
Guide To Dividend Investing

let your money grow

*Profit from historically
undervalued companies*



Steven Dotsch
www.Dividend-Income-Investor.com

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Introduction

Dividends are a good thing. The majority view is the more the better. Many studies about investment performance provide compelling evidence that over the long term more than half of total returns come from dividends.

Still, many investors regard dividend income investing as extremely "boring". In particular investors – speculators, in my book – who are attracted to trading stocks and shares often in their elusive search for capital gains rather than steady returns.

Our introductory book, **Guide to Dividend Investing**, will show the important role dividends can play when building wealth on a solid footing. It will provide you with the basics of what you need to do in order to become a successful dividend income investor.

The main focus of **Guide to Dividend Investing** is based on a less well-known investment strategy, best described as "how increasing dividends from historically undervalued companies will generate superior total returns".

This concept has been the roadmap for our **Dividend-Income-Investor.com** stocks and share portfolio, which we launched earlier in 2011.

Back tested, it has stood the test of time. It would have navigated investors safely through virtually every market condition with maximum gain and minimum risk. It has proven its merit through various economic cycles, including periods of high and low interest rates, inflation, stagflation and recession, as well as the political and social upheavals during the last 25 years.

At **Dividend-Income-Investor.com**, we produce two regular publications **DII Snapshots** and **Dividend Income Reports** for the purpose of assisting our subscribers to make better-informed investment decisions.

At inception, we decided that to remain independent and objective we would not accept any advertising. Therefore, our revenues are based solely on subscriptions. This makes it necessary that our content must fulfil subscribers' needs for useful and quality information, resulting in continued subscriptions.

The proven methods found in our **Guide to Dividend Investing** assist us in making thoughtful decisions with our own capital as we continue to build our own **Dividend Income Portfolio**.

The **Guide to Dividend Investing** will show you what works and how to properly use it to your advantage. We aim to explain why and how dividends create value for long-term income investors and how dividend yields signal historically valid buying and selling areas.

What you will find in the Guide

The 90-page **Guide to Dividend Investing** is designed to help any investor use dividend income to build wealth with less risk. In the Guide:

- I talk through the basics – what a dividend is (and isn't); why, how, and when companies pay dividends; why some companies pay large dividends; and why high quality companies are able to pay increasing dividends while other How dividend income investing works... how to find historically undervalued shares, how to avoid "dividend traps"... profit from compounding and re-investing your dividends... choose better dividend shares with safe dividend yields... when to sell... and much more. All explained using a real-life example – the extraordinary dividend payer British American Tobacco Plc
- I also discuss the importance of quality when considering dividend-paying companies, as well as the ability to buy these companies, when they are historically undervalued, as well as lock in profits when they have become overvalued
- I provide an introduction to our powerful formulae on which our valuation metrics is based for finding historically undervalued companies
- Finally, I have included a resource for further recommended reading

Chapter 1

Why Dividends?

Many people dismiss companies that for decades have been paying dividends and that grow their payouts year in, year out.

For me however, nothing is held in higher esteem than the safety and continuity of increasing dividends. As an investor in stocks and shares dividends matter a great deal to me.

Investors stand a very good chance of increasing their wealth in the long-term when they invest in dividend paying companies that have a track record of regular dividend increases, in particular, when they are historically undervalued.

My name is Steven Dotsch. I am 53, married with two sons and have been a **Dividend Income Investor** for the last ten years.



I am well on my way to retiring comfortably, primarily by investing in high yielding shares with increasing dividend payments.

I've been passionate about dividends for a long time.

Why?

1. Dividends give you a cushion when markets are up or down; that's a great comfort in volatile markets
2. When a company declares a dividend, its management makes a statement about how it sees the future of the business
3. Dividends can go up, year after year after year, and with every increase, the yield on your original investment rises as well. Even if you start with say, a dividend yield of 3 per cent or 4 per cent, over time, you could easily end up with a yield of 10 per cent or more based on the purchase price of your shares.

What are Dividends?

As a shareholder, you are part-*owner* of a company. And therefore, you deserve your fair share of the net profits in the form of dividend payments.

However, it's not up to you but to your company's Board of directors to decide when and whether (or not) to pay a dividend to its shareholders.

Of course, there are obvious incentives for directors to maintain or increase regular dividend payouts, for one it helps to attract long-term income-minded investors, like you and me, and it generally is regarded as a sign of financial strength going forward.

Normally, when a company cuts its dividend, it usually signals an inability to manage its finances properly. After all, a company's ability to pay steady dividends over time — and its power to increase them — are the single *best* clues about the quality of the company and its management team.

This signalling function explains why company Boards are usually reluctant to cut dividends.

Now you can see why I love increasing dividend payments so much, in particular as increasing dividends:

1. Indicate a strong and profitable business
2. Demonstrate a commitment to shareholders that is all too rare these days
3. Represent immediate, non-refundable returns on my investment.

Many people dismiss companies that for decades have been paying dividends and growing modestly year in, year out.

Nevertheless, you stand a very good chance of increasing your wealth substantially in the long-term when you invest in dividend paying companies that are historically undervalued.

So Why Do Dividends Matter?

It's simple . . .

Sensible investors will only hold a company's shares if they believe that, at some stage, they will receive a payment from the company itself.

Chapter 2

Dividend Growth

Now that I have explained the huge potential of dividend-paying shares that increase their dividends, how much longer are you going to:

1. Keep your money in a savings account earning interest rates of 3% or even less — not even enough to keep pace with inflation
2. Let the rising cost of prescription drugs, housing, energy, school fees, insurance and all the other everyday expenses erode your lifestyle and threaten your golden years?

Inflation is not just some future threat. It's happening right *now*, every day. And *even if inflation does not get worse*, it still will eat away at the comfortable, worry-free retirement you are looking forward to.

Fortunately, that scenario is totally avoidable just by taking some simple steps to boost your income and total return.

Heck, as I have shown you already, with the right dividend-paying shares, you could double your income in seven years and almost quadruple it in ten years!

And that's *without* subjecting yourself to a gut-wrenchingly, high-risk roller coaster "investment" strategy . . . *without* in-and-out trading . . . spread betting or other types of high-risk leveraged investments.

"Today's investors face cash rates at record lows, diminishing fixed income yields demanding a higher risk appetite, and stubbornly high inflation. Equity income is a 'best of both worlds' option, one in which investors are able to preserve and grow capital, while generating consistent, steady income."*

Tony Stenning - Head of [BlackRock's UK Retail Business](#)

*Press release, March 24, 2011, regarding the launch of three new income funds

Inflation is the enemy of any investment

If inflation averages 'just' 3 per cent per annum, then, in 12 years the purchasing power of your cash flow is cut by 30 per cent.

This means that if you retire at say 66, you will see your purchasing power decline by 30 pence (or 30 dollar/euro cent) for every pound (dollar/euro) of cash flow when you reach 80.

Even worse . . . at an average inflation rate of just 3% per year your pound, dollar or euro will be worth just 50 pence or dollar/euro cents in less than 25 years.

If you are at or near retirement an annual cash flow of say £100,000 sounds pretty good. But if that £100,000 doesn't grow, its real value in 25 years will be less than £50,000. And that's with an average inflation rate of just 3 per cent per annum.

Research and anecdotal evidence clearly indicate that real inflation in old age is much higher, sometimes more than double the 3 per cent in our example.

How to fight inflation?

One way to fight inflation is to own investments that pay a higher income every year. For instance, undervalued dividend-paying companies that are able to increase their dividends on a regular basis.

The maths is compelling . . .

If a company pays you £200 in dividends per year now, and its dividend increases 3% per year, you'll receive more than £400 in dividends from this company 25 years from now.

As long as your dividends can keep pace with inflation – and exceed it substantially – your spending power will be maintained or even increased over time.

Long-term dividend growth is often overlooked by investors, but not by **Dividend Income Investors**.

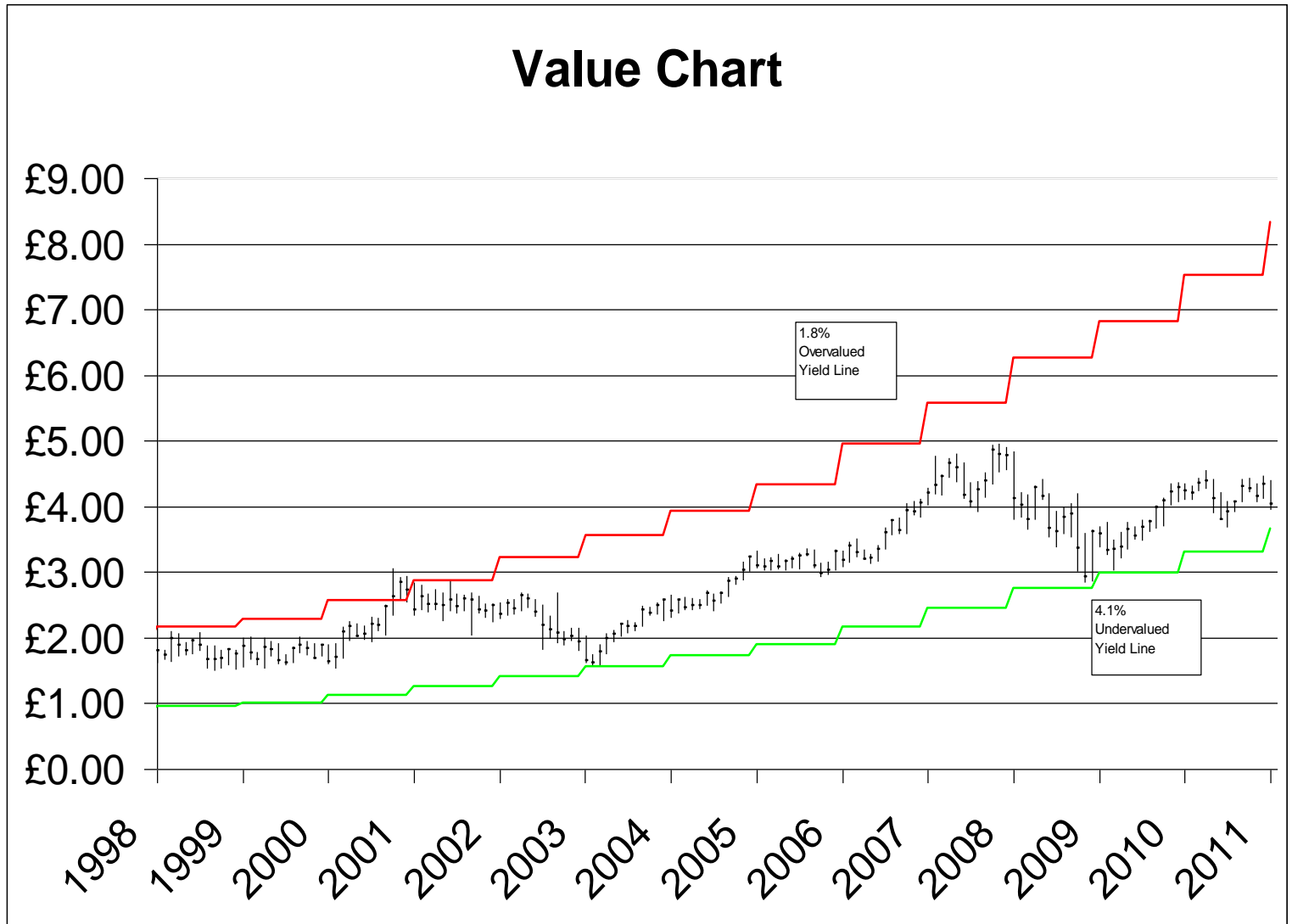
Some income investors focus solely on today's current dividend yield, rather than on the historical trend of dividend growth and near term dividend increase prospects.

Don't!

Above inflation dividend growth is your best friend when fighting inflation and that brings us to another powerful investment concept.

PREVIEW

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Publisher and Managing Editor: Steven Dotsch

Associate Editor: Alex Dotsch

Creative Editor: Ollie Dotsch

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