

## New Investors: Use DRIPs to Compound Your Earnings

### Description

Stocks all have the potential for capital gains (selling a stock for a higher price than you bought it), and some also provide income through regular dividends. If you are interested in income stocks, you should consider signing up for DRIPs on qualifying stocks. Let's look at what DRIP is and how it works.

### What is DRIP?

DRIP (also known as DRP) stands for dividend-reinvestment plan. (Yes, the *I* is superfluous.) Some stocks allow you to reinvest your dividends to buy more of the company's stock. For example, **Altagas Ltd.** ([TSX:ALA](#)) pays a monthly dividend of \$0.175 per share for an annual payout of \$2.10 per share. (Note: this stock has a hefty dividend yield of 7.58%.) You could simply take this money as cash, or you could reinvest it.

When you reinvest it, you are usually buying partial shares each time you receive a cash dividend. This allows you to compound, or grow, your money. DRIPs also have the benefit of avoiding commissions. Every time you purchase a stock, you need to pay a commission to your broker. Reinvested dividends do not have to pay this commission, so you also save on fees. Another bonus is, some stocks allow you to make optional cash payments. You can make extra investments directly through the DRIP without paying a commission. Nice, right?

The downside is, some DRIPs now charge service fees for the privilege of being part of the DRIP, but these still tend to be lower than full-on commissions.

### How do you know if a stock offers DRIP?

One of the easiest ways to find out which stocks are enrolled in DRIP is through the website [www.driprimer.ca](#). You can search the site to see what stocks offer this service. A quick search of the site showed me that Altagas does offer DRIP. So, you can take your nice Altagas dividends and buy more shares of the company without hassle.

### Investor takeaway

Some investors look for dividend-paying stocks because they want regular income from their stock portfolio, which is fine. But if you don't need the regular payouts, using a DRIP is a great way to compound your investment and avoid fees. What's not to like?

### CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

### TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

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