Dividends are payments made to stockholders from a firm's earnings, whether those earnings were generated in the current period or in previous periods.

When dividends are paid, shareholders in many countries, including the United States, suffer from stock buyback, in which the company buys back stock, thereby increasing the value of the stock left outstanding. While it may be true that in the stock market there is no rule without an exception, there are some principles which are tough to dispute. We'll review 10 general principles to help investors get a better grasp of how to approach the market from a long-term view. Keep in mind that these guidelines are quite general, each with different applications depending on the circumstance. But every point embodies some fundamental concept every investor should know.

The primary purpose of any business is to create profit for its owners, and the dividend is the most important way the business fulfills this mission. When a company earns a profit, some of this money is typically reinvested in the business and called retained earnings, and some of it can be paid to its shareholders as a dividend. Paying dividends reduces the amount of cash available to the business, but the distribution of profit to the owners is, after all, the purpose of the business.

1) Sell the losers and let the winners ride! - Time and time again, investors take profits by selling their appreciated investments, but they hold onto stocks that have declined in hopes of a rebound. If an investor doesn't know when it's time to let go of hopeless stocks, he or she can, in the worst-case scenario, see the stock sink to the point where it is almost worthless. Of course, the idea of holding onto high-quality investments while selling the poor ones is great in theory, but hard to put into practice. The following information might help:

- ***Riding a Winner*** - Peter Lynch was famous for talking about his "tenbaggers", his investments that had increased tenfold in value. The theory is that much of his overall success was due to a small number of stocks in his portfolio that returned big. If you have a personal policy to sell after a stock has increased by a certain multiple - say three, for instance - you may never fully ride out a winner. No one in the history of investing with a "sell-after-I-have-tripled-my-money" mentality has ever had a tenbagger. Don't underestimate a stock that is performing well by sticking to some rigid personal rule - if you don't have a good understanding of the potential of your investments, your personal rules may end up being arbitrary and too limiting.
- ***Selling a Loser*** - There is no guarantee that a stock will bounce back after a protracted decline. While it's important not to underestimate good stocks, it's

equally important to be realistic about investments that are performing badly. Recognizing your losers is hard because it's also an acknowledgment of your mistake. But it's important to be honest when you realize that a stock is not performing as well as you expected it to. Don't be afraid to swallow your pride and move on before your losses become even greater!

In both cases, the point is to judge companies on their merits according to your research. In each situation, you still have to decide whether a price justifies future potential. Just remember not to let your fears limit your returns or inflate your losses.

2) Don't chase the "hot tip" - Whether the tip comes from your brother, cousin, neighbor, or even broker, no one can ever guarantee what a stock will do. When you make an investment, it's important you know the reasons for doing so: do your own research and analysis of any company before you even consider investing your hard earned money. Relying on a tidbit of information from someone else is not only an attempt at taking the easy way out, it's also a type of gambling. Sure, with some luck, tips may sometimes pan out. But they will never make you an informed investor, which is what you need to be to be successful in the long run.

3) Don't sweat the small stuff - In tip No.1, we explained the importance of realizing when your investments are not performing as you expected them to - but remember to expect short-term fluctuations. As a long-term investor, you shouldn't panic when your investments experience short-term movements. When tracking the activities of your investments, you should look at the big picture. Remember to be confident in the quality of your investments rather than nervous about the inevitable volatility of the short term. Also, don't overemphasize the few cents difference you might save from using a limit versus market order.

Granted, active traders will use these day-to-day and even minute-to-minute fluctuations as a way to make gains. But the gains of a long-term investor come from a completely different market movement - the one that occurs over many years - so keep your focus on developing your overall investment philosophy by educating yourself.

4) Do not overemphasize the P/E ratio - Investors often place too much importance on the P/E ratio. Because it is one key tool among many, using only this ratio to make buy or sell decisions is dangerous and ill-advised. The P/E ratio must be interpreted within a context, and it should be used in conjunction with other analytical processes. So, a low P/E ratio doesn't necessarily mean a security is undervalued, nor does a high P/E ratio necessarily mean a company is overvalued. (For further reading