How to Get Your Original Investment Back With Dividends

Description

Investors always want the next winning stock. Sure, you can win big if you can identify, buy, and hold the next **Apple Inc**., but investors should be happy to hear that they don't have to.

Investors can get their original investment back with dividends. Here's how.

An example with Fortis

If you'd bought 100 shares of **Fortis Inc.** (TSX:FTS) 10 years ago for $22.50 per share (an investment of $2,250, excluding transaction fees), you would have received $1,114 in dividends if you'd held onto the shares. These dividends would equate to 50% of your original investment! As long as you continue to hold on to these shares, eventually you'll get your original investment back.

Fortis yielded 2.8% 10 years ago. After a decade of dividend growth, Fortis's dividend has increased by 123%, and the yield on cost on the Fortis investment would be 6.7%. At the same time, the share price has appreciated by 78%, equating to annualized price appreciation of 5.9% on average. Adding in the dividends received over the years, you would have generated an average annual return of roughly 8.5%.

An example with Enbridge

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is a higher-growth company compared with the more conservative and stable Fortis.

If you'd bought 100 shares of Enbridge 10 years ago for $17.20 per share (an investment of $1,720, excluding transaction fees), you would have received $1,045 in dividends if you'd held onto the shares. These dividends would equate to 60% of your original investment! As long as you continue to hold on to these shares, eventually you'll get your original investment back.

Enbridge yielded 3.3% 10 years ago. After a decade of dividend growth, Enbridge's dividend has increased by 269%, and the yield on cost on the Enbridge investment would be 12.3%. At the same time, the share price has appreciated by 195%, equating to annualized price appreciation of 11.4% on average. Adding in the dividends received over the years, you would have generated an average annual return of roughly 13.5%.

Conclusion

Some investors ignore dividends, thinking the typical dividend only yields 3-4%. However, the compounding power of growing dividends can become formidable over time. Imagine if you have reinvested those dividends for even higher returns!

In the first scenario, Fortis was an example of a company that grew conservatively, and it didn't disappoint. It has delivered average market returns of 8.5%. In the second scenario, Enbridge was an example of a company that grew more aggressively with more leverage.

It’s good to earn your original investment back as soon as possible; however, investors have to decide if they’re willing to take on more risk for higher returns. Whenever you get a higher yield or growth from an investment, you should think about the risk that comes with it.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:FTS (Fortis Inc.)

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kayng