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What Is Dividend Yield? How to Read It Without Falling for Traps

How to calculate dividend yield, what the payout ratio adds, and why a high yield can be a warning sign.

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Read online: https://traderange.net/learn/what-is-dividend-yield-thl0fi7p/



Dividend yield tells you how much cash a company pays out each year relative to its share price. Most income investors look at it first. That said, a high yield is not automatically a good thing, and a low one is not automatically bad. This guide covers how to calculate dividend yield and what the payout ratio adds — and when a yield is a warning sign.

What is dividend yield?

A dividend is a cash payment made by a company to its shareholders out of its profits. Dividend yield expresses the annual dividend as a percentage of the current share price; that lets you compare the income from very different stocks on the same footing.

How to calculate dividend yield

The formula is **dividend yield = annual dividend per share ÷ share price × 100**. Most data sites use the dividends paid over the last twelve months (the trailing yield). Others multiply the latest quarterly payment by four; this is known as the forward yield.

> **Worked example: Coca-Cola**
>
> In TradeRange data from 21 September 2026, Coca-Cola (KO) traded at $87.12 with a dividend yield of 2.4%. Working backwards, that implies annual dividends of about $2.09 per share. Put another way, each dollar invested at that price was earning about 2.4 cents a year in dividends.

Why yield moves when the price moves

Because the share price is in the denominator, yield rises when the price falls and falls when the price rises. So a company can show a higher yield without paying a single extra cent. On top of that, a sharp jump in yield often means the market has marked the shares down, not that the dividend has become more generous.

Payout ratio: can the company afford it?

The payout ratio shows what share of profit goes out as dividends. If profits dip, a company paying out a small share of its earnings has room to keep paying — and even to raise the dividend. A company that pays out most of its earnings has little room for error.

TRAILING DIVIDEND YIELD AND PAYOUT RATIO, TRADERANGE DATA AS OF 21 SEPTEMBER 2026. DATA IS DELAYED.

COMPANY	TICKER	DIVIDEND YIELD	PAYOUT RATIO
Coca-Cola	KO	2.4%	62.5%
JPMorgan Chase	JPM	1.89%	25.7%
Microsoft	MSFT	0.79%	19.8%
Nvidia	NVDA	0.45%	3.5%
Tesla	TSLA	No dividend	No dividend

In the table, Coca-Cola has the highest yield at 2.4% and also pays out the largest share of its profit, at 62.5%. At 0.79%, Microsoft's yield is lower, and it pays out only 19.8% of its earnings. As a result, Microsoft keeps most of its profit to reinvest, while Coca-Cola returns most of it to shareholders. Tesla pays no dividend at all.

When dividend yield misleads

- Yield traps: after a price crash, a very high yield can signal that the market expects the dividend to be cut.
- Special dividends: the trailing yield can be inflated for a year by a one-off payment.
- Payouts above earnings: a company paying out more than it earns is funding the dividend from cash or debt, which cannot last forever.
- Buybacks: some companies return cash by buying back shares instead, and that never shows up in the yield.

How to use dividend yield in practice

1. Compare yield with the company's own history and with its direct competitors.
2. Before trusting a high yield, check the payout ratio.
3. Look at whether the dividend has grown, been held flat or been cut over time.
4. Remember that total return includes price changes, not just income.

Dividend yield and payout ratio can be found for any listed company on its TradeRange stock page.

KEY TAKEAWAYS

- ✔ Dividend yield = annual dividend per share ÷ share price × 100.
- ✔ Yield rises when the price falls, even if the dividend is unchanged.
- ✔ The payout ratio shows whether a dividend is affordable.
- ✔ A very high yield can be a warning, not a bargain.
- ✔ Buybacks return cash too, but they do not show up in the yield.

⚠ **Not investment advice**

As of 21 September 2026, these figures are TradeRange market data and are delayed. They are meant for education only, not as investment advice.

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