YIELD ON COST JUNE 10

Begin at the bottom of the dividend column (div) in 1990 and read up. Bank of Nova Scotia's dividend grew from .25 to $1.96 by 2009 – a rate of 10.8% compound annual growth (CAGR): 684% over all. Then read up the price column (the average of the high and low price each year – adjusted for 2:1 splits in 1998 and 2004). The price grew from $3.64 a share in 1990, to $36.59 a share in 2009 at a CAGR of 12.2%, or 905%, over all. As the dividend grew, the price rose too and consistently. The price is even higher now: $50.

BNS	div	price	YOC	yld	p/e
2009	1.96	36.59	53.8	5.36	11.0
8	1.92	44.37	52.7	4.33	14.5
7	1.74	50.71	47.8	3.43	12.6
6	1.50	45.67	41.2	3.28	12.7
5	1.32	40.31	36.3	3.27	12.6
s4	1.10	35.53	30.2	3.10	12.4
3	0.98	27.98	26.9	3.50	11.8
2	0.96	24.55	26.4	3.91	14.6
1	0.87	21.95	23.9	3.96	10.7
2000	0.76	17.92	20.6	4.18	9.8
9	0.66	16.35	18.1	4.03	11.2
s8	0.55	16.87	15.1	3.26	12.9
7	0.36	13.66	9.7	2.60	9.3
6	0.33	8.85	8.9	3.67	8.7
5	0.31	6.81	8.5	4.55	8.1
4	0.29	7.05	8.0	4.11	16.0
3	0.28	6.42	7.7	4.36	8.6
2	0.26	5.47	7.1	4.75	7.4
1	0.25	3.81	6.9	6.56	5.4
1990	0.25	3.64	6.9	6.87	6.3
				4.15	10.8

The YOC (yield on cost) column shows how the yield on invested capital grew with dividend increases from the initial yield of 6.9% to 53.8%. The 53.8% YOC in 2009 means the investor received more than half the original investment back in that one year alone ($196 from 100 shares in 2009 versus the $364 purchase price) I added columns to the table for the then current yield and p/e to show valuation changes over the years. Notice how the Bank of Nova Scotia was relatively cheap in 1990: a high yield and a low price earnings ratio. It was a good time to buy. There was no dividend increase in 1991 (or in 2009, actually), and just a penny in 1992. After that, things improved. However, from the data in the top two rows, you can see that we are in another 'consolidation period'.

PATIENCE: Observe the price and YOC data. How many years does it take before serious cash being generated? It took seven or eight years for the price to triple and yield to become double digit. Is that long? It's worth the wait...right. We must, however, lower our expectations for growth going forward: we could have seven more lean years. Not that it matters that much, but this investor is beating the market on yield alone after seven years.

- Notice how the dividend growth and price growth leveled off in 2008 and 2009. It could grow more slowly or be flat, for some time to come. Regardless, this investor is receiving $196 a year a year on an investment of $364 twenty years ago. And capital grew too. Dividend growth investors get both increases in income and principal growth.
- One could have sold five years ago for about the same price as now. What's your objective? We hold for the income being generated, but sell a few shares now and then for large-ticket items: a wedding, a new car, and helping 'the kids' with their mortgage. You have to hold the dividend growth stocks to get the spectacular compounding of wealth.
- Be sure to show this example to your children/grandchildren. If you know a teacher, give her or him a copy of this page (permission granted). I'll do another company on-line soon. For this table I used my own dividend data collected over 29 years. The prices and earnings for the P/E came from 'FP Data' though Scotia Discount Brokerage.
- Stephen Jarislowsky, on the third last page of *The Investment Zoo, said,* "few people know what is good for them and so most tend to choose bonds (since stocks in a fearful mind are deemed risky)". This belief, as you can see from the example here, is wrong. Stocks that pay rising dividends, when purchased at a reasonable valuation, outperform. The message: buy and hold superior dividend growth stocks. Connolly Report June 2010 Vol XXX No. 3 p. 699