

DIVIDEND GROWTH INVESTOR

I WILL SHARE MY JOURNEY WITH YOU ON MY QUEST FOR ACHIEVING INCREASING DIVIDEND INCOME STREAM FROM STOCKS WITH ABOVE AVERAGE DIVIDEND GROWTH WHICH HAVE THE TENDENCY TO CONSISTENTLY INCREASE THEIR PAYMENTS OVER TIME.

FRIDAY, MAY 22, 2009

Dividend Investing vs Trading

Some investors lack the patience to buy a stock, hold it for one year and then receive a 3%- 5% dividend by the end of the year. They believe that in the stock market one could easily make 3%-5% every day by trading volatile stocks such as [US Bancorp \(USB\)](#), [Citigroup \(C\)](#), [Bank of America \(BAC\)](#) instead.

Such comments assume that investors have a strategy where they could consistently buy low and sell high for a large profit. Based off numerous studies of individual investors, mutual funds and active managers in general, it seems that over 85% of active traders not only under perform the S&P 500, but also lose a significant amount of money in the process. Substituting investing in the stock market for gambling at Las Vegas is often a get poor quick strategy. This could lead to complete denial of stock market investing as a whole, and failing to reach one's financial goals.

If you bought a [diversified portfolio](#) of at least 30 income-producing stocks from different sectors, chances are your returns would be somewhat closer to the market. Chances are that you won't have picked all 30 of the next WorldCom, Enron or AIG. Thus in order for you to lose all of your principal and dividend income with a buy and hold strategy would be pretty impossible to do. If you however try to buy and sell stocks every day in order to capture huge potential profits, the probability of you compounding your losses faster and faster until you run out of money is very large.

If you thought forecasting day-to-day fluctuations in the stock market are hard to predict, then try predicting the annual changes in the stock market averages. We are all being told that on average the stock market goes up by 10% every year. It is true that over the past century the S&P 500 and the Dow Industrials have achieved a total return of somewhat [close to 10%](#) on average per year over large periods of time.

Annual total returns are the sum of annual price appreciation and the yearly dividend yield. When stock markets are booming, investors tend to forget that stocks represent right to ownership of real companies, and instead treat them like lottery tickets. During bull markets all investors care about is finding a greater fool to bid their stocks higher, while completely ignoring fundamentals. During [bear markets](#) however investors get timely reassurance from their stocks in the form of dividends, which lower investment losses. While capital gains could quickly evaporate and turn into losses, dividends are real cash that is deposited to your brokerage account. Investors could then decide how they plan to allocate it best for their individual needs.

While it is difficult to predict stock prices due to their volatility, until recently dividends have been much less volatile, and thus easier to rely on in both good and bad times. This makes dividends particularly beneficial for individuals who are planning to [retire](#) and live off their dividends. [Reinvested dividends](#) magnify total returns and deliver even faster compounding of dividend income. Reinvested dividends are believed to have accounted for 97% of S&P 500 total returns since 1871.

Another important characteristic of dividends is that they could grow over time. Dividend Growth has exceeded inflation by 2% annually over the past 85 years. While the quarterly dividend per share in the S&P 500 was \$1.05 in early 1977, it has risen to over \$7 by 2008.

Despite the bad press that dividends have received lately, there are many companies, which stay loyal to their shareholders by raising their dividends. Examples of companies, which have increased their dividends for more than 25 consecutive years and have kept growing payments even during the current credit crisis include:

Coca Cola (KO), which manufactures, distributes, and markets nonalcoholic beverage concentrates and syrups worldwide has rewarded its shareholders with regular dividend increases for 47 consecutive years. Dividends have increased by an average of 9.00% annually since 1999. The stock currently yields 3.60%. Check [Brad's analysis of Coca Cola \(KO\)](#).

Wal-Mart Stores (WMT), which operates the largest chain of retail stores in various formats worldwide, has boosted dividends for 35 consecutive years. Dividend payments have increased by an average of 16.50% annually over the past ten years. The company currently yields 2.30%. Check my [analysis of Wal-Mart Stores \(WMT\)](#).

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