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Disappearing Dividends, Catering, and Risk

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Abstract

Fama and French (2001a) show that the propensity to pay dividends declines significantly between 1978 and 1999. We examine this "disappearing dividends" puzzle through the lens of risk and report two main findings: (i) Risk is a significant determinant of the propensity to pay dividends, and it explains roughly 40% of disappearing dividends; (ii) We find little support for the view that disappearing dividends reflects firms' catering to transient fads for dividends. Absent risk controls, proxies for fads matter, but these proxies are insignificant once we control for risk. Our results are robust to an extensive battery of robustness tests that vary samples, time periods, proxies for fads, the types of empirical tests, and the nature of payout decisions made by firms.

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