DILIGENCE PAYS
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Red Alert: Beware False Dividend Stocks

Dividend stocks are not the safe-haven that investors think. Anyone thinking that dividend stocks are a good strategy to succeed in these turbulent markets needs to think twice and read on.

We recently hosted a live training session warning investors about the dangers of fake dividend stocks. Fake Dividend Stocks might pay a nice dividend, but the risk of significant decline in stock price more than offsets any potential gains investors might expect from the dividend. In other words, if a stock pays a 5% dividend but drops 20%, then investors lose a lot of money on that stock despite the 5% dividend.

In this report, we're here to warn you of another type of bad dividend stock:

False Dividend Stocks

False Dividend Stocks pay a dividend, but the company doesn't generate enough cash flow to afford the dividend. Therefore, the high risk of seeing the dividend cut along with the likely drop in the stock price due to the dividend cut more than offsets the potential gains investors might expect from a False Dividend Stock.

Successful dividend investing is not about finding companies that pay dividends. It's about finding companies that can afford to keep paying and, hopefully, grow their dividend. A dividend is only good if the company generates the cash flows to afford it.

You don't want your "income stock" to stop paying dividends because the company can't afford it. Investors need to know if past dividends have been funded by taking on more debt or spending down cash balances.

The only way to avoid False Dividend Stocks is with diligent fundamental research on cash flows. As we've proven many times, investors must do their homework to get the truth about cash flow.

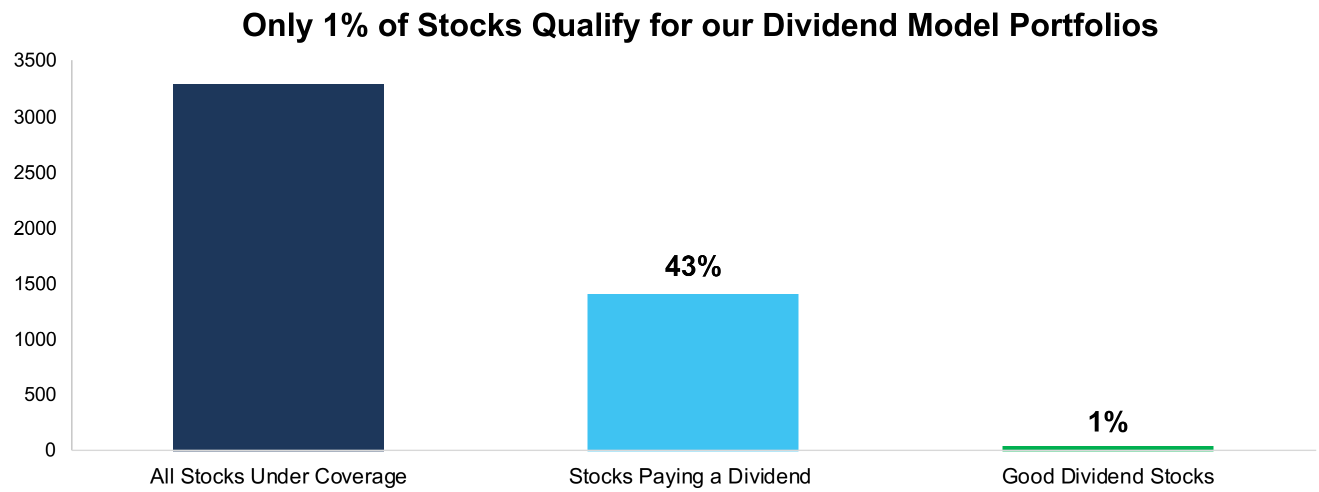
Below, we break down just how prevalent False Dividend Stocks are in the current market.

Pinpointing the False Dividend Risk

To find False Dividend Stocks, we first screen our entire coverage universe for stocks that pay a dividend. Of course, if a stock does not pay a dividend, it cannot be a False Dividend Stock.

Of the ~3,300 stocks under coverage, 1,416 stocks, or 43%, pay a dividend. Only 44 stocks, or 1% of the universe qualify as Good Dividend Stocks because they earn a spot in one of our dividend model portfolios: Safest Dividend Yield Stocks and Dividend Growth Stocks.

Figure 1: Dividend Paying Stocks in Coverage Universe – As of June 4, 2025



Sources: New Constructs, LLC and company filings

After we've identified the dividend stock paying universe, we then parse out the False Dividend Stocks, i.e. companies with negative free cash flow (FCF) in the trailing-twelve-month (TTM) period.

Per Figure 2, there are 344 dividend-paying stocks with negative FCF in the TTM period as of June 4, 2025.

Figure 2: Dividend Stocks with Negative TTM FCF – As of June 4, 2025

False Dividend Stocks	Avg Dividend Yield	Avg Market Cap ($mm)
344	3.5%	$21,245

Sources: New Constructs, LLC and company filings

The False Dividend Stocks

Below, we reveal three of the 344 riskiest False Dividend Stocks. These stocks earn our worst rating, Very Unattractive. Not only are the dividends false, but the stocks are also very expensive and overvalued.

Worse yet, there's higher risk that these three companies will have to cut their dividend because their dividend payments exceed cash flows not just in the TTM but over the past five years. In other words, these companies have been burning cash to pay dividends for an extended period.

These companies are digging themselves quite a hole here. See the last column in Figure 3, the Dividend Deficit as a % of TTM Revenue. This shows how much dividend payments have exceed cash flows over the past five years as a percent of revenue. This metric shows how high the risk that these companies will have to cut their dividend is because they do not have the revenues, much less the income, to fund dividends.

Figure 3: Three Very Unattractive Rated False Dividend Stocks

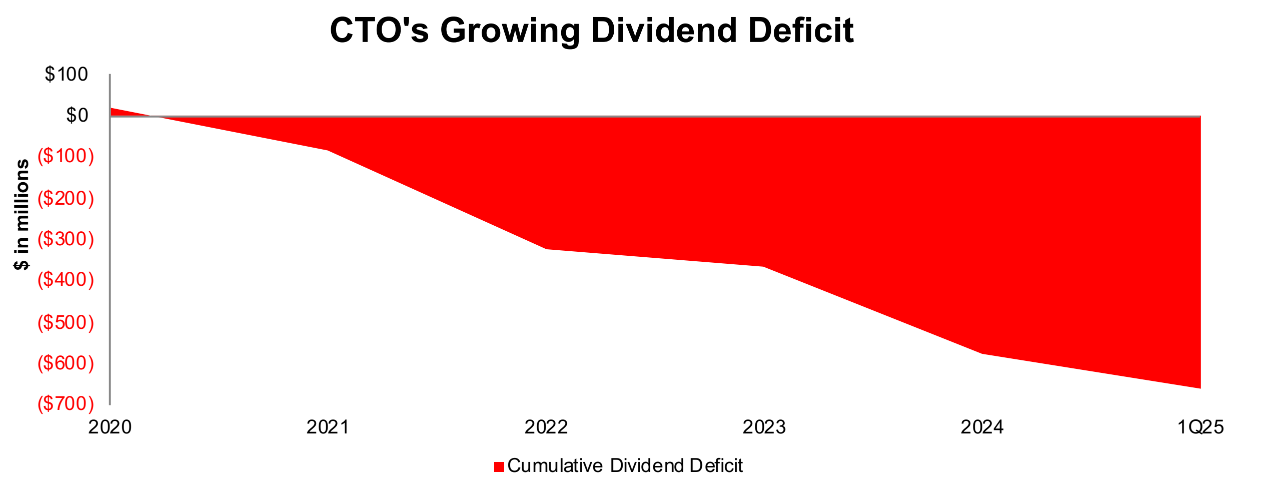
Company	Ticker	Stock Rating	Last 5 Years		Dividend Deficit as % of TTM Revenue
			Dividends Paid	FCF	
CTO Realty Growth	CTO	Very Unattractive	$160	-$419	-438%
The AES Corp	AES	Very Unattractive	$2,131	-$8,505	-88%
Edison International	EIX	Very Unattractive	$5,606	-$4,744	-60%

Sources: New Constructs, LLC and company filings

CTO Realty Growth (CTO: $18/share): 8.3% Dividend Yield

CTO Realty Growth earns its spot on the False Dividend Stocks list with -$189 million in FCF over the TTM period. CTO Realty Growth's Dividend Deficit (FCF minus Dividends) as a % of TTM Revenue is -438% as dividends paid ($160 million) exceeded FCF (-$419 million) by $579 million over the last 5 years. From 2020-1Q25, CTO Realty Growth's cumulative Dividend Deficit is -$661 million. See Figure 4.

Figure 4: CTO Realty Growth's Dividend Deficit: FCF Minus Dividends: 2020-1Q25



Sources: New Constructs, LLC and company filings

The shareholder dilution required to fund this huge dividend deficit should make management blush.

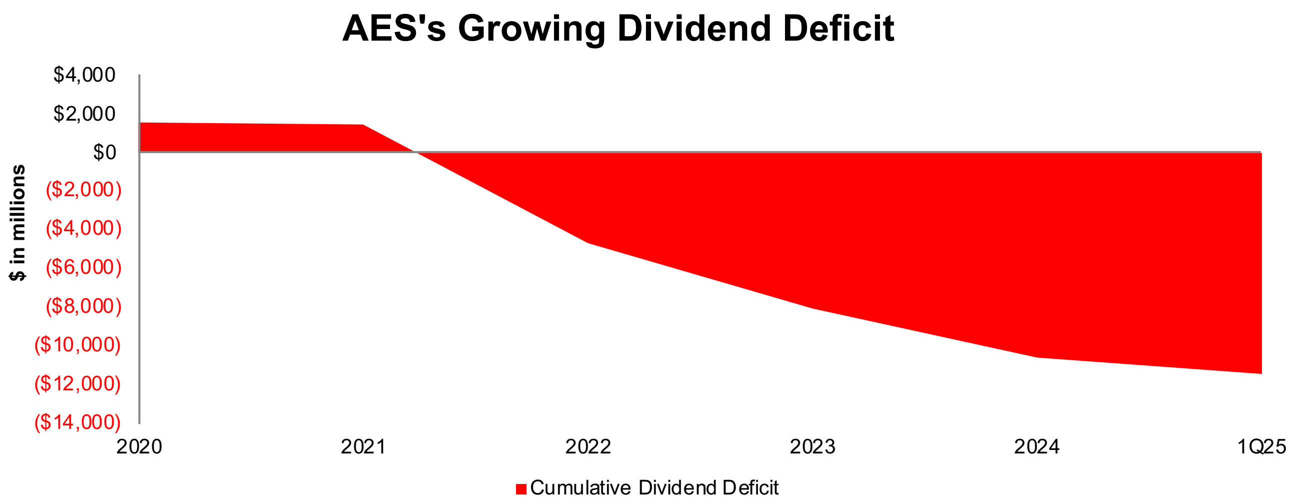
Specifically, CTO Realty Growth's total debt increased 116% from $273 million in 2020 to $603 million in the TTM ended 1Q25. The company's shares outstanding increased 86% from 17.7 million to 32.9 million over the same time.

Making matters worse, CTO Realty Growth earns a low return on invested capital (ROIC) of just 1% and has a 2 yr avg free cash flow (FCF) yield of -10%. CTO's price-to-economic book value (PEBV) ratio is -1.4 due to its negative economic book value, or no growth value, of -$13/share. Furthermore, in the default scenario of our reverse discounted cash flow (DCF) model, CTO has a market-implied Growth Appreciation Period (GAP) of greater than 100 years. Poor fundamentals and an expensive stock price earn CTO a Very Unattractive Stock Rating.

The AES Corp (AES: $10/share): 6.9% Dividend Yield

The AES Corp is also a False Dividend Stock due to its negative $719 million in FCF over the TTM. AES Corp's Dividend Deficit as a % of TTM Revenue is -88% as dividends paid ($2.1 billion) exceeded FCF (-$8.5 billion) by $10.6 billion over the last 5 years. From 2020-1Q25, AES Corp's cumulative Dividend Deficit is -$11.5 billion. See Figure 5.

Figure 5: AES Corp's Dividend Deficit: FCF Minus Dividends: 2020-1Q25



Sources: New Constructs, LLC and company filings

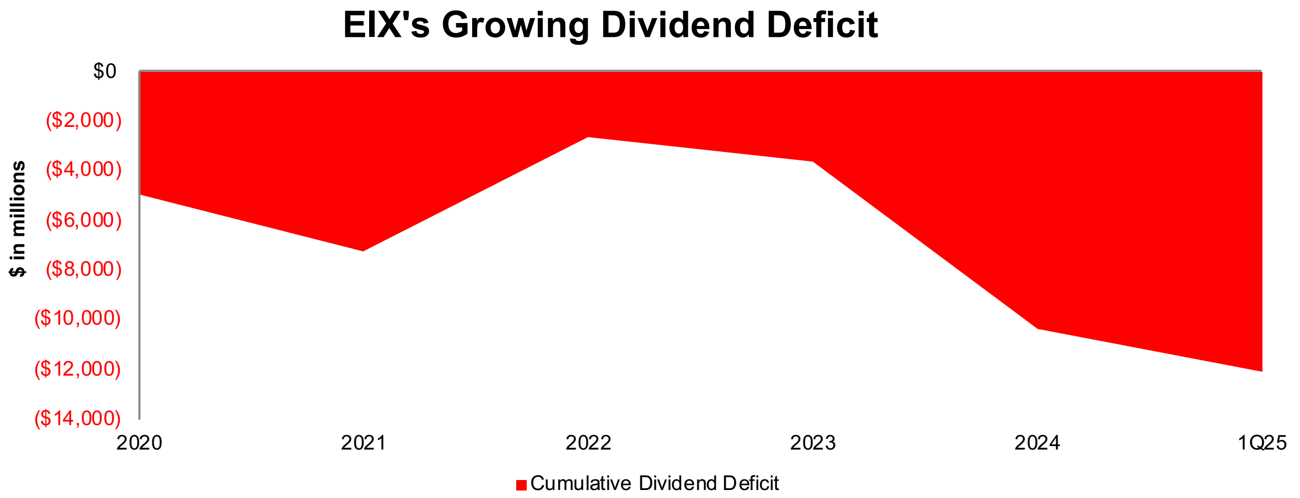
Similar to CTO Realty Growth, the shareholder dilution required to fund this huge dividend deficit is scary. The AES Corp's total debt increased 57% from $20.3 billion in 2020 to $31.9 billion in the TTM ended 1Q25. The company's shares outstanding increased 7% from 665.4 million to 711.9 million over the same time.

The AES Corp also generates a ROIC of 2% and a 2-yr Avg FCF yield of -4%. The AES Corp's PEBV ratio is -0.7 with an economic book value of -$14/share. Furthermore, in the default scenario of our reverse DCF model, AES has a market-implied GAP greater than 100 years. Poor fundamentals and an expensive stock price earn AES a Very Unattractive Stock Rating.

Edison International (EIX: $56/share): 5.9% Dividend Yield

Edison International burned $1.1 billion in FCF over the TTM, and the cash burn is even worse over the past five years. Edison International's Dividend Deficit as a % of TTM Revenue is -60% as dividends paid ($5.6 billion) exceeded FCF (-$4.7 billion) by $10.4 billion over the last 5 years. From 2020-1Q25, Edison International's cumulative Dividend Deficit is -$12.1 billion. See Figure 6.

Figure 6: Edison International's Dividend Deficit: FCF Minus Dividends: 2020-1Q25



Sources: New Constructs, LLC and company filings

As with the two stocks above, investors should note the shareholder dilution required to fund this huge dividend deficit. Total debt increased 35% from $37.3 billion in 2020 to $50.4 billion in the TTM ended 1Q25. The company's shares outstanding increased 2% from 378.9 million to 384.8 million over the same time.

Edison International's earns a bottom quintile ROIC of just 3% while its 2 yr avg FCF Yield sits at -4%. Edison International's PEBV ratio is 3.5, with an economic book value of just $15/share. In the default scenario of our reverse DCF model, EIX has a market-implied GAP of 5 years, which indicates the stock may not be as overvalued as the two above. However, the company's poor fundamentals and high PEBV ratio still earn EIX a Very Unattractive Stock Rating.

Upcoming Dividend Training Sessions

After years of digging into Wall Street's accounting tricks, we know firsthand that many so-called "dividend plays" are traps for Main Street investors.

To help investors of any kind avoid these pitfalls, we recently hosted a training showing you exactly how to spot a False Dividend Stock. Watch the replay here.

Then, on Friday June 13 at 12pm ET, we'll be going live to warn of a third type of dangerous dividend: The Dividend-Trap Stocks.

Register here

No matter how good the dividend, investing in a bad stock can cost you much more than the dividend pays.

Want to know where to get good dividend stocks? We're hosting a separate live training on June 17 at 1pm ET. In this training, we'll not only cover the dangers of dividends, but also show you which dividend stocks are worth owning. Reserve your spot today.

This article was originally published on June 9, 2025.

Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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