

The 1 Dividend Chart You Must See

Description

A part of me wanted nothing more than to go to sleep and never think about the stock market again.

I think I had experimented with every investment strategy ever devised. I had tested every technical indicator. I had read every book. Yet nothing seemed to work.

Then about 10 years ago, just before he passed away, my grandfather showed me something that changed how I thought about investing forever.

One evening from his office drawer he pulled out a dividend cheque from a large Canadian bank. As he explained, the annual dividend was worth more than half of what he paid for the stock.

Now, of course, that didn't happen overnight. I think he had been holding onto those shares since the 1970's. But the point is that even a modest yield can become a cash-flow machine if given enough time.

As my grandfather taught me, the real secret to building wealth isn't about searching for the big score or hunting for a thick yields. It's about finding a cash flow seedling that could one day become a mighty tree bearing fruit for decades to come.

The **Bank of Nova Scotia** (TSX:BNS, NYSE:BNS) is a great example of this. Over the past decade, the company has increased its dividend at an 11.3% compounded clip. If you had bought and held the stock over that time, the yield on your original investment would be almost 10% today.

To illustrate this concept, take a look at the chart below. This table shows the incredible power of small dividend hikes compounded over time. In this hypothetical investment, I assumed you purchased 100 Bank of Nova Scotia shares at around \$26 near the beginning of 2003.

The Magic of Compounding

Year	Dividend Per Share	Dividend Paid	Yield on
2013	\$2.44	\$244	9.38%
2012	\$2.24	\$224	8.62%
2011	\$2.08	\$208	8.00%
2010	\$1.96	\$196	7.54%

2009	\$1.96	\$196	7.54%
2008	\$1.94	\$194	7.46%
2007	\$1.79	\$179	6.88%
2006	\$1.56	\$156	6.00%
2005	\$1.36	\$136	5.23%
2004	\$1.17	\$117	4.10%
2003	\$0.84	\$84	3.23%

Source: Yahoo! Finance

What if we were to play this investment out another decade? If Bank of Nova Scotia can continue to increase its dividend at a 10%, by 2024 our yield on cost would be 24%. That's that power of compound growth in action.

And while this company is a great example of the power of compounding in action. But there're plenty of other blue-clip Canadian firms that have generated similar returns.

Take **Enbridge** (TSX:ENB, NYSE:ENB) for example. Many investors skip over this stock because of its paltry 3.2% yield. However, over the past decade the company has grown its dividend at a rate of 11.5% per year. If you had bought and held the stock over that time, the yield on your original investment would be over 12% today.

Shaw Communications (TSX:SJR.B, NYSE:SJR) has done even better. Since 2003, the company has raised its dividend at about a 34.8% compounded rate each year. If you had bought and held the stock over that time, your yield on cost would be 13.5% today.

Five or ten years ago, none of these stocks boasted drool inducing yields. But through compounding small gains over time, almost all of them yield double-digits.

Of course, these names were cherry picked. But history shows that buying companies with a sustainable competitive advantage and who consistently reward shareholders will produce similar returns. And it doesn't take a rocket scientist to identify amazing businesses.

You certainly don't need a PhD in finance to pull this off. In fact, those with too much academic training tend to overcomplicate the process.

You don't need to watch the market everyday. The genius of this strategy is that it takes care of itself.

But it does require patience. The ability to ignore daily fluctuations or make unnecessary trades. Unlike learning the guitar or training for a marathon, good investing is often about sitting on your hands and doing nothing.

Foolish bottom line

The returns generated by Bank of Nova Scotia and other blue-chip Canadian companies is proof that even a small yield can become a monster payout. As my grandfather taught me, the only thing between you and a double-digit income stream is a little bit of time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:ENB (Enbridge Inc.)
5. TSX:SJR.B (Shaw Communications)

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