

High Dividend Stocks - Bottom Fishing

In the first 3 parts of this series, we went fishing for high dividend stocks with strong balance sheets using the following screening criteria:

1. High Dividend Yield - Above 5 %
2. Moderate Dividend Payout Ratio - Below 50 %
3. Less Than 40 % Above 52-Week Low *
4. Options Available
5. Current Ratio: Over 1.5
6. Long Term Debt to Equity: Under .5

In part 3, we adjusted screen # 3 to: Over 50% below 52-week high". This adjusted screen gave us Olin Corp., (OLN), a Basic Materials/Diversified Chemicals company, which has two divisions -chlor alkali specialty chemicals and ammunitions for sports and the military. Olin currently has a good dividend yield of approximately 6.2%, and their dividend payout ratio of less than 37% is very low for a high dividend stock. Olin's 33% Debt-To-Equity ratios are strong and identical for both long term and short term debt. Current Ratio: 1.9, meaning that their current assets are nearly twice as high as their liabilities. OLN is cheap by other metrics also: Growth: A low PEG ratio of only .57 (investors look for PEG's under 1) Price/Book (P/B): Only 1.40 Price/Earnings (P/E): 6.17 Return on Equity (ROE): over 22% Return On Investment (ROI): 12.24% Return On Assets (ROA): 9.67% Within their Diversified Chemicals peer group, they have the highest dividend yield and the lowest P/E ratio. So, what if you want to be conservative and build a position in OLN at a price lower than the current market? SELLING PUTS is a conservative high yield strategy which investors use to accumulate stocks at prices lower than the current market. Each put contract sold potentially obligates the seller to buy 100 shares of the underlying stock. Brokers vary in the amount of cash reserve they require a seller to post - some brokers want 100%, while others require less. This trade example will use a 100% cash reserve, and no commission fees. OLN is currently trading at \$12.99. 1. Compare the cash yields of selling Nov \$12.50 puts to the dividend yield: If you were to buy OLN outright, at \$12.99, you'd receive 2 remaining \$.20/share in dividends prior to Nov. expiration, which equals \$.40/share, a 6.2% annualized yield. OR If you sold Nov. \$12.50 puts, (OLN WV), you'd receive \$1.60/share, a 28.5% annualized yield. Clearly, the put sale offers a much higher yield. IMPORTANT CAVEAT: The put sale will be a short term gain, which is taxable at your personal tax rate, as opposed to the current 15% tax rate for qualified dividends. Your Breakeven Price on this put sale is \$10.90 (\$12.50 strike - \$1.60 put premium). When the November expiration comes, there are 2 possible outcomes: 1. OLN declines to near or under \$10.90, ((\$12.50 strike price less \$1.60 put premium), and you are sold, (assigned), 100 shares of OLN at \$12.50/share, (the put strike price). However, your net cost would be \$10.90, (the \$12.50 strike - \$1.60 put premium you received). This would put you approximately 21%+ over the OLN's 5-year low of \$8.97. A pretty reasonable price to pay for such a strong company. 2. If OLN doesn't decline to near or under \$11.90, your broker will release your cash reserve, and you walk away with \$160.00 for every put contract that you sold, which is a 28.5% annualized profit. (Either way, you keep your put premium \$, whether you get assigned shares or not). Many investors have been worrying about being left behind by the current rally. Selling puts is a way that you can still profit from solid companies, even though their prices have risen. In the 5th and final part of this series, we'll discuss other ways to analyze selling calls and puts. Disclosure: Author is long OLN. Disclaimer: This article is written for informational purposes only. Author not responsible for errors, omissions, or acts taken by third parties as a result of reading this article.