# New Investors: How Does Focusing on Dividends Help You?

## Description

You can earn income from stocks via their dividends. That income can be used to pay the bills or be reinvested. If you care about getting a stable dividend income stream from your stock portfolio, you'll have to focus on the business health, dividend health, and the willingness of the company to continue paying dividends.

At the same time, dividends also act as a psychological factor to help you hold on to your investments instead of trading them in the hopes of earning quick profits from capital gains that are driven by news and market sentiment. After all, share prices are less predictable than dividends.

Let's use **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) as an example.

### The business

Bank of Nova Scotia was founded 184 years ago in 1832. Today it is the third-largest bank in Canada. The bank's products and services must stay relevant for it to achieve that.



Bank of Nova Scotia offers a wide range of advice, products, and services, including personal and commercial banking, wealth management and private banking, corporate and investment banking, and capital markets.

The bank earns about 58% of its income from Canada, and it is balancing that out with its international operations. Currently, it earns about 17% of its income from attractive Pacific Alliance markets, including Mexico, Peru, Chile, and Colombia and about 19% of its income from other places such as Asia and Europe.

### Long-term profitability

Although Bank of Nova Scotia's earnings per share (EPS) have occasionally declined in a given year, its earnings tend to rise over the long term. In the fiscal years 2000 to 2015, the bank's EPS increased by 8.2% on average per year. More recently from the fiscal year 2010 to 2015, its EPS increased at an annualized rate of 7.9%.

But keep in mind that just because a company tends to increase its earnings and profitability over time doesn't mean it'll necessarily share that wealth with its shareholders.

### Dividend

Bank of Nova Scotia treats its shareholders well, though. Since the bank started paying a dividend in 1833, it has continuously paid it since. The bank has hiked its dividend for 48 out of the last 50 years.

In the fiscal years 2000 to 2015, its dividend per share increased by 12% on average per year thanks to growing earnings and payout-ratio expansions. More recently, in the fiscal years 2010 to 2015, its

EPS increased at an annualized rate of 6.8%.

At about $66 per share, Bank of Nova Scotia yields 4.3% with a payout ratio of about 50%. This payout ratio aligns with the other Big Five banks.

**Conclusion**

Bank of Nova Scotia aims for a return of equity north of 14% and EPS growth of 5-10% in the medium term. So, you can count on the bank to continue paying and hiking its dividend going forward.

The bank has historically outperformed the S&P/TSX Composite Index in total returns. The bank's annualized rates of return were 6.5% and 7.8% from 2010 to 2015 and from 2005 to 2015, respectively. These exceeded the annualized rate of returns of the S&P/TSX Composite Index, which were 4.3% and 5.6%, respectively, in these periods.

At the same time, the bank also generated an above-average income compared to an investment in a broad market exchange-traded fund.

By focusing on getting safe dividends from quality companies such as Bank of Nova Scotia, you can rely less on volatile stock prices that could experience wide swings that are driven by short-term news.



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2. TSX:BNS (Bank Of Nova Scotia)

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