



Your Guide To Dividend Growth Investing

“Shrewd investors know that reinvesting dividends is the surest way to accumulate wealth in the long-run.”

—Dr. Bart DiLiddo, VectorVest Founder

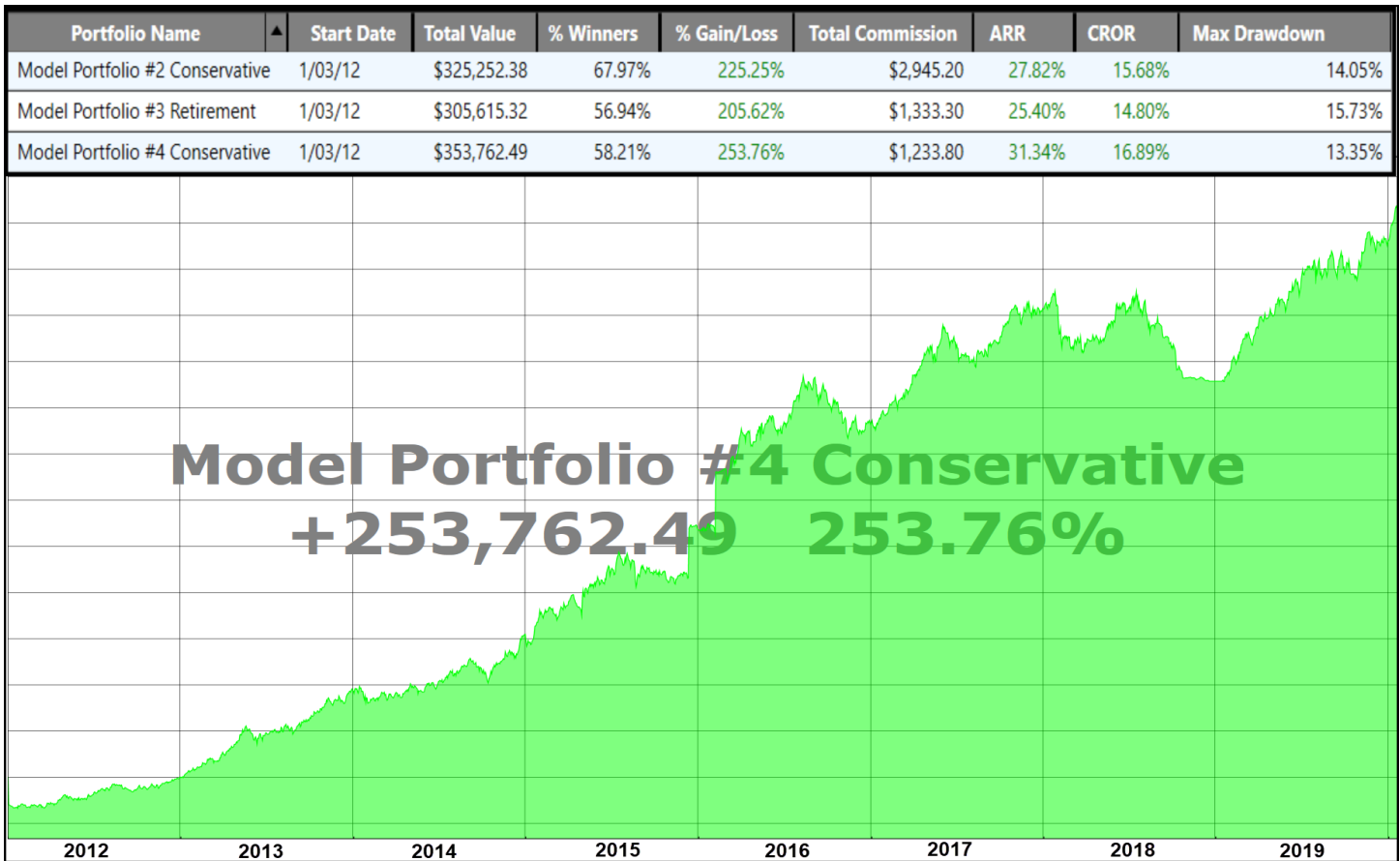
Studies show that over the long-term, dividends account for more than 40 percent of the profits made in the stock market. Additionally, stocks with solid dividends and earnings growth hold up best in down markets and generally recover faster and stronger after pullbacks.

With today’s low interest rates, investors are once again paying more attention to companies that pay decent dividend yields. These companies are responding by doing their best to maintain their payouts, or even increase them. These dividend payments, in addition to capital appreciation potential, is far beyond the reach of fixed income securities. It can propel even a small investment into substantial wealth over time.

For example, a few years ago, I came across an amazing story about a woman named Grace Groner from Lake Forest, Illinois. She was employed at Abbott Laboratories and, as many of us do, she purchased shares of her companies’ stock. It wasn’t a lot of stock, in fact she only purchased three shares of the then \$60.00 stock. She held on to those shares through the years, through ups and downs and stock splits and simply collected and reinvested her dividends. Over her lifetime, that \$180.00 investment grew to more than \$7,000,000! ¹ Who would have thought such a simple approach could have such incredible results.

The problem that plagues fixed income investors is that the return is so low that inflation eats away at our returns over time. Investments such as bonds, GIC’s and T-bills will never be able to compare with the exceptional growth and income offered by dividend paying stocks. It’s a little more risk, but a lot more reward.

Consider this. As of 07 Feb 2020, the average annualized return since 03 Jan 2012 of the S&P/TSX Composite is 5.9%. Meanwhile, over the same period, the average annualized rate of return of VectorVest’s three long-term, Conservative and Retirement model portfolios, is greater than 28% per year. ***Imagine how the difference can impact your retirement.***



As we grow older, we need to consider a more sensible balance of fixed income and dividend investments. By creating a safe, well-balanced portfolio from the hundreds of established dividend payers listed on the TSX, you can enjoy collecting current income from your investments while watching the value of your portfolio consistently rise. All you need are the right tools and techniques and VectorVest has them. Keep reading to learn the tried and true strategies for safer more reliable growth and income.

1 http://en.wikipedia.org/wiki/Grace_Groner. <http://www.lakeforest.edu/offices/groner/>

Why Dividends Matter

Dependable Growth and Income. The best dividend paying stocks offer both price appreciation potential as well as dependable income from dividend payments. A stock that pays a \$1 dividend this year will likely pay the same next year, or even increase its payment making them very attractive prospects for conservative investors.

A Sign of Investment Quality. Mature, dependable companies can afford to share profits with their investors in the form of dividends. Risky, untested or faltering companies rarely pay a dividend because they need to put all their available resources toward survival. These steadfast companies that can afford to pay their investors dividends are well-known for their predictable value appreciation and low volatility, their prices rise steadily and they *regularly beat the market*.

Rising Dividends. With most bonds and GIC's (Guaranteed Income Certificates), the interest rate you see is the interest rate you'll get. By contrast, many companies can and do boost their dividends regularly. Dividend-paying companies actually like to ratchet up their dividends, especially when the economy is strong and the company is prospering. As an added bonus, these rising dividends provide you with an easy and welcome hedge against inflation.

Favourable Tax Treatment. Taxpayers who invest in Canadian dividend-paying stocks may qualify for the dividend tax credit. Dividend income is taxed at a significantly lower rate than interest income. Depending on your tax bracket, this could mean the difference between paying a 23% tax for your dividends or 46% tax for your interest income. (**Tax on capital gains is roughly 25% for investors in the highest tax bracket. See your tax advisor for current information specific to your tax bracket, provincial rates and eligibility rules.*)

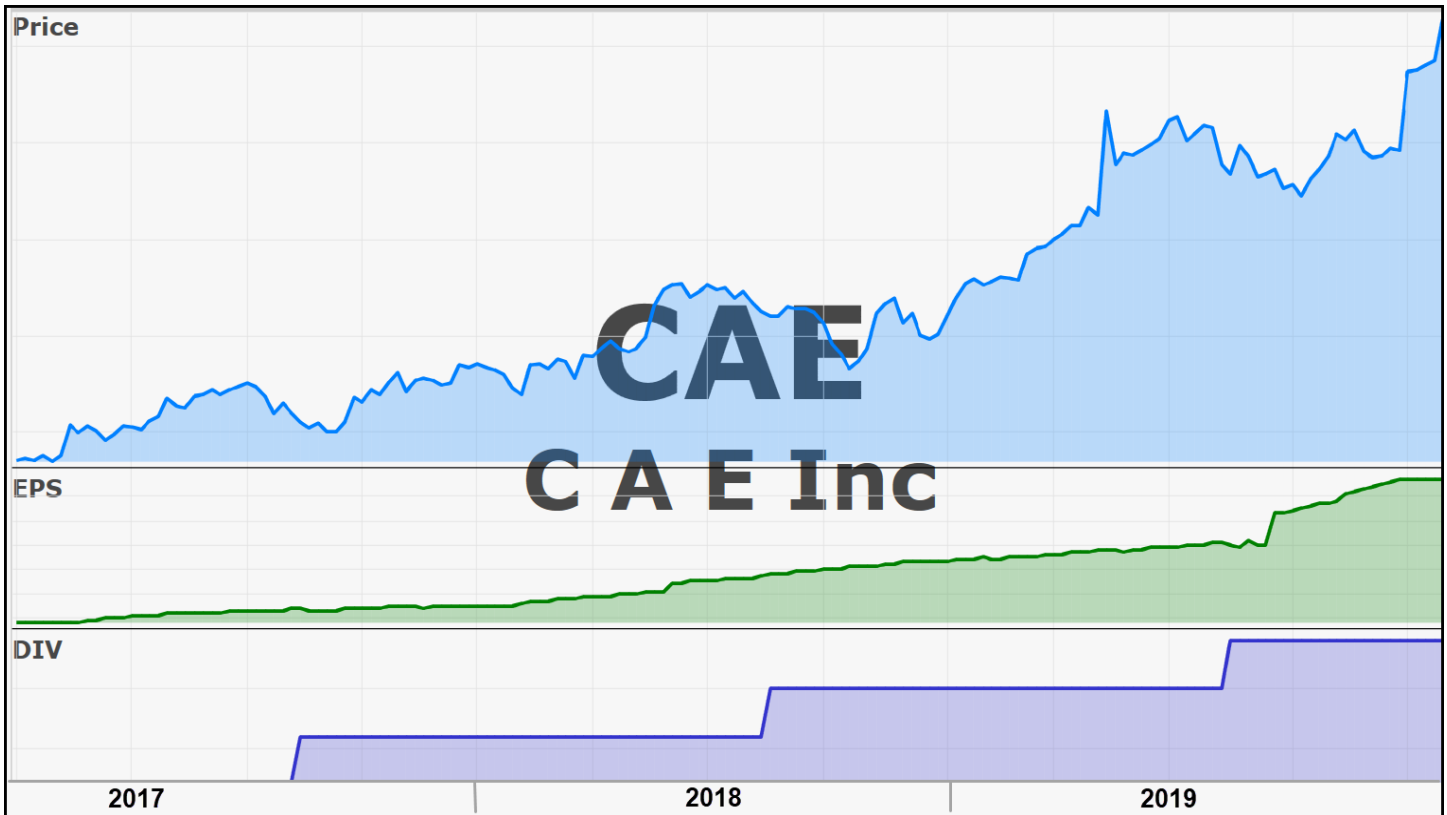


Figure 1. When studying graphs, start with a weekly graph to analyze long-term trends then add Earnings Per Share and Dividends as shown. On 03 JAN 2017, CAE had a Value, Safety, Timing (VST) rating of 1.21; Relative Safety (RS) 1.41; and a Dividend Yield, Safety, Growth (YSG) rating of 1.18. These ratings are highly favourable on the VectorVest scale of 0.00 - 2.00. Since then to 07 FEB 2020, CAE has risen 120% while increasing its earnings and dividend payouts.

Be Your Own Expert Portfolio Manager

When you have a research system as powerful as VectorVest, you can manage your own portfolio better than any financial manager and you won't have to spend hours chained to your computer. You get all the tools, training and information you need to make faster, smarter, better assessments of the market and the stocks you're buying.

VectorVest's "Must Have" Dividend Analysis Tools

DIV (Dividend): VectorVest reports annual, regular, cash dividends as indicated by the most recent payments. Special distributions and one-time payments generally are not included.

DY (Dividend Yield): DY reflects dividend per share as a percent of Price. DY equals $100 \times (\text{DIV}/\text{Price})$. It is useful to compare DY with EY. If DY is not significantly lower than EY, the dividend payment may be in jeopardy.

DS (Dividend Safety): DS is an indicator of the assurance that regular cash dividends will be declared and paid at current or higher rates for the foreseeable future. Stocks with DS values above 75 typically have Relative Safety (RS) values well above 1.00 and EY levels that are much higher than DY.

“Dividend Safety is superior to a simple dividend payout ratio.”

I find the Dividend Safety rating is superior to a simple dividend payout ratio because it takes into account the Relative Safety (RS) of the stock, the historical consistency of previous dividend payments and the dividend coverage (payout ratio). DS is on a 0-99 scale. As a minimum, Canadian investors should seek DS of 40. The higher, the better.

DG (Dividend Growth Rate): Dividend Growth is a forecasted annual growth rate of a company's dividend based on historical dividend payments and dividend predictability. It is a subtle yet important indicator of a company's financial performance. It also provides some insight into the board's outlook and the company's ability to increase earnings.

YSG (Yield, Safety, Growth): YSG is an indicator which combines DIV, DY and DG into a single value, and allows direct comparison of all dividend-paying stocks in the database. Stocks with the highest YSG values have the best combinations of Dividend Yield, Safety and Growth. These are the stocks to buy for above current income and long-term growth.

VST (Value, Safety, Timing): VST is the master indicator for ranking every stock in the VectorVest database. VST is computed from the square root of a weighted sum of the squares of RV, RS, and RT. Stocks with the highest VST ratings have the best combinations of Value, Safety and Timing. These are the stocks to own for above average, long-term capital appreciation. VectorVest advocates the purchase of safe, undervalued stocks rising in price.

Tips for Successful Dividend Growth Investing

Watch the Ex-Dividend Date: It's the only date you need to know when buying or selling a dividend paying stock or ETF. The ex-dividend date is the date by which you must own shares in order to get the next dividend payment. If you sell your stock before this date or buy shares on or after this date, you will not receive a dividend for the prior period.

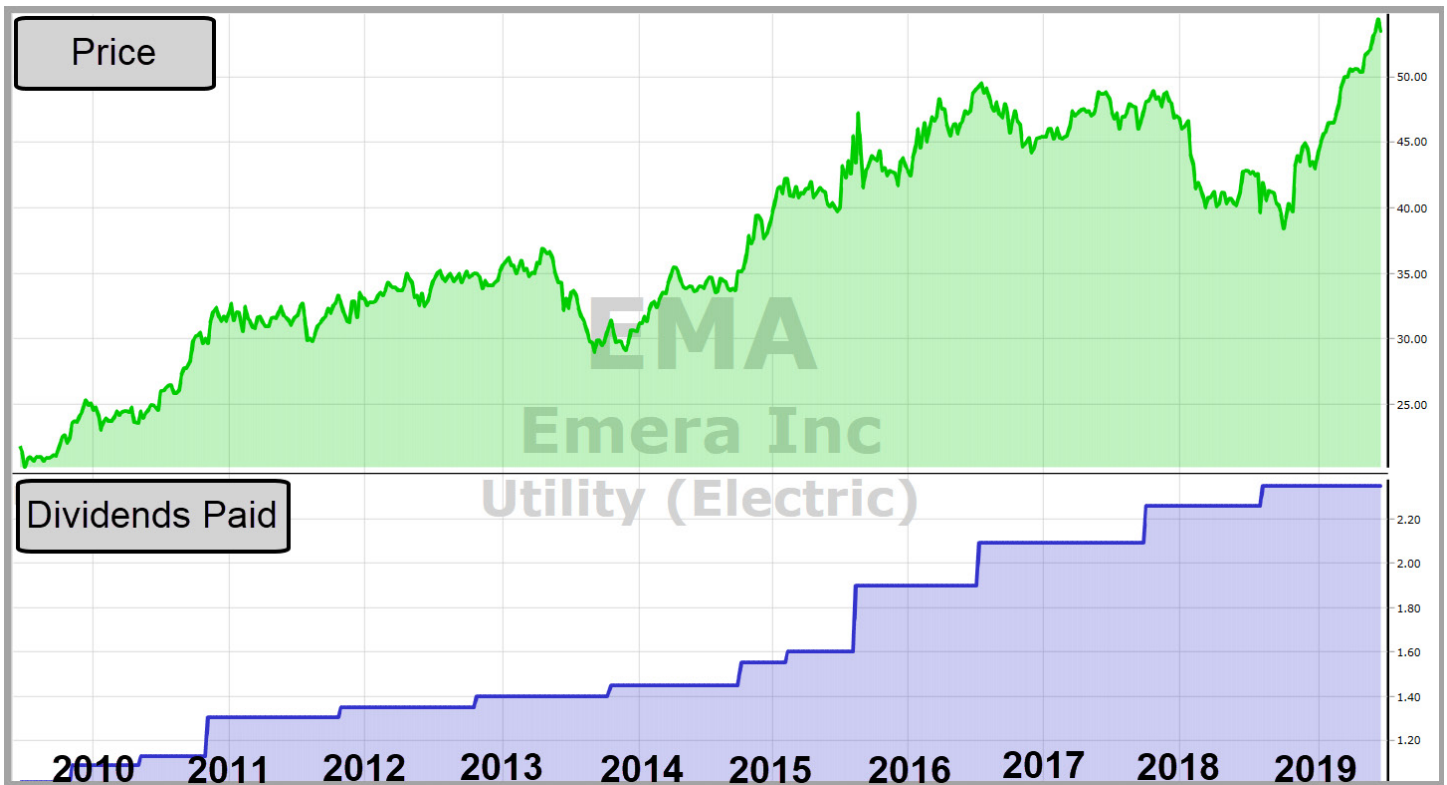
Check the Dividend Growth: The best dividend stocks combine a solid current payout with a strong history of steadily increasing their dividends. A positive DG (Dividend Growth) indicates the company likely has the earnings and cash flow to maintain and possibly increase its dividend. **TIP:** Place DIV (Dividend) on a weekly graph as shown in the EMA, Emera Inc. graph below. Notice if the company has a history of increasing, decreasing or maintaining its dividend.

Develop a Sell Strategy and Stick to It: While income is a key objective, “buy and hold” should not mean “buy and hold, regardless of how far the stock falls.” You’ll find solid guidelines on when to sell in the Quick Reference Guide located on the training tab of the VectorVest program. Try using a wider stop-loss with your income plays, but consider tightening things up a bit when VectorVest signals a Confirmed Down Market Call (C/Dn). Test out the criteria below to see which suit your risk tolerance, income goals and investment style:

1. **SELL REC.** This is VectorVest’s line in the sand, a “call to action” if you will. Either sell immediately or at least seriously evaluate your stock’s prospects for recovery. Check for falling earnings, negative news, industry developments and the overall market trend.
2. **VST < 1.20.** A falling VST signals weakening fundamentals and weakening buyer support. Generally, but not always, VST < 1.20 is a slower signal than the SELL REC, allowing the investor to hold longer a fundamentally strong stock.
3. **ONE-HALF RULE.** Never give back more than one-half of any sensible gain. Once

you've held a stock for a considerable time, you may decide not to wait until half your profits are gone. One of the above Stop-Loss rules or a trailing stop may be more suitable to look in more of your profits. Always consider and weigh the benefit of dividend growth and compounding before making a decision to sell.

Not a Get Rich Quick Scheme: Patience is the big thing when it comes to being a successful investor. Dividends will not make you rich overnight. But if you focus on solid companies (high RV, RS, and DS), that consistently raise their dividends (high DG), and if you reinvest those dividends in buying more shares, you'll be on a long-term path to wealth.



The Magic of Dividend Compounding: For investors that have some time before retirement, there's no better way to grow wealthy than to systematically invest in high-quality stocks, hold on for the long haul...and reinvest your dividends. And just like Grace Groner, you don't have to have a lot of money to get started

Four Strategies To Find Outstanding Dividend Stocks

1. **Follow the Model Portfolios.** Each of our three long-term, dividend-paying portfolios, Model Portfolios #2, #3 and #4, consistently find strong dividend growth stocks. With a seven-year plus track record, these portfolios have delivered annual returns ranging from 21% to 28%. Many VectorVest subscribers simply follow the detailed Action Plan for their favourite portfolio. The Action Plan tells you when it's okay to buy and which stocks meet the portfolios strict rules.
2. **Create A WatchList.** Other investors put the stocks held by each of the model portfolios and other sources into a WatchList and study the graphs to make their decisions. WatchLists can be sorted by the most important dividend indicators such as Dividend Yield, Safety and Growth (YSG); Relative Safety (RS); Dividend Safety (DS); or Dividend Yield (DY).
3. **Choose From VectorVest's Searches Or Create Your Own.** You can choose quality dividend stocks that meet specific criteria from VectorVest's time-tested searches located in the Conservative and Retirement folders. You can also add and remove criteria to modify and create your own searches. Popular VectorVest-managed searches include Master Retirement Watch
4. **Cherry Pick From VectorVest's WatchLists.** VectorVest's WatchLists give you powerful tools for stock selection. WatchLists are default sorted by Value, Safety and Timing (VST), however you can change the sort to narrow in on stocks that meet your specific criteria. Popular VectorVest-managed searches include Master Retirement WatchLists; W-O-W Dividends; Monthly Dividend Payers; and DRIPS (stocks that have Dividend Reinvestment Plans).

Be Your Own Expert Portfolio Manager

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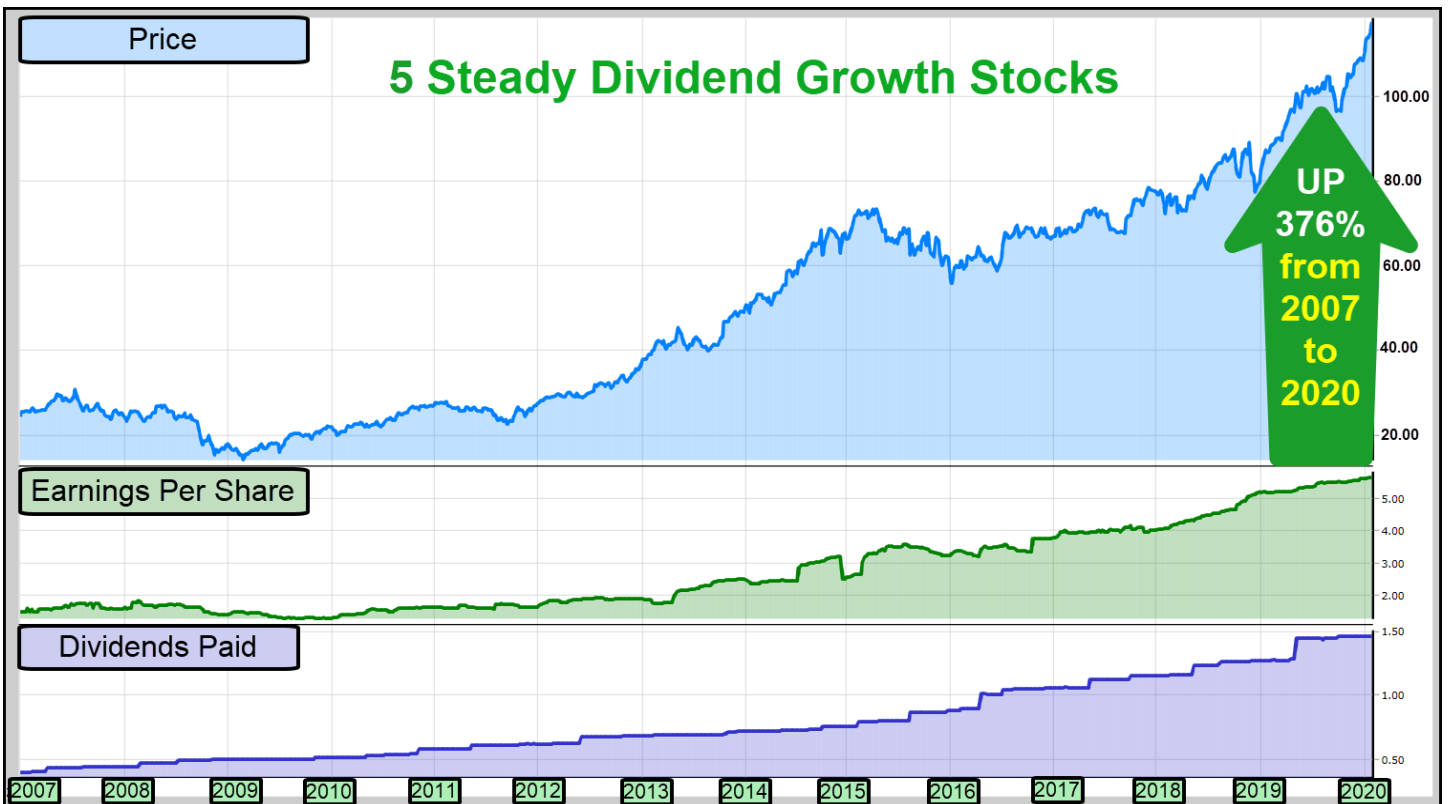
“The best of all worlds...collecting dividend cheques while prices of your stocks go up, comes from finding solid growth stocks that pay dividends. VectorVest is ideally suited to find these babies.”

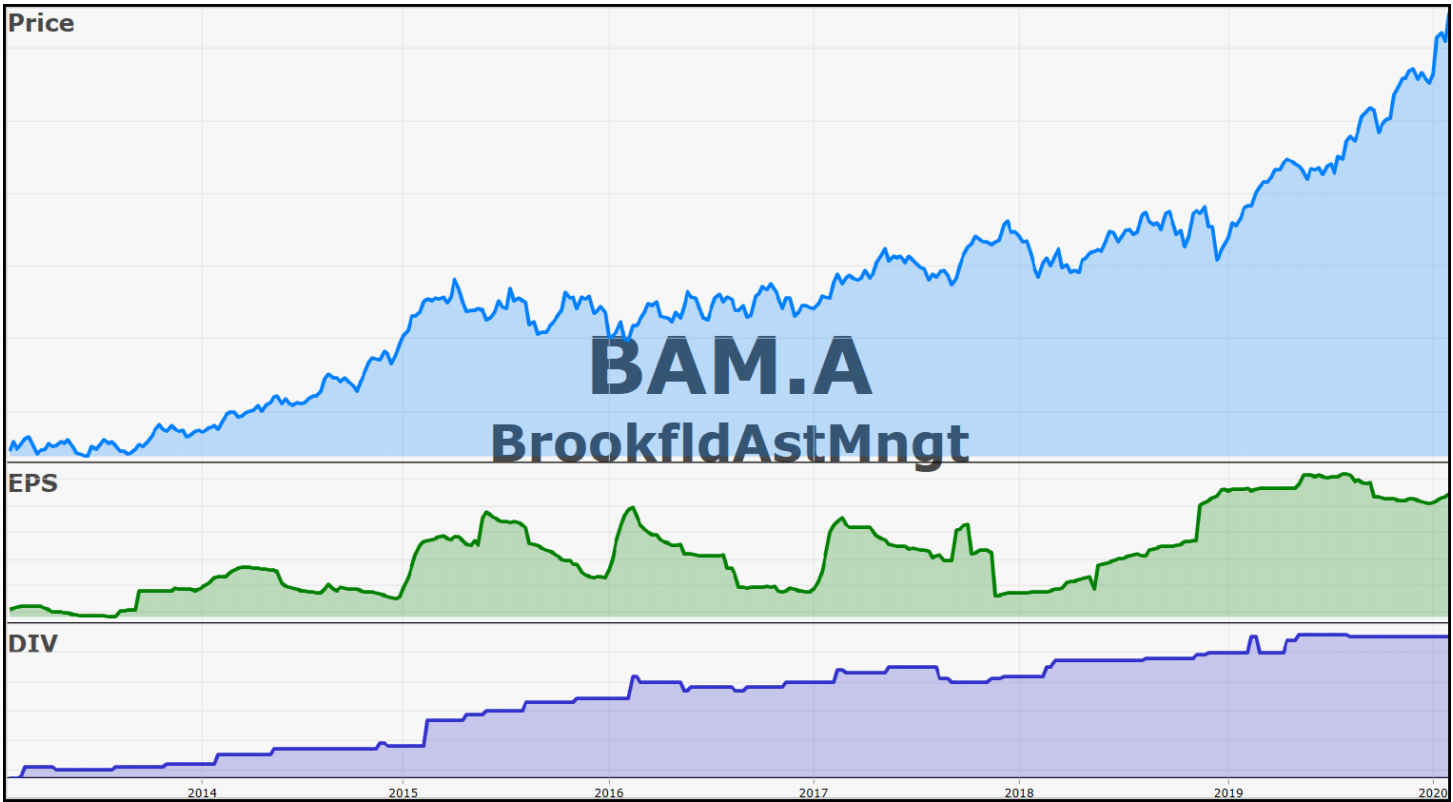
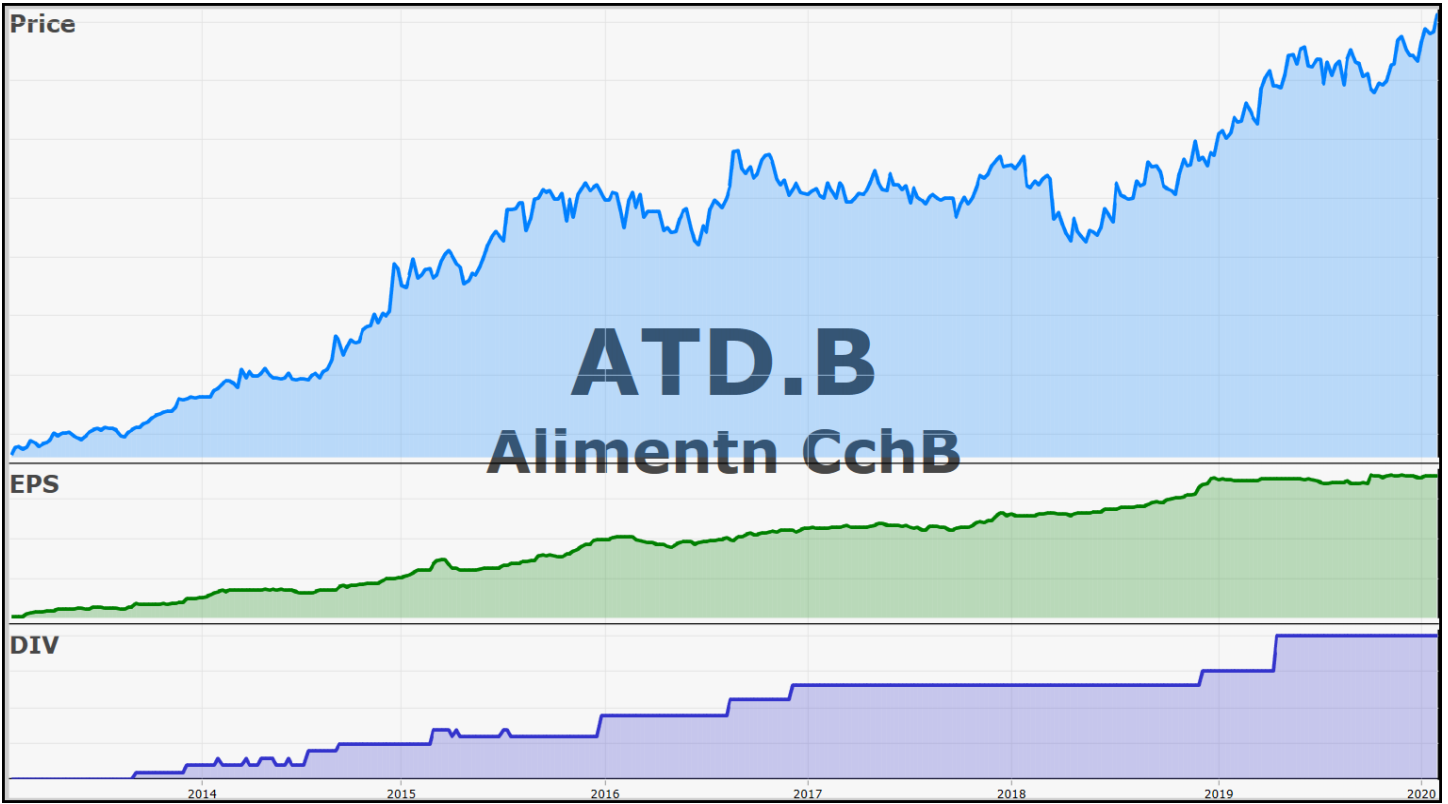
*—Stocks, Strategies & Common Sense
by Dr. Bart DiLiddo*

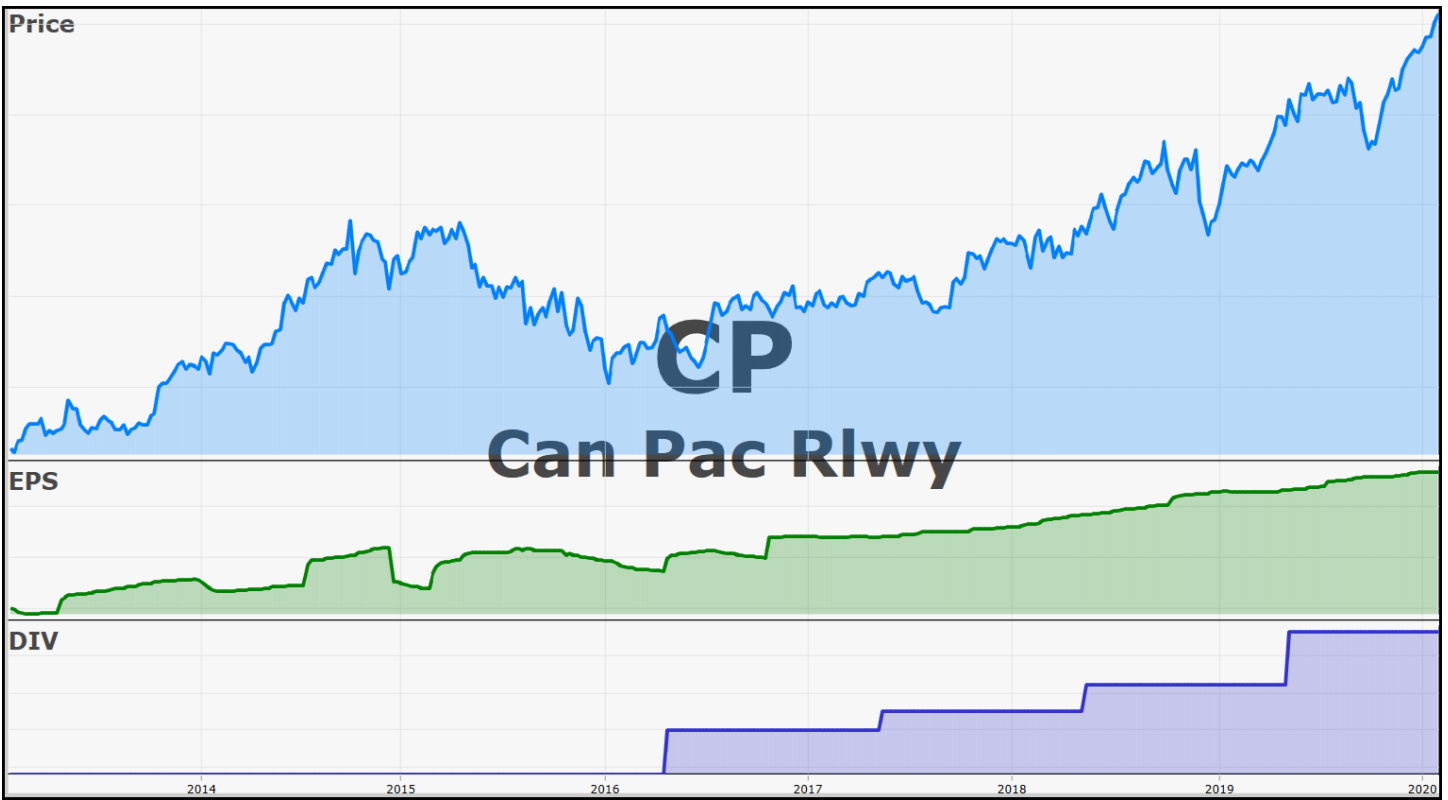
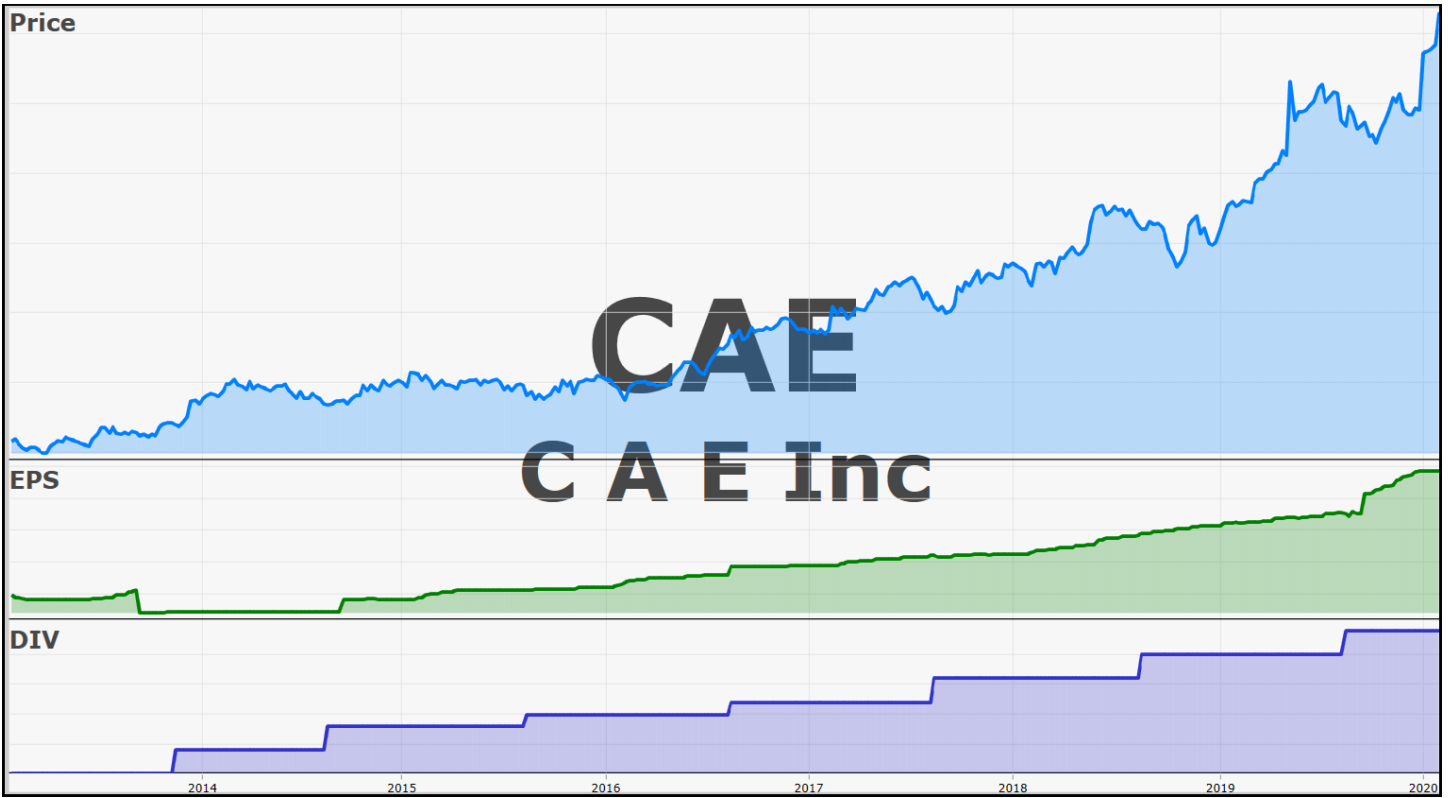
5 Steady Dividend Growth Stocks

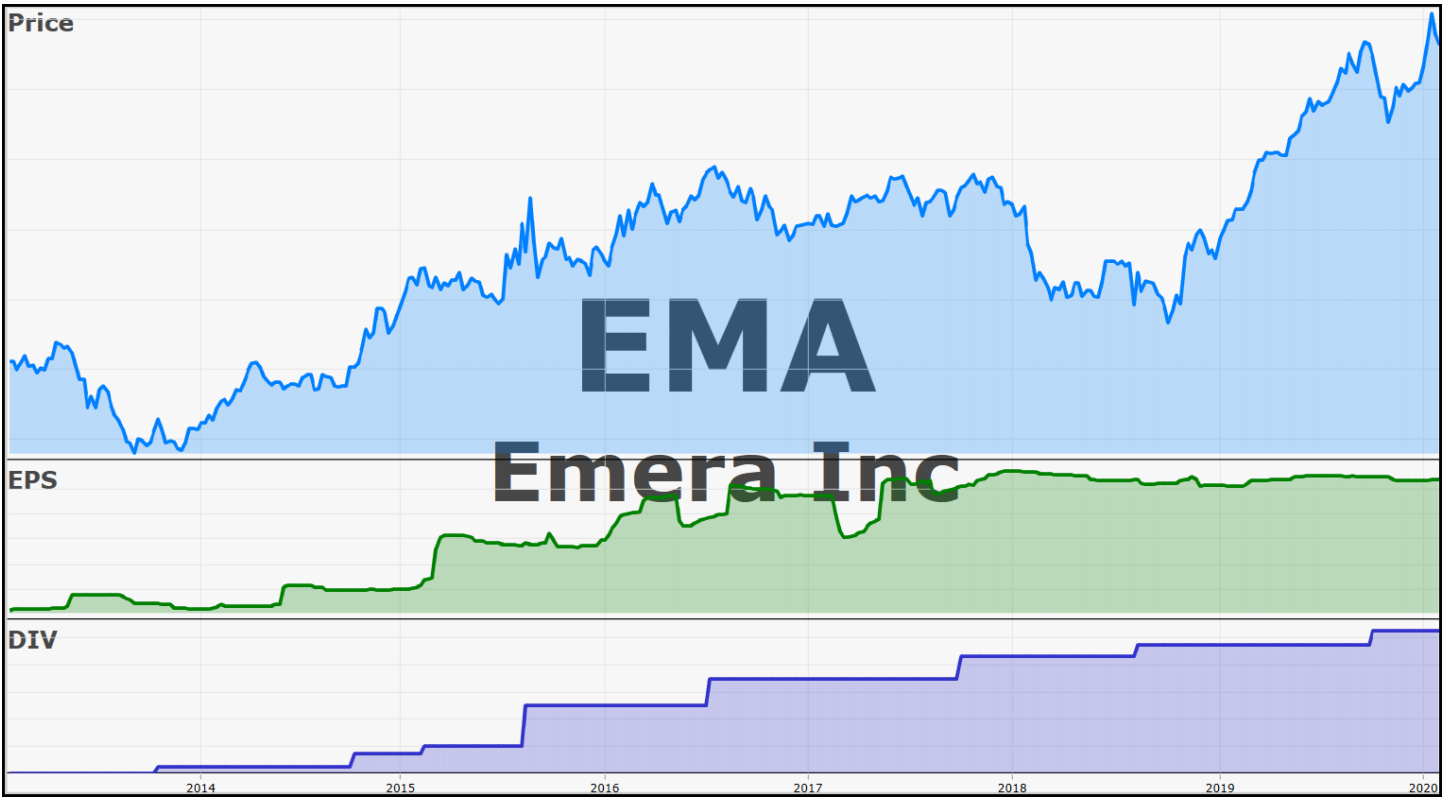
Below are 5 steady dividend payers. Stocks like these can be found by searching for the highest Relative Safety, RS stocks with excellent combinations of Dividend Safety and Dividend Growth. A portfolio of these five stocks had a total return of than 33.2% in 2019, not including dividends, and 376.2% since January, 2007, an annualized rate of return greater than 28.9%.

02/07/2020		TRADE NOW															
Company	Symbol ▲	Exch.	Price	Value	RV	RS	RT	VST	CI	REC	GRT	EPS	DIV	DY	DG	DS	YSG
Alimentn CchB	ATD.B	xT	45.60	42.58	0.98	1.38	1.27	1.23	1.25	B	5	2.29	0.25	0.55	15	97	1.20
BrookfldAstMngt	BAM.A	xT	84.67	31.90	0.63	1.40	1.29	1.18	1.59	B	3	3.21	0.85	1.00	14	92	1.16
C A E Inc	CAE	xT	41.48	32.53	1.11	1.20	1.36	1.24	1.40	B	15	1.57	0.44	1.06	13	79	1.05
Can Pac Rlwy	CP	xT	355.23	402.09	1.18	1.28	1.31	1.26	1.40	B	10	18.36	3.32	0.93	15	88	1.13
Emera Inc	EMA	xT	58.36	27.05	0.64	1.19	1.19	1.06	1.44	H	-5	2.87	2.45	4.20	13	53	1.18











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