

Dividends and Earnings

Suggested Grade & Mastery Level

High School

Suggested Time

45 - 50 minutes

Teacher Background

Investors may make money on their investments through dividends and by selling stocks for a profit. This lesson involves a guided reading that examines the ways investors profit from their portfolio, using a newspaper's daily stock listings and calculating dividends and earnings.

When a company is doing well, it can do a variety of things with its profits:

- Reinvest the earnings and use the funds for expansion.
- Develop new products.
- Give a percentage of the profits to shareholders through dividends.

Dividends are generally paid quarterly and are a set dollar amount distributed to every shareholder of record on a certain date. A dividend is allocated per share, so the more shares an investor owns, the larger the dividend payment he/she receives.

SMG team portfolios are credited automatically with the cash value of dividends earned. If teams sell shares before the record date, they will not earn dividends on that stock. Stocks go *ex-dividend*; that is, purchasers who buy the stock on the record date and up to the distribution date do not receive dividends for that quarter.

Monday	Tuesday	Wednesday	Thursday	Friday
	Record Date			
				Distribution Date

*The shaded area illustrates the ex-dividend period. The ex-dividend period can also take up to a month or more.

Students will see the dividends in the cash balance of their portfolio and can use these funds to purchase additional shares of stock in any company, not just the company that has declared the dividend.

Dividends are sometimes given in the form of additional shares of stock, thus increasing the shareholder's equity in the company. This is not a stock split, which increases the number of shares of the corporation without changing the value of the shareholder's equity in the company.

Vocabulary

Distribution date: Date on which the dividend payment is made.

Dividends: Part of a company's profits (earnings) paid to stockholders in or additional shares.

Profit: What remains after subtracting a company's expenses from its revenue. Profit is a company's reward for taking a risk and successfully producing what people want to buy at prices they are willing to pay.

P/E Ratio: A company's closing price divided by its latest annual earnings per share. If calculated with last year's earnings, it is called the Trailing P/E ratio. If calculated with a forecast of next year's earnings, it is called the Forward or Projected P/E ratio.

Record Date: A date set by the company on which an individual must own shares to be eligible for dividends.

Stock split: Replacing each share of stock with a larger number of lower-priced shares but keeping the total value of one's investment unchanged.

Yield: The rate of return on an investment paid in dividends or interest and expressed as a percent.

Performance Objectives

Students will be able to:

- Examine a company before making investments
- Describe the factors that influence investment decisions
- Calculate dividends paid out to stockholders.
- Calculate net gain/loss for an investor.

Subject Areas

Mathematics, Economics, English Language Arts, Business, Social Studies, Technology

Materials

- **Fact Sheet 1: Gathering Information on the Health of a Company**
- **Activity Sheet 1: A Simple Guide to Making Money in the Stock Market**
- **Activity Sheet 2: Calculating Dividends**
- **Activity Sheet 3: The Performance of a Company**
- Calculators
- Multiple copies of the day's newspapers or online access

Springboard

ASK

- By a show of hands, how many of you would say that you are "healthy"?
- If I asked you to prove your health, what objective information would you supply to prove your evaluation? (Elicit the idea that they should have items such as a doctor's report, results of medical tests, performance in gym classes and on teams, not smoking, ideal weight, daily exercise, number of days absent for health reasons, etc.)
- How would you go about determining the "health" of various companies you might want to invest in with your Stock Market Game team?

Procedure

Before evaluating the health of a stock, we need to know why people invest in stocks and other securities.

ASK

- How do investors hope to make money on their investments?

- Aside from buying and selling stock, are there other ways to earn money on investments?

[Novice](#) and [Apprentice](#) Levels:

Distribute **Fact Sheet 1: Gathering Information on the Health of a Company.**

ASK

- Just by examining Stock Reading Table 1, what information can you gather about these companies?

Elicit the idea that this report shows the change in price for the 52-week period, the dividend (this shows the amount of the last dividend paid), the closing price (the amount a share of stock sold for on the previous day's close), and the change in price from the previous day.

How is this table like a medical report from a doctor?

Elicit the idea that some of the numbers do not mean much to the students at this point; that the information is just a single day's snapshot; and that there really isn't a way to compare one company to the overall health of other stocks and the market.

Divide students into their SMG teams and distribute at least one newspaper to each group. Have students find the financial pages and identify:

- A company that shows a net gain from the previous day
- A company that has shown a net loss from the previous day
- A company that has paid a dividend.

ASK

By looking at the entire financial listings page, what additional information can you gather about the performance of the stocks shown on **Fact Sheet 1**?

Distribute **Activity Sheet 1: A Simple Guide to Making Money in the Stock Market.** Have students read the selection and answer the questions.

Have SMG team members share their answers and agree on a group set of answers. Collect these answer sheets, evaluate them after class and include them in the teams' portfolios. (It is important that the teams understand that part of their evaluation will be based on how they work as team members.) Review the team answers with the class.

[Master](#) and [Grand Master](#) Levels:

Distribute **Fact Sheet 1: Gathering Information on the Health of a Company.**

Have students compare Stock Reading Table 1 to Stock Reading Table 2.

ASK

- What additional information can you gather as a result of examining the information in this table?
- As a result of examining these two tables, would you feel comfortable making a decision about investing in any of these companies? Why or why not?
- As an investor, why should you not look at just 1 day of stock trades?
- What are the advantages of looking at how well stocks performed over a quarter? Over a year?

Divide students into their SMG teams. Distribute at least one newspaper to each group. Have students find the financial pages and identify:

- Three companies that have shown a net gain from the previous day
- Three companies that have shown a net loss from the previous day
- One company that has paid a dividend.

ASK

- By looking at the entire financial listings page, what additional information can you gather about the performance of the stocks shown on Fact Sheet 1?

Distribute **Activity Sheet 1: A Simple Guide to Making Money in the Stock Market**, and have students read the selection and answer the questions.

Assessment

Create a chart: “Measuring Corporate Health.” Have each SMG team create a checklist to use to assess the relative health of companies before they make investments for their portfolios. Have teams present their checklists to the class.

Application

Novice and Apprentice Levels:

Distribute Activity Sheet 2: Calculating Dividends. Have students complete the problems and have each team present the answers to one of the situations.

Each SMG team must identify eight to ten companies as potential investments. Have each team member gather information on two to three companies. After they develop the information, have each team member explain to the team whether investing in the stocks they researched would be a wise choice for the team.

Master and Grand Master Level:

Investors at certain stages in life are more interested in the dividends than at other times in life.

ASK

- Why might someone close to retirement be more interested in the dividends paid by various investments than a young investor?
- What other measures of a company’s “health” would you like to have before deciding whether to invest in the company as part of the SMG?
- What companies have you chosen as a team and how did you measure their health?

Enrichment

Using **Activity Sheet 3: The Performance of a Company** as a guide for gathering information, have students gather information in preparation for making recommendations to their team on whether to buy this stock.