

Average Dividend Yield

Anyone experienced with using Toolkit knows that in Part 5 we find our total return and that total returns equals annual appreciation plus the average dividend yield. Most, however, probably do not know how Toolkit computes the average yield. As shown by the arrows below, your average dividend payout ratio [paragraph 3g7 of the SSG] and high PE [paragraph 4A] are used to compute this value. In fact, average payout ratio is divided by the forecast high PE to get the average yield. Derivation:

$$\text{Yield} = \frac{\text{dividend}}{\text{price}}$$

$$\text{Dividend} = \% \text{ payout} * \text{EPS}$$

$$\text{Price} = \text{PE} * \text{EPS}$$

By process of substitution:

$$\text{Yield} = \frac{\text{dividend}}{\text{price}} = \frac{\% \text{ payout} * \cancel{\text{EPS}}}{\text{PE} * \cancel{\text{EPS}}}$$

$$\text{Yield} = \frac{\% \text{ payout} * \cancel{\text{EPS}}}{\cancel{\text{PE} * \text{EPS}}} = \frac{\% \text{ payout}}{\text{PE}}$$

The screenshot shows a financial analysis tool with the following key data points and calculations:

- Table 1 (Top):**

2001	43.0	28.3	3.59	12.0	7.9	0.960	26.7	3.4
TOTAL		95.8		82.6	44.1		150.7	
AVERAGE		19.2		16.5	9.8		30.1	
- Table 2 (Middle):**

AVERAGE PRICE EARNINGS RATIO	12.0	11.5
Proj. P/E [10.92] Based on Next 4		
VALUATING RISK and REWARD over		
Next 5 Years		
Avg. High P/E	16.5	15.0
Avg. Low P/E	8.8	12.0
Avg. Low Price of Last 5 Years		19.2
Recent Severe Market Low Price		14.4
- Calculation Box (Center):**

$$30.1\% = .301$$

$$\frac{.301}{15.0} = .0201 = 2\%$$
- Table 3 (Bottom):**

Present Full Year's Dividend \$	2.360				
Present Price of Stock	40.300				
Average Yield Over Next 5 Years					
Avg. Earnings Per Share Next 5 Years	4.25				
Avg. % Payout			30.1		
Estimated Average Annual Return Over Next Five Years					
Year Appreciation Potential	77.2				
Average Yield		15.4			
Average Total Annual Return Over the Next 5 Years		3.2			
		18.6			