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Evidence Dividend Growth Investing Works

First you have to know about dividend growth investing and understand how dividend growth builds wealth. Second you have to believe it works. I hope this page helps. Third you have to resist the temptation of 'story' stocks, to control your behaviour and finally you need the patience to execute the strategy (to wait for the value buy price, and then wait for the dividends to grow). Nothing spectacular will happen in the short term. Good luck.

64% HIGHER: If you still need to be convinced that dividend stocks are the way to go, relish this datum: "during a five year holding period any time between January 1977 and December 2005, median returns from dividend-paying stocks were 64 per cent higher than non-dividend stocks" ROB May 24 2008

- 7.0% vs 4.5%: Over the 20 years ending January 2009, the TSX index grew 4.5% a year. If you include dividends, the total return of the TSX was 7.0%. Over 20 years, that's a huge difference. Dividends do matter. By the way, over this period, of the thousands of mutual funds, only 13 beat funds the index. The winner has a MER of 4.09% and its return was not double digit. So much for professional management, eh! (G&M Feb 21 2009 S.Won)
- According to Ned Davis Research, based on the S&P 500 from January 1972 to April 2009, the annual gain for stocks of dividend growers and dividend initiators was 8.7%. That's per year. Stocks which did not pay dividends returned less than 1%. That's a substantial difference. Stocks that reduced their dividends at some point, earned half a percent per year. Yep! That's 0.5%
- "Someone who invested \$100 in the TSE back in 1975 would today have a portfolio worth roughly \$1,200. But throw in the dividends accumulated over that period, and the portfolio would be approaching \$3,500." TC: That's about three times as much. R.O.B. November 27 2009 CIBC World Markets, Avery Shenfeld and Peter Buchanan
- "Since the end of 1979, investing in dividend-paying stocks in the S & P 500 would have earned you 11.6 percent a year, on average, on a total return basis [dividends and gains]..." New York Times, Paul Lim, May 2 2009
- "**Income, my true love**, has come through in grand style. Since 1982, without adding a penny to my stock portfolio, I have watch dividend payments climb 79%... this more than compensates for a 35% rise in the consumer price index. The unexpected bonus - don't worry, I'll take it - is the capital appreciation. In the eight and two-thirds years through August 31 [1990] the market value of my holdings leaped 206%, while Standard and Poors 500-stock index was up only 163%." Edmund Faltermayer, October 28, 1990, Fortune magazine: 'Lessons from a lazy amateur the no-sweat way to win with stocks: hold shares in good companies that pay rising dividends'

http://money.cnn.com/magazines/fortune/fortune_archive/1990/10/29/74265/index.htm [http://money.cnn.com/magazines/fortune/fortune_archive/1990/10/29/74265/index.htm]

9.5% more: "dividend-paying stocks on the S&P/TSX [Toronto] composite index have returned about 13.7 per cent a year over the past 20 years, while non-dividend-paying stocks produced an annual return of only 4.2 percent" Yin Luo, CIBC

19.6% a year: Canadian dividend stocks which increased their dividends once a year, returned 19.6% a year (that's annually) in the decade ending December 2006. At this rate, money doubles every five years. Is your money in mutual funds doubling that often?

12.2%: In 2007, our own Canadian dividend income increased 12.2%. When was the last time you had a 12% raise? Increasing income in retirement is terrific. Bonds and GICs are fixed income investments. I don't buy bonds or GICs. Anyway, bonds are in a bear market now...interest rates (ten year treasuries) bottomed in 2003.

DIVIDENDS PROVIDED 90% OF THE RETURN: Total Return is the sum of two elements: price change and income. In the three range bound markets last century, dividends provided 90% of the return. The average price change was 0.7%, the dividends yielded 5.3% so the total return was 5.9%. I obtained this data from Chapter 3 of Vitality Katsenelson's *Active Value Investing - Making money in Range-Bound Markets*. We could be in a range-bount market right now. More detail about this S&P 500 data was in my June 2008 report.

8.6% MORE! From 1972 though to 2006 dividend-growing stocks returned 11% a year. Non-dividend payers returned 2.4% annually. Ned Davis Research © TCR personal use only.

The engineer from Victoria who got me started in dividend growth investing retired in 1967. The income from his \$92,000 portfolio of Canadian dividend stocks in his first year of retirement was \$4,815*. By 1984, when he wrote a letter-to-the-editor of the Financial Times outlining his retirement investment strategy, his income had grown to \$31,398. His capital grew too: from \$92,000 in 1968 to \$533,000 by 1983. Part of this gain was the addition of \$122,000 in new money. The 1970s did not provide stellar returns to mutual fund holders nor index investors (TSE 300 index reached 1,200 in 1968: it did not break out above 1,200 for good until 1978. GULP!) Canadian dividend growth stocks, though, did well through this range-bound market. (More detail in my August 2008 report and TCR of August 2004 and the Connolly Report of February 1987) Subscribers get the links. *about my salary at the time

"the dividend income of the FTSE All-Share (the broad-based British index) has almost doubled in the five years [since 2003] *The Economist* July 17 2008

"Since the end of the 1990s, dividends have accounted for all the markets [S&P 500] gains..." New York Times, August 24 2008

\$163,000 more: "Since 1979, dividend-paying stocks have outperformed nondividend payers by 2.16 percentage points a year, based on total return. Had you invested \$10,000 in 1979 in the dividend payers, and reinvested the income along the way, you would have wound up with \$406,825 by August 15 this year [2008]. That same \$10,000 in nondividend paying stocks would have grown to just \$243,385 - a difference of \$163,000." N.Y. Times August 24 2008

- Jeremy Siegel, the 63-year old noted Wharton professor and author of the acclaimed *Stocks for the Long Run*, "still fervently believes that equities, particularly those paying dividends, are the only place to be for serious long-term investors". Report on Business, January 30 2009.
- "The most important characteristic of dividend-paying stocks" Siegel said in the interview with Brian Milner, "is their resistance to bear markets."

VALUE INVESTING: "Passive investment or active growth management? Value beats them both" was the title of George Athenassakos' column in the Report on Business of September 22 2009. In it, Professor Athenassakos reports, on a study he, and some HBA and MBA students, carried out at the University of Western Ontario. They "found that actively managed value investing outperformed both index funds and active growth management." They used Canadian data from 1985 to 1998 and 1999 to 2007. They formed quartiles with the stocks and sorted by P/E and then price to book. "The average annual return of the truly undervalued portfolio", Professor Athenassakos says, "was 14.2 per cent in 1985-98 and 34.5 per cent in 1999-2007." And what kind of investing do we do? Value...YES! I decided, years ago, to use value dividend yield to select value stocks, rather than P/E or price to book. Our results are similar. Is it ever nice to find Canadian data and to confirm yet again that we are on the right track. My favourite

value investing book is: Greenwald, Bruce et al. *Value Investing: from Graham to Buffet and Beyond*.

This Athenassakos data, his full paper, is available at the Richard Ivy School of Business, the Ben Graham Centre site, but it costs. Better first to read his summary in the Report on Business and print yourself a copy while it is still available. ♣ TC: You noticed, of course, the difference in return during the two periods: 14.2% and 34.5%. Why the difference? Value stocks tend not to do as well during roaring bull markets. 1985 to 1998 what such a period. Value stocks tend to do much better when the market is not excited. Hence the 34.5% in the period after the tech crash in 2000. Going ahead, I do not expect a roaring bull market, although with the results from March 2009 to late September 2009 as I key this, it's is hard to tell. As a result, I expect value stocks to do well again in the slow growth (protracted slog) years ahead.

<http://www.bengrahaminvesting.ca/> [<http://www.bengrahaminvesting.ca/>]

<http://www.theglobeandmail.com/globe-investor/investment-ideas/features/experts-podium/another-reason-why-value-investing-beats-all-other-strategies/article1296696/> [<http://www.theglobeandmail.com/globe-investor/investment-ideas/features/experts-podium/another-reason-why-value-investing-beats-all-other-strategies/article1296696/>]

- U.K returns: Since 1900, UK stocks have returned 5.1% in real terms (after inflation). Without dividend reinvestment, they returned only 0.4 percent - less than bonds. Dimson et al CS 2008 yearbook, London Business School.
- "From 1956 to 1981, the IBM dividend grew 19 percent a year. That 19 percent is a handsome return all by itself, even if capital appreciation had been zero. The total accumulation of dividend over those 25 years equaled six times the original purchase price in 1956. The 1981 dividend was equal to 81 percent of the original purchase price." Peter L. Bernstein, FAJ March/April 1985

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