Dividends Key in 2019

Globally, stock markets are off 15%-20% from their highs. Many investors are questioning their strategy. Rising interest rates and trade tensions have pulled down reliable dividend stocks. As a quick recap, a ***dividend*** is the portion of corporate earnings that a company distributes to its shareholders. We feel this is a great time to focus on dividend stocks and provide four key potential benefits:

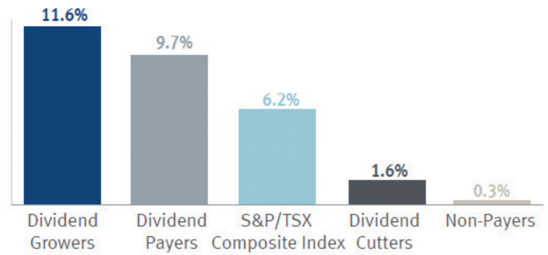
1) Dividends are Tax Friendly
Investments can generate interest, dividends, or capital gains which are all taxed differently. Because Canadian public companies have already paid corporate taxes, dividends are taxed favorably. Currently, British Columbians can earn $45,916 in dividends and pay $0 tax (assuming no other income).

2) Dividend Companies Provided Higher Returns
Dividend paying stocks provide a steady income stream which helps reduce the volatility of a portfolio when markets decline. In fact, as stocks prices decline, their effective yield increases, making shares potentially more attractive to prospective investors. This feature can provide stability as buyers step in providing share price support. Some notable examples in Thompson Reuters over the last year:

Company	Symbol	Price Change	Yield
Bell	BCE	-10%	5.6%
CIBC	CM	-16%	5.4%
Manulife	MFC	-25%	5.1%
Brookfield Properties	BPY.UN	-20%	7.8%
Chartwell Retirement	CSH.UN	-16%	4.3%
Finning International	FTT	-25%	3.4%
Inter Pipeline	IPL	-25%	8.8%
Canadian Natural Resources	CNQ	-27%	4.0%

According to RBC research, we shouldn't lose faith, the embed chart shows that companies that pay and grow their dividends have best overall returns.

Dividend-paying stocks have outperformed over time
Compound annual total returns (1986 - 2017)



3) Dividends Can Account for 40% of Total Returns
Many investors are aware that Canadian Banks have historically been a good investment. In 1995, TD Bank paid dividends of $0.22 a year and as of January 2019 paid $2.68 a year and has a share price near $68.30 for an annual yield of 3.9%. Through all the good and bad years, dividends grew in excess of 12%. Assuming a more conservative 8% dividend growth rate over the next 10 years, shareholders could receive a dividend near $5.79 generating a yield of 8.5% based on todays' share price.

4) Dividends Outpace Inflation
The "silent killer" or forgotten risk is inflation, which erodes purchasing power. Using the Bank of Canada inflation calculator, inflation averaged 2.1% over the past 30 years (1988-2018). A $100 basket of goods in 1988 would now cost $188! It is a challenge to find Canadian dividend data; however, using the same time frame for the S&P 500 Index, it grew its dividends from $18.05 to $44.43 or in excess of 3% thereby keeping ahead of inflation.

Another way of comparing dividends to interest is calculating the "interest equivalent factor." A common guideline is to gross up the dividend by 1.3 times to arrive at an approximate interest equivalent factor. For example: a 4.0% dividend is similar to receiving a 5.2% GIC. While interest rates have come up, we have yet to see these types of GIC rates.

We believe dividend investing continues to be compelling and can be a key contributor to one's portfolio. As always, please consult with an investment professional before investing.

Until next time…Invest Well. Live Well.

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