1 Simple Trick to Supercharge Dividend Stock Returns

Description

There's a really simple way to invest that's been proven to beat the market over the long term. It's a philosophy that's repeated often for one simple reason — it works.

Study after study has proven that companies that pay dividends that rise over time tend to outperform the stock market as a whole. If investors bundle the best of these into one portfolio, chances are they can beat the market as well. Of course, we all know the big struggle lies in identifying the best companies.

But it's not the dividend that makes these investments successful. Think about it this way: Would any of the largest and most successful Canadian companies be as dominant as they are if they no longer paid a dividend? Of course they would be. It's things like having a competitive advantage, terrific management, and scalable business models that make these companies successful. Thus, a rising dividend is a *result* of success, not a reason for it.

Therefore, a company's rising dividend can be a huge reason why investors would own a stock. An annual dividend increase by management is a sign of many good things going on behind the scenes. This is why dividend growth investing is so popular. It just works.

There's an easy way for investors focused on dividend growth to take this type of investing to the next level. All they need to do is reinvest their dividends. Let's look at some examples.

Real-life examples

Let's take a look at how **Telus** (TSX: T)(NYSE: TU) shares would have performed if investors had reinvested their dividends over the past five years. The share price moved from $15.48 per share in 2009 to $41.38 as I write this. The dividend grew more than 50%, rising from $0.24 per quarter to $0.38 per quarter.

Investors who took Telus dividends as cash would have enjoyed a 22.6% return, while investors who reinvested their dividends into more Telus shares would have earned a 23.1% return. The investor who used a dividend reinvestment plan to purchase more Telus shares would also be sitting on 5% more shares than someone who simply took their dividends in cash.

As more time passes, returns increase. Shareholders in **BCE** (TSX: BCE)(NYSE: BCE) have had a nice decade. Shares increased more than 90% during this time period, which includes a botched takeover attempt in 2008 and terrible economic conditions in 2009. The company continued to chug along though, increasing dividends by an average of 6.4% per year.

During the last decade, investors who took their dividends as cash would have enjoyed a 7.6% annual return, while investors who used a DRIP to reinvest their dividends into more BCE shares would have enjoyed an 8.0% annual return. Not only would reinvesting dividends have yielded almost a 5% greater return on an annual basis, but the investor who reinvested their dividends would have ended the decade with 13% more shares.

The longer an investor stays invested in a company, the wider the gap between returns will get. Over the past 20 years, shares in **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) have gained an average of 12.7% a year, while the company's dividend has gone up an average of 11.1% annually during the same time period.

Over the last 20 years, shareholders in Bank of Nova Scotia have would have enjoyed a 13.1% annualized return, assuming they took the dividends as cash. Investors who reinvested their dividends into more company shares would have enjoyed a 13.9% annualized return. Investors who reinvested their dividends outperformed by nearly 10% just by using their dividends to buy more shares.

It gets even better. Let's assume each investor purchased 100 shares. After 20 years, the investor who reinvested their dividends would now be sitting on 124 shares, while the other investor would still hold only the original 100. The DRIP investor would enjoy 24% more dividends than the other investor this year, and that gap would only widen with the passage of time.

If both investors manage to hold on to their shares for 40 years, the DRIP investor would hold more than 45% more shares than the investor who received their dividends in cash, assuming the same rates of growth.

It's really quite simple for dividend growth investors to outperform. The longer investors let these dividend growth machines grow, the more impressive results get. Why bother taking your dividends in cash when you can just simply reinvest them in more shares of some of Canada's best companies? It really is that simple.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:T (TELUS)

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