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FS-004

DIVIDEND INVESTING

Has This Company Earned a Place in Your Portfolio?

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KINGDOM LIFE FITNESS

Dividend Investing

FS-004 · Version 1.0

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CHAPTER 1

WHY DIVIDENDS, WHY THIS GUIDE

FS-001 introduced Income-Producing Assets as one of five roles an asset can play. FS-003 taught how to evaluate a basket of companies through an ETF. This guide is the layer underneath both: how to evaluate one dividend-paying business on its own merits, not through a fund wrapper.

A stock needs to earn its place in your portfolio.

A dividend payment doesn't earn that place by itself. It's a starting signal worth investigating, not a credential that settles the question.

Ask Yourself

- Does it produce income?
- Does it protect?
- Do you control it?

“Do you control it?” needs care. A shareholder doesn't control the company — the board and management do. What an investor actually controls is the decision: what to buy, how much to own, whether to reinvest, and when to sell. That's the control this guide is actually about.

Strategy · Stability · Consistency · Opportunity

Pillar	The Question It Asks
Strategy	Why am I buying this stock? What job should it perform in my portfolio?
Stability	Is the underlying business financially strong enough to support the dividend through changing conditions?
Consistency	Has the company demonstrated an ability and willingness to pay — and preferably grow — its dividend over time?
Opportunity	At today's price and yield, does this offer an attractive opportunity relative to the quality and risk being accepted?

IN PLAIN LANGUAGE

A great company isn't automatically a great buy at every price. Opportunity is its own question, not a given once Strategy, Stability, and Consistency check out.

CHAPTER 2

UNDERSTANDING DIVIDENDS

FS-005: REIT Investing already defines Dividend, Yield, Payout Ratio, Dividend Growth, Reinvestment, and Monthly vs. Quarterly in its own glossary. A brief refresher here, then straight into what this guide does differently: evaluating the business behind the payment, not re-explaining the payment mechanics.

A dividend is a portion of a company's profit distributed directly to shareholders, typically quarterly. Not every company pays one — a company reinvesting everything into growth may pay nothing at all, and that isn't automatically a worse choice, just a different one.

IN PLAIN LANGUAGE

> *A dividend is one of several ways an asset can generate cash flow — alongside rent from real estate, interest from bonds, profit from a business. FS-001 introduced this as the Income-Producing role. This guide is that role applied to one company at a time.*

CHAPTER 3

UNDERSTANDING YIELD

Yield itself was already defined in FS-005 — the annual dividend divided by share price. This chapter isn't about what the number means. It's about what the number can hide.

The Trap

Yield rises when price falls. A stock that drops 50% while still paying its usual dividend suddenly shows a yield twice as attractive as before — for exactly the wrong reason. A 15–20% yield isn't automatically attractive; it's often a warning signal of a collapsing share price or a payout the market doesn't believe will last.

A HIGH YIELD GETS YOUR ATTENTION. IT DOES NOT EARN YOUR INVESTMENT.

A large number is a reason to look closer, not a reason to buy. Before treating any yield as attractive, investigate why it's that high — a healthy business trading at a fair price, or a struggling one whose falling share price is doing the math for it.

Not a Savings Account

A dividend stock should never be compared directly to a savings account without discussing the completely different risk to principal. A savings account, within insured limits, doesn't lose the money generating its rate. A stock can — the share price itself can fall, taking part of the original investment with it, regardless of what the dividend does.

Don't chase yield. Investigate why the yield is high.

CHAPTER 4

UNDERSTANDING THE BUSINESS

Before testing whether a dividend is sustainable, understand what's actually generating the cash to pay it. This chapter deliberately doesn't touch the dividend yet — a business has to be understood on its own terms first, or the analysis that follows has nothing solid to stand on.

- What does the company actually do, and how does it make money?
- What sector and industry is it in — confirmed, not assumed?
- Does it have a real advantage over its competitors?

Case: COST (Costco)

Costco is a useful example precisely because its dividend yield, on its own, looks unremarkable — nothing about the number would grab attention the way Chapter 3 warned against. The business itself is what makes it worth understanding: a membership-fee model that creates recurring, predictable revenue layered on top of retail sales, and a reputation for value that keeps members renewing year after year. Strategy and Stability don't always show up as a big number on the surface. Sometimes they show up in the business model underneath a modest one.

IN PLAIN LANGUAGE

> *This is the whole point of doing Chapter 4 before Chapter 5. A modest yield attached to an excellent business can be a far better fit than an alarming yield attached to a struggling one — but only the business analysis reveals which is which.*

CHAPTER 5

TESTING THE DIVIDEND

With the business understood, test whether the dividend itself is actually sustainable — a repeatable method, not a feeling.

1. Payout Ratio

What share of profit is actually being paid out. A ratio near or above 100% leaves no room for a bad year — the company is paying out essentially everything it earns, with no cushion.

2. Cash Flow

Does the business generate enough real cash to cover the payment, not just accounting profit? Profit and cash are not the same thing, and a dividend is paid in cash.

3. Debt and Debt-to-Equity

A heavily indebted company has less room to protect its dividend under stress — lenders get paid before shareholders do, every time.

4. Dividend History and Growth

Treated explicitly, not as an afterthought folded into “history.” A track record of maintaining and growing the payment through past downturns tells a genuinely different story than one that has simply stayed flat.

Case: PG (Procter & Gamble)

Procter & Gamble is a useful case for this specific test — a long, well-documented history of not just paying but raising its dividend over an extended stretch of years, through multiple different economic conditions. That growth pattern is what Chapter 5's fourth check is actually looking for: not just “has it paid,” but “has it grown, and through what.”

IN PLAIN LANGUAGE

> *A 2.5% yield that grows consistently, year after year, can outperform an 8% yield that never grows or eventually gets cut. Growth is evidence the business is getting stronger — not just evidence that a payment currently exists.*

None of these four checks alone is decisive. A company can pass one and fail another. The test is the combination, not any single metric in isolation.

CHAPTER 6

COMPARING COMPANIES

The same comparative instinct FS-003's Power 5 approach taught, now aimed at individual companies rather than fund holdings.

Who are they? → How do they make money? → How much cash? → How much debt? → Is the dividend supported? → Who has the stronger business?

Work through this side by side for two or three candidates — not to declare a permanent winner, but to make the differences visible. COST, PG, and GE make a useful trio for practicing this: a modest-yield/strong-business case, a long dividend-growth case, and — covered in full in Chapter 9 — a case where the dividend thesis eventually deteriorated.

Question	Company A	Company B	Company C
Who are they?			
How do they make money?			
How much cash?			
How much debt?			
Is the dividend supported?			
Who has the stronger business?			

IN PLAIN LANGUAGE

The comparison itself is the skill this chapter teaches — not memorizing which company "won." Fill this in with real candidates you're actually considering, using what Chapters 4 and 5 taught you to look for.

CHAPTER 7

BUILDING FOR INCOME

Zooming out from evaluating one company to constructing an income position thoughtfully.

Diversification, Not Concentration

Concentrating income in one or two high-yielders defeats the Stability principle from Chapter 1 — a single dividend cut shouldn't be able to meaningfully damage the whole plan. Spreading holdings across companies and sectors is part of the discipline, not an optional extra.

Applying the Four Pillars to the Whole Position

- Strategy — does this holding serve a clear job in the portfolio, not just “it pays a dividend”?
- Stability — does adding it strengthen or weaken the overall durability of the income being built?
- Consistency — can this position genuinely be held through a full market cycle, not just while things are calm?
- Opportunity — is this specific addition, at today's price, actually improving the position?

IN PLAIN LANGUAGE

This chapter is about construction principles, not a specific target percentage. How much of a portfolio belongs in dividend-focused holdings is a more personal question than this guide's job to answer.

CHAPTER 8

THE KLF DIVIDEND EVALUATION FRAMEWORK

The payoff chapter — everything from Chapters 1 through 7 becomes one repeatable tool here. Start with the Chapter 1 gut check, then work through the five-point test.

The Gut Check

Does it produce income? Does it protect? Do you control it?

The Five-Point Test

- 1. Business — What does it do, how does it make money, does it have a real advantage? (Chapter 4)
- 2. Payout Ratio — Is there room to sustain the payment? (Chapter 5)
- 3. Cash Flow & Debt — Can the business actually afford it? (Chapter 5)
- 4. Dividend History & Growth — Has it been maintained or grown through past stress? (Chapter 5)
- 5. Yield Sanity Check — Is the yield attractive because the business is healthy, or because the price has fallen? (Chapter 3)

The company I'm evaluating:

____

What the five-point test revealed:

____

Has it earned its place? Why or why not:

____

CHAPTER 9

KNOWING WHEN TO SELL

Earning a place once doesn't mean keeping it forever. Reasons to reconsider, stated as legitimate parts of the process, not as mistakes being corrected.

- **Liquidity needs** — the money is genuinely needed elsewhere.
- **A materially better opportunity** — not a marginally higher yield elsewhere, a genuinely better fit for the strategy.
- **Diversification / concentration** — a position has grown large enough to concentrate risk unintentionally.
- **Deterioration of the business** — the competitive advantage or financial health from Chapter 4 has genuinely weakened.
- **Deterioration of the dividend thesis** — the payout ratio, cash flow, or debt picture from Chapter 5 has meaningfully worsened.

Historical Case Study: GE

GE is useful because it shows why investors should not treat a company's dividend history as a guarantee. Long considered a dependable, blue-chip dividend payer, GE cut its dividend during the financial-crisis era, and cut it again in 2017–2018 as the business and balance sheet came under pressure. The teaching point isn't a judgment about GE today — it's that a dividend history that looks dependable can still deteriorate when the underlying business deteriorates.

IN PLAIN LANGUAGE

KLF lesson: don't ask only, “has this company paid a dividend for a long time?” Also ask, “can the business still support it?” That second question is what Chapters 4 and 5 exist to help answer — and what this chapter is asking you to keep asking, even after a stock has already earned its place.

Selling for one of these reasons is the framework working correctly, not a mistake being corrected.

KLF PRINCIPLES

EARN ITS PLACE

- A stock needs to earn its place in your portfolio — it isn't owed one.
- A high yield gets your attention. It does not earn your investment.
- Understand the business before testing the dividend; the dividend is the output, not the starting point.
- No single metric is decisive. The combination is the test.
- Selling is part of the framework, not a departure from it.

APPENDIX

GLOSSARY

Term	Definition
Payout Ratio	The share of profit paid out as dividends; a ratio near or above 100% leaves little room for a bad year.
Dividend Growth	Whether a company has a track record of increasing its dividend over time, as distinct from simply maintaining it.
Debt-to-Equity	A measure of how much a company relies on borrowed money relative to shareholder capital.
Yield Trap	A misleadingly high yield caused by a falling share price or an unsustainable payout, rather than genuine value.
Dividend Thesis	The reasoning for why a specific company's dividend is expected to be sustained or grown — subject to change as the business changes.

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Continue Learning the Investment Landscape

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NEXT RECOMMENDED MODULES

After completing FS-004: Dividend Investing, continue with:

FS-005 — REIT Investing

FS-006 — Covered Call Income

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