

# DIVIDEND GROWTH INVESTING



GENERAL  
INTRODUCTION,  
TAXES, STRATEGIES &  
DISCUSSIONS

# PART I – INTRODUCTION TO DIVIDENDS

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# PART I – INTRODUCTION TO DIVIDENDS

## Source Information

All images in this presentation have the source links embedded. These were all operational at time of creation.

I might have used the image to make a point (or because it was pretty), but that does not mean that I agree with what the image portrays or what the associated post contains.

However, most of these links have interesting articles or blogs associated with it, I highly recommend checking them out!

# AGENDA

## Part I

- Agenda
- Introduction to Dividends
- Introduction to Dividend Growth Investing

**15:00 – 15:45**

## Part II

- Risks and Strategies
- Accounts and Taxation
- Information Sources
- Discussions

**16:00 – 17:00**

# PART I – INTRODUCTION TO DIVIDENDS

## What are Dividends?

According to Investopia:

*“A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, paid to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.”*



# PART I – INTRODUCTION TO DIVIDENDS

## Why do Companies Pay Dividends?

- Create shareholder value
- Show that the company is profitable and stable
- Reduce stock price volatility



# PART I – INTRODUCTION TO DIVIDENDS



## Other Dividend Details

- Not all companies pay dividends!
- Most commonly paid quarterly or monthly, however some companies pay only once or twice per year
- Special dividends are those one-off payments as a result of cash available within the company (due to performance or sale of assets)
- Dividends are often paid as a fixed or targeted percentage of the profit (i.e. certain pay-out ratios)
- Some companies only pay out dividends when they have the financial means (i.e. not tied to profits)
- Dividend can sometimes be reinvested into the company via a Dividend Reinvestment Plan (DRIP)

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

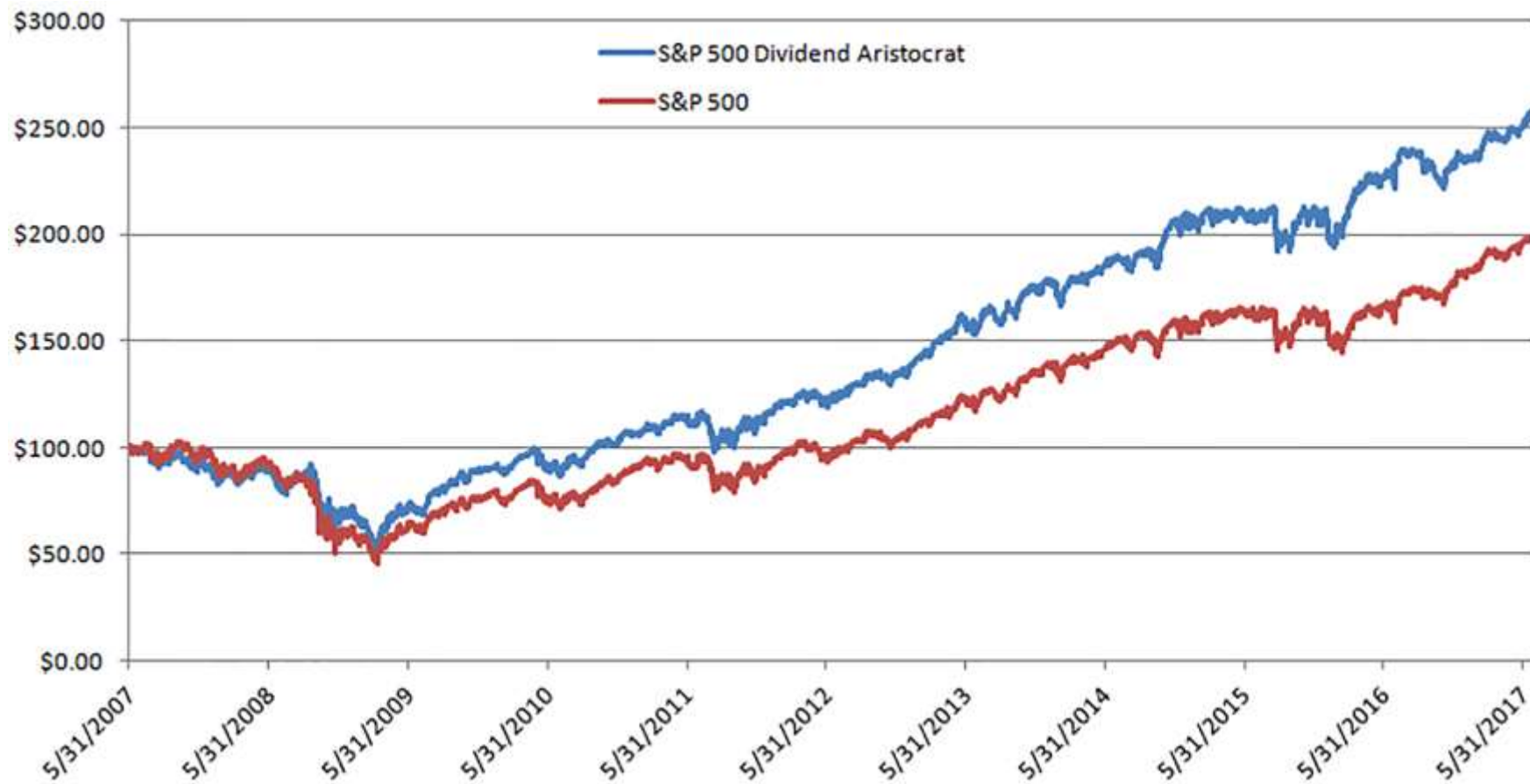


## Why Would You Invest In Dividend Paying Companies?

- Potential to outperform “the Market”
- “Steady” Cash-flow
- Dividends are often raised at the same or higher rate than inflation

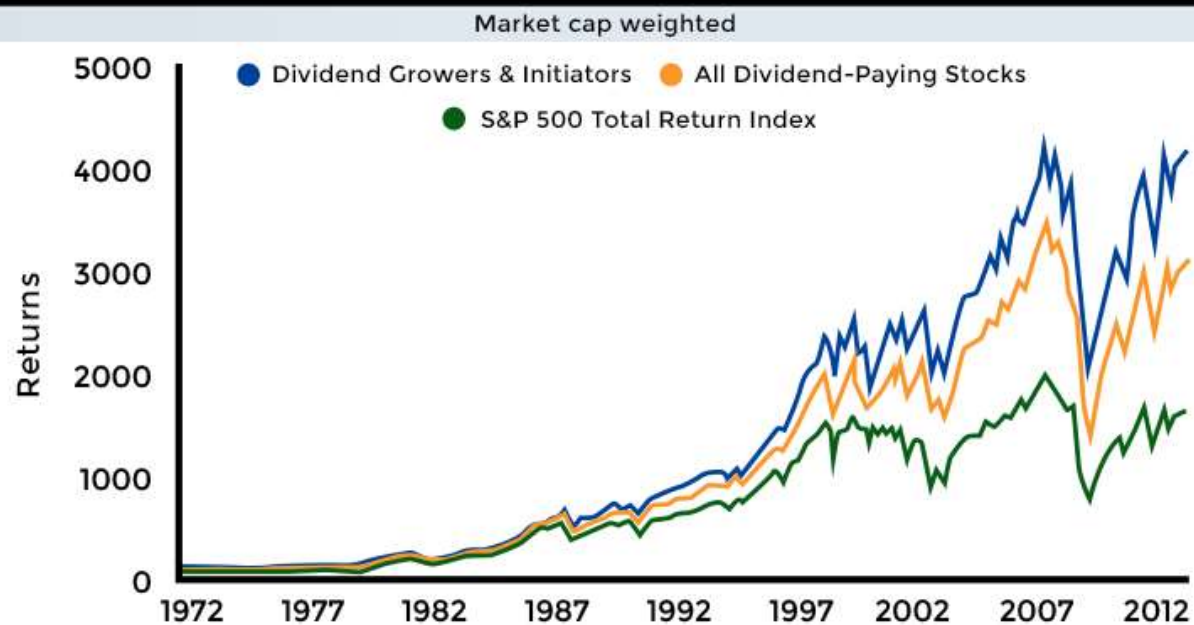


# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING



# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## DIVIDEND PAYERS VS. THE S&P 500



© 2017 Lombardi Publishing Corporation

Source: Ned Davis Research, Morningstar

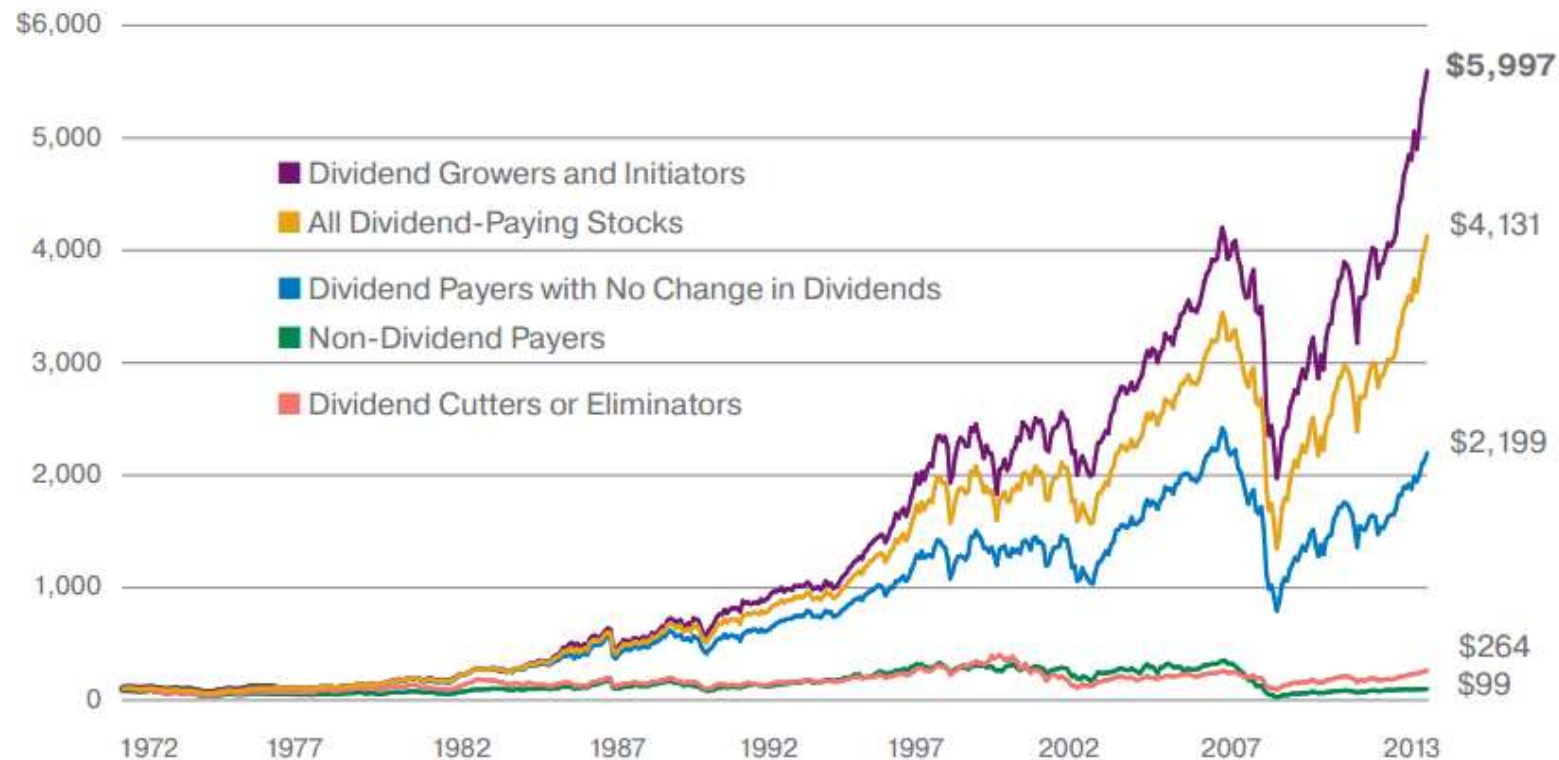
Figure 4: S&P500 returns for individual decades since 1940  
Source: Bloomberg, Guinness Atkinson Asset Management

	Total return	Price appreciation	Dividends	Dividends as % of total return
1940s	143.1%	34.8%	108.3%	75.7%
1950s	467.4%	256.7%	210.7%	45.1%
1960s	109.5%	53.7%	55.8%	51.0%
1970s	76.9%	17.2%	59.7%	77.6%
1980s	389.2%	227.4%	161.8%	41.6%
1990s	432.2%	315.7%	107.5%	25.4%
2000s	-9.1%	-24.1%	15.0%	Not meaningful
<b>Average</b>	<b>228.6%</b>	<b>125.9%</b>	<b>102.7%</b>	<b>52.7%</b>

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## S&P 500 Index: Dividend Growers Have Outperformed Over Time

Hypothetical performance of \$100 invested in each of the five strategies (1972–2013)



Source: Ned Davis Research, 12/31/13.

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

Figure 1: S&P 500 Index Returns and Dividends: Jan 1976 = 100



# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## **Dividend Growth Stock Selection & Screening**

- **Which parameters to use?**
- **Which levels to use and why?**

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

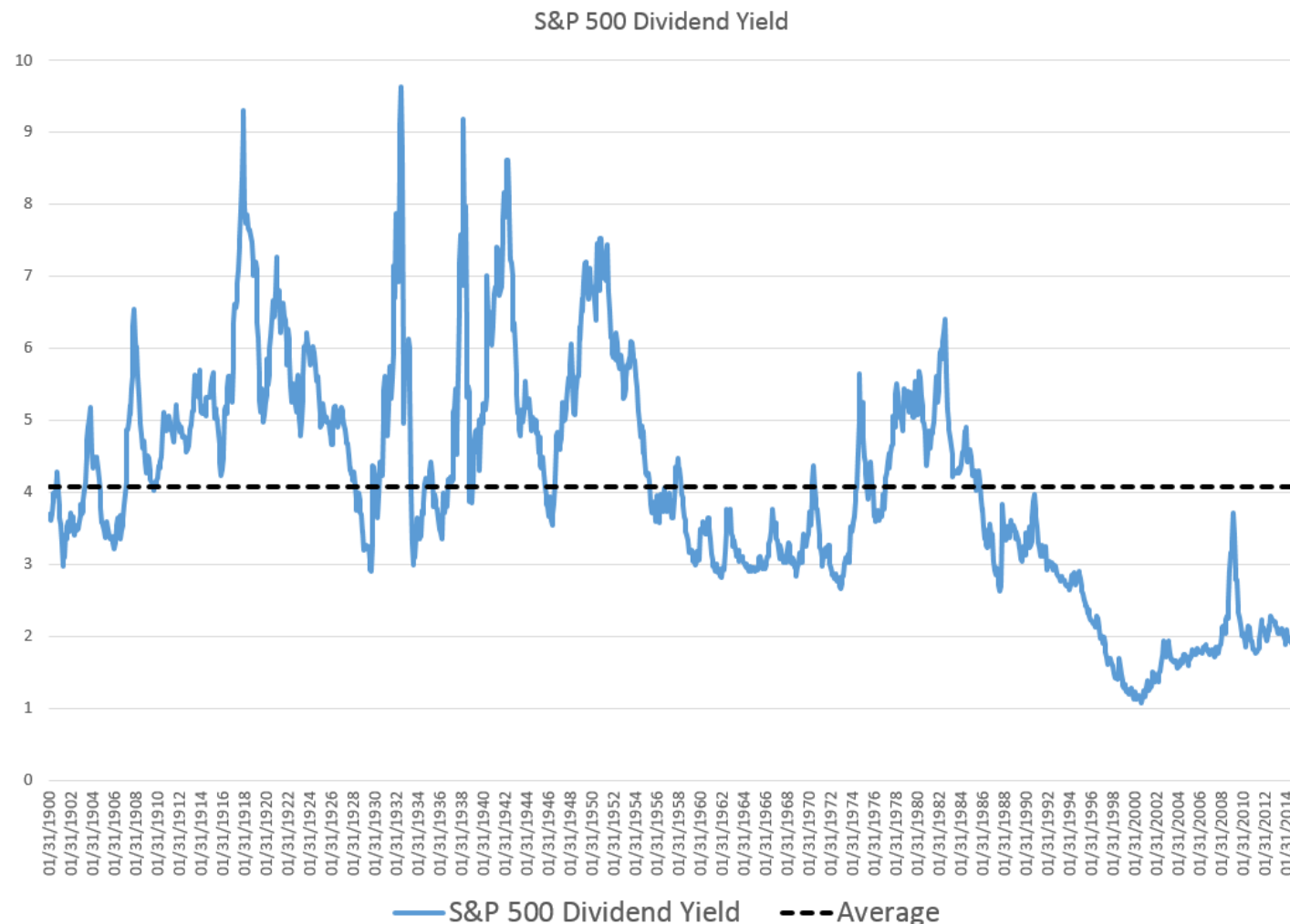
## **Dividend Growth Stock Selection & Screening: Possible Parameters**

- Yield (dividends divided by stock price)
- Dividend pay out (percentage of earning pay out to you as shareholder)
- P/E ratio (Price over Earnings)
- Dividend Growth Rate (Compound Annual Growth Rate)
- Earnings per share (EPS)
- Return on Equity (ROE)
- Chowder Rule (yield + dividend change over last 5 years)
- Dividend Increase Streak (I.e. Dividend Aristocrat, Champion, Contender or Achiever)
- Company Market Cap

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Stock Yield

- Never chase yield, but get as high of a yield as you can!
- Very high yields are unsustainable, and dividend corrections will follow.
- Dividend growth stock yield commonly starts “lower”, but “grows” over time.





# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Dividend Payout Ratio

- Healthy pay-out ratios commonly between 40-60%
- Pay out ratios of higher than 100% cannot be sustained long and could be to the detriment of the company (depletion of cash)
- REIT's often have payout ratios that are higher

## S&P 500 Dividend Payout Ratio

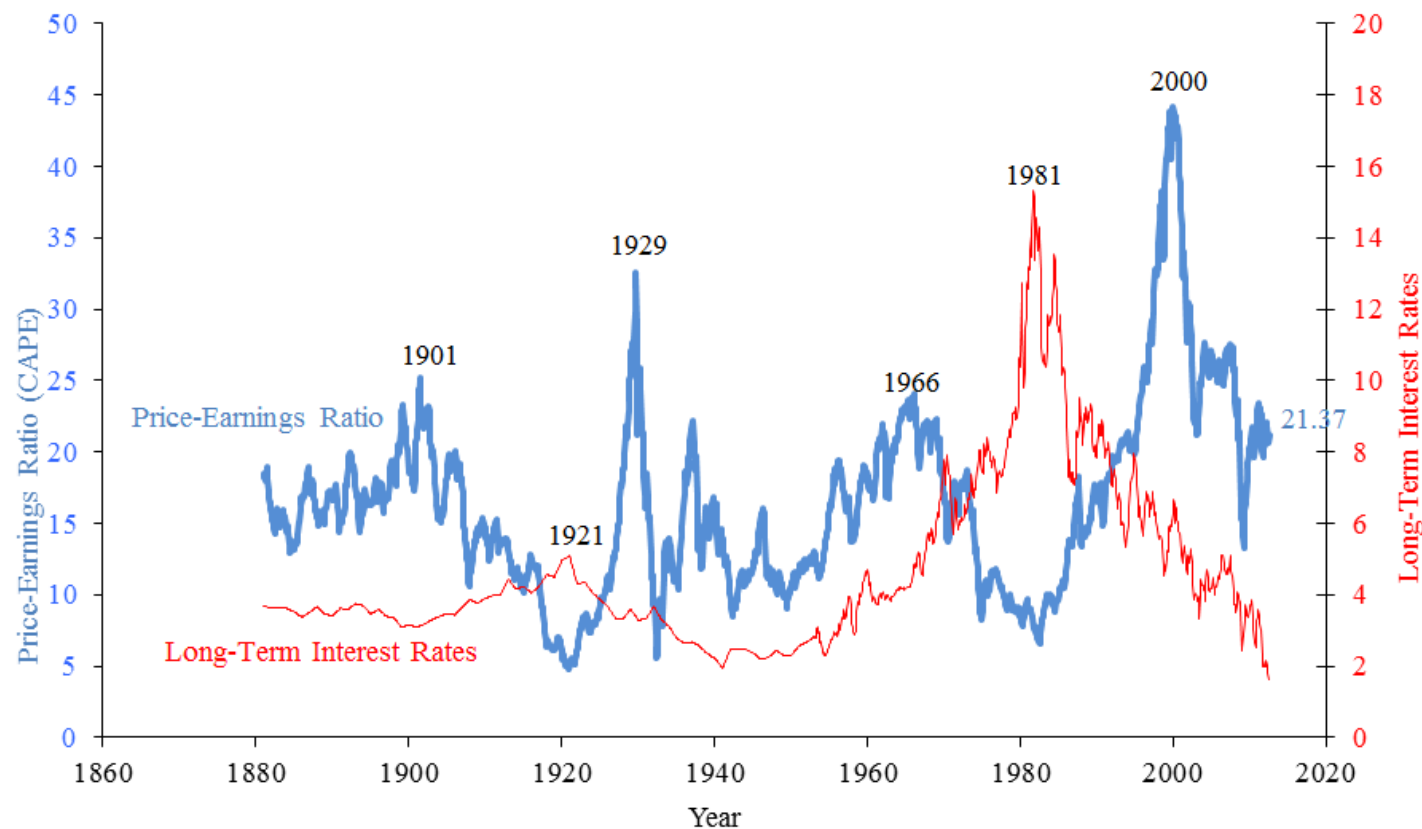




# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## P/E Ratio

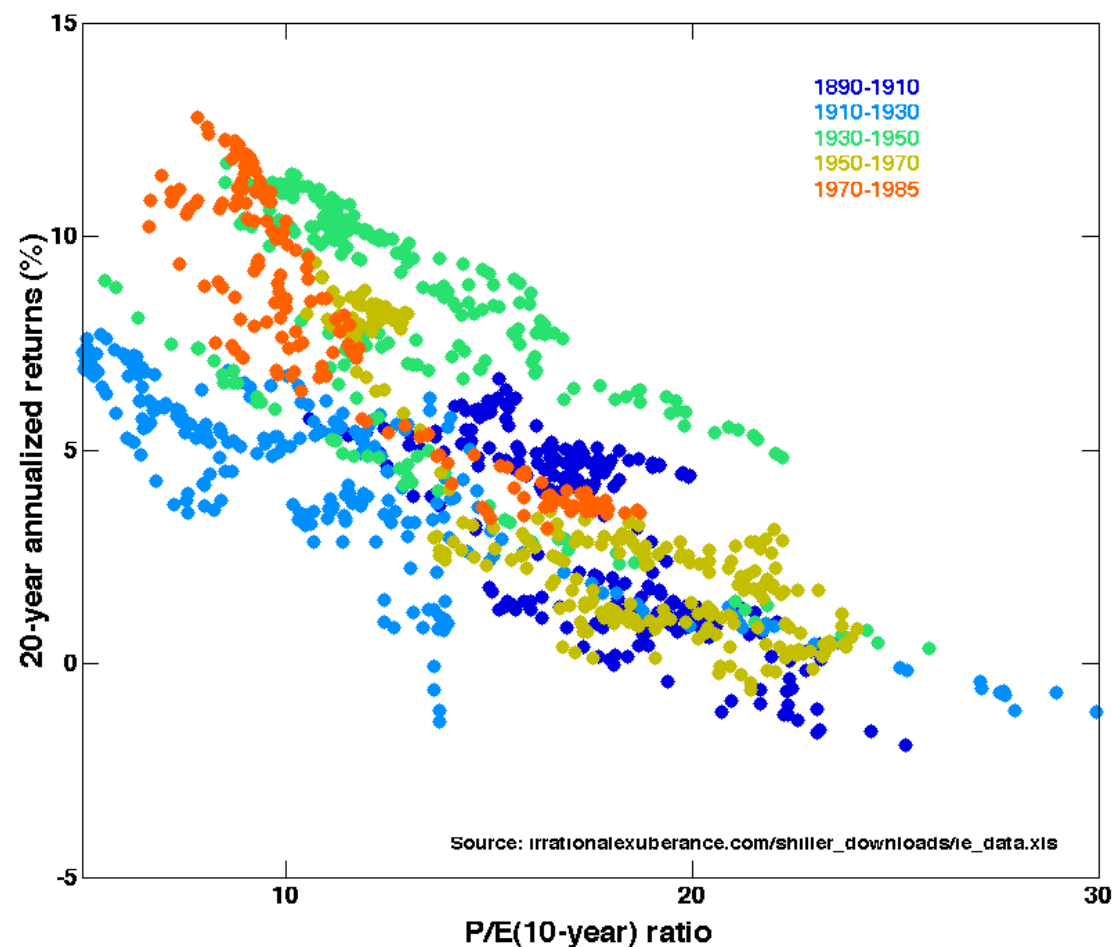
- P/E Ratio varies a lot over time, subject to value of the market
- P/E Ratio < 18 as a criteria?
- P/E Ratio < market P/E Ratio?



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## P/E Ratio for Stock Selection:

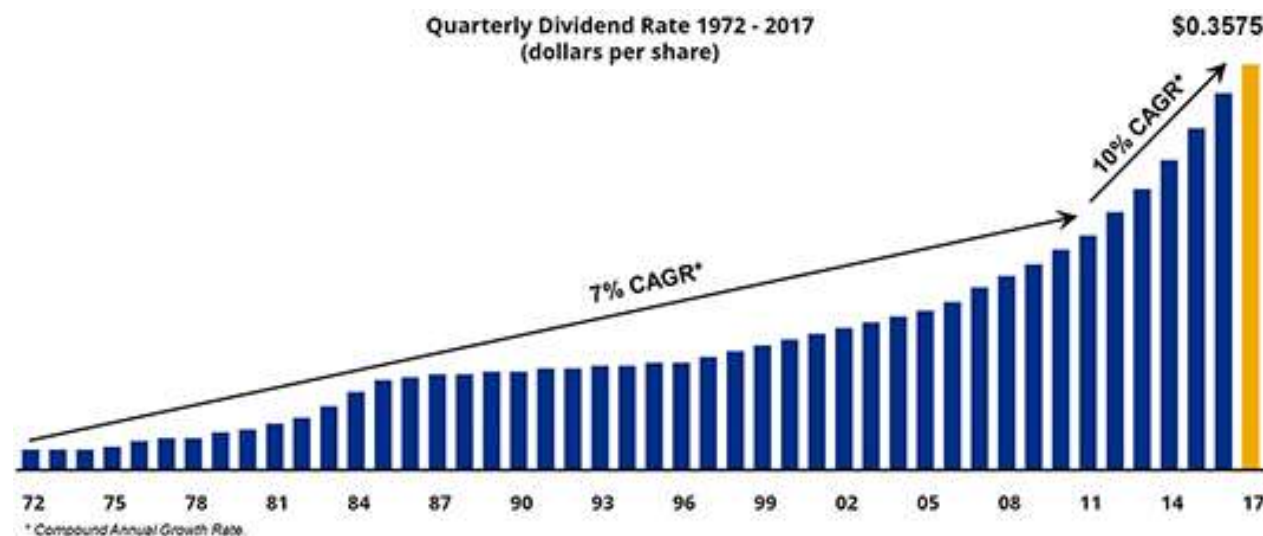
- Stock P/E Ratio < 18 as a criteria?
- Stock P/E Ratio < Market P/E Ratio?



# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Dividend Growth Rates

- Consistent dividend growth will result in high CAGR (Compound Annual Growth Rate)
- CAGR: higher is better, assuming it's sustainable!
- Aim for CAGR of 7% or higher for a 10 year period
- Canadian Utilities (CU) example =>

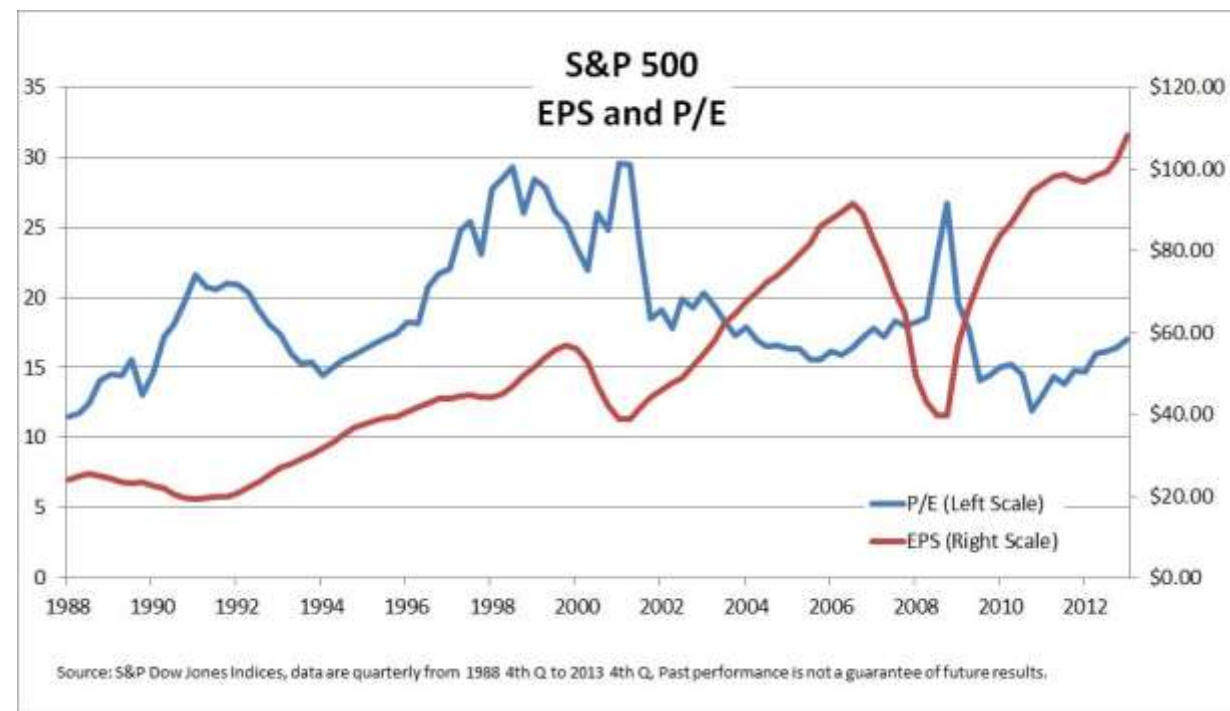


$$CAGR = \left( \frac{\text{Final Value}}{\text{Starting Value}} \right)^{\frac{1}{N}} - 1$$

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Earnings Per Share Growth

- Earnings Per Share (EPS) is net amount of money made per outstanding share
- $EPS > 0$



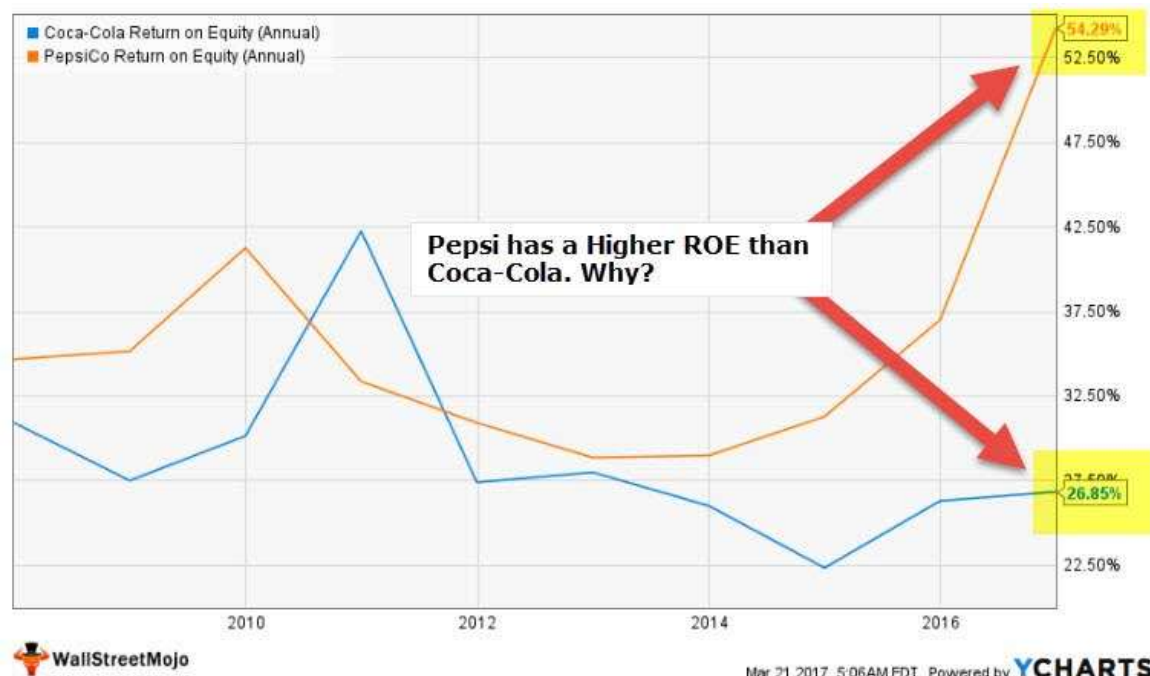
# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Return on Equity

- Return On Equity (ROE) is the amount of net income returned as a percentage of shareholders equity.
- Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

## ROE is expressed as a percentage and calculated as:

- $\text{Return on Equity} = \text{Net Income} / \text{Shareholder's Equity}$
- $\text{ROE} > 10\%$  (Example Pollie's Dividend)



# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING



## Chowder Rules

- Defined as the sum of the 5 year dividend growth rate (5 year CAGR) + yield
- <https://www.suredividend.com/the-chowder-rule-explained/>
- If dividend yield is 3 percent or higher: the sum of the dividend yield and the trailing 5 year dividend growth rate  $> 12$
- If the dividend yield is less than 3 percent: the sum of the dividend yield and the trailing 5 year dividend growth rate  $> 15$
- There is a separate set of rules for utility stocks:  $> 8\%$

# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Dividend Increase Streak:

- Dividend Kings: 50+ years of increasing dividends (S&P 500 – only 20 as of Feb. 2018!)
- Dividend Aristocrats: 25-49 years of increasing dividends (S&P500)
- Dividend Champions: 25-49 years of increasing dividends (S&P500 + mid/small cap companies)
- Dividend Contenders: 10-24 years of increasing dividends (S&P500 + mid/small cap companies)
- Dividend Achievers: 6-10 years of increasing dividends (S&P500 + mid/small cap companies)
- Dividend Achievers: <5 years of increasing dividends (S&P500 + mid/small cap companies)

### American States Water Dividend

(updated 2/16/2018)

The American State Water dividend has been paid continuously since 1931 and increased for 63 consecutive years; qualifying the company as Dividend King and Dividend Champion.

Price: \$53.70

Dividend Yield: 1.9%



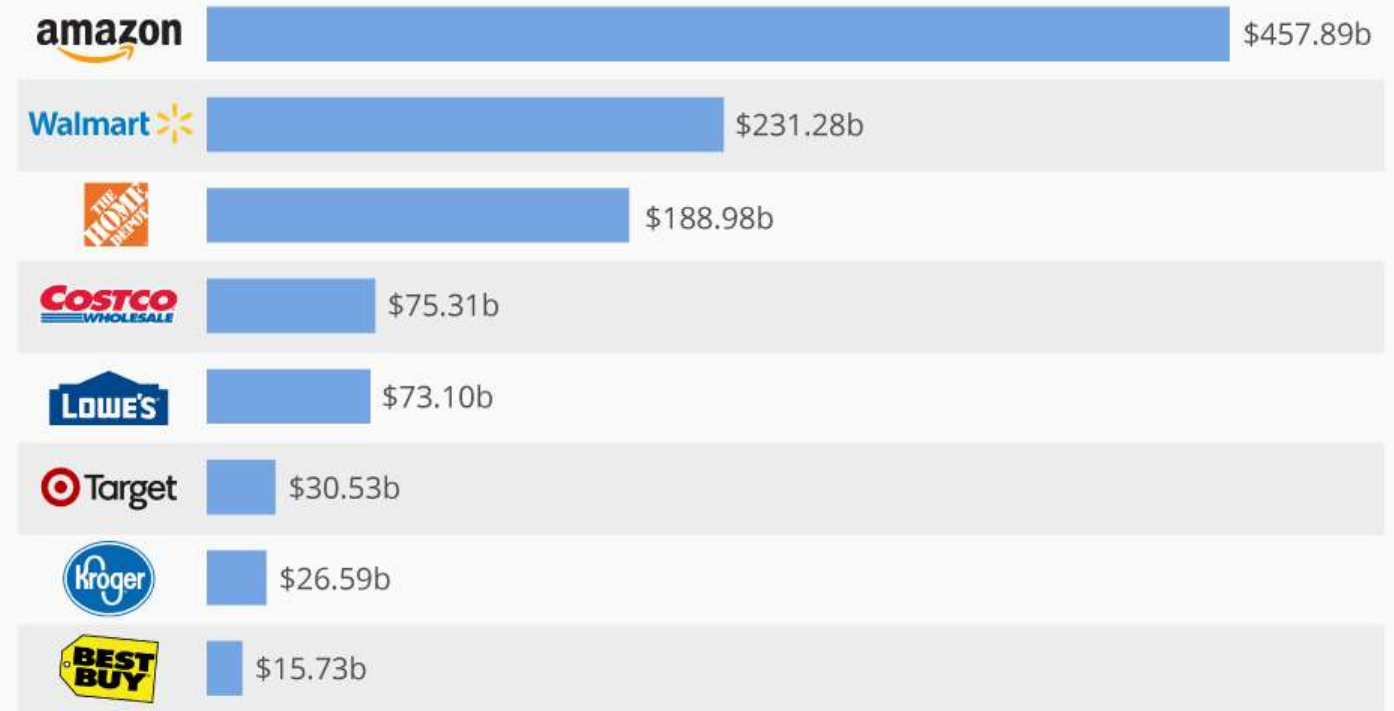
# PART I – INTRODUCTION TO DIVIDEND GROWTH INVESTING

## Company Market Cap

- Value of the company expressed as share value x outstanding shares
- Larger companies don't grow as fast, but are generally more stable and have benefits of scale
- Market cap can be used to select companies for dividend growth investing

## Amazon Dwarfs U.S. Retailers in Terms of Market Cap

Market capitalization of selected U.S. retail companies (as of May 15, 2017)



@StatistaCharts

Source: Yahoo! Finance

statista



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PART I –  
INTRODUCTION TO  
DIVIDEND GROWTH  
INVESTING

**End of Part I**

PART II –  
DIVIDEND  
GROWTH  
INVESTING

**Dividend Growth Investing  
Part II**

# AGENDA

## Part I

- Agenda
- Introduction to Dividends
- Introduction to Dividend Growth Investing

15:00 – 15:45

16:00 – 17:00

## Part II

- Risks and Strategies
- Accounts and Taxation
- Information Sources
- Discussions

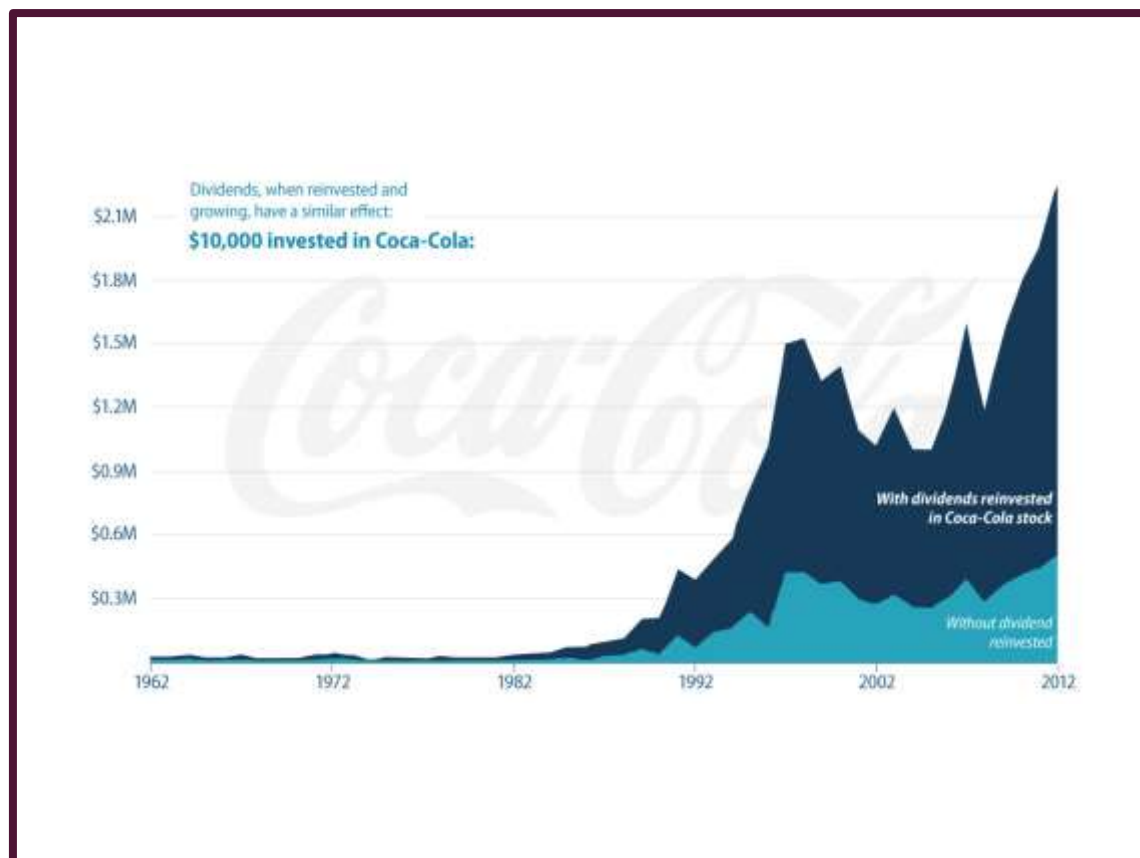
## PART II – RISKS AND STRATEGIES

### Risks of Dividend Growth Investing:

- Relatively small group of companies that confirm to various stringent criteria => diversification risks
- Even with stringent selection, no guarantees on dividends
- Very few companies perform very consistent and continuously grow over the longer term (hence relatively few Dividend Kings/Aristocrats)
- Market developments and associated performance changes (think technology sector)
- Rebalancing / ongoing portfolio still required

Dividend Safety Score	81 - 100	61-80	41 - 60	21-40	0 - 20
Is the current dividend safe?	<b>Very Safe:</b> Cut is extremely unlikely	<b>Safe:</b> Unlikely to be cut	<b>Average:</b> Moderate risk of being cut	<b>Unsafe:</b> Heightened risk of being cut	<b>Extremely Unsafe:</b> Very likely to be cut

## PART II – RISKS AND STRATEGIES



### Risks of Dividend Growth Investing:

- Example of company weathering market challenges: Coca Cola (KO)
- Modified business model to accommodate health trends and actively (& successfully) compensates reduction of sales for their core market products.

## PART II – RISKS AND STRATEGIES



Market Realist

Source: 10-K, 10-Qs and GE investor update

### Risks of Dividend Growth Investing:

- Example of a company not able to accommodate challenges: General Electric (GE)
- Two major dividend cuts over the last 10 years. Not looking pretty for the coming years either.

## PART II – RISKS AND STRATEGIES



### Dividend Growth Investing Strategies

- Only Dividend Kings and Aristocrats
- Primarily Dividend Kings and Aristocrats, supplemented with some Dividend Champions and Contenders
- Your personally created custom strategy

Next a few blogger examples

# PART II – RISKS AND STRATEGIES

**The Pollie-Code** is as follows:

1. CCC-list (dividend aristocrats)
2. Dividend Yield > 2.5%
3. Dividend payout <70%
4. DGR 1 year > 0%
5. P/E-ratio < 15
6. EPS > 0
7. ROE > 10%
8. Market Cap. > 100M
9. Chowder Rule > 12
10. Stock price 52wk high-25%

No Tabaco and weapon industry.

Ofcourse I'll always have the right to deviate from the code.

I'll post **The Pollie-Code** for all new purchases.

## Dividend Growth Investing Strategies

- Examples from PolliesDividend: the “Pollie-Code”



## PART II – RISKS AND STRATEGIES

### Dividend Growth Investing Strategies – Dividend Diplomats:

- Metric #1 P/E Ratio Less than the S&P 500
- Metric #2 Payout Ratio of Less than 60%
- Metric #3 Increasing Dividends

**DIVIDEND DIPLOMATS**

**DIVIDEND REINVESTING + FRUGAL LIVING = FREEDOM**



## PART II – RISKS AND STRATEGIES

### **Dividend Growth Investing Strategies – Dividend Growth Investor:**

- At least a Dividend Contenders (+10 years of increasing dividends)
- P/E Ratio < 20
- Pay out Ratio < 60%
- EPS growth that exceeds inflation
- REIT's have different criteria's.

DIVIDEND GROWTH INVESTOR

ON MY WAY TO FINANCIAL INDEPENDENCE WITH DIVIDEND GROWTH STOCKS

## PART II – RISKS AND STRATEGIES



### **Low Risk Dividend Growth Investing for Lazy People:**

- Invest in ETF's!
- Total Market ETF, High Dividend ETF's, Dividend Aristocrat ETF's, etc.

### **Some ideas:**

<http://www.dividendgrowthinvestor.com/2018/02/the-best-dividend-etf-in-accumulation.html>

## PART II – ACCOUNTS AND TAXATION

### Which Trading Account to Choose?

- As with Index Funds/Trackers and ETF's, you need to keep your costs low with DGI
- Check both trading fees as well as operating/management fees for the account

Producten	DE GIRO	LYNX	BINCK basic	alex.	Rabobank	Gem. kosten concurrent	DEGIRO t.o.v. concurrent
Shell à € 1.000	€ 2,20	€ 6,00	€ 10,00	€ 10,00	€ 10,00	€ 9,00	75,56%
Mittal à € 10.000	€ 4,00	€ 9,00	€ 16,50	€ 22,50	€ 17,00	€ 16,25	75,38%
KPN à € 50.000	€ 12,00	€ 45,00	€ 56,50	€ 82,50	€ 57,00	€ 60,25	80,08%
BMW à € 25.000	€ 14,00	€ 25,50	€ 47,00	€ 72,50	€ 57,00	€ 47,38	70,45%
Tesla (\$325) à €5.000	€ 0,56	\$ 5,00	€ 17,00	€ 22,50	€ 17,50	€ 15,31	96,34%
Alphabet (\$1000) à € 10.000	€ 0,54	\$ 5,00	€ 24,50	€ 35,00	€ 25,00	€ 22,19	97,57%

## PART II – ACCOUNTS AND TAXATION

Some examples of trading fees, management/account costs and dividend charges.

Note:

DEGIRO has the perfect account for the ETF/Index investor. The custody account does not allow your funds to be used by DEGIRO (i.e. they cannot use your money/equities to “go short”). However, you pay heavily for this in terms of costs for your dividend shares.

Items	DEGIRO (Custody account)	DEGIRO (regular account)	LYNX	ING
Trading	€2 + 0.02%	€2 + 0.02%	€6 or 0.09%	€ 4 + 0,04%
Dividend	€1 + 3% (max 10% overall)	Free	Free	Free
Account Fee	Free	Free	Inactivity charges \$1/month	€16 + 0.24% (€75k) 0.12% (€75k-500k)
Other Fees	€2.5 / year per exchange	€2.5 / year per exchange	N/A	N/A
Type of Dividend (Cash/stock)	€7.5 / stock dividend	€7.5 / stock dividend	As provided by company	Free choice cash/shares
Can use you shares	No	Yes	Yes	No (well maybe via Basel III)

## PART II – ACCOUNTS AND TAXATION

How does this translate into a €100.000 dividend portfolio with the following assumptions:

- 40 different shares
- 2 different markets beside home market (AMS)
- Total dividend payments per year = 150
- Average yield: 4%

Items	DEGIRE (Custody account)	DEGIRO (regular account)	LYNX	ING
Dividend Portfolio	€100.000	€100.000	€100.000	€100.000
Yield (EUR)	€4.000	€4.000	€4.000	€4.000
Account Costs (Total)	€275.00	€5.00	€9.60	€226.00
Net Yield (€)	€3,725.00	€3,995.00	€3,990.40	€3,774.00
Net Yield (%)	3.725%	3.995%	3.990%	3.774%

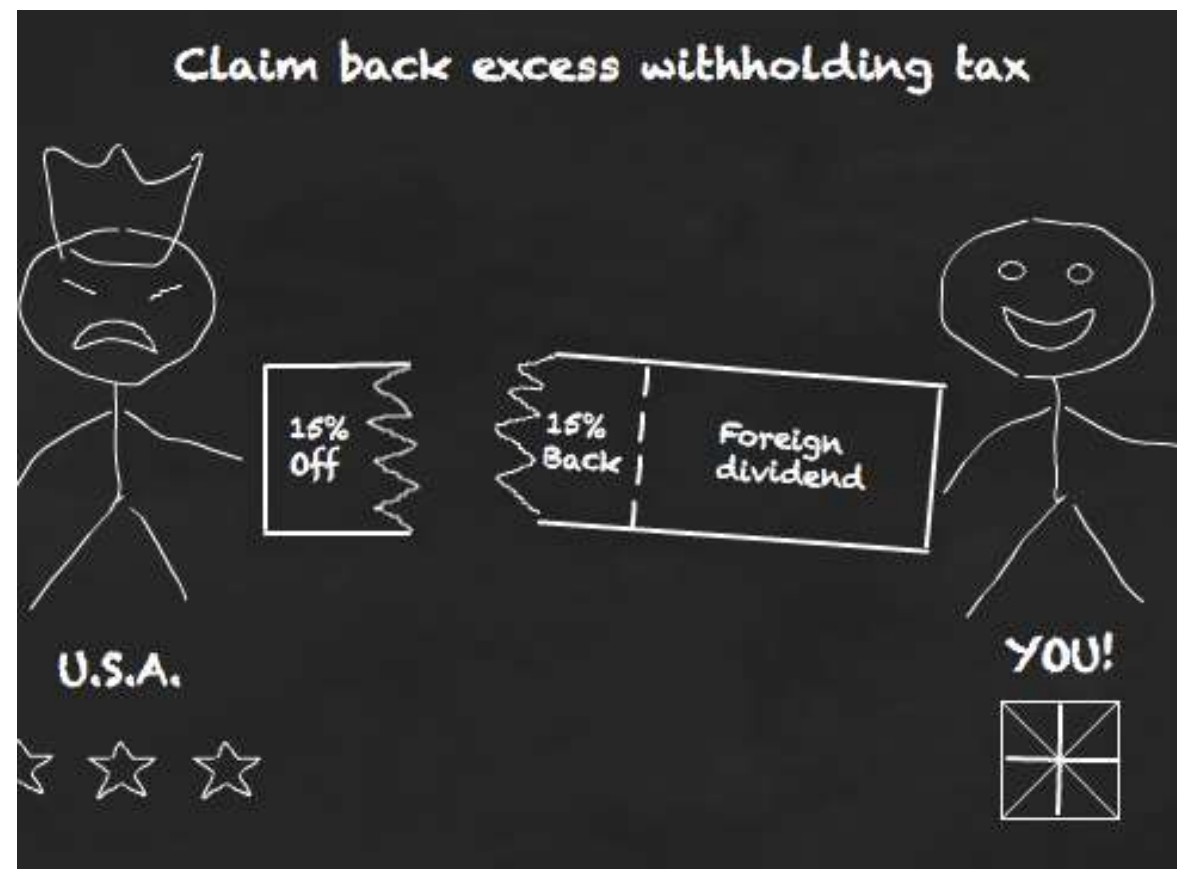
## PART II – RISKS AND STRATEGIES

### Dividend Growth Investing – Taxation!

Withholding taxes by Country (based on [Deloitte 2018 list](#))

- Belgium: 30%
- Netherlands: 15% (corrected in Box 3 wealth taxes)
- Germany: 26.375%
- France: 30%
- Norway: 25%
- UK: 0% / 20% (REIT's only)
- Switzerland: 35% (holy cow!)
- Luxembourg: 15%
- Canada: 25%
- USA: 30% (15% with bilateral tax agreement)

Old, but good starting point for further research:  
<https://www.nomorewaffles.com/2014/12/how-to-deal-with-foreign-withholding-taxes-dont-cripple-your-yield/>



## PART II – RISKS AND STRATEGIES

### Dividend Growth Investing – Taxation!

Can you get your withholding taxes back? It depends:

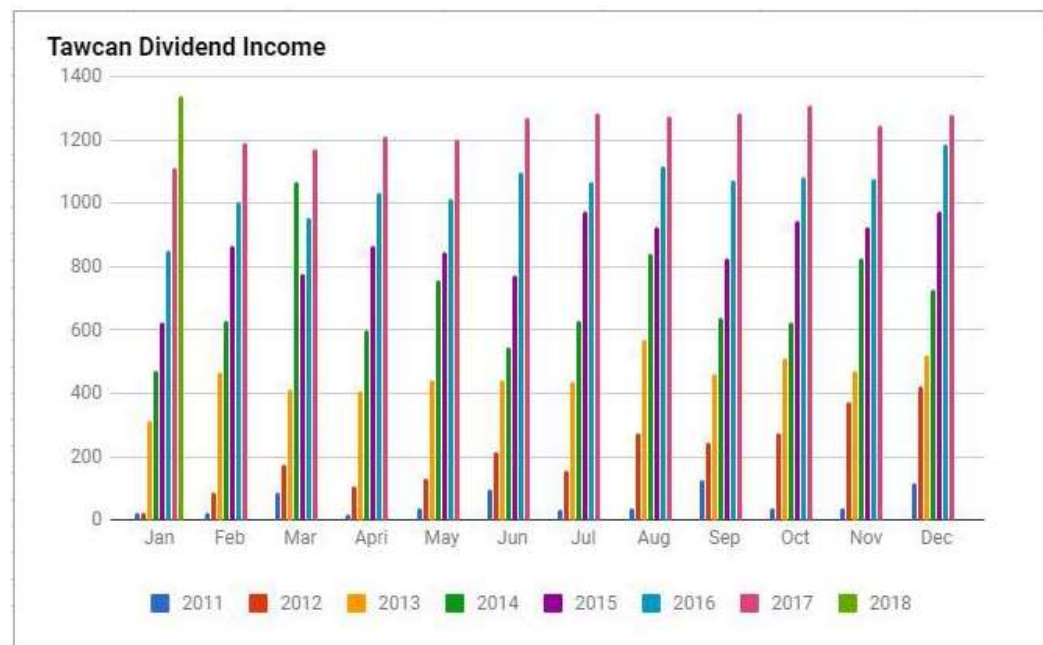
- On the taxes you pay in your country
- The tax treaty between your country and that of the country that is applying the withholding tax
- When you received the dividends (limited time to claim tax back)
- If you like paperwork and working with the tax departments of various countries.....

Verdragsland	Nationaal dividend Belastingtarief	Verdragstarief	Termijn teruggaaf teveel ingehouden dividendbel.
België	25%	15%	3 jaar
Duitsland	26,4%	15%	4 jaar
Frankrijk	30%	15%	3 jaar
Spanje	21%	15%	4 jaar
Italië	26%	15%	5 jaar
Finland	20%	15%	5 jaar
Denemarken	27%	15%	3 jaar
United Kingdom	0%	10%	6 jaar
Zweden	30%	15%	3 jaar
Noorwegen	25%	15%	5 jaar
Zwitserland	35%	15%	2 jaar
Oostenrijk	25%	15%	3 jaar
Brazilië	0%	20%*	5 jaar
Canada	25%	15%	3 jaar
Verenigde Staten	30%	15%	3 jaar
Australië	30%	15%	3 jaar
China	10%	10%	3 jaar

*\*zie voorbeeld met Petrobrás hieronder*



## PART II – INFORMATION SOURCES



Here are some great blog and website examples with tons of information on Dividend Growth Investing (DGI):

- <http://www.dividendgrowthinvestor.com/> (USA)
- <https://www.suredividend.com/> (USA)
- <https://www.dividenddiplomats.com/> (USA)
- <http://www.mrfreeat33.com/> (USA)
- <https://www.tawcan.com/> (Canadian)
- <https://www.incomeinvestors.com/> (Canadian)
- <https://www.polliesdividend.com/> (Dutch)
- <https://www.nomorewaffles.com/> (Belgian - inactive)
- <http://www.stockles.com/> (Norway)
- <http://dividendhawk.blogspot.nl/> (Finland??)

## PART II – INFORMATION SOURCES

**Here are a few site that help dividend stock selection:**

US Shares

[http://www.tessellation.com/david\\_fish/](http://www.tessellation.com/david_fish/)

Canadian Shares:

<http://www.dividendgrowthinvestingandretirement.com/>

European Shares:

<https://eurodividendchampions.com/>

## PART II – DISCUSSIONS

### Two Questions For Discussions:

- Who does dividend growth investing and why?
- Cash-flow vs. capital gains, what's your preference?

