Earn A 10% Yield From This Boring Bank Stock!

Description

Investors are like dieters. They're always looking for the quick fix.

'How To Lose 20 lbs in 30 Days'

'Get Amazing Abs Without Crunches'

'3 Tricks to Get a Beach Body by Summer'

These headlines are appealing because they offer the results we want… *fast*. But as anyone who has actually lost weight knows, the only real solution is diet and exercise over time. Anything worth doing takes time.

The same principle applies to investing. Many investors reach for the highest yielding stocks they can find. It's a quick fix to generate income. But when it comes to building a retirement portfolio. it's dividend growth, not yield, that really counts.

That's because dividend growth uses the magic of compounding where by even a small "yielder"can become a cash flow machine if given enough time.

The Toronto Dominion Bank (TSX: TD, NYSE TD) is a great example of what the power of compounding can do for a stock's yield. Over the past decade, TD has increased its dividend at a 10% compounded annual growth rate. If you had bought and held the stock over that time, the yield on your original investment would be almost 10% today!

Take a look at the table below to see what I mean. This example assumes that you purchased 100 TD shares around $34 per share at the beginning of 2003.

The Magic of Compounding

Year	Dividend per Share	Total Dividend	Yield on C

2013	$3.24	$324	9.53%
2012	$2.98	$298	8.76%
2011	$2.68	$268	7.88%
2010	$2.44	$244	7.18%
2009	$2.44	$244	7.18%
2008	$2.40	$240	7.06%
2007	$2.20	$220	6.47%
2006	$1.80	$180	5.41%
2005	$1.64	$164	4.82%
2004	$1.40	$140	4.12%
2003	$1.20	$120	3.53%

Source: Company filings

Let's play out this thought experiment another 10 years. Assuming that TD can continue to grow its dividend at a 10% annual rate, by 2023 our yield on cost would be almost 25%.

Is that even possible? Maybe not. The previous decade has been one of the best on record for the Canadian banking industry. However, the company still has a long expansion runway in the United States. And even if TD's growth rate slows, the returns for patient shareholders will still be impressive.

But many income investors would've skipped over TD in 2003 when it only yielded a measly 3.53%. Like the dieter, they wanted the fast return or the quick results today. They couldn't see what years a compound growth could become.

Is it fun? No, but neither is diet and exercise. TD is a boring business. There's no cool technology to speak of. It will never get a T.V. segment on Quick Money. But it has a wide competitive moat and will crank out consistent profits year after year.

TD is evidence that when it comes to building a stream of retirement income, the goal isn't to find big yield. Rather, it's about finding a dividend trickle that could one day become a raging river. This New Year's, resolve to but a little more growth in your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

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