

Dividend The Cautious Solution to Creating Substantial Wealth



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"The only thing that gives me pleasure is to see my dividends coming in."

—John D. Rockefeller

I wouldn't go quite that far, but if I had to sum up my investment philosophy in just one word, that word would be dividends. I believe investing in dividend paying stocks is the surest way to gain complete financial freedom.

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 that is far beyond the reach of fixed income securities is what can propel even a small investment into substantial wealth over time.

A few years ago, I came across a rather amazing story, a story of 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 securities is that the return is so low that inflation eats away at our returns over time. Investments such as bonds and T-bills will never be able to compare with the exceptional growth and income offered by dividend paying stocks. As of today, the average dividend yield of the S&P/TSX MegaCaps is 3.34% and this yield is increasing at an average pace of 10% a year. The stocks themselves have appreciated more than 60% since November 2008. 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.

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



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, companies can and do boost their dividends. Dividend paying stocks 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 Earning Per Share and Dividends as shown. On 16 Mar, 2009, CGX had a Value, Safety, Timing (VST) rating of 1.16 and a Yield, Safety, Growth (YSG) rating of 1.26. Both of these ratings are favourable on the VectorVest scale of 0.00-2.00. Since then, CGX has risen 172.99% while increasing their earnings and their dividend payouts.

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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.

"Over the long-term, dividends account for over 40% of the profits made in the stock market. Shrewd investors know that reinvesting dividends is the surest way to accumulate wealth in the long-run. 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 and Common Sense by Dr. Bart DiLiddo*

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 x (DIV/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 paid the next dividend. 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 for Telus (Figure 2, page 8). Notice if the company has a history of increasing, decreasing or maintaining its dividend.

Develop a Sell Strategy and <u>Stick to It</u>: 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<1.0. A falling VST signals weakening fundamentals and weakening buyer support. Generally but not always, VST<1.0 is a faster signal than the SELL REC.
- 3. ONE-HALF RULE. Never give back more than one-half of any sensible gain.

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 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 be rich to start.

Let's assume your portfolio has a very reasonable average annual return of 15%, if you were to invest as little as \$100 a month, in 20 years your investment would be worth more than \$149,000. Now let's look at a fixed income security. Currently one of the *highest* paying strip bonds is only yielding 4.544%² annually, a similar investment of a \$100 a month would equate to just \$39,000 over the same time period. Which investment would you rather trust your financial future to?

<u>You</u> Can Succeed: With a few hours of work using VectorVest, you can create and manage a portfolio that requires little maintenance, has no ongoing fees, generates capital gains over the long-term and pays a good income that grows every year.

It may take years to grow your dividend yield but it takes negligible effort and is well worth the time, take a look at Telus for example. Five years ago, DY on Telus was about 3.2% when the stock was trading at a split adjusted \$23.32³ and offered an annual dividend of \$0.91–a yield that is slightly less than today. However, if you bought shares of Telus in 2008 and held them until today, your dividend payday would have gone from \$0.91 to \$1.36, a 49% increase! In addition to your growing income, you would have also enjoyed Telus' 42% price appreciation.



Figure 2. The weekly chart above shows that the price of Telus appreciated 42.11% from 7 Jan 2008 to 9 Sept 2013. Forecasted earnings per share increased 20% and the annual dividend paid increased by more than 49%.

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² <u>http://www.rbcdirectinvesting.com/fixed-income-rates.html</u>. Issuer New Brunswick, Maturity 3-Dec-32, Issuer Type Prov, DBRS Rating AH, Offer Price 42.560.

³ Telus split 2:1 17 April 2013. As of 12 September 2013, VectorVest's Dividend Yield for Telus was 3.85%

The Path that Leads to Long-Term Success Starts Here

VectorVest's Stock Viewer and special WatchLists provide a quick and easy way for you to discover the best dividend payers on the TSX. While Stock Viewer provides a fast way for you to analyze *any* Canadian stock in the VectorVest System, two special interest WatchLists focus exclusively on dividend paying companies.

Stocks Viewer: Here you have a goldmine of information for more than 3,500 Canadian stocks. All these stocks are automatically ranked by VectorVest's proprietary Value, Safety, Timing indicator to conveniently separate the very best stocks from the very worst. Simply peruse the top of the list to cherry-pick your favourites. You can also click on any column heading to change the ranking—for example, you may want to rank the stocks by Dividend Yield or the Yield, Safety, Growth (YSG) indicator.

In addition to stock ranking, the Stock Viewer displays *all* the VectorVest indicators making it easy to analyze any stock at a glance. Indicators for Value (RV), Safety (RS), Timing (RT) and the master VST indicator are all on a scale of 0.00 to 2.00 where above 1.00 is favourable and below 1.00 is unfavourable. This consistent scaling makes it easy for you to spot the true leaders in any group of stocks no matter how dissimilar they may be.

Monthly Dividend Payers WatchList: Most often companies send quarterly cheques to their stock owners, but a growing selection will send you a cheque every month. This popular WatchList tracks more than 300 of these 'cash-machine' stocks and ranks them for you for Value, Safety and Timing.

W-O-W Dividends WatchList: Get access to the hottest stock tips around. VectorVest's W-O-W Dividends WatchList tracks all the dividend stocks that have the investment world buzzing. Some of these stocks you'll recognize from the news, but others are little known gems that have the potential to become news—BIG news! This list which is an acronym for WatchList of WatchLists is updated monthly with the latest stock recommendations - the very same recommendations found in top investment newsletters and magazines.

Using this list along with VectorVest's powerful ranking options can produce consistently outstanding results. For instance, on 30 December 2011 I ranked the WOW Dividends WatchList by one of my favorite VectorVest combinations, VST+YSG. Putting together the master indicator for finding quality stocks with the master indicator for finding quality dividends turned out to be a match made in heaven. Just one year later on 31 Dec 2012, 9 out of the top 10 stocks were profitable with an average price appreciation of almost 15%, that's more than 300% better than the TSX and doesn't even include the dividends these



stocks were paying. I tested this exact same method the next year, using the WOW Dividends Watchlist to find the top 10 stocks sorted by VST+YSG and the results were *even better*. As of 11 September 2013, 7 out of 10 of these stocks are profitable with an average gain of 22%—that 7X's better than the TSX in only 9 months!

🗙 QuickTest - Watch List									003
12/30/2011 - 12/31/2012		Stream 🧿 Run Test Reset Sort 🎒		12/31/2012 - 9/11/2013 CLOSE			Run Test Reset Sort 🖨		
Record Count - 10 (9 Winners, 1 Losers, 0 Even)					Record Count - 10 (7 Winners, 3 Losers, 0 Even)				
Symbol v	Begin Price	End Price	% Price Cha	Total ARR	Symbol	Begin Price	End Price	% Price C 🔻	Total ARR
BDI	18.46	20.05	8.61%	8.57%	MG	49.68	83.99	69.06%	99.24%
AM	1.85	2.03	9.73%	9.68%	CCL.B	42.99	70.56	64.13%	92.16%
PKI	12.69	18.93	49.17%	48.90%	CSU	119.99	176.00	46.68%	67.08%
CMG	15.35	21.32	38.89%	38.68%	PS1	17.15	22.50	31.20%	44.83%
BCE	42.47	42.63	0.38%	0.37%	SLF	26.37	33.53	27.15%	39.02%
т	28.82	32.55	12.94%	12.87%	T	32.55	33.47	2.83%	4.06%
FN	17.45	18.80	7.74%	7.69%	DII.B	35.95	36.59	1.78%	2.56%
RCI.B	39.25	45.16	15.06%	14.98%	GRT.U	37.76	36.05	-4.53%	-6.51%
HSE	24.55	29.40	19.76%	19.65%	х	50.72	47.14	-7.06%	-10.14%
cos	23.25	20.17	-13.25%	-13.18%	XLM	40.74	37.43	-8.12%	-11.68%
Average:	\$22.414	\$25.104	14.90%	14.82%	Average:	\$45.39	\$57.726	22.31%	32.06%
Compare To: PTS	E				Compare To: PTSE				
Symbol	Begin Price	End Price	% Price Cha	Total ARR	Symbol	Begin Price	End Price	% Price Cha	Total ARR
PTSE	11955.09	12433.53	4.00%	3.98%	PTSE	12433.53	12838.67	3.26%	4.68%

Figures 3 and 4. The QuickTests above show the price change of the top 10 stocks selected from the WOW Dividends WatchList when ranked by VST+YSG. A comparison of the average price change vs the performance of the TSX (PTSE) is displayed at the bottom of the window. Results do not include dividend payouts which would increase returns even further.

Transform Your Portfolio into a 'Cash Machine' with Canada's Best Monthly Dividend Payers

The allure of owning stocks has been drawing investors to the market for decades. Nothing feels better than the rewarding feeling of watching your capital grow year-after-year as the company you carefully selected becomes increasingly successful...unless, that company also shares some of their success (and profits) with you in the form of dividends.

It doesn't hurt that the companies that pay dividends also happen to be some of the safest, most stable companies you'll find on the TSX. Most often, these companies send quarterly cheques to their stock owners, but a growing selection will send you a cheque every month.

More than 300 of these 'cash-machine' stocks are tracked and ranked for Value, Safety and Timing in a special VectorVest WatchList called Monthly Dividend Payers (MDP). You can cherry-pick your stock selections from this list as discussed earlier or you can use VectorVest's UniSearch tool to do the work for you.

Take for example, VectorVest's Smooth & Steady MDP search. With a click of a button, it has effortlessly found winner after winner on the MDP WatchList. The secret to its success is VectorVest's proprietary indicators that measure short-term momentum and long-term price growth (Relative Timing and the Comfort Index). This powerful combination has delivered exceptional capital gains of more than 38% a year in addition to the steady monthly income it produces.

If you want juicy current income <u>and</u> long-term capital growth, you need to check out VectorVest's Monthly Dividend Payers Search.

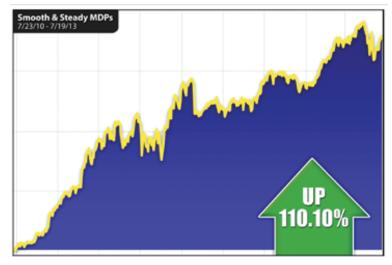


Figure 5. VectorVest tells you when to buy, what to buy and when to sell. This portfolio simply used the top-ranked stocks from VectorVest's Smooth & Steady MDP scan. Stocks were select on 'Up' signals from VectorVest's RT Kicker Timing System and managed with a 20% trailing stop to lockin profits and limit risk.

Can You Answer these Questions for the Stocks in Your Portfolio?

Wisdom from Dr. DiLiddo's Little Green Book of 'Stocks, Strategies and Common Sense

Every new subscriber gets a free copy of the classic investment book, "Stocks, Strategies and Common Sense" by VectorVest Founder, Dr. Bart DiLiddo. I read it often and learn something new and valuable every time. On page 96, Dr. DiLiddo asks, "Can you answer the following questions for the stocks in your portfolio?" The answers to these questions will help you find the right stocks to buy and decide if you should continue to hold them. Let's go through all 14 questions using CI Financial (CIX) as our example. The date is August 29, 2013.

Q1. Is the company making money?

Yes. EPS is \$1.70 and rising.

- Q2. What is the stock really worth? Value is \$30.31.
- Q3. Is the stock over or undervalued? Since price is \$32.09, CIX is fully valued.
- Q4. How safe is the stock?

Relative Safety (RS) is 1.42 on a scale of 0-2. That is excellent and indicates consistent and favourable financial performance over several years.

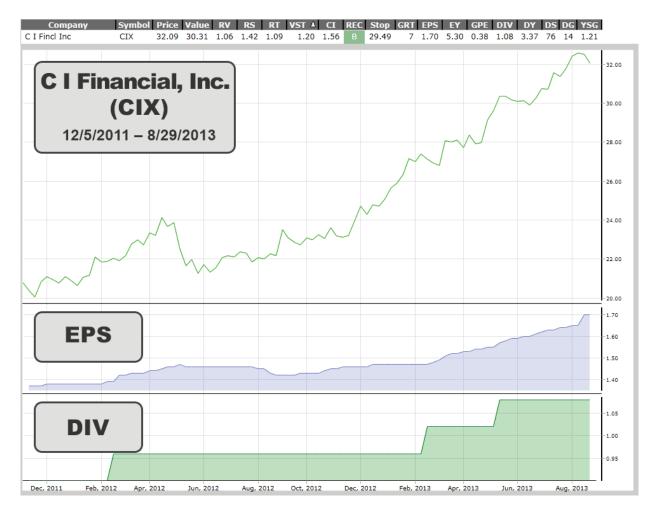
Q5. Is the price rising or falling?

Price is rising in a smooth pattern from bottom left to top right.

- Q6. What is its forecasted earnings per share? \$1.70 per share, higher than the industry average.
- **Q7. What is the estimated earnings growth rate?** 7% per year, higher than the industry average.
- Q8. What is its growth to P/E ratio? GPE is .38, another indication that CIX is considered fully valued.
- Q9. What are its dividends per share?

Annual dividend is \$1.08 per share, up from .96 cents in 2012. It currently pays .09 cent monthly. DY is 3.37%.





Q10. How safe are the dividends?

Dividend Safety (DS) is 76, excellent on a scale of 0-99.

Q11. How fast are the dividends growing?

CIX increased its dividend by 12% in 2013. VectorVest's forecasted dividend growth (DG) is 14% based on historical dividend payments and dividend predictability.

Q12. Does this stock meet my risk/reward objectives?

It's a personal decision, but with a Relative Value (RV) of 1.06 and a Relative Safety (RS) of 1.42, CIX is considered suitable for a PRUDENT investor.

Q13. Should I buy it now?

CIX is a NEW BUY after pulling back and falling to a HOLD for 2 days. VectorVest's Market Guidance advocates CAUTION.

Q14. When should I sell it?

The current STOP price is \$29.49, and it will be adjusted daily. It is VectorVest's final "call to action" to avoid a major collapse.



VectorVest is comprised of reports embodying a unique system of stock analysis. All the contents and recommendations are based on data and sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Users should be aware of the risks involved in stock investments. It should not be assumed that future results will be profitable or will equal past performance, real, indicated or implied. VectorVest and/or its principals may purchase or sell any of the securities cited herein. VectorVest and the logo style, geometric design are, individually and collectively, service marks owned by VectorVest, Inc.

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