



Earn an 11% Yield From This REIT

Description

When did we become obsessed with doing everything fast?

You can microwave a turkey dinner in two minutes? Get a beach body by May? Did we collectively forget that anything worthwhile takes time?

Unfortunately, the same type of thinking has infected the world of investing. For many the idea of income investing amounts to finding the highest yielding stocks they can find. For them a fat dividend is a fast solution to generate income.

However, when it comes to building an income stream for retirement it's dividend growth, not yield, that really counts. That's because through the magic of compounding even a dividend trickle can become a raging river if given enough time.

Boardwalk REIT ([TSX:BEI.UN](#)) is a great example of what the power of compounding can do for a stock's yield. Over the past decade, Boardwalk has increased its dividend at a 9.4% compounded annual growth rate. If you had bought and held the stock over that time, the yield on your original investment would be over 11% today!

If you want to see what I'm talking about, take a look at the table below. This example assumes that you purchased 100 Boardwalk shares at the beginning of 2004.

The Power of Compounding in Action

| Year | Dividend/Share | Total Dividend | Yield on Cost |
|------|----------------|----------------|---------------|
|------|----------------|----------------|---------------|

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|-------|--------|-------|--------|
| 2014* | \$2.04 | \$204 | 11.21% |
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|------|--------|-------|--------|
| 2013 | \$1.98 | \$198 | 10.88% |
| 2012 | \$1.88 | \$188 | 10.36% |
| 2011 | \$1.80 | \$180 | 9.92% |
| 2010 | \$2.30 | \$230 | 12.67% |
| 2009 | \$1.80 | \$180 | 9.92% |
| 2008 | \$1.80 | \$180 | 9.92% |
| 2007 | \$1.59 | \$159 | 8.76% |
| 2006 | \$1.30 | \$130 | 7.14% |
| 2005 | \$1.26 | \$126 | 6.94% |
| 2004 | \$0.83 | \$83 | 4.57% |

*Source: Company filings; *estimated annualized dividend*

Can Boardwalk continue to grow its distribution at the rate? That's unlikely. The trust's payout started at an unusually low rate in 2004. Therefore investors should expect more modest return expectations in the future.

However, let's play out this thought experiment for another decade. Assuming that Boardwalk can continue to increase its distribution at a 5% compounded annual rate, by the end of 2024 our yield on cost would be more than 18%!

Is this strategy exciting? Hardly.

Boardwalk is just a collection of residential apartment buildings throughout Western Canada, Ontario, and Quebec. There's no new technology to speak of. There are no interesting products. In short, Boardwalk's story has no 'sizzle'.

However, month after month thousands of tenants pay their rent cheques. The business will continue to crank out consistent and growing profits year after year. Yet many investors will skip over Boardwalk

entirely because the trust yields only a measly 3.53%.

Foolish bottom line

Like a dieter trying to lose 20 pounds by the end of the month, most investors want the tall yield or the quick results today. They can't see what a decade of compound growth can become.

Boardwalk is evidence that when it comes to building an income portfolio, investors shouldn't be searching for the big yield or the fast fix today. Rather, it's about finding a small payout that can grow and compound over time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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