Dividends being cut at fastest pace in 50 years

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By Rachel Beck, AP Business Writer

Dividends being cut at fastest pace in 50 years; Pfizer slashes its dividend in halfNEW YORK (AP) -- Dividends are being cut at the fastest pace in at least 50 years, and many of the reductions are coming from U.S. companies investors have been relying on to provide income during the recession.

Already this year, seven companies in the Standard & Poor's 500 index have decreased their dividends, removing some $12 billion from shareholders' pockets in the coming months. On Monday, Pfizer became the latest blue-chip company to do so.

These cuts serve up another hit to shareholders who have already been battered by the steep declines in the stock market. That is especially true of retirees, who tend to be attracted to so-called "widows and orphans" stocks that provide them with a steady cash flow.

If the trend continues, this will be the worst year for dividend cuts since 1958, when annual payments fell by 8.4 percent, according to new research from S&P.

"It is easy to say this is going to be the worst in 50 years, but the bigger question is whether it is going to be much worse than that," said Howard Silverblatt, senior index analyst at S&P.

That's not to say that companies shouldn't cut their dividends if they can't afford to pay them. The financial industry, for example, has been most active in slashing payouts because it had to -- companies need to cut costs and those that have gotten federal aid also have faced pressure from the U.S. government to reduce their dividends.

Of the seven S&P 500 companies that have said they will cut dividends in 2009, six are in the financial industry and all reduced their payouts by at least 50 percent, according to the S&P research.

The largest decrease has come from Bank of America, which said earlier this month it would slash its dividend from $1.28 a share annually down to 4 cents a share. That wiped out $6.2 billion in yearly payouts to investors.

The Charlotte, N.C.-based company disclosed its dividend cut as part of a deal with the government to inject another $20 billion into the ailing bank to help it absorb losses from its recent acquisition of investment bank Merrill Lynch. In total, Bank of America has received $45 billion in federal aid.

Only one financial company, Hudson City Bancorp Inc., has raised its dividend this year, from an annual rate of 52 cents to 56 cents. Ten other companies in industries retailing to energy have raised their payouts, too, but all by a tiny margin. In total, those increases equal about $200 million annually.

Companies in other industries haven't been able to escape the financial and economic malaise either. Their profitability and cash flows are under pressure, and they look to preserve cash by slashing their dividends.

"Over the longer-term, cutting a dividend might actually been seen as something positive" for the health of the company, said Paul Davis, a portfolio manager at Charles Schwab & Co. Inc.

But dividend cuts can surprise income-seeking investors who have increasingly turned to higher-yielding shares in sectors presumed to be safer than financials.

Pfizer's announcement on Monday that it would knock its annual dividend down to 64 cents a share from $1.28 a share caught many investors off guard, said Michael Krensavage, who runs Krensavage Asset Management and owns Pfizer shares.

That came as part of the news Pfizer was acquiring rival drugmaker Wyeth for $68 billion in a cash-and-stock deal that will solidify Pfizer as the world's largest pharmaceutical company.

Pfizer had long been a reliable dividend payer, raising its dividend annually for more than 40 years until December when it announced its quarterly payment would be flat when it made its next quarterly payout. But it still paid out the third-most in annual dividends among S&P 500 companies, trailing just General Electric and AT&T Inc.

Pfizer will drop to No. 7 when the Wyeth deal closes, with total payouts of about $5 billion, according to S&P's Silverblatt.

Pfizer chief financial officer Frank D'Amelio said during a conference call with analysts that the dividend cut was done in part to "redeploy capital" and assist in financing the transaction with Wyeth.

Dividend-seeking investors may want to take note of Pfizer's action when analyzing their own income-generating portfolios, said Josh Peters, editor of Morningstar DividendInvestor.

One rule of thumb that Peters employs is to look at the dividend yield -- the annual dividend per share divided by the price per share -- to see how it ranks with its sector's peers. That shows how much a company pays out each year in dividends relative to its share price.

Pfizer's nearly 8 percent yield had put it well ahead of its rivals including Johnson & Johnson and Abbott Laboratories, which had dividend yields closer to about 3 percent -- right about where Pfizer will be going forward.

Silverblatt has been looking for companies with estimates of earnings per share for 2009 that won't cover what they've promised in dividends. Of the companies in the S&P 500 that pay dividends, some 16 percent of them are what Silverblatt deems as "under stress."

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