The Dividend Investing Secret Your Broker Doesn’t Want You to Know

Description

Ten years ago my grandfather showed me something that completely changed how I think about investing.

One night from his desk drawer he pulled out a dividend cheque bearing the name of a well-known American company. As he explained, the annual distribution was worth more than half of what he paid for the stock.

He had no formal business education. He didn’t know the difference between EBITDA and EPS. Yet by employing this simple strategy, he was able to generate dividend yields exceeding 50%. However, almost no one in the financial industry wants to talk about how he did it.

The secret ‘they’ don’t want you to know about

Of course, those type of returns didn’t happen overnight. My grandfather had probably been holding onto those shares since the 1970s.

However, by simply buying and holding the shares of wonderful businesses that regularly rewarded their shareholders, he was able to build a steady income stream. Given enough time, even a dividend trickle can become a raging river.

ConocoPhillips (NYSE: COP) is a great example of what the power of compound growth can do for a stock’s yield. Over the past decade the company has increased its dividend at a 16% compounded annual clip. If you had bought and held the stock over that time, the annual yield on your investment would be almost 15% today.

Take a look at the chart below to see what I’m talking about. This simple table shows the incredible power of small dividend hikes compounded over time.

Year	Dividend per Share	Yield on Cost

2013	$2.70	14.6%
2012	$2.48	13.5%
2011	$2.01	10.9%
2010	$1.64	8.9%
2009	$1.46	7.9%
2008	$1.43	7.8%
2007	$1.25	6.8%
2006	$1.10	6.00%
2005	$0.90	4.90%
2004	$0.68	3.70%
2003	$0.62	3.4%

Source: Yahoo! Finance

Let’s play out this hypothetical investment out another 10 years. Assuming ConocoPhillips can continue to grow its dividend at a 10% annual clip, the yield on our original investment will grow to 38% by 2024. That’s the power of compound growth in action.

ConocoPhillips is a good example of this principle in action, but there are plenty of great dividend stocks right here in Canada. Take **Toronto Dominion Bank** (TSX: TD)(NYSE: TD), which over the past decade has increased its dividend at a 10% compounded annual growth rate. If you had bought and held the stock over that time, your yield on cost would be almost 10% today.

Enbridge (TSX: ENB)(NYSE: ENB) is an ever better example. Over the past 10 years, the company has increased its dividend at a 12% annual clip. If you had bought and held the stock over that time, the yield on your original investment would be 11.5% today.

Why is this kept from the public?

Yet in spite of the strategy's success, it's rarely promoted by stockbrokers. The simple fact is that most members of the financial industry are compensated on commissions. They make their money every time you buy and sell a stock.

Think about that for a moment. If your broker's livelihood depends on the number of trades you make, is he really going to pitch a stock that you may never want to sell? Probably not.

Stockbrokers hate promoting this type of investing philosophy. They know that once you invest this way, you will never be an active trader again.

How about financial planners or bankers? No, not likely either. They would much rather you put your money in high fee mutual funds, annuities, and insurance products.

Foolish bottom line

No one in the financial industry is going to tell you about this dividend investment strategy because the only one who benefits is you. But as my grandfather showed me, the secret to a double-digit income stream is buying wonderful businesses and a little bit of time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:COP (ConocoPhillips)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:ENB (Enbridge Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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