## Individual* Dividend Growth Portfolios Outperform[1]

• To most investors, dividends seem trifling. They're not. A cent or two a year, increasing over time, add up to vast sums…serious wealth. It's hard to believe, but most of the long-run return from stocks comes from dividends…increasing dividends. Dimson, Marsh and Staunton in the Credit Suisse yearbook put it this way: "the vast majority of long-term real returns are derived from equity income". To obtain these superior returns, however, you must buy and **hold** individual* dividend-growing common stocks. Increasing dividends and book values drive capital gains.

Example #1 - In 1996, CNR's dividend was 6¢. CNR's dividend is $1.50 now. What are the ramifications of this dividend growth? Capital growth!

**As the dividend goes up and as intrinsic value grows, the price rises.**

"Conservative Investors Sleep Well" Philip A fisher

• Most important of all, though, is that your nest-egg keeps building even after retirement. Aggregate dividends keep growing. This mitigates the greatest risk retirees have…running out of funds because of longevity.

Example #2 - Metro's dividend in 2000 was 5¢. MRU's dividend now is 56¢. Because Metro's yield is much the same now as it was in 2000, MRU's price must have risen too. Metro's annual dividend per share from 2000 to 2016 is seen down the margin. Average dividend growth (CAGR) for this period was 16%: price growth (CAGR) from 2000 to 2016 was 17%.

| MRU div. from 2000 |
|---|
| 5¢ |
| .06 |
| .07 |
| .09 |
| .11 |
| .13 |
| .14 |
| .15 |
| .16 |
| .18 |
| .23 |
| .26 |
| .29 |
| .33 |
| .40 |
| .47 |
| .56 |

• Would you believe that longer you hold good dividend growth stocks, the less market risk there is? Why? Internal firm growth. The earnings not paid out as dividends can build the company's intrinsic value.

Example #3 – A share of Royal bank paid a 5¢ dividend in 1970. Since then the dividend grew 5,455% to $3.00. RY's price grew 5,471%

**Divdend growth investing: growing retirement income and growing capital.**

* If you think you can build income with mutual funds or ETFs, think again. The huge RBC balanced monthly income mutual fund dispersed 54¢ in 2004. In 2013, it was a 54¢ dispersement again! Funds are not noted for providing growing income. Funds hold too many duds. You must buy quality individual dividend growth stocks to build wealth. High dividend stocks don't do it. Purchase only those companies that have been growing dividends for at least five years, have a reasonable yield (yield is a valuation measure) and sustainable dividend growth. The three common stocks mentioned on this page are fine examples as well as the three telecoms and utilities such as CU, FTS, EMA. Then hold. Why DG wins: concentrated portfolio, the right stocks, held for years.

**1** Dr David Stanley, Cdn Money Saver, October 2014,: over a decade 12.3% individual vs 7.5% a year for the fund.