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Suspension of BP dividend hits investors

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A few days after the BP oil spill occurred in April, Allen Demby did not hesitate in selling his and his clients' shares in the British oil company.

Demby, a Wyckoff resident, is a registered investment adviser and president of the New Jersey chapter of the American Association of Individual Investors.

Since Demby bought the BP shares in December 2009, he said, he avoided a loss in any of his accounts.

"I'm a conservative investor of my own funds and other people's funds," he said. "I believe: avoid trouble and potential trouble."

Demby made a good choice. BP on June 16 canceled three quarterly payments of its $10 billion-a-year dividend. American depository receipts of BP shares have dropped more than 9 percent since the company announced it was suspending the dividend. The drop in share price has driven the 12-month dividend yield — or annual payout as a percentage of the current share price — up to 8.74 percent, higher than sector peers such as Exxon Mobil Corp. and Hess Corp.

About 39 percent of BP's investors live in the United States, the second-highest number of i nvestors after the United Kingdom's 40 percent. BP plans to use the money in a fund to repay victims of the Gulf of Mexico spill.

Stephen Craffen, a financial adviser for Stonegate Wealth Management in Fair Lawn, said the suspension sets a bad precedent.

"It bows to politicians by not paying the dividend," he said. "It will hurt local investors because they'll hold back their dividends three quarters and hurt their cash flow and affect the value of the stock in turn."

BP Chairman Carl-Henric Svanberg wrote a letter to the shareholders expressing his concern for those affected by the announcement.

"These decisions were not taken lightly," he said in the letter. "The Board considered a wide range of factors and implications, and looked at the long-term interests of the c ompany and its shareholders. The Board's conclusion was that it is prudent for the company to take a conservative financial position."

Relying on one stock for dividend income poses risk. Though companies that pay dividends are considered safe because shareholders receive a quarterly payment, even big banks can cancel or reduce their dividends. After the recession began in December 2007, Bank of America slashed its dividend 68 percent from the previous year.

Investors may have felt secure with BP or had emotional ties to the stock, said Old Tappan's Modera Wealth Management financial adviser Robert Dowling.

"A lot of times, investors have emotional bonds so they hold on to it to the point that they rely on it," he said. "We recommend diversification. If they are relying on one company … they would want to consider the riskiness of that."

For now, those depending on dividends may have options. Dowling said investors have the choice of selling the stock, investing in another energy area or investing in a mutual fund.

Lauren Locker of Locker Financial Services in Little Falls said finding another company that pays a high dividend such as BP usually implies an involved risk.

"I don't think they can replace it without exposing themselves to extreme risk or just transferring that risk to another oil stock that pays a dividend like an Exxon," she said.

This article contains material from Bloomberg News. E-mail: olles@northjersey.com