


SPEAKING OF DIVIDENDS ■ Shirley A. Lazo

Printing Payouts

Publisher McClatchy lifts its dividend 38.5%

BIG NEWSPAPER PUBLISHERS FOR some time have been lamenting the advertising sales slump, but not **McClatchy Co.** (ticker: MNI). Boasting industry-leading circulation performance and record results in 2004 and in this year's first quarter, the Sacramento, Calif.-based company last Wednesday hiked its quarterly common dividend a hefty 38.5%, to 18 cents a share from 13 cents. Disbursement will take place July 1 for investors of record June 15. Payouts have been ongoing since 1930, and this is the third consecutive annual increase. Yield: 1.04%. Publisher James B. McClatchy owns 64% of the company.

McClatchy runs 12 daily and 17 non-daily newspapers, with daily circulation of 1.4 million and Sunday distribution of 1.8 million. Its largest paper is the Star Tribune in Minneapolis. Some of the others are the Sacramento Bee, the Fresno Bee and the Modesto Bee in California; the News & Observer in Raleigh, N.C.; the News Tribune in Tacoma, Wash.; and the Anchorage Daily News. The company also has online publishing and multimedia holdings via its McClatchy Interactive division. Year-to-date consolidated advertising revenues increased 3.7%, and total revenues were up 2.8%.

McClatchy expects weekday circulation to be flat or go up slightly as the year progresses, but Sunday circulation is likely to fall about 1%. However, chief executive Gary B. Pruitt said "we do think we're holding on to our audience better than the other companies and, more importantly, better than our competitors in each of our markets." The shares change hands on the New York Stock Exchange where they were recently quoted at about 70, their 52-week high is 76.05, set March 22.

There were big dividend boosts last week from a pair of retailers, too. Seattle-

based **Nordstrom** (JWN), one of the top fashion-specialty-store chains, prettied up its payout by lifting its quarterly 30.8%, to 17 cents a share from 13 cents, payable June 15 to holders of record May 31. Founded by John W. Nordstrom in 1901 with his profits from the Gold Rush of 1897, Nordstrom has been disbursing dividends since 1971 and now has boosted them nine years in a row. The new payout gives the stock, which set a 52-week high of 60 on the Big Board Thursday, a 1.15% yield. First-quarter earnings surged 52%, to 75 cents a share, beating Wall Street forecasts by a nickel.

Tuesday Morning Corp. (TUES) voted its first-ever dividend—an annual distribution of 65 cents a share, which is worth \$27 million to investors. It will be paid June 20; the record date is June 6. Yield: 2.14%. A closeout retailer of upscale home furnishings and gifts at steep discounts, debt-free Tuesday Morning, which makes its home in Dallas, expects sales to top \$1 billion this year. CEO Kathleen Mason said the new dividend "affirms our confidence that we can continue to grow the business at historic rates while increasing the return to our stockholders due to our strong cash flow." There are 673 stores in 43 states. On Friday, the stock was trading on Nasdaq a little over \$30 a share.

If dividends don't lie, what are they saying now? Wilfred J. Hahn, president and chief investment officer of the Canadian money-management firm of Hahn Investment Stewards & Co. Inc., addresses that question in his April 29 *Global Spin* report. Hahn believes "dividend payments are unsustainably high relative to national income," and he thinks "corporate earnings are headed for a downswing over the next four to six quarters. The decline could be as mild as 10% or much more severe if the financial bubble completely collapses."

Hahn says the signs of a continuing financial bubble could not be more pronounced—parallel trends in the corporate sector "that align with a massive credit inflation that has boosted the share of consumption, overall indebtedness and, crucially, a gradual collapse in capital investment." Hahn asserts that "high dividend payments—whether in the form of stock dividends, cash or stock buybacks—are theoretically a sign of trouble, not imminent prosperity." Companies that pay back capital or pay high dividends historically would do so for the reason that no better investment opportunities were available. Lower retained earnings over time mean both less opportunity and reduced means for investment. Declares Hahn: "Those that remember the underlying theory behind the workings of capitalism will agree that high investment...is the road to profits and prosperity. In theory, high dividend payouts and capital distributions for the business sector overall are signs of future trouble for national prosperity."

High dividends as a share of national income mean that future profit trends will eventually prove to be dismal for either of two reasons: (1) "profitable capital investment opportunities must be few and far between, and/or (2) there isn't sufficient income retained to drive healthy levels of capital investment that will drive future profit upturns. Either condition undermines future profit potential for the business sector as well as the nation overall."

As Hahn sees it, the reality of a corporate earnings downturn before the end of 2006 "is still not fully reflected in current stock market levels. While it may take some time for markets to recognize this—after all, current earnings reports are still seen as robust—it argues for a cautious stance on equity market allocation" in his firm's managed portfolios.

"Don't blame us," Hahn counsels. "We didn't say it. Dividends don't lie." ■