Goldman: Buy Dividend Growth, i.e., Financials
By Matt Phillips

Here at MarketBeat we've been banging the drum on dividends for a while. And most recently, we spotlighted Don Yacktman's explanation why investors looking for safety in the current environment should consider dividend stocks instead of bonds. (Short explanation: It's the price increases, stupid.)

The Journal's report last week that the Fed might be willing to start letting some strong banks start paying dividends seems to have help bring the conversation on shareholder payouts to more of a rolling boil. Anyway, Goldman Sachs analysts are also spotlighting dividends in their weekly markets note published late Friday:

Dividends for Financials are expected to rise by 26% in 2011 and 24% in 2012. Even with 25% growth, Financials will pay 12% of all dividends in 2012, far below their peak share of 30% in 2007.

We recommend investors searching for higher yield buy our dividend growth basket. Falling bond yields make high-yielding equities appear more attractive on a risk-adjusted basis. We believe companies returning cash to shareholders through current dividends and strong dividend growth will outperform in such an environment.

Of course, spotting who might raise dividends isn't always the easiest. For its part, Goldman estimates that J.P. Morgan Chase, Wells Fargo and U.S. Bancorp may be the financials showing some of the biggest dividend growth in the S&P 500 over the next couple years.

- dividends,
- Financials