

## **DIVIDEND GROWTH INVESTING** (ideas from Tom Connolly at dividendgrowth.ca)

- I only buy common stock that has paid dividends for years. If the stock does not pay a dividend, you are speculating, betting that someone else will buy the paper from you at a higher price than you paid. If there's no dividend, there's no intrinsic value.
- **Dividend growth** is my starting point for stock selection. Dividend growth creates wealth.
- I hold stocks for the growing income. (eg: Telus' dividend in 2002 was 60¢, now \$1.62)  
We are in the market to buy a future stream of growing profits...a stream of increasing retirement income. We are investing through the stock market, not in it. We measure our returns by the income produced (increasing yield). Our aggregate income rises every year.
- When they are reasonably priced, I buy dividend-paying common stocks with a good record of dividend growth and hold them for years. Often it's not so much which stock that's so important, but rather the price you pay for it...the valuation. Jeremy Grantham says: **"You don't get rewarded for taking risk. You get rewarded for buying cheap."**  
Seek companies with recurring cash flows. Examples: Electrical Utilities, Telecom . . .
- Valuation measures: 1. Yield and yield difference 2. Graham value 3. Cyclically adjusted p/e
- Discipline – You must resist the lure of 'story' stocks. Success is in behaviour control.
- Wait for the 'fair' price. Wait for the dividend to grow. There's a lot of waiting. Patience!

**Dividend growth drives price growth.** Over the long term, the increase in a common stock's price should be much the same as the increase in the dividend. "Since the market value in most cases has depended primarily upon the dividend rate, the latter could be held responsible for nearly all of the gains ultimately realized by investors." Ben Graham, *Security Analysis*  
In the last 15 years, CNR's dividend growth CAGR was 18.3% annually, CNR's price growth CAGR was 18.5% a year. Your total return will be composed of your initial dividend yield and dividend growth plus, or minus, any change in valuation as measured by p/e or yield. Since 1926, the base dividend yield of the market was 4.2%. According to Shiller's data, dividend growth was 4.4%. The total: 8.6%. The market total return over this period was 9.7%. So, one could say that 89% of the return was dividend related. *Strategic Dividend Investor*, p.16

- Is it a good time to invest? Shiller's cyclically adjusted p/e is 26. When P/Es are high, over 20, subsequent returns are very low: **1%**. It's okay to do nothing, to wait for better value. Investor success is not in picking winning firms, but rather the point at which they are picked.
- "The key measures determining future returns are the current dividend yield and prospective dividend growth. The dividend yield is now far below its historic average and dividend growth has struggled to keep pace with GDP." *Economist*, March 17 2012
- Dividend growth investing embraces all seven essential characteristics of an investment. **FLIGHTS**: Fees are very low; Liquidity is there, if needed; Income (dividend) is actually generated; Growth of both income and capital from common stock; Health...few worries; Taxes on Canadian dividends are so much lower; Security from leading companies.
- Books: *The Investment Zoo*, Stephen Jarislowsky "The crux of your success will be to select leading companies and hold onto them for many years." (now out of print) On dividend investing: *The Strategic Dividend Investor*, by Daniel Peris "'stocks go up because dividends go up"; and *The Ultimate Dividend Playbook*, Josh Peters. "Establish, nurture and harvest a stream of income."
- The Little Book of Behavioural Investing, James Montier, C-5 How to invest if you don't forecast.
- People I read: Buttonwood in *The Economist*, J. Grantham, John Hussman, Prem Watsa, Ed Easterling (Probable Outcomes), Seth Klarman, J. Montier, A. Smithers, Albert Edwards.
- ◆ The amount invested in TD stock in 1983 is now being paid out as a dividend each year.