Dividends and Dividend Reinvestment

How does my money grow between paychecks?

ALEX
Sam, the bakery didn't pay me today. Who put this dividend in my account?

SAM
Let's start with the mill your fund owns. Suppose its board votes to pay shareholders some of its profit.



ALEX
Then the mill pays my fund. But there are two entries here. Where did the cash go?

SAM
The first entry records your payout. The second uses it to buy more shares of your fund.



Two entries between paychecks

On a day the bakery pays her nothing, Alex finds two unfamiliar entries in her retirement account. One says "dividend." The next says "reinvestment." She takes a screenshot before her shift.

Follow a dividend to Alex

Dividends and Dividend Reinvestment

ALEX
Does every dollar the mill earns end up in one of these envelopes?

SAM
No. The mill might keep earnings to repair an oven or expand. Its board decides whether to pay a dividend.



ALEX
And if the mill pays on Monday, will my fund pay me on Monday too?

SAM
The fund collects income from its holdings and distributes it on its own schedule. The dates and amounts can differ.



One payment, three steps

Maple Mills	**Pays shareholders**
Alex’s stock fund	**Receives income**
Alex’s fund account	**Receives a distribution**

Why did the share price change?

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ALEX
Ten shares at $21. That's $210. If I get a dollar per share, have I suddenly got $220?

SAM
Where did the ten dollars come from? The fund paid it out. With markets still, each share is now worth $20.



ALEX
Oh! Ten shares worth $200, plus $10 cash. And at $20 a share, that cash buys half a share.

SAM
Right. Now you have ten and a half shares worth $210 altogether. The payout changed how you hold the money.



Follow the same $210

Before payout · 10 shares × $21	**$210**
After payout · 10 × $20 + $10 cash	**$210**
Cash reinvested · $10 ÷ $20	**0.5 new share**
After reinvestment · 10.5 × $20	**$210**

When earnings earn something too

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ALEX
Here’s the half share we bought. Does it earn a dividend too?

SAM
If the fund later pays another dollar per share and you still own it, yes. How much would you receive?



ALEX
Ten dollars on the original shares and fifty cents on this little piece. That’s the part I was missing.

SAM
Exactly. Reinvested earnings can earn more over time. Future payouts can shrink or stop, and share prices can fall.



On Alex’s retirement statement

Her payroll contribution	**Money Alex adds**
Employer match	**Money the bakery adds**
Investment return	**Price change + income**

Try it: at 60 cents per share, ten and a half shares earn $6.30. Thirty cents comes from the extra half share.

Sources Fund distributions and share prices Net asset value