



Investors Are Wasting 75% of Their Time

Description

Time is the one thing that nobody has enough of these days. In our crazy 24/7 world, you can't afford to waste it.

Unfortunately that is exactly what most investors do.

Not just a small proportion of it, but a whopping 75%. Why do we do this? Because we have got our priorities wrong.

Going for growth

Too many investors, especially at first, spend their time hunting for stocks they expect to rise in value. Capital growth is all they care about.

Some rush around trying to catch falling knives in the hope that they will quickly fly upwards again.

Others jump onto momentum stocks in the expectation that they will continue to power ahead.

Another strategy approach is to buy undervalued stocks and hope they recover.

Time rich

All of these strategies can make you richer and pursuing them should take up, say, 25% of your time.

However, 75% of your total return over the longer run will come from dividends.

They will make up three quarters of the money you ever make from investing, assuming you re-invest them for growth.

Fun, fun, fun

Regular Fool users may already know this, because we have been banging on about it for years, but

too many investors still haven't got the message.

Too many are distracted by the prospect of buying a stock that will double, triple or quadruple in value.

However, it cannot be relied upon. Share prices can crash, or stagnate for years.

Ultimately, growth is just 25% of the fun.

Income stream

Dividends may not seem as exciting at first yet in the longer run, that is where you will generate most of your money.

Those quarterly or annual payouts may not look spectacular, but you get them year after year.

Well-managed companies will also aim to regularly increase their dividends, giving you a rising income.

The benefits compound over time.

Compound growth

Say you invest \$1,000 in a stock yielding 4% a year, and the company increases its dividend at an average rate of 5% a year.

After 10 years, your money will be worth \$1,633, giving you a total gain of 63.34%, provided you have ploughed your dividends back into buying more stock. The average gain is 6.33% a year.

If you hold the stock for 20 years and the dividend growth continues, your \$1,000 will be worth \$3,589, a total gain of 258.86%, or an incredible 12.94% a year.

Any share price growth will be on top of this.

Time is on your side

Even more amazingly, your annual dividends will have grown from \$40 in year one to \$329 by year 20, which works out as a yield of nearly 33% expressed as a percentage of your original investment.

Too many investors fail to realise this, because they have been spending 75% of their time focusing on capital growth.

Time is money, so allocate yours wisely. You should be thinking about dividends, three quarters of the time.

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