



DIVIDEND **INVESTING**

How To Build A Never Ending Cash Distributor

By MIKE HEROUX
www.thedividendguyblog.com

Table of Contents

TABLE OF CONTENTS.....	1
DIVIDEND INVESTING: HOW TO BUILD A NEVER ENDING CASH DISTRIBUTOR.....	2
A LITTLE ABOUT ME.....	3
DISCLAIMER.....	9
CHAPTER #1: DON'T LOSE MONEY INVESTING – LEARN INSTEAD TO MAKE SOME MONEY	10
“HOW WOULD YOU INVEST \$1,000 OR \$10,000?”	10
RISK PROFILE	21
ASSET ALLOCATION	23
CHAPTER #2: LOOKING AT THE ENGINE OF YOUR NEVER ENDING MONEY DISTRIBUTOR – BUILD YOUR CORE PORTFOLIO WITH DIVIDEND STOCKS	27
IMPORTANT DIVIDEND RATIOS	28
HOW TO FIND GOOD DIVIDEND STOCKS.....	32
HOW TO USE A STOCK SCREENER	35
HOW TO BUILD YOUR OWN DIVIDEND STOCK ANALYSIS TEMPLATE	37
NOW, YOU ARE READY TO BUILD YOUR PORTFOLIO, WHAT’S NEXT?.....	43
NOW BACK TO DIVIDEND REINVESTMENT	45
CHAPTER #3: BABY STEPS GUIDE TO START DIVIDEND INVESTING.....	50
CALLS TO ACTION.....	50
6 QUESTIONS & ANSWERS BEFORE YOU BUY YOUR FIRST STOCK.....	55
CHAPTER #4: TOOLS OF THE TRADES – THE COMPLETE LIST OF DIVIDEND RESOURCES	59
DIVIDEND & GENERAL INVESTING SITES.....	59
INVESTING TOOLS	63
CONGRATS YOUNG DIVIDEND INVESTOR! – YOU’RE DONE WITH THIS EBOOK. THANK YOU!	68
FAREWELL... ..	69
IMAGES CREDIT.....	70

Dividend Investing: How To build a Never Ending Cash Distributor

Congratulations! By downloading this eBook, you just made your very first step into the investing world. Have you ever dreamt of having your own golden egg producing chicken? Well, together we will spend a few hours working on building a **never ending money distributor**. But, as the fable says: “If you get too greedy, you are going to kill your chicken!”

Instead of blindly opening a brokerage account and chasing the next Apple stock, I suggest getting realistic. You can start by reading this book. In this eBook you will learn just how easy it is to build your own dividend portfolio without taking on too much risk. The goal here is not to make you rich quickly. It is to make you understand **how to make money with dividend investing**.

I favor dividend investing for 3 reasons

#1 Dividend Investing is Easy to Understand - A prestigious financial background is not required if you follow simple and time-tested investing principles.

#2 Dividend Investing is Perfect for Lazy People - Not much time is required once you learn the basic principles and how to select your stocks.

#3 Dividend Investing, if Done Right, Equals Receiving Money Each Month! – Dividend payouts are periodic.

A Little About Me

My name is Mike (like half of the financial bloggers!). I am 31 and married with 3 young kids (William; 7 and Amy; 5 and Caleb.... 7 months!). I work in the financial industry (my day job) and I run an online company with my best friend. Additionally, I am the author behind [The Financial Blogger](#) (since 2006) and [The Dividend Guy Blog](#) (since August 2010). More recently, I have created unique resources for dividend investor;

[What Is Dividend?](#) – Beginner's site for investing

[Dividend Stock Analysis](#) – Hundreds of dividend stock analysis

[Canadian REITs](#) – The Canadian REITs reference

[Dividend Growth Book](#) – The Most Helpful and Inexpensive Guide to Build a Dividend Growth Portfolio ([click here do download](#))

My love for investing started in 2003. As soon as I signed my contract for my first job, I ran to a nearby bank and opened both a line of credit and a brokerage account. I took all the money from my line of credit (that was very gutsy!) and started investing in the stock market. Three years later (in 2006), I was buying my first house with a \$50,000 down payment (all from my investment profits).

Since then, my interest in the financial markets has never stopped growing. In 2008, I became a financial planner and I now share my financial knowledge with both my clients and the readers of my blogs.

Through my different investment blogs, I have noticed many of my readers have a huge interest in learning more about dividend investing. Most people are interested in investing but don't know where to start. This eBook seeks



to address the problem: **To make a friendly guide to dividend investing.** I want YOU to understand how to invest your money and set you and your family on the path to building diversified dividend wealth.

Why Start Now?

Simply put, if you don't do it now, you will never do it. From my job I know that procrastination is the biggest reason why people are not taking care of their finances. Unfortunately, making a budget and paying down your debts often take priority over investing. I am a firm believer that investing should come first. If you don't start investing now, in the long run **you will lose some serious money.**

In fact, investing returns work based on a principle named "compounding interest." We will cover this topic later on in this book. But to make sure you understand, I'll just use the snowball analogy.

When you start rolling snow, you'll eventually form a snowball. If you continue to roll the ball into more snow, the ball will slowly grow. The bigger the ball is, the more snow will stick to it, and the faster your ball will grow. So, the sooner you start your ball rolling, the bigger your snowball will be at retirement. Just imagine how big your snowball would be if you start rolling it at the age of 25 and stop at 65? You would create a freakin' snow mountain out of your originally small snowball.

Compounding interest works the same way; the sooner you start investing, the bigger your investment egg-nest will become over time. A 5 year difference in the starting date of your investment plan creates a phenomenal difference at the age of retirement.

On top of that, now (note: this book has been written early in 2011) is the perfect time to invest in dividend paying stocks--as most of them are undervalued. When you buy undervalued stocks, 2 great things happen in your portfolio:

#1 Your dividend yield is bigger;

#2 Your chances of seeing capital gains increase;

Bottom line: you will make more money with your investments!

However, in order to buy undervalued stocks, you must do so while there is "blood on the street." Most investors are afraid right now. That is why right now is actually a great time to start investing... but you can also close this PDF and go back on Facebook. You won't make money but you will surely have a lot of friends!

Why Dividend Investing?

Over the past 40 years, 58% of the stock market yield was produced by dividends. Dividend stocks maintain a more stable value over time (meaning **less stress for investors**) while producing a **constant cash flow** that is more than sufficient to cover the inflation rate.

If making money is not a strong enough reason for you to consider dividend investing, then I add another one: it's passive income!



Passive income has been quite a buzz word, and has even been promoted by several personal finance “gurus.” Passive income means making money while doing nothing. This is exactly what dividend investing is about: once you have worked very hard to build your portfolio, money will be generated automatically.

What this eBook is about?

This is a friendly guide to dividend investing. It will be separated in 4 chapters:

Chapter #1: Don't Lose Money Investing – Learn Instead to Make Money

This chapter reviews investing basics. I want to make sure that you don't go climbing Everest with nothing but a pair of Nike shoes and your iPod! If you don't know what you are doing, you will lose money in the stock market. I can't guarantee that you won't lose money after reading this book, but **you will be better equipped to avoid costly mistakes that uninformed investors make on a daily basis.**

Chapter #2: Looking at the Engine of Your Never Ending Money Distributor – Build Your Core Portfolio With Dividend Stocks

This chapter will tell you **how to build a passive income portfolio.** You will learn how to select the right dividend stocks, and for the right reasons. With this technique, your core portfolio should generate **at least 3% in annual dividend yield.** Before you start trading, it is important that you read and understand this chapter.

Chapter #3: Baby Steps Guide to Start Investing

Enough with theories and strategies; it is now **time to invest!** We are currently in a cycle of amazing investing opportunities; a time where you can find solid companies that are undervalued and paying high dividends each quarter. This guide will tell you each step to make in order to **start investing with as little as \$1,000.**

Chapter #4: Tools of the Trades – The Complete List of Dividend Resources

I will end this eBook with some great resources you can use to build your own dividend portfolio. Here you will find blogs and investing websites that provide free stock analysis and discuss dividend strategy. You will also find other investing resources such as stock screeners and stock analysis tools.

Call to Action

Throughout this book, there will be several “**Calls to Action.**” These are critical moments when reading this book. They are meant to encourage you to stop reading and start acting. **Words are nice, but they alone mean nothing. Actions define everything.**

Each Call to Action will lead you to your next step in dividend investing. They are pretty straight-forward and simple. If you have further questions on a specific Call to Action, then feel free to jump to **Chapter #3: “Baby Steps Guide to Start Investing”**, which further explains each Call to Action.

If you follow all of the Calls to Action, then you will be a dividend investor by the end of this book. Some calls will take a few seconds while others will take a few hours.

Tip: Don't open the book again until you have completed your Call to Action. This will be YOUR engagement to become a successful investor and to make money in the stock market.

Intimidated? You can always leave the book (and the money) on the table and go back to your Facebook account. But now I think it is time to make money, you'll chat later on ;-)

Call to action #1: All right now, you are going to do 2 things

#1 Grab a tank of coffee

#2 LET'S GET TO WORK!

Disclaimer

I'm not a financial guru and this book should not be considered as an investing bible (but I still accept offerings and donations ;-)). I have written what I consider to be a solid guide to dividend investing that is comprehensible by mortals. I am offering this book for free and without any obligations from you. I am doing it for free because I believe it's the best way to share my knowledge with as many people as possible.

This eBook does include affiliate links where I can make a few bucks if you register for some products or services (hey, I have a wife and 3 kids to feed!). However, those financial products or services are legitimate and I truly think they can help you out. If you like what you read in this book and you are willing to follow my advice, I would greatly appreciate if you can use the links from this eBook. Feel free to share the content (entirely and not modified) with your friends. Send this eBook to as many people as you know. I'm sure they'll be happy to know that you thought about them. Teaching how to invest is like teaching a man how to fish; you can feed him for a lifetime.



Chapter #1: Don't Lose Money Investing – Learn Instead to Make Some Money

“How would you invest \$1,000 or \$10,000?”

That was a question that was recently asked of me by a reader from my newsletter. He was requesting more info on how to setup a brokerage account, how to establish a correct asset allocation, and how to select the right stocks at the right price. This was when I realized that, as young individuals, we are left with little to no information regarding how to invest our money.

This eBook has been written with the following 3 goals in mind:

#1 To make you understand how to invest;

**#2 To show you how to create your own investment strategy;
and**

#3 To show you how to build your own dividend portfolio.

“How would you invest \$1,000 or \$10,000?”

Passive income is great when you are receiving the fruit of your labor. But before you sit down and relax, you will need to invest a few hours of your time in order to build a solid dividend portfolio. Money has never come overnight and dividend investing is no different than any other passive income.

Dividend investing is not for totally newbie investors. However, I will provide you with some insights about investing basics. If you feel that your level of investment knowledge is not fit after reading this first chapter, then visit [What is Dividend](#) (and look at the [Dividend FAQ's](#)) or buy the books therein mentioned prior to pursuing your dividend investing journey.

Call to Action: Register for a free trading course

If you feel that you need more information on the stock market, you can sign-up for this free trading course. You will learn the stock market basics via 1 email per week (for about 10 weeks). [You can register here.](#)

What is a Dividend?

The word dividend has come to mean cash that is distributed from earnings. Usually, any direct payment from a corporation to its shareholders will be deemed to be a dividend. In other words, a dividend is an amount of money distributed by the company to the shareholders. The amount of the dividend payout is determined by shares (e.g. a \$1 dividend payout means \$1 per share, so if you have 100 shares, you will receive \$100). The dividend is paid with **after tax money** from the company's account. Therefore, the firm must first pay all financial obligations (including tax on benefits) and thereafter decide whether to pay a dividend with the remaining monies.

The three types of dividends include:

#1 Regular cash dividends;

#2 Extra dividends; and

#3 Liquidating dividends

The most common type of all of these dividends is the regular cash dividend. These are simply cash payments made to the shareholders of the company. The investor will receive the money in their stock trading account--usually on a quarterly basis.

Why do Companies Pay Dividends?

When I first started my bachelor's degree in finance 10 years ago, I didn't know much about dividend investing. In fact, I didn't know much about the stock market period. In our very first finance class, we learned an important financial principle about **why companies pay dividends**.

In order to understand why companies pay dividends, you must understand why investors would buy stocks in the first place. To keep it simple, let's say that there are only 2 things you can invest in:

#1 Certificates of Deposit with no risk issued by the Government at 3%;

#2 Shares of company X.

Technically, a rational investor will always look at the rewards of his investment and weigh those rewards against the anticipated level of risk. If the investor chooses investment option #1, he or she has absolutely no risk and will earn 3%. If the investor instead chooses option #2, then he or she will obviously take on more risk, and the investor will therefore demand a higher **expected** return. The word “expected” is very important, as it relies on the odds of the company producing more value than the risk-free investment at 3%.

For example, the expected return of company X will be 8%, which would equal a risk-free investment of 3% **plus a 5% premium for the company’s risk**. If you have ever sat through a finance class, then you know that the above mentioned calculation is more complicated than this, but the main principle remains: **a rational investor will always require a higher return from a company than from a risk-free investment.**

How Companies Manage Their Money

So following financial theory, a company “receives” money from an investor in exchange for shares, and is required to generate profits over 8%. Therefore, **the company must invest its money in order to generate at least 8% return from its projects**. This is actually one of the factors the company will use before pouring money into a projects So, if we are talking about Johnson & Johnson, for example, they will likely evaluate the possibility of a new product generating better than an 8% return. In the alternative, if we are thinking of Google, they will likely perform the same calculations when considering a new online service.

Each time a company has surplus cash in its account, it should consider new investment projects to create more value for investors. If the company fails to produce value (at 8%), investors will gradually sell the company’s shares to buy another one, and the company’s stock value will eventually drop.

Where Does the Dividend Come Into Play?

So, what if the company has too much money and does not have enough valuable (giving more than 8% return) projects to invest in? This is where **dividends come into play**. Technically, a company that can't find enough valuable projects and has a cash surplus in its account **will pay a dividend to its shareholders**. Why? Because the company is giving money back to investors so it can find another place to invest and keep generating the 8% return the company is looking for. As we agree that money markets won't match the 8% returns, the company is logically better off giving its surplus to its investors.

Why Don't All Companies Pay Dividends?

You are going to tell me that it is not true that some companies always have valuable projects to invest in. For example, half of Google's assets are held in money market funds right now. **They might want to consider paying a dividend**. But they won't. Some companies believe they will eventually need their liquidity to generate more yield than the expected 8% from my example. In addition to this, **paying dividends is also a way to make your stock attractive to investors**. So if investors already like your company (think of Google or Apple for example), then there is no use in paying dividends right away because there is already a major interest in your stock. Through the promise of long-term growth, you are generating value to your investors, and therefore you don't have to attract them with quarterly distributions.



Why Some Companies Should Consider Dividend Payouts

My guess is that we will see more companies starting to pay dividends or increasing their dividends as was the case in 2010. As I have mentioned before, the hunt for consistent payouts will eventually make **dividend investing a bigger trend on the market during 2011**. In order to get traction on the stock market and because several companies are currently holding a huge amount of cash in their bank accounts or money market funds, dividend payouts will surely rise in 2011.

Who decides on a dividend?

The board of directors in the corporation holds the power when it comes to deciding on a dividend policy or dividend payment in general. The thought process is unique depending on the company and its current earnings/anticipated future stability. An important point to consider is that dividend payouts are not an obligation. Therefore, at any time, a company can decide to cut or hold their dividend payout.

How does a dividend work?

As previously mentioned, the cash dividend amount is commonly indicated in dollars per share. The amount of money you receive depends on how many shares you own. Dividends are either deposited in cash in your investment account or used to buy additional units/shares (under **DRIP plan**).

Why Should You Look Into Dividend Investing?

If you want to invest and make profit over time, dividend investing can be a very interesting strategy. When you invest, your primary goal is to eventually sell what you bought (company shares, mutual funds, ETF, etc.) at a higher price than you paid. Basically, you are looking to make money with your investment.

If you hold regular company shares or mutual funds in your investment account, you must sell them to generate a profit. However, if you instead hold dividend paying company shares or dividend paying mutual funds, you **will earn money while you are holding them in your investment account.**

Therefore, you have 2 ways to make money when you do dividend investing:

#1 Earn capital gains by selling your investment at a higher price; or

#2 Receive dividend payouts while you are holding them in your investment account.

Is dividend investing different than “regular investing”?

Dividend investing is not really different than any other normal investing strategies. You can invest in several investment vehicles such as:

- Company shares (also called stocks);
- Mutual funds; or
- Exchange Traded Fund (ETF).

The only difference is that the titles you hold in your investment account are distributing a part of their profit to their owner (you!) over time. However, dividend investors have a few more factors to consider before making their move and this is what we are going to look at throughout this book.

Call to Action: Register for Free Investing Newsletters and Visit WhatIsDividend.com

I now offer you the possibility to subscribe to 2 free investing newsletters:

Intelligent Speculator newsletter and **The Dividend Guy Blog newsletter**. I author both of them with my partner. They will guide you in the world of investing by providing useful information, dividend stock ideas and news from our investing websites.

You will also find basic dividend investing information at **WhatIsDividend.com**. I have created this free informational website to give you a complete insight into dividend investing. Feel free to take a look at this resource each time you are looking for more information about dividends.

The Overall Process Before Investing

Now, regardless if you have \$1,000 or \$10,000 (as mentioned by my reader), I believe the investment strategy should be the same. The only thing that more money gives you is the ability to buy into an appropriate asset allocation right away. With \$1000, investments need to be purchased as more money comes in while building up to an appropriate asset allocation.

Step 1: Park whatever money you have available for investing today into an Electric Orange from ING DIRECT or other high yielding savings account. These accounts are safe and you will earn some interest on your money while you go through the next few steps. It is not time yet to start investing. The point at this stage is to build your saving habits and earn a few bucks in interest at the same time.

Step 2: Stop thinking about making a quick buck in the stock market! Most beginner investors get lured into the promise of quick gains and many of the questions I hear are questions such as: “how do I make the most money in the least amount of time?” I don’t know how to legitimately turn \$100 into \$1,000,000. I don’t think anybody does. **If you have one, this eBook won’t satisfy your greed obsession.** As an investor, you need to start thinking in terms of years (at least five).

Step 3: Start reading as much as you possibly can. Blogs are good and so are books. A couple books I would recommend to start out with are The Neatest Little Guide to Stock Market Investing by Jason Kelly and The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns. These books cover the basics of investing as well as good information on index funds-- which we will talk about in a couple of steps! Both books also discuss the concept of fees and investment performance. In a nutshell, avoid high fee mutual funds. Do you really want to feed some fat cat for trading through high management fees (attached to mutual funds)? You can learn how to trade on your own and put some serious money in your pockets.

“I buy dividend stocks because ... I enjoy getting those dividends all the time”

Step 4: Determine your risk profile and asset allocation. Your risk profile and the subsequent asset allocation you choose are the most important decisions that you will make in your investment journey. In short, your risk profile determines how much money you potentially feel comfortable losing over a year. The asset allocation is how you

will invest your money between safer v. riskier investments. I came across a pretty cool asset allocation tool at the [Smart Money website](#). Play around with that until you find an asset allocation that meets your needs. Remember, in step 3 I suggested reading as much as you can get a hold of – look for books on asset allocation as well. One I recommend is [The Intelligent Asset Allocator](#).

Step 5: Start learning about individual dividend stocks. At this point in your journey I am going to bet that you have read that an individual investor does not need to move away from index funds – individual stocks are not necessary. I don't disagree with that, but I buy dividend stocks because I enjoy doing it and I enjoy getting those dividends all the time. As this book's goal is to guide you through dividend investing, we will not cover indexes or bonds (I need to leave some cool stuff aside for future books, don't you think ;-)).

Step 6: Open up a brokerage account and start trading! There are literally thousands of options available. In Canada, I recommend [Questrade](#) as they have a simple trading platform and they are among the cheapest brokers in Canada. There are also brokerages available through all the major banks. [Sharebuilder](#), [Zecco](#), [TradeKing](#) [OptionsHouse](#) and [Scottrade](#) are among the best broker accounts in the US.

Call to Action #2: Open a Savings Account

Open an [Electric Orange from ING DIRECT](#) and set-up a monthly investment account. This will be your very first step towards investing. You can't invest without money. That is why you need to build your nest egg right away!

Investing Principles – Learn the Basics

This is a linear and complete view of my overall process. By the end of this section, you should have a very clear picture of how to manage your investment portfolio.

To get things going, I want to list what I am calling “The Dividend Investor Code.” This is a code of conduct, or principles so to speak, that you can use to guide your overall portfolio decisions. Why should you listen to what I say? It is true that I am not Warren Buffet. However, I have made enough money with my investments to buy my first house. Through my adventure, I’ve made some really good trades and some really bad ones. While the first ones got me a house, the latter taught me what I know about investing. This is how I build my investing code. The code is based on research and proven investing “best practices.” This is actually a safer code than mine, but the goal here is not to speculate on stocks but instead to build a strong passive income generator investment portfolio.

Here they are (please stand up and read them out loud...even if you are in the bus!)

Overall principle: To conserve investment capital through the selection of a sound and diversified portfolio

To achieve this I will:

1. Pick an appropriate and well diversified asset allocation and stick with it through thick and thin;
2. Invest passively – Select solid dividend stock payers and hold them for years as opposed to actively trading stocks on a monthly basis;
3. Generate a reliable and growing stream of income from dividend stocks;
4. Only invest in companies I understand (If there is one thing you need to remember from Warren Buffet, **it is this!**);

5. Buy only companies that are selling at a discount;
6. Only invest in companies that are dominant in their industry;
7. Only invest in companies that have strong fundamentals (EPS (Earning Per Share), Revenue, ROE (Return on Equity), etc.);
8. No individual stock holding should make up more than 10% of your overall portfolio;
9. If a company cuts its dividend, then immediately sell that stock and move money to another dividend growth stock (according to asset allocation);

Risk Profile

Risk is a crazy thing. Take on too much and you either crash and burn or you make out like a bandit. Take on too little and you get frustrated you're not making money (have you looked at the certificate of deposit rate recently?). The "trick" is figuring out a happy medium you will be comfortable with. I have spent some time determining what my risk profile is.

For a definition of the most common risk profiles, see this [post here](#). There are a lot of tools on the web to help determine risk profiles, but the one that I like the best is at the [TIAA-CREF website](#). It is quick and the results work.

For example, my results from the tool are presented below – I am classified as "Aggressive", which means: "You can tolerate volatility and significant fluctuations in the value of your investment because you realize that historically, equities perform better than other types of investments. You're looking for long-term capital growth and are less concerned with shorter term volatility."



This profile does not mean that I will not hold any fixed income assets in my portfolio – only that the majority of my portfolio will be focused on equities.

Your risk profile is going to set the framework for decisions down the road, especially in terms of asset allocation. This will determine if you will be comfortable having a higher percentage of your portfolio in equities as opposed to fixed income assets. **The best investing strategy is always the one that helps you sleep well at night.**

Call to action #3: Know Your Risk Profile

Go to the [TIAA-CREF website](#) and complete the questionnaire. Don't do it in a heartbeat. Take some time to think about it. Then, do this additional [investor profile questionnaire](#) from Charles Schwab. Both questionnaires should lead you to the same answer.

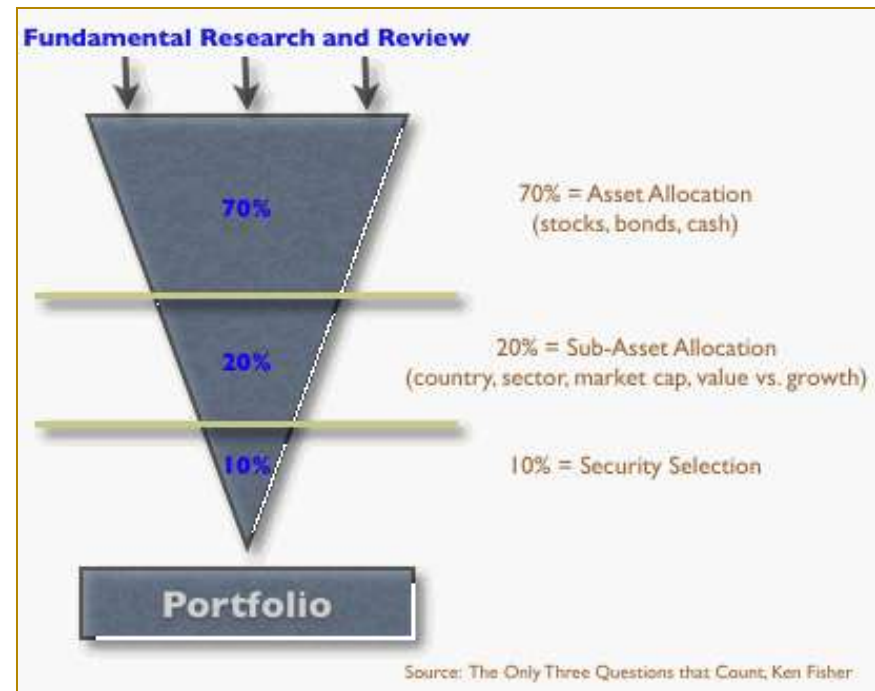
Asset Allocation

Selecting an asset allocation means you are putting your risk profile to work in a way that balances risk and reward in your overall portfolio. It is also the factor that contributes the most to a portfolio's return. Read that again. It is also the factor that contributes the most to a portfolio's return. To illustrate this, think of investing like a funnel:

This funnel is derived from research presented by Ken Fisher in his book, The Only Three Questions That Count. 70% of investment returns come from an investor's asset allocation and only 10% comes from the security selection.

The right asset allocation balances the volatility (i.e. standard deviation or risk) in a portfolio with the expectation of certain returns. At first, you should take on as little risk as possible--just enough to allow you to beat the anticipated market returns over time (this is where dividend investing comes into play). There is a great deal of research that has been done to identify what these optimal asset allocations are. I like William Bernstein's work to determine the right asset allocation.

Coming up with an asset allocation does not need to be overly complex. An individual can choose to hold as few as 1 investment product or as many as they want to cover his or her asset allocation. The key is finding something that you can manage and keep track of.



For example, for a balanced investor with a small portfolio, your asset allocation should look like this:

- 10% in cash (ING account)
- 35% invested in bonds
- 55% invested in dividend stocks

Keep it Simple

In my opinion, dividend stocks should be held 50% in equity and 50% in fixed income. Because of their double nature, I would be tempted to say that my dividend holdings represent an investment at 50% in fixed income and 50% in equities. Dividend paying stocks are usually less volatile than non-dividend paying stocks and they generate a steady cash flow for the shareholder. On the other hand, shares will also appreciate upon good news in the market. This is why I think it should be considered as a balanced investment.

In fact, if you want to have a “safer” or a “more aggressive” dividend portfolio, you can manage your asset allocation per investing sector:

- Basic Materials;
- Communications;
- Consumer, cyclical;
- Consumer, non-Cyclical;
- Energy;
- Financial;
- Industrial;
- Technology;
- Utilities;

For example, if you concentrate more on utilities, you should have a “safer” portfolio, as several utility companies are paying approximately the same dividend payout ratio and these companies are very stable in their payments. Conversely, consumer cyclical can experience a lot more growth during an economic recovery.

As for me, I am not buying bonds right now because I think dividend stocks are better than bonds. Therefore, I would rather have a “balanced” portfolio with dividend stocks than have 50% of my investments in bonds paying low interest. Depending on your investor profile and age, bonds can be a good thing (if you are looking for a heavily stable portfolio...paying very little interest).

The most important thing I do to manage my portfolio is to ensure that my actual asset allocation tracks my target asset allocation. At least once a year, I will rebalance my portfolio. Since I tend not to sell index funds, I use additional funds deposited into my accounts to purchase my way to the target allocation.

Next, let’s cover the sexy part of investing: the building of a portfolio.

Call to action #4: Determine Your Asset Allocation

This is now the time to determine how much you want to invest in dividend stocks as compared to other asset classes. If you are building your first portfolio, I strongly suggest you keep it simple:

- Bonds (government bonds, ETF bonds or certificate of deposit); and
- Equity (US and Canadian dividend stocks);

Then, it's only a matter of putting the right percentage in front of it. It must be in line with your investor profile (i.e. **call to action #3**)



Chapter #2: Looking at the Engine of Your Never Ending Money Distributor – Build Your Core Portfolio With Dividend Stocks

In the first chapter, we discussed some basic investing principles along with risk tolerance and asset allocation models. I didn't want to start off with dividend investing right away, as I wanted to make sure you have some basic investment knowledge. If you are looking for safer investment strategies (such as bonds and certificate of deposits) or how to select the right ETF's; I won't cover them in this book. The rest of the book will be about **building a dividend stock portfolio**.

You were probably wondering when I would get to talking about dividend growth stocks, right? It took me more than 3,700 words but now is the time! I choose to invest in individual dividend paying securities that consistently increase their dividends in both the U.S. and Canada. I do this as opposed to using index funds because I love the investment selection process and the reward I get when I see dividend payments grow and my portfolio value correspondingly increase. I know this goes against William Bernstein's investment philosophy, but it is a risk I choose to take.

Important Dividend Ratios

In this section, I am going to talk about how to do an initial screen for dividend stocks and some of the tools I use. There are literally thousands of stocks available to choose from. Not all stocks pay dividends however, and not all stocks are good investments in general (not by a long shot!). When building a portfolio and looking for stocks to further analyze, there are a couple of places I believe dividend investors can look to get started. These are the resources and tools that I use to screen for dividend stocks in my investment process. But first, let's take a look at the Dividend Key Ratios:

Before investing in any stocks, you must look at the company's financial ratios carefully. When we talk about dividend investing, we add in a few more ratios to look at:

Dividend Ratio #1: Dividend Yield Ratio

This is a simple dividend ratio to understand but still very important. The dividend yield is the percentage of return you earn from the stock you bought. Therefore, if you invest \$1,000 in a stock that has a dividend yield of 3%, you will earn \$30 from the dividends per year.

How to calculate the dividend yield ratio

You can usually obtain this information from any investing websites. However, you can also calculate it. Here's an example:

- Company name: Johnson & Johnson
- Company ticker: JNJ (on the American stock market)
- Stock price: \$59.69
- Annual dividend payout: \$2.16
- Dividend yield (annual dividend payout/stock price) = ($\$2.16/\59.69) = 3.62%

Quick guideline on Dividend yield: **must be over 3%**. Personally, I like when I buy a dividend stock giving me something in return. Low dividend stocks (under 3%) don't count as "dividend stocks" under my own definition.

Dividend Ratio #2

Dividend 1 year Growth Ratio

The dividend 1 year growth ratio will tell you if the company has recently increased or cut its dividend (you can read more about dividend increases and dividend cuts). This is interesting information as it provides you with an idea of the management team's perception of the future of the company. If the dividend 1 year growth ratio is positive (let's say 5%), this means that the company likely believes it will be able to maintain its dividend payout in the future. Conversely, a dividend 1 year growth negative would reflect a dividend cut, which leads to potential financial problems over the short term (for example. BP cut its dividend back in 2010 when their pipeline broke and created one of the most devastating oil leaks in history).

"Quick guideline on dividend 1 year growth ratio: must be positive."

How to calculate the dividend 1 year growth ratio

You can usually calculate the 1 year growth ratio by taking the prior year's dividend payout and the present year's dividend payout. For example, if a company paid a \$1 dividend per share last year and is now paying a \$1.10 dividend per share, your 1 year dividend growth is 10%.

Quick guideline on dividend 1 year growth ratio: It **must be positive** (5% and up is better, but do note that in some years you may have no dividend increases).

Dividend Ratio #3

Dividend 5 years Growth Ratio

This is exactly the same idea as the dividend 1 year growth ratio. What is interesting with the 5 year dividend growth ratio is that you can see a clear trend in the dividend payout. If the 5 year growth is similar to the 1 year growth, this means that the company has the habit of systematically increasing its dividend, year after year.

You can find the best dividend payers (companies that have been increasing the dividend for more than 5 years) from the following list:

- [Dividend Aristocrats list](#)
- [Dividend Champions list](#)
- [Dividend Achievers list](#)

Quick guideline on dividend 5 years growth ratio: **must be over 5%** (then you know that you have a consistent increase in your dividend payout).

Dividend Ratio #4

Dividend Payout Ratio

The dividend payout ratio (DPR) is very important as it gives you a clear indication of whether or not the company will be able to maintain its dividend payout.

How to calculate the Dividend Payout Ratio

Here's the ratio formula:

$$\text{DPR} = \text{Dividends Per Share} / \text{Earning Per Share}$$

For example, if a company paid out \$1 per share in annual dividends and had \$3 in EPS, the DPR would be 33% ($\$1 / \$3 = 33\%$). Another way to get the same ratio is to calculate:

Dividends / Net income

In the end, what is important is to understand if 33% DPR is high or low. I personally prefer a dividend payout ratio under 75% (and aiming usually for 50% or lower). This means that the company has a lot of room to maintain its dividend in the future.

Quick guideline on dividend payout ratio: **must be below 75%**.

Dividend Ratio #5: Earning Growth

The logic behind looking at earning growth is to know (again) if the company will be able to maintain its dividend. Earnings are defined as revenues minus costs, minus taxes. In other words, earnings are what is left in cash in the company (e.g. what is left to be distributed as a dividend or reinvested). If earnings grow then your chances of seeing a dividend increase grow as well.

Quick Guideline on earning growth: must be positive.

Call to action #5: Take a Second Look at the Dividend Lists

Use the following list and take a look at the stocks you can find there:

- [Dividend Aristocrats list](#)
- [Dividend Champions list](#)
- [Dividend Achievers list](#)

Review the key dividend ratio across those charts and look for companies you understand. If you don't understand how the company's main market works, then how can you know if it is a strong investment?

How to Find Good Dividend Stocks

It is one thing to look at financial ratios, but it's another when it comes down to finding good dividend stocks. If you look at them one by one, it could take you a lifetime. This is why I will point you to a few ways to find the stocks you are looking for...

Go with the bests: Dividend Aristocrats

The dividend aristocrats are companies on the S&P 500 Index that have carried through with the idea of consistently increasing the dividends offered to investors for at least 25 years.

Consistently may be a term that's thrown around too casually. In this case it is meant in its literal sense. The records are checked for every dividend payment over the last 25 years to ensure that they have increased each time consistently.

This is essentially a very exclusive list. Think about how many companies on the market were not even around 10 years ago, let alone 25 years ago. The list signifies that these are well established companies with steady growth over time.

Why are the dividend aristocrats so unique?

It's extremely rare for a company to increase its dividend payout to investors for a long period of time, especially for a period as long as 25 years. This is a list for companies that have clearly displayed the ability to survive the various market swings that have occurred over the last 25 years. Not only have these companies survived, they have thrived.

A warning about dividend aristocrats for young investors

Just because a company is on this exclusive list doesn't mean that it's a must-buy stock. It simply means that they have been able to increase their payout to shareholders. You don't want to find yourself overpaying for stocks just because a company is on this list.

You must also keep in mind that these companies may not offer as much growth in terms of stock appreciation. They will offer you a steady return over time, but the stock may not increase as much as that of an up and coming company on the stock market.

Dividend Achievers and Champions

Since the Dividend Aristocrats represent a very selective list, there are 2 other great dividend lists you can crawl to find your next stock to buy.

The dividend achiever list has been created by Mergent inc, a leading provider of business and financial data. Founded in 1900, Mergent specializes in data analysis of publicly listed companies. They are tracking all U.S., companies to determine which stocks can be included in their valuable dividend list.

The reason why the dividend achiever list was created was to track a larger number of stocks compared to the dividend aristocrats.

In fact, in order to be considered as a dividend achiever, a company must raise its dividend for at least 10 consecutive years. The goal of this dividend list is to identify the best dividend stocks with regards to consecutive dividend raise.

The Dividend Champion List has been created and maintained by David Fish. He is the executive editor of The Moneypaper Newsletter and co-manager of the MP 63 fund (Symbol: DRIPX).

This list is by far the most complete and detailed dividend list offered for free (and updated monthly). It provides quality information such as number of years of dividend raise, dividend yield, company sectors, ex-dividend date, etc. The complete list is provided here.

Another interesting point is that the dividend champion list is divided in 3 main categories:

#1 Dividend Champion (about 99 companies)

Those companies have been increased their dividend payout for at least 25 consecutive years.

#2 Dividend Contenders (about 135 companies)

The second list includes companies that have been raising their dividend payout for 10 to 24 years. They are the next to become Dividend Champions.

#3 Dividend Challengers (about 202 companies)

The third list contains companies that have been increasing their dividend for 5 to 9 years in a row.

For each category, you are also able to see just how many consecutive years the company has been increasing their dividends. Some of them are pretty impressive (11 companies have been increasing their dividend for more than 50 years!).

How to use a Stock Screener

The above mentioned list should be enough for you to find what you are looking for. I like searching through those lists because they are maintained by professionals and contain valid information. However, if you want to do your own stock screening, there are free resources you can use.

Another tool I use to identify dividend stocks for further analysis is the [Fin Wiz Stock Screener](#). This is a free stock screener that allows investors to input reams of criteria to come up with a list of stocks to do further analysis on. Here are the criteria I use to filter stocks:

Descriptive

→ Dividend Yield: over 3%

Fundamental

- P/E ratio: Under 15
- EPS Growth this year: positive
- EPS growth next year: positive
- EPS growth past 5 years: positive
- Sales Growth past 5 years: over 5%
- Payout Ratio: Under 70%

I wish this stock screener would present dividend growth over 1 year and 5 years but unfortunately that data is not available with a free screener.

These are the three resources I consider when utilizing a list of stocks to complete further analysis on. However, I do not simply buy off the lists. I do further fundamental analysis on each and every stock I consider buying.

Call to Action #6: Play with the screener

Use [Fin Wiz Stock Screener](#) and start looking at different stocks. Once you have played with the stock screener for a sufficient amount of time (and completed **call to action #5**), you will have some investing opportunities in mind. Note them in an excel spread sheet. Keep track of the data mining you just did (include financial ratios).

How To Build Your Own Dividend Stock Analysis Template

In order to build your own dividend stock analysis template, I suggest you start with my template and add what you think could be interesting for you. You might want to see if it fits in your dividend asset allocation or instead look more into the company management team. The possibilities are endless. However, I would suggest you keep a simple dividend stock analysis template so you can run several stocks through the tool. This will help ensure you make good decisions.

So here's how I think I will present my dividend stock analysis:

The Company Stock Description

Write down what the company does as you would describe it to a friend. Find out about their markets, their products, their strengths and their weaknesses. Understand the industry. If you don't understand how the industry works (e.g. what is important to look at, specific consideration, how balance sheet should be analysed), you should look into it more prior to looking at the stock itself.

Stock Graph

I use a 5 year stock chart showing “moving average.” It gives me the overall trend of the stocks over the most recent economic cycle. Dividend stocks are obviously more interesting when they are trading on an upwards trend. If you use [Google Finance](#), you can also get the dividend payment on the graph.

The Company Ratios and Financial Info

Numbers are very important, we all know that. I have already explained some dividend key ratios but there is more to it. Here are some of the metrics I use for each analysis:

Dividend Metrics

- Current Dividend Yield;
- 5 year Dividend Growth; and
- 1 year Dividend Growth

Company Metrics

- Sales Growth;
- Earning Growths;
- P/E Ratio;
- Margin Growth;
- Payout Ratio;
- Return on Equity;
- Earnings Per Share and Debt to Capital Ratio.

Stock Metrics

- Ticker;
- Price; and
- Trend (technical analysis).

Upcoming opportunities and dangers

Search around the web to find recent news about the stock. Look for potential opportunities (company projects, R&D, potential merger/acquisition) and dangers (competitors, economy, laws, etc.). This will provide a basic understanding of where the company is heading in the future. You will then be in a better position to see if this dividend stock is suitable for your portfolio or not.

Further Notes on the Stock Analysis Template

As I have already explained my vision about dividend key ratios, I wanted to share more info on specific metrics included in my dividend stock analysis template:

Revenues

My criteria for a positive revenue analysis are:

1. An increasing revenue trend line for at least the last 5 years;
2. A revenue growth trend line that is steeper than the company's closest competitor;

3. Do I expect that the company has a better than reasonable chance of continuing with the steep revenue trend line in the next five years

If the company cannot meet these requirements, then my analysis usually stops. However, there may be some cyclical stocks that see up and down periods in revenue growth. If this is a consistent pattern, then that is ok. Another thing I keep in mind is that very large companies (i.e. Procter & Gamble, Coca-Cola) can have difficulty growing revenues year after year. I don't necessarily look for a high revenue growth trend line, only a trend line that is up and growing faster than the competition.

Earnings Per Share (EPS)

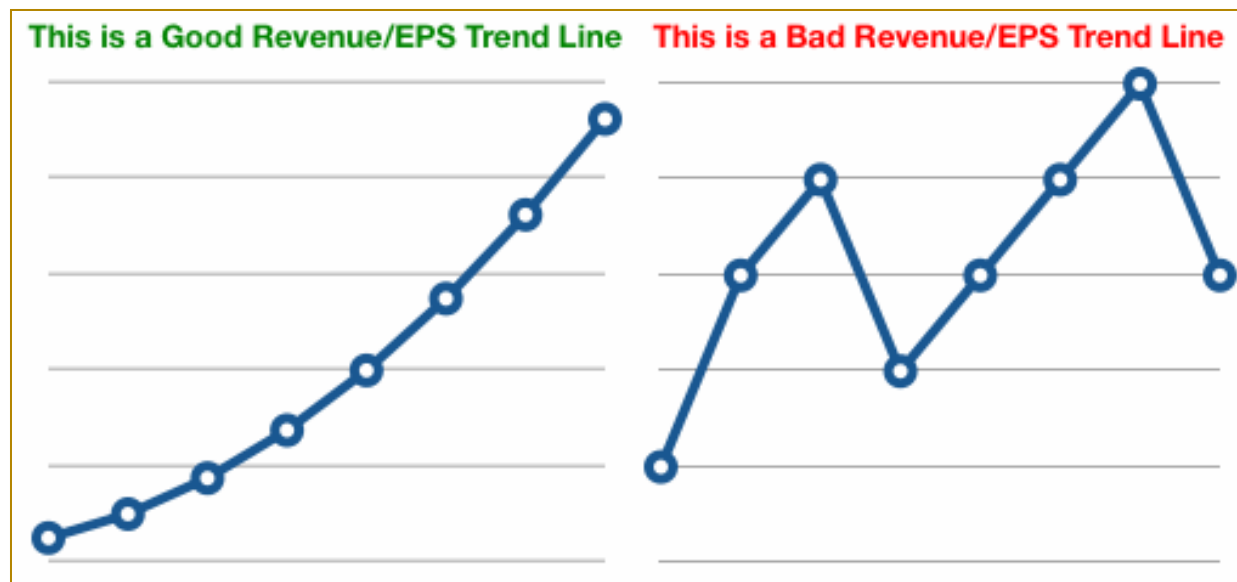
Earnings per share (EPS) are a much tougher factor to decipher for a company. In short, EPS are the total earnings of the company divided by the number of stocks on the market. For example, if the company made \$1,000 in revenue and it has 100 shares on the stock market, your EPS is \$10 ($\$1,000 / 100$ shares).

Revenue is revenue and is hard for a company to lie about, other than recognizing sales before a product actually ships or something like that. EPS on the other hand can be easily manipulated by a company, and not just in illegal ways. There are a number of very legitimate methods a company can use to present earnings. During my analysis of earnings, I don't necessarily concern myself with the exact EPS number. I instead focus on the trend line. Just as I do with revenue, I require the following criteria be met:

1. An increasing EPS trend line for at least the last 5 years;
2. An EPS trend line that is steeper than the company's closest competitor;
3. Do I expect that the company has a better than reasonable chance of continuing with the steep EPS trend line in the next five years;

This last point can be tricky, but a further analysis of items such as ROE later on will help to determine how well management is performing in their ability to earn money for the company. I always try to remember in the back of my mind that earnings can be manipulated. Again, I am looking at the trend.

The next step I take when analyzing EPS is to estimate what the EPS number will be 5 years out. This is obviously a very tricky thing to do, but it will be important later on when I start to value the stock. I look at the past 10 years of EPS history and earnings estimates from services such as Value Line to determine a number I am comfortable with. My approach is to be very conservative in my number to help build a safety net if things get bad. This will ultimately give me a buy price for the stock that I believe has some safety built in to it.



Return on Equity (ROE)

Return on equity is a measure of how well management of the company is using the equity in the company to deliver a return for shareholders. My view is that shareholders should expect a minimum ROE of 15%. However, more important is the consistency of this ROE over a number of years. I would much prefer to see a steady and consistent ROE number year after year. That is why I look at the last 5 years of ROE data and graph it to see a visualization of the ROE trend and numbers. Below is a graph that shows Disney's ROE and the scoring chart I use to record how well the company has done. You will see that Disney did not score well on this as they did not achieve those consistent results I look for.



Call to Action #7: Use the Dividend Stock Analysis Template

Once you have completed **Call to Action #5** and **Call to Action #6**, you should have a great list of dividend stocks. Take your “favorite” 5 and go through the stock analysis template. If you are missing numbers to complete the template, you can always find the data on each company's website under the investors' relation section.

Now, You Are Ready To Build Your Portfolio, What's Next?

Before we go ahead and start the step-by-step guide to get you trading, we need to think about one last thing. You just read how to build a never ending money distributor. Once it is built; what are you going to do with your dividend payment?

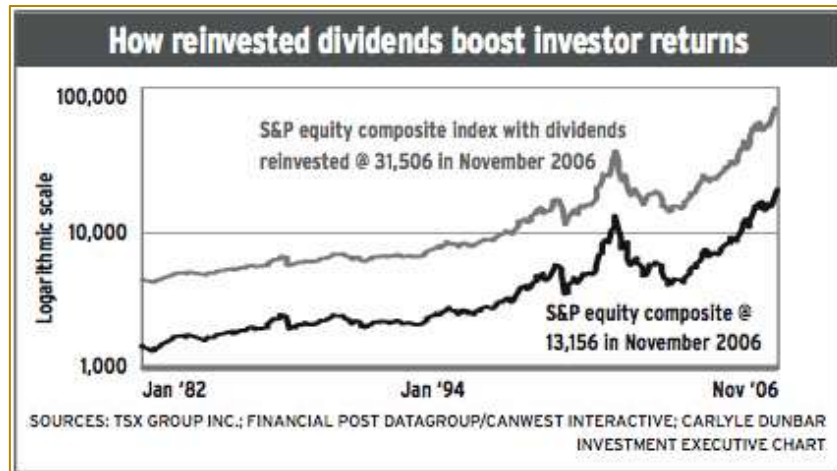
Reinvesting Dividends!

When an investor receives dividends from a dividend stock, they have two choices. The first is to take the dividends as cash and accumulate them in a brokerage account as cash to be withdrawn at a later date.

The second option is to immediately take those same dividend payments and use them to purchase more stocks, either in the same company or in another company. My choice is to take the dividend payments and accumulate them and buy the asset that is most out of balance within my target asset allocation.

My rationale for reinvesting my dividends is best described in an article I came across on the [AIC website](#) (pdf). The image below explains it all – from 1982 the TSX index returned 863% without reinvesting dividends and 1,705% with dividends reinvested. That equates to a lot of additional value created because of the reinvestment of dividends.

Quick Lesson About Compounding Interest and Dividend Reinvestment



All right, looking at this graph makes you see the big picture. **If you reinvest your dividend you will make more money.** But how is this possible? The answer lies in the power of compounding interest. So before we take a look at how to reinvest your dividends, let's learn about compounding interest:

The power of compounding interest is based on the return made on the return (weird line isn't?). Here's an example:

If you buy a stock with \$100 and the stock pays a dividend of 3% annually. If the stock price stays the same, at the end of the year, you will get \$100 worth of stocks plus \$3 in dividend.

You reinvest the \$3 in the same stock (through a DRIP which will be explained later on in this book) you start your year with \$103 invested in the same stock paying the same 3% in dividend yield. At the end of the year, you will have \$103 worth of stocks plus \$3.09 in dividend payout. The \$0.09 is the product of compounding interest.

Okay, 9 cents over a year is not much. But let's take the same example with \$10,000 at 3% over 25 years. In 25 years, you \$10,000 will be now worth \$20,937.78. This is \$10,937.78 generated from dividends.

What happens if you don't invest the 3% in dividend yield? In 25 years, you will still have \$10,000 invest in the same stock plus \$7,500 in cash (the accumulation 3% of \$10,000 paid each year). So, **you would be leaving \$3,437.78 on the table by not reinvesting your dividend.**

While this is a very simple example (we didn't consider stock growth nor dividend payout), it still shows you that compounding interest is pretty strong over time. In fact, your dividend payouts are grossed up by 46% (\$10,093.78 / 7,500) through the simple process of compounding interest.

Additionally, your return will be even greater if you select stock that increases steadily through dividend payouts.

Now back to Dividend Reinvestment

There are 2 ways you can reinvest your dividends:

#1 A "DRIP"; or

#2 Investing your cash in another dividend stock

Let's take a look at the two options:

DRIPs – Automatically Reinvest Your Dividend

A DRIP is a popular way for investors to take advantage of dividends to build a strong stock portfolio over time. DRIPs stands for Dividend ReInvestment Plan. Drips allow you to drip, drip, drip money into your portfolio over time to build a growing portfolio.

Traditional DRIP

A traditional DRIP allows you to buy stock directly from a company instead of through a stock broker. Many large companies offer a DRIP to investors. You can find which companies offer a DRIP through their investor relations sections on their websites.

In general, DRIP investors make a monthly (or other defined time period) commitment to purchase a certain amount of stock. On that regular interval, funds are transferred to the company and the investor is issued the shares out of the company's treasury stock.

As the name implies, your stock ownership is not limited to your cash investment. It grows every quarter when your dividends are automatically reinvested back into the company's stock. By contributing both new funds and dividend reinvestments, investors are able to slowly build up a large holding of the company's stock.

In some cases, investors work with a large bank, known as a transfer agent, to administer a DRIP account.

Whether through the company directly or a transfer agent, DRIP accounts usually have very low purchase requirements and allow low net worth individuals to begin building a portfolio. This is a huge benefit to young investors and new investors. If you are starting out with investing, you can set up a DRIP with several companies at once to begin building a diversified portfolio that can fuel its own growth through dividend reinvestments.

Build Your Own DRIP

Today, you don't have to be a big time investor to start up an online investment account. Companies like Questrade (Canadian), Sharebuilder, Zecco, TradeKing and Scottrade offer low fee, self-directed investment

accounts. Most of these companies allow you to decide whether you want your dividends deposited into your account or reinvested automatically.

I reinvest all dividends (except for one stock where I am “over-weight”) in my portfolio. In my investing situation, I am trying to grow my portfolio and net worth. DRIPs and dividend reinvestments are not ideal for older investors in retirement. Cash flow is more important to them. However, if you are building assets and trying to grow your net worth, dividend reinvestment is a wonderful tool.

To build your own DRIP through your brokerage account, start by doing research on dividend paying stocks. You can use the Google Finance [stock screener](#) to filter out stocks that pay a dividend. From there, do your research. Make sure it is a stock that you want to own for the long haul, that has a solid balance sheet, strong income statements, and good growth potential. After performing a fundamental analysis, set up your investment plan at your brokerage. [Sharebuilder](#), unlike the brokerage firms listed above, allows you to buy in amounts smaller than one share if you set up an automated investing plan.

As you buy your stocks, simply select the option to reinvest dividends. If you want to continue investing in the stocks, you can. If not, the investment will grow with the dividends.

Buy Another Dividend Stock

If you start with a small portfolio (e.g. below \$10,000), I strongly advise that you don't go with a DRIP. In fact, doing a DRIP in this situation will only concentrate your investments in the very few stocks you are holding.

In this case, you are better off investing your dividend payouts in a money market fund or a index mutual funds (with no transaction fees) and accumulate enough money to make your next investment in a dividend stock. But how much is enough to make a trade? Well, it is now time for the real stuff: Let's take a look at the step-by-step guide to start dividend investing.

“Most of these companies allow you to decide whether you want your dividends deposited into your account or reinvested automatically.”

Call to Action #8: Open a Brokerage Account

You should know enough by now to open your brokerage account and start investing. You surely don't want to spend hours to look at all your options. This is why I did it for you:

In the US, I suggest [TradeKing](#) or [OptionsHouse](#)¹

In Canada I suggest [Questrade](#)*

If you are looking for more information about brokerage accounts, I suggest you keep reading as we will now enter the **Baby Steps Guide to Start Dividend Investing**.



¹ Note: Canadians must use Canadian Brokers but they can buy US stocks through their Canadian Broker. Same thing for US investors who wish to buy Canadian stocks.

Chapter #3: Baby Steps Guide to Start Dividend Investing

All right! Enough reading principles and theories, now let's take a look at what you should do to start your investing journey. If you have followed the **Calls to Action** throughout this eBook, you should already be ready to start investing. This section is a recap of all the Calls with additional information when required.

Calls to Action

Call to action #1: All right now, you are going to do 2 things

#1 Grab a tank of coffee

#2 LET'S GET TO WORK!

Not much more to say besides, I like Starbucks Coffee ;-). Okay, let's get started for real now!

Call to Action #2: Open a Savings Account

Open an Electric Orange from ING DIRECT and set-up a monthly investment account. This will be your very first step to investing. Before you can invest money, you need to save it first. By using a periodic investment in your ING account, you will build the habit of paying yourself first.

You will then be able to accumulate enough money to start your investing journey. Start with a small amount and increase it over time.

Call to action #3: Know Your Risk Profile

Go to the [TIAA-CREF website](#) and complete the questionnaire. Don't do it in a heartbeat. Take some time to think about it. Then, take this additional [investor profile questionnaire](#) from Charles Schwab. Both questionnaires should lead you to the same answer.

It's important to take both questionnaires in order to really understand the meaning of each question. Since you will complete this step alone, you can't really ask questions to a financial advisor. By cross referencing your answers, you will be sure of your result.

Call to action #4: Determine Your Asset Allocation

This is now the time to determine how much you want to invest in dividend stocks as compared to other asset classes. If you are building your first portfolio, I strongly suggest you keep it simple:

Bonds (government bonds, ETF bonds or certificate of deposit); and/or
Equity (US and Canadian dividend stocks).

Then, it's only a matter of putting the right percentage in front of it. It must be in line with your investor profile (**call to action #3**).

If you are young and have an aggressive profile, I suggest you leave the bonds for now. They don't pay much interest and you will already be earning interest income from your [ING account](#).

Call to action #5: Take a Second Look at the Dividend Lists

Use the following list and take a look at the stocks you can find there:

- [Dividend Aristocrats list](#)
- [Dividend Champions list](#)
- [Dividend Achievers list](#)

Review the key dividend ratio across those charts and look for company you understand. If you don't understand how the company's main market works, then how can you know if it does the right thing?

Select a few stocks you would like to look into in the future steps. Those stocks will represent your first list of potential investments.

Call to Action #6: Play with the screener

Use [Fin Wiz Stock Screener](#) and start looking at different stocks (you can use [Google Finance Stock Screener](#) to look into Canadian stocks). Once you have played with the stock screener (and completed **call to action #5**), you will have some investing opportunities in mind. Take them down in an excel spread sheet. Keep track of the data mining you just did (include financial ratios).

You can cross reference with the stocks you found through the strong dividend payers lists.

Call to Action #7: Use the Dividend Stock Analysis Template

Once you have completed **Call to Action #5** and **Call to Action #6**, you should have a great list of dividend stocks. Take your “favorite” 5 and go through the stock analysis template. If you are missing numbers to complete the template, you can always find the data on each company’s website under the investor’s relation section.

This is probably the longest and most important step before investing; you need to investigate. At first, you will find this task harsh and redundant. However, after a while, stock analysis will become easier and fun. You will discover tons of companies and will become more analytical when looking at stocks. If you start your investing journey by selecting stocks with strong dividend ratios, you will definitely make money over the long run.

Remember; you are not here to become rich within months, you are building a strong cash distributor portfolio for your retirement.

Call to Action #8: Open a Brokerage Account

Now the fun stuff! You should know enough by now to open your brokerage account and start investing. You surely don’t want to spend hours looking at all your options. This is why I did it for you.

For Americans, I suggest [TradeKing](#) or [OptionsHouse](#)



I have selected those 2 brokers for the following reasons:

- **Low commission fees** (TradeKing is at \$4.95 per trade and OptionHouse at \$3.95)
- **\$0 minimum deposit** (which means that you can open your account today and not drop a penny)
- **Great Customer Service** (from all the reviews I've read, both brokers show great feedback from customers)
- **Easy to use** (those 2 trading platform are user-friendly. You certainly don't want to waste your time on learning a platform!)

For Canadians I suggest Questrade

Since Canadians are “stuck” in an oligopoly in regards to financial services, very few “low cost” options are offered. Most Canadian banks offer broker accounts but their trading fees are around \$9.95 for most of them. Questrade is a great alternative as their trading commission starts at \$4.95 per trade. They are also known for offering great customer service if you need to call them.



6 Questions & Answers Before You Buy Your First Stock

#1 Transfer Money In – What is the Minimum Amount to Start Investing?

In my opinion, you can start dividend investing with an amount as low as \$1,000. I suggest you build your first \$1,000 with your [ING account](#) and then move to a broker account. With \$1,000, your first trade should be in a safe stock (such as a [Dividend Aristocrats](#)) or with a dividend ETF. If you plan to invest a few thousand per year (through your periodic savings), I suggest you start with one stock and add a few others later to match your asset allocation.

#2 How Much Per Stock?

This is a tricky question. Some say you should start with as low as \$300 per stock. I completely disagree. In fact I use my trading fee as my main decision factor.

For example, if each trade costs you \$4.95, your “management cost” will be equal to 0.99% on a \$1,000 trade. In order to complete a trade, you need to buy and sell your stock. Therefore, the cost of a complete trade will be $\$4.95 \times 2 = \9.90 . Divide this trading cost by the amount you are trading (\$1,000) and you will get your “management cost”. 0.99% is lower than most dividend mutual funds. This is why I think \$1,000 should be the minimum invested in one stock. If you do the same calculation with a small investment of \$300 in one company, you end up with management fees of 3.3% (at this rate, you are way better off investing in mutual funds!).

I suggest you start with a solid dividend payer with your first \$1,000 and keep accumulating money each month (or bi-weekly according to your pay check schedule) in your ING account. Each time you reach the \$1,000 trigger, you switch the money in your broker account and buy another stock.

#3 How Many Stocks Should I Hold?

Between 10 to 20 (once your portfolio is fully built with a capital exceeding \$10,000). Make sure that your stocks are covering several stock market sectors:

- Basic Materials;
- Communications;
- Consumer, Cyclical;
- Consumer, non-Cyclical;
- Energy;
- Financial;
- Industrial;
- Technology; or
- Utilities.

This is how you will reach a great diversification within your portfolio. Holding only financials could be tempting but remember what happened in 2008. Don't be a fool. Play the diversification game. This is the only way that you are going to win in the stock market.

In order to grow to 10 to 20 stocks, you will have to do 2 things:

Do not use DRIP

Combine dividend payouts with your periodic savings

DRIPs are great when your portfolio is already built and you wish to acquire more stock of the same company. When you are building your portfolio, you don't want more of the same company; you want more stocks of different companies.

By combining dividend payout of your actual portfolio and your periodic savings, you should be able to buy a few stocks each year.

#4 When Should You Buy a Stock?

Honestly--when you have \$1,000 or more to invest ;-). There is no magic timing in a long-term investing strategy such as dividend investing. However, if you want to get all the odds on your side, I would pick stocks with lower P/E ratio and with low dividend payout ratios. Those stocks should be able to either show some capital gain or grow their dividend payouts overtime.

#5 When Should You Sell a Stock?

If the stocks keep showing low dividend payout ratio and continue to increase its dividend, I don't see much reason to sell. Your goal with dividend investing is to find steady dividend payers, not stock market rockets. You should immediately sell a stock that announces a dividend cut. Take your loss and move forward to another stock. If you select your stocks carefully, you shouldn't have to sell your stocks due to dividend cuts. However, one must review his or her portfolio to make sure all his or her stocks follow their historical ratio trends...

#6 When Should You Review Your Portfolio?

You should review your portfolio each year. Run each of your stocks in your dividend stock analysis template and make sure they continue to show the reason why you bought them in the first place. If they do not, look for an exceptional explanation. If there are no exceptional events links to the drop in the numbers, then get rid of the company and look for another one. By reviewing your portfolio once a year, this should prevent you from playing too much with it and incurring high trading fees.

Another thing to review once a year is your asset allocation. Make sure you have the same risk tolerance and that your stock portfolio is not too concentrated in a specific sector. If you got lucky and made a lot of money with one sector, make sure to sell a part of your shares to redistribute them on another stock.



Chapter #4: Tools of the Trades – The Complete List of Dividend Resources

Dividend investing can be very hard if you are throwing yourself on the stock market with little experience. This is why we have built a dividend investing resources center. You will find several tools and resources to make your investing journey a success.

Some investing resources are free, some others incur fees. Please note that there are affiliate program links within these resources. However, we are promoting only useful resources that we have personally tried and used. These are actual resources I use to manage my own portfolio.

The very first investing resource I suggest to you is to subscribe to the [Intelligent Speculator newsletter](#) and [The Dividend Guy Blog newsletter](#). Both are free newsletters I author with my partner. If you read these publications on a regular basis, you will get investment news and ideas for your next move.



Dividend & General Investing sites

I've been surfing through the net for several years and here are the **best dividend investing sites** and general investing resources I have found so far.

In order to facilitate your browsing, I have separated them into different categories. Please note that some general investing resources at the end of this list are not free.

My Best Dividend Growth Book: [Freedom Through Passive Income](#)

I've put in many hours researching, writing, editing or arguing violently (lol!) with my partner to produce this eBook. It focuses on the following issues:

#1 Invest In Foreign Stocks Without Paying Tons of Tax

#2 Triggers To Buy and Sell Stocks for Profitable Trades and Avoid Trading Dilemmas

#3 Generate Impressive Dividend Growth by Managing Your Portfolio as a Whole

After writing the most complete eBook on dividend investing for beginners (**the book you are currently reading has been downloaded more than 24,102 times to date**), I'm on my journey to achieve the very same accomplishment for more advanced investors. In this book, I wanted to explore more technical aspects of dividend investing and go deep inside the mechanics of building a high dividend yield, low-risk portfolio. All this is possible through the power of dividend growth!

[Click Here to take a look at the Table of Contents](#)



My Best Dividend Investing Sites

- [What is Dividend](#)
- [Seeking Alpha](#)
- [The Daily Crux](#)
- [Dividend Stock Analysis](#)
- [The Div Net](#)

Dividend Focused websites

- [DividendAchievers](#)
- [DividendAristocrats](#)
- [DRIP Investing](#)

Dividend Stock Charts & Calendar

- [Big Charts](#)
- [Stock Charts](#)
- [Dividend Calendar](#)

Dividend Stock Screeners

- [Dividend.com Stock Screener](#)
- [Google Finance Stock Screener](#)
- [Yahoo Stock Screener](#)

- [TMX Stock Screener](#)
- [Globe Investor Screener](#)
- [Finviz – Financial Visualization](#)
- [Dividend Investor Stock Screener](#)
- [Globe Investor \(Canadian\)](#)

Dividend News & Dividend Investing Articles Aggregators

- [GuruFocus](#)
- [StockPickr](#)
- [Marketwatch](#)
- [Reuters](#)
- [CNN Money](#)
- [The Street](#)
- [Bloomberg](#)
- [Dividend.com](#)

Other General Investing Resources & Investing Research Centers

- [Value Line](#)
- [Zack's Investment Research](#)
- [Financial Webring Forum](#)
- [Motley Fool Discussion Boards](#)
- [WikInvest](#)
- [Morningstar](#)

- [Canadianinsider](#) (Canadian)
- [Dividend Growth](#)

Investing Tools

If you have made it to this point in the book then you are looking to seriously invest in dividends and you want to start your investing journey on the right foot. To that end I have gathered some of the **best dividend investing tools** available on the web.

Note that all affiliate links in this page are linking toward great investing resources that I personally use. Enjoy your dividend investing adventure!

[INO Trend Analysis \(Technical Analysis\)](#)

This is a quick and useful investing tool to use to see the stocks trend you are following. You simply have to enter the ticker you are looking for as well as your email address and you receive a [free technical analysis report](#).

I use INO Trend Analysis each time I am about to buy a new stock in my portfolio. This allows me to avoid buying stocks that are about to break technical support. [Click here for a free stock analysis](#).

[The Kirk Report Newsletter](#)

This is probably the most resourceful investing newsletter you can find on the market. The best part is that it is one

“we are promoting only useful resources that we have personally tried and used. These are actual resources I use to manage my own portfolio.”

of the cheapest as well (only \$100 for a one year membership)! The expectations are clearly explained on his [membership benefits page](#). I strongly suggest you subscribe to this newsletter.

Market Club Free Trading Course

This is a free email trading course. I have tried it myself and I have enjoyed the information provided in this email series. Each week (for about 10 weeks), you will receive a trading lesson by email. You will get free information along with charts and videos. This is a great place to [start your investing journey](#).

The Dividends Value Premium

If you are looking for a specific dividend investing newsletter, I think that this is what you are looking for. In addition to the newsletter, you get access to several other benefits such as:

- Alerts;
- Private Forum;
- Data spreadsheets; and
- Analytical Reports

Market Club (Technical Analysis)

I really enjoy using the Market Club stock alerts when I am not sure as of when I will be trading my next pick. Market Club has set an alert system that enables you to follow as many stocks or indexes as you want.

Using their triangle strategy (based on the fundamental of technical analysis), you will be getting email alerts to tell you when to buy and sell your stocks.

Along with the trade triangle technology and the email alerts, you also have access to premium charts, portfolio analysis, as well as online seminars regarding several investing topics.

The good thing about Market Club is that you can try it for free for 2 weeks and see if you like it or not. [Here's the link for the free trial.](#)

Top 10 Dividend Investing Blogs

If you are looking for top dividend investing blogs, you are at the right place. I could have made a huge list of several dividend blogs. However, I have decided to put together the top 10 dividend blogs in my opinion. Those blogs will provide you with fresh and non-biased content. From dividend stock analysis to dividend investing strategies, you will surely find what you are looking for.

This is the **top 10 Dividend Blogs** I read on a regular basis.

#1 The Dividend Guy Blog

Surprise, surprise! This Dividend blog is actually one of my website properties ;-). I bought The Dividend Guy Blog back in 2010. I use it as my personal dividend blog as I show my dividend holding as well as my dividend stock analysis.

#2 Dividend Growth Investor

This is one of the top dividend blogs on the web. DGI has been around since 2008. Founder of the Div-Net and proud member of Seeking Alpha, DGI provides high quality dividend stock analysis.

#3 [Dividends Value](#)

Another pillar of dividend blogs. Dividends Value writes regularly on Seeking Alpha and also offer a very interesting dividend newsletter. You can find several “dividend list” articles on several topics.

#4 [Passive Income Earner](#)

Passive Income Earner is another great Canadian Dividend Blog. He closely follows Canadian dividends along with providing his analysis. You can also find the most recent dividend increase on several stocks he follows.

#5 [Dividend Monk](#)

Dividend investing requires time and patience... just like being a monk! This relatively new dividend blog (2010) is already part of my favourite reading.

#6 [Living Off Dividend](#)

One of the oldest dividend blogs of this top 10 list! Living Off Dividend was created in 2005! You can follow him through his passive investing journey. Looking through his archive will keep you busy for a few days.

#7 [Canadian Dividend Stock](#)

This is another of my sites. It is 100% concentrated on Canadian dividend stocks. We are covering nearly 200 stocks and update our analysis once a year.

#8 [The Dividend Pig](#)

With a name like this, you need to take a look at The Dividend Pig! He is a young and dynamic investor looking to increase his passive income. Follow his investing journey through his dividend investing moves mixed with some low cost ETFs.



#9 [Dividend Ninja](#)

Another catchy-named blog. The Dividend Ninja is looking to build a portfolio based on passive indexes and passive dividend stocks. What are his favourite stocks? Blue Chip dividend payers! Reading the Ninja investing philosophy and lessons learned is enough to convince you to add it to your weekly read!

#10 [BuyLikeBuffett.com](#)

The last but not the least of this top 10 dividend blog lists, Buy Like Buffet has been written by Mark Riddix since 2008. This site is written by a true investment professional as Mark run his own independent investment firm. Get his insights on dividend investing as well as many other topics.

Congrats Young Dividend Investor! – You're Done With This eBook. Thank You!

You know what? My dream job as a kid was to become a writer. At the age of 8, I was already writing small texts and having my parents read them. I even won a writing competition when I was 12! Ironically, it was a Microsoft writing competition ;-).

I started a few novel projects but never completed one. When I grew up, I put this dream on a shelf. I knew that being a writer would probably not be enough to fulfill my income ambitions. Today, I'm making as much from my blogs and websites as I am from my day job.

I'm very proud of myself now that I am finished my first book. I am writing the final words of this eBook with a mixed feeling of pride and anxiety. I am happy with what I have written but I certainly hope you liked it as much as I enjoyed writing it.

I hope that I have created a complete guide to dividend investing and that you will be able to make money from my knowledge. If that's the case, I encourage you to send my eBook to your friends and family so they can benefit from it as well.

Farewell...

You are done reading this book and ready to start investing. However, I won't leave you alone with your dividend stocks ;-). You are now ready for the next step: become a [Dividend Growth Investor](#):



[Click Here to Download](#)

I'll be updating WhatIsDividend.com with questions I receive from you. Please send me all your questions and comments at thefinancialblogger@gmail.com. I'll make sure to answer back everyone 😊.

Thx again for reading this book and I wish you a marvellous investing journey! **May the Dividend Force be with you all, and keep growing!**

Images credit

Thank you to all the artists and photographers that allowed us to use their images. Please follow the links to learn more about them.

Fish-revenge by HikingArtist.com	9
Man on green arrow by VS Unterhaching	12
Defining Targets Differently by HikingArtist.com	26
Oliver Feet by redjar	50
Jar of Coins by jay d	58
Chocolate Tools by JanneM	59
One little piggy by Darwin Bell	68