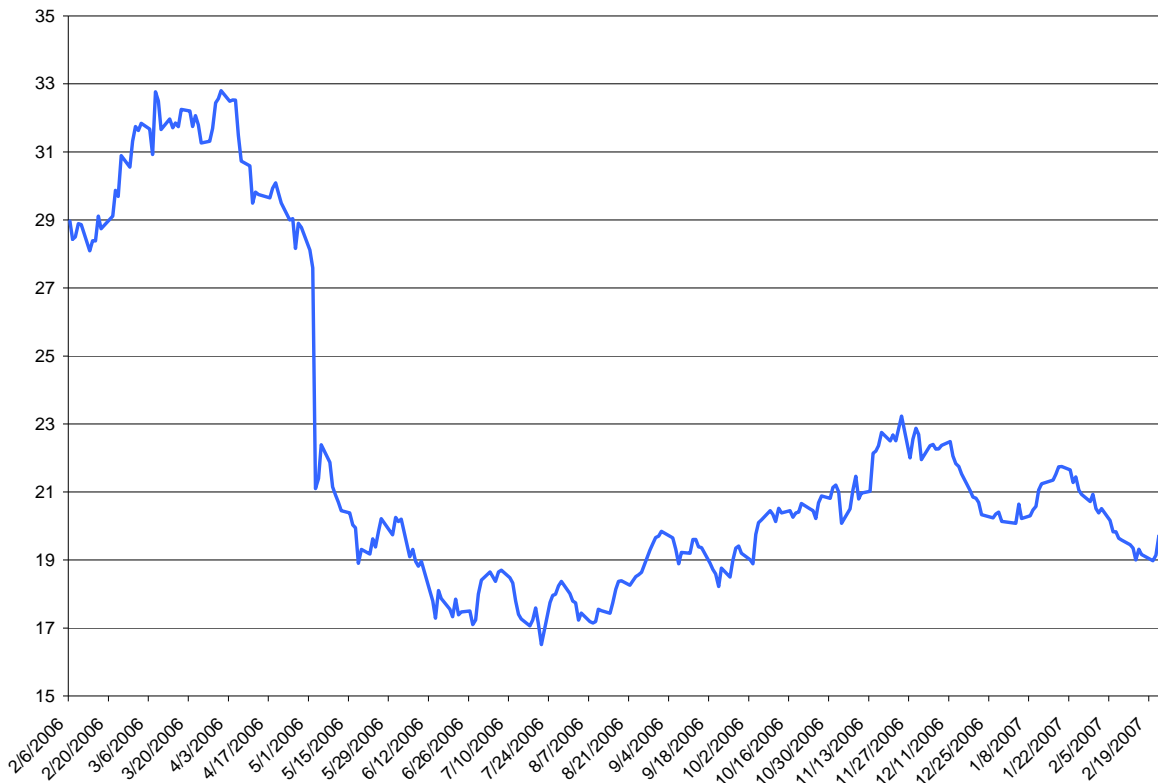
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COMMUNICATING QUANTITATIVE INFORMATION

Convincing Others to Hold

Your task is to write a persuasive memo that it is time neither to buy nor to sell shares of Lending & Leasing, Inc. Use the pieces of the data below that you think are the most persuasive in making your case. After you have written your memo, share it with the rest of your group and come to a decision about how to convince the rest of the class that the best decision about this stock is to hold.

Lending and Leasing, Inc.



This company missed its fourth quarter earnings mark. Its P/E ratio is 15.91, while the P/E ratio for the industry is 14.26. Its market cap is \$106.3 billion, while the industry's average market cap is \$230.4 billion. The company was started 55 years ago, and has been publicly traded only for the last 13 years.

Below are some more statistics you may find helpful.

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TACKLING COMPLEX PROBLEMS

How Dividends Affect Whether to Buy, Sell, or Hold

Investors sometimes decide to buy stocks depending on how big a dividend the stock will provide. These problems demonstrate how a company decides how much money it will offer investors through dividends.

When a company is deciding how much money it will pay its investors in the form of dividends, it considers its net income, allocating a certain amount to reinvestment in the company and the rest to pay dividends to investors.

Use this information to answer the following:

1. Fabulous Furnishings Inc., had a net income of \$35.8 million at the end of the fiscal year. It decided to reinvest 80% of the net income back into the company and to use the rest to create equal dividends for all 9.23 million outstanding shares of stock. It will pay the dividends to stockholders over four quarters. How much will each dividend be worth?
2. Industrial-Strength Industrials, Inc., decided to reinvest 85% of its \$1.3 billion net income and use the rest to create dividends for investors. It estimates that it has about 482 million outstanding shares. If the dividend will be paid quarterly, how much will each dividend be worth?
3. Mega Media Moguls Corporation gave out dividends worth \$0.272 per share per quarter. If there were 8,250,000 shares outstanding each time the dividend was awarded, and the total worth of all dividends was only 12% of the company's net income, how much money did the company reinvest from the net income?
4. BioFuel & BioEnergy Company awarded quarterly dividends of \$0.184 per share for each of the 67,342,000 shares outstanding. If its total net income for the year was \$1.14 billion, what proportion of its net income was used for dividends?
5.
 - a. Which company paid out the most money in total dividends?
 - b. Which company paid the highest dividend per share?
 - c. If an investor wanted to buy stocks that paid the highest dividends per share, which two companies would he/she choose?

Buy, Sell, or Hold?

ANSWER KEY

Please Note: 1. Prices included in lesson are not representative of actual market data and are for instructional purposes only. 2. Discrepancies may occur between student responses and the answer keys as a result of how far calculations were taken past the decimal point. In most instances, numbers were rounded from the thousandth or ten thousandth place.

Calculating Dividends

Use the formula below to calculate the appropriate answer for each question.

$$d = \frac{p \cdot i}{n \cdot s}$$

where d is the value of the dividend given out n times per year,
 p is the proportion of the net income,
 i is the annual net income of the company,
and s is the number of outstanding shares.

- If a company is dedicating 15% of the \$31.2 million annual income to pay quarterly dividends for the 7,850,000 outstanding shares, how much will each dividend payment be per share?
Answer: annual dividend = (\$31,200,000) (0.15) = \$4,680,000
quarterly dividend = \$4,680,000 ÷ 4 = \$1,170,000
quarterly dividend per share = \$1,170,000 ÷ 7,850,000 = \$0.149
- A company has decided to allocate 11% of its annual net income, which was \$1.56 billion, to pay dividends. It would like to give out three equal dividends during the year for each of the 800,000,000 shares they have outstanding. How much will the dividend payment be per share?
Answer: annual dividend = (\$1,560,000,000) (.11) = \$171,600,000
dividend per period = \$171,600,000 ÷ 3 = \$57,200,000
dividend per period per share = \$57,200,000 ÷ 800,000,000 = \$0.0715
- A company awarded \$0.274 dividends twice during the year, when they had 44,000,000 shares outstanding. If the net income for the company was \$2.78 billion dollars, what proportion of their income was dedicated to dividend payments?
Answer: total dividend = (\$0.274) (2) (44,000,000) = \$24,112,000
dividend as percent of net income = (\$24,112,000 ÷ \$2,780,000,000)(100%) = 0.867%
- A company awarded \$0.327 dividends during each of four quarters. The company reported that it used 16% of its net income of \$695,000,850 to do this. How many shares outstanding did the company have?
Answer: total dividend = (\$695,000,850) (.16) = \$111,200,136
quarterly dividend = \$111,200,136 ÷ 4 = \$27,800,034
number of shares = \$27,800,034 ÷ \$0.327 = 85,015,394.5
- A company has \$45,922,000 of net income, and it wants to give out three equal dividends annually of \$0.31 to each of its 4,650,000 shares. What percentage of its net income would it need to use to do this?
Answer: total dividend = (\$0.31) (3) (4,650,000) = \$4,324,500
dividend as percent of net income = (\$4,324,500 ÷ \$45,922,000)(100%) = 9.42%
- A stock pays a dividend of \$0.68 annually for each of its 120 million shares. If the company stated that this total amount represents 8% of its annual net income, what was the company's annual net income?
Answer: total dividend = (\$0.68) (120,000,000) = \$81,600,000
net income = \$81,600,000 ÷ 0.08 = \$1,020,000,000



Using Data to Decide Whether to Buy, Sell, or Hold 1

There are many statistics that describe companies' and stocks' performance. For each of the statistics below, write a description of what each tells you.

1. One-day price change %

*Answer: The one-day price change % lets investors know how much a particular stock's price has changed in a 24-hour period. For example, TASER INTL. INC. (TASR) had a closing price of \$16.41 on July 10 and a closing price of \$16.16 on July 11. The one-day percentage change in price = $[(\$16.16 - \$16.41) \div \$16.41] \times 100\%$
 $= (-\$0.25 \div \$16.41) \times 100\% = -0.0152346 \times 100\% = -1.523\%$
 The price of TASR stock fell 1.523% from July 10 to July 11.*

2. Market Cap

*Answer: The total dollar (market) value of all of a company's outstanding shares. Market capitalization is calculated by multiplying the number of outstanding shares of a company's stock (25,000,000) by the current market price of one share (\$35.75). This company's market cap = $(25,000,000)(\$35.75) = \$893,375,000$
 Companies are classified according to the size of their market cap:
 Large cap: \$10 billion plus Mid cap: \$2 to \$10 billion Small cap: Less than \$2 billion*

3. Price to Earnings Ratio (P/E)

Answer: The Price to Earnings ratio (P/E) is a valuation ratio of a company's current share price compared to its per share earnings. It is calculated by dividing the market value per share by the earnings per share (EPS). For example, if a company's stock is currently trading at \$43.00 a share and its earnings over the last 12 months were \$1.95 per share, the P/E ratio for the stock would be $\$43.00 \div \$1.95 = 22.05$. In general, a high P/E ratio suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, a company's P/E ratio does not tell the whole story by itself and should be compared with other companies in the same industry.

4. Dividend Yield %

Answer: The dividend yield is a ratio that shows how much a company pays out in dividends per share each year relative to its share price. What is the dividend yield for a company that pays an annual dividend of \$1.01 per share on a stock having a price of \$42.95? Dividend Yield (y) = $(\$1.01 \div \$42.95) \times 100\% = 0.0235 \times 100\% = 2.35\%$

5. Earnings Per Share

(The EPS is an important component of the P/E ratio.)

Answer: THE EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

*EPS = $(\text{Net Income} - \text{Dividends on Preferred Stock}) \div \text{Average Outstanding Shares}$
 $= (\text{Dividends on Common Stock}) \div \text{Average Outstanding Shares}$*

What is the EPS for a firm with \$25,000,000 in net income, \$1,000,000 in dividends of preferred stock, and 15,000,000 outstanding shares?

EPS = $(\$25,000,000 - \$1,000,000) \div 15,000,000 = \$24,000,000 \div 15,000,000 = \1.60 .



INTERPRETING STATISTICS

Using Data to Decide Whether to Buy, Sell, or Hold 2

You are a junior analyst for a financial management company, and your boss has asked you to develop a preliminary recommendation for whether the following companies should be rated "Buy," "Sell," or "Hold."

For both companies below, compare each of the statistics provided to the same statistic for the sector, industry, and the competitor. Then use that analysis to decide whether each company should be rated a "Buy," "Sell," or "Hold."

Statistics for the Sector

1 Day Price Change %	Market Cap	P/E	Div. Yield %	Long-Term Debt to Equity
-1.76	4421.1B	14.62	2.22	0.71

Statistics for the Industry

1 Day Price Change %	Market Cap	P/E	Div. Yield %	Long-Term Debt to Equity
-1.49	92.8B	13.00	2.62	0.72

Company A

1 Day Price Change %	Market Cap	P/E	Div. Yield %	Long-Term Debt to Equity
-2.73	24.6B	16.12	0.80	0.29

Answers will vary: Company A And Company B have similar statistics. Both are small compared to the market cap of their industry. This could mean possible room for growth. Both companies have dividends. Both companies have P/E's that are higher than their Industry

Company B

1 Day Price Change %	Market Cap	P/E	Div. Yield %	Long-Term Debt to Equity
-3.18	17.8B	21.63	0.60	0.20

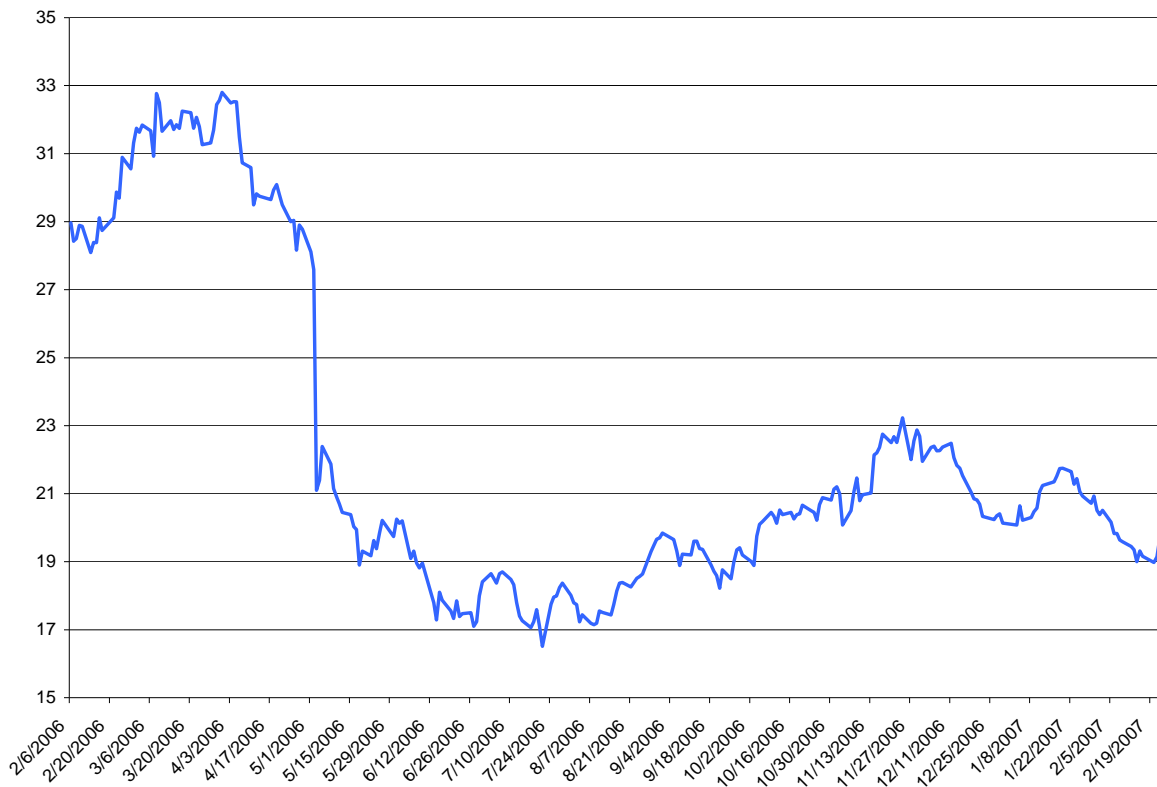
COMMUNICATING QUANTITATIVE INFORMATION

Convincing Others to Sell

Your task is to write a persuasive memo convincing a team member that it is time to sell shares of Lending & Leasing, Inc. Use the pieces of the data below that you think are the most persuasive in making your case. After you have written your memo, share it with the rest of your group and come to a decision about how to convince the rest of the class that this stock should be sold.

Answers will vary: The stock price for this company has been declining for the past year. Lending and Leasing Inc. missed its 4th quarter earnings mark. It has a P/E that is higher than the industry and its market cap is half of the market cap average for its industry. In the past 52 weeks, Lending and Leasing had a change of -12.56% while the S & P 500 had a change of +8.5%.

Lending and Leasing, Inc.



This company missed its fourth quarter earnings mark. Its P/E ratio is 15.91, while the P/E ratio for the industry is 14.26. Its market cap is \$106.3 billion, while the industry's average market cap is \$230.4 billion. The company was started 55 years ago, and has been publicly traded for the last 13 years.

Below are more statistics you may find helpful.

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Share Statistics	
Average Volume (3 month):	3,085,410
Average Volume (10 day):	3,556,510
Shares Outstanding:	516.40M
Float:	515.88M
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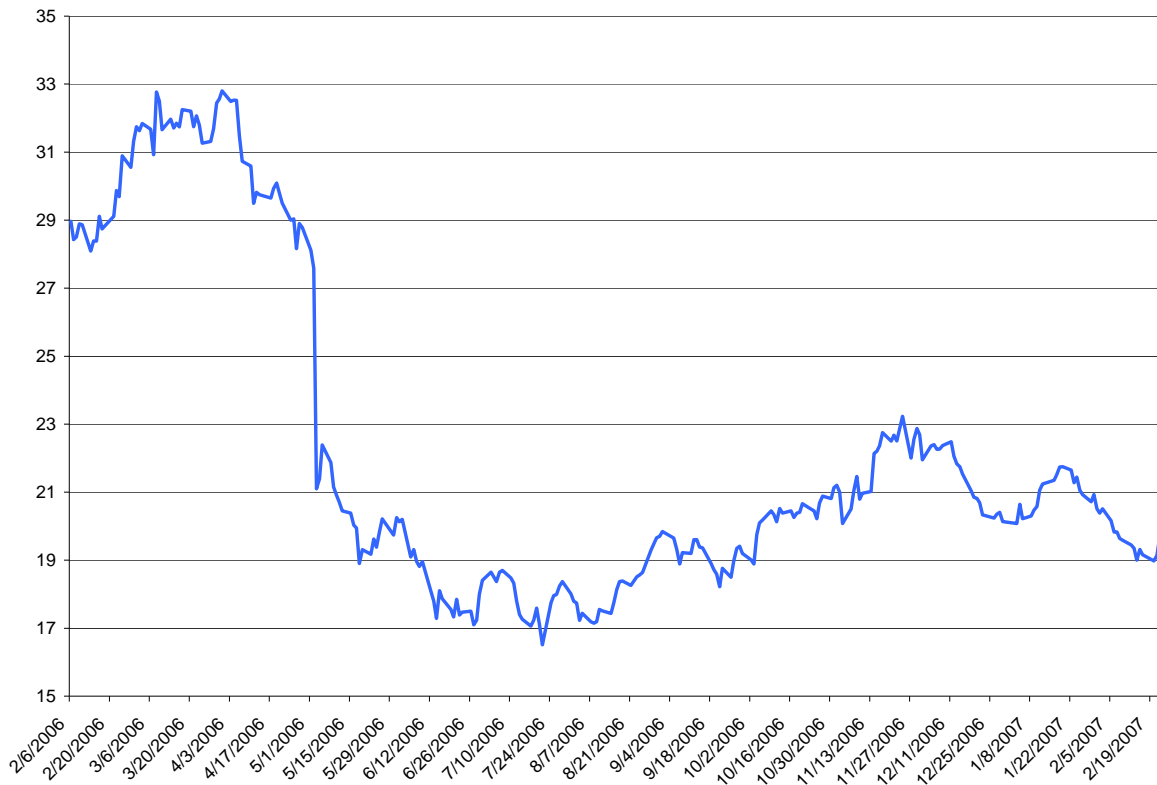
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Convincing Others to Buy

Your task is to write a persuasive memo convincing a team member that it is time to buy more shares of Lending & Leasing, Inc. Use the pieces of the data below that you think are the most persuasive in making your case. After you have written your memo, share it with the rest of your group and come to a decision about how to convince the rest of the class that more of this stock should be bought.

Answers will vary: Lending and Leasing is set to take off. It is a small company compared to others in his industry. Its stock price is undervalued (Buy Low – Sell High). 86.30% of this stock is held by big institutions. This company has been around for 55 years and is poised for a great run.

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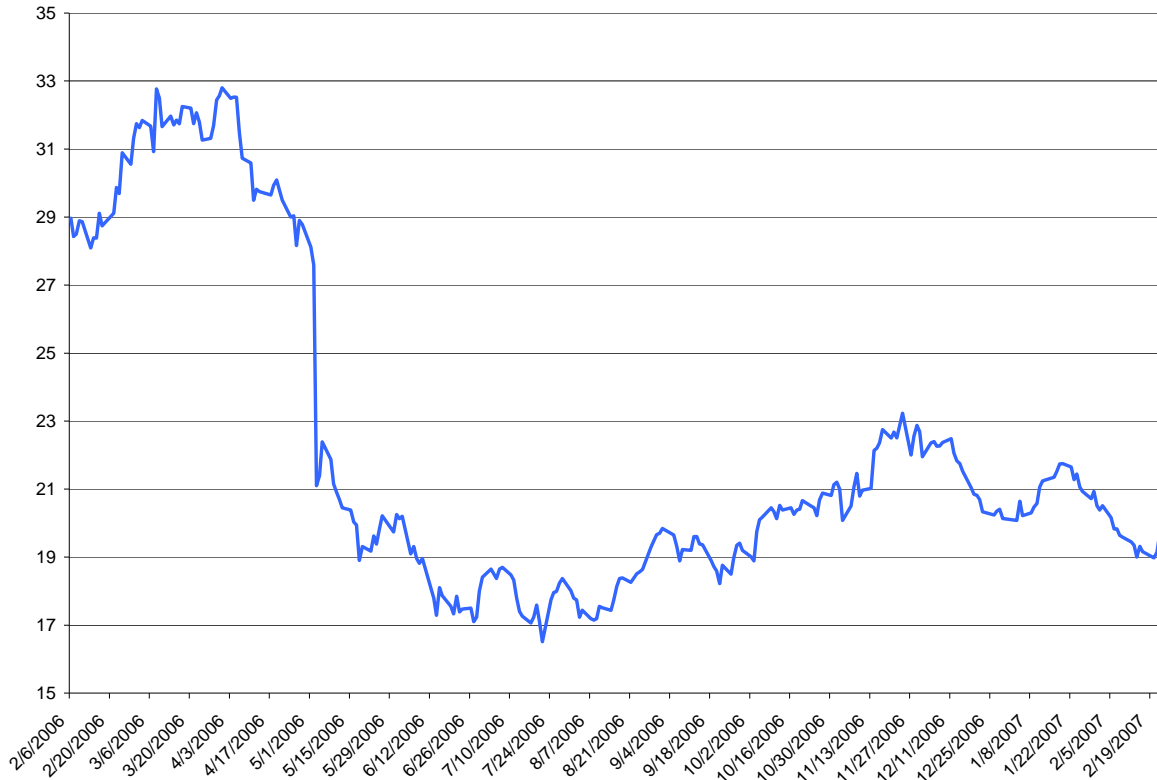
COMMUNICATING QUANTITATIVE INFORMATION

Convincing Others to Hold

Your task is to write a persuasive memo that it is time neither to buy nor to sell shares of Lending & Leasing, Inc. Use the pieces of the data below that you think are the most persuasive in making your case. After you have written your memo, share it with the rest of your group and come to a decision about how to convince the rest of the class that the best decision about this stock is to hold.

Answers may vary: The fact that Lending and Leasing missed its 4th quarter earnings mark tells us that it will be very focused about the next quarter. It's time to watch this company very closely. Selling now would mean a heavy loss. We need to hold and research Lending and Leasing.

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Use this information to answer the following:

1. Fabulous Furnishings Inc., had a net income of \$35.8 million at the end of the fiscal year. It decided to reinvest 80% of the net income back into the company and to use the rest to create equal dividends for all 9.23 million outstanding shares of stock. It will pay the dividends to stockholders over four quarters. How much will each dividend be worth?

*Answer: total dividend = (\$35,800,000) (.20) = \$7,160,000
quarterly dividend = \$7,160,000 ÷ 4 = \$1,790,000
quarterly dividend per share = \$1,790,000 ÷ 9,230,000 = \$0.194*

2. Industrial-Strength Industrials, Inc., decided to reinvest 85% of its \$1.3 billion net income and use the rest to create dividends for investors. It estimates that it has about 482 million outstanding shares. If the dividend will be paid quarterly, how much will each dividend be worth?

*Answer: total dividend = (\$1,300,000,000) (.15) = \$195,000,000
quarterly dividend = \$195,000,000 ÷ 4 = \$48,750,000
quarterly dividend per share = \$48,750,000 ÷ 482,000,000 = \$0.101*

3. Mega Media Moguls Corporation gave out dividends worth \$0.272 per share per quarter. If there were 8,250,000 shares outstanding each time the dividend was awarded, and the total worth of all dividends was only 12% of the company's net income, how much money did the company reinvest from the net income?

*Answer: total dividend = (\$0.272) (4) (8,250,000) = \$8,976,000
net income = \$8,976,000 ÷ 0.12 = \$74,800,000
reinvestment = (\$74,800,000) (0.88) = \$65,824,000*

4. BioFuel & BioEnergy Company awarded quarterly dividends of \$0.184 per share for each of the 67,342,000 shares outstanding. If its total net income for the year was \$1.14 billion, what proportion of its net income was used for dividends?

*Answer: total dividend = (\$0.184) (4) (67,342,000) = \$49,563,712
percent of net income paid as dividends = (\$49,563,712 ÷ \$1,140,000,000) (100%) = 4.35%*

5. a. Which company paid out the most money in total dividends?

Answer: Industrial-Strength Industries Inc. paid out the most money in total dividends.

- b. Which company paid the highest dividend per share?

Answer: Mega Media paid the highest dividend of \$0.272 per share.

- c. If an investor wanted to buy stocks that paid the highest dividends per share, which two companies would he/she choose?

Answer: Fabulous Furnishings & Mega Media paid the highest dividends per share.

