Dividend Policy

Accounting & Finance

Paying out or reinvesting, and what the choice signals.

Considerations in the payout decision.

Arguments to pay

Signals confidence in future cash flow	Some investors need income
Reduces cash available to waste	Clientele effect attracts income investors

Arguments to retain

Funds positive-NPV projects internally	Avoids issue costs of new equity
May be more tax-efficient for holders	Buybacks are a flexible alternative

> Cutting a dividend is read as bad news even when it funds good investment. That is why firms smooth payouts over years.