Income Investors: 1 Easy Way to Supercharge Your Dividends

Description

I'm sure a lot of people reading this are a lot like my friend, an investor in his early 70s. After years of speculating on the hottest tech stock, can't-miss new biotech drug, or whatever the latest growth trend was, he instituted a simple rule when it came to his portfolio. If a stock doesn't pay a dividend, he isn't interested.

His thought process is simple. Paying a consistent dividend is something that only profitable companies can pull off. It shows a company isn't in the position to need every spare penny to fund growth. And it tells him that management is serious about rewarding shareholders, rather than just being all about the share price or increasing the top line.

Many dividend investors don't know this, but there's a simple way you can increase your dividends from anywhere to 2-5% each year, all while doing next to nothing. On a $10,000 investment yielding 5%, that's an extra $10-25 annually, just by taking a few minutes of your time to set it up. In a portfolio worth several hundred thousand, you could make an additional $1,000, or even more.

All you need to do is set your dividends to DRIP.

The plan

A DRIP (Dividend Reinvestment Plan) is a simple concept. Instead of receiving your dividends in cash, you tell the company to automatically use them to buy more shares.

Assume you own 100 shares of a stock worth $10, which pays a 4% dividend annually. After a year of receiving shares instead of cash, you'd have 104 shares. After year two, you'd have 108, and then close to 113 after year three.

It's easy to see how your capital is compounded when you use a DRIP. And since these new shares are also paying dividends, the whole investment gets bigger and bigger as time goes on. Many investors have used DRIPs in the past to build portfolios worth millions.

This works for companies as well because of how it frees up cash. Instead of paying out cash dividends, they can just create new shares. This frees up cash for better uses, while investors still get something of value.

It gets better

For the largest of the Canadian blue chips, all they need to do is offer a DRIP, and they know a certain percentage of investors will take them up on it.

But for other lesser known companies, this creates an opportunity. If they can offer a discount for investors to reinvest their dividends into shares, it not only separates them from more mature competition, but it also makes their shares more attractive to income investors.

Take **Calloway Real Estate Investment Trust** (TSX:CWT.UN), one of Canada's largest owners of retail property. **Wal-Mart** is its main tenant, with more than 25% of total leasable area currently occupied by the behemoth. This works out well, since Wal-Mart's ability to draw foot traffic makes the surrounding area more attractive to other tenants.

Calloway currently offers investors a 5% discount to take shares instead of cash dividends. Thus, the company's 5.4% yield is boosted up to 5.65% if investors take the shares. That's not a bad little bonus, especially if you have a large position.

Even some of Canada's larger companies offer attractive DRIP plans. **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) offers investors a 2% discount to buy shares, which bumps its 4.45% dividend up to 4.54%.

Of course, there are other reasons to buy Shaw as well. The company has a solid position out west, with a very consistent and dependable business. It has the pricing power to increase prices to its cable, Internet, and home phone customers, as anyone who gets a monthly bill can attest. Plus, it's differentiating itself by building a network of 40,000+ WiFi hotspots throughout the west, allowing customers to get Internet on the go. Getting a slightly higher yield is just icing on the cake.

In a world where every stock is analyzed and reanalyzed, it's tough to pick up an edge. A 2-5% bonus doesn't seem like much, but it'll definitely add up over the years. If you're an investor who is constantly reinvesting dividends, I'd recommend that you look at using a DRIP and start taking that free money.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:SJR.B (Shaw Communications)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/09/10
Date Created
2015/05/13
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