Individual Dividend Growth Portfolios Outperform

• 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. Dividend growth investing is a permanent strategy, not a speculation. Increasing dividends drive the capital gains.

<u>Example #1</u> - In 1996, CNR's dividend was 6¢. CNR's dividend is $1.25 now. What are the ramifications of this dividend growth? Capital growth! **As the dividend goes up, the price rises…eventually.**

• Perhaps most important of all, though, is that wealth keeps building even after retirement. Aggregate dividends keep growing. This mitigates the greatest risk retirees have…running out of funds because of longevity.

<u>Example #2</u> - Metro's dividend in 2000 was 5¢. MRU's dividend now is 47¢. 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 2015 is seen down the margin. Realize that in moving from 5¢ to 6¢ income rises 20%. Average <u>dividend</u> growth (CAGR) for this period was 16%: <u>price</u> growth (CAGR) from 2000 to 2015 was 17%.

• Once you realize the essence of dividend growth, and it could take quite a while, you will not want or need bonds. Fewer bonds boost returns too. The longer you hold good dividend growth stocks, the less market risk there is. Why? With dividend growth, your purchase price and the current price distance themselves. This price spread provides the margin of safety so strongly emphasized by Ben Graham .

<u>Example #3</u> – 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%

Dividend growth investing is all about growing retirement income.

* 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 income. "You must buy individual dividend growth stocks to build wealth and buy only those companies that have been growing dividends for years". That's my advice after studying what the masters did (Graham, Bernhard, Burr Williams, Heilbrunn, Klarman, and Buffett).

MRU div. from 2000
5¢
.06
.07
.09
.11
.13
.14
.15
.16
.18
.23
.26
.29
.33
.40
.47
2015