Revealed: How Re-investing Dividends Can Make You Rich

Description

Thousands of Canadian investors have discovered a simple method of investing that yields impressive results over the long term. This philosophy, dividend-growth investing, has its share of detractors, but you can't argue with the results. Investing in companies with a history of improving their dividend payouts over time is a great way to get rich.

Many newer investors don't realize just how powerful dividend-growth investing is. Let's take a closer look at just how well such a strategy has worked over the last 20 years, starring **Royal Bank of Canada** (TSX:RY)(NYSE:RY), one of Canada's top dividend growers.

Why Royal Bank?

Simply put, Royal Bank is a financial services behemoth. The company is Canada's top bank, holding a dominant position in retail banking, credit cards, wealth management, and total mortgages outstanding. The company also has strong capital markets and insurance subsidiaries. Not content to dominate Canada, it plowed profits back into its expansion effort, gobbling up assets in the United States. Royal Bank has a significant U.S. retail banking operation, but much of the company's U.S. assets are dedicated to wealth management.

But the biggest reason to choose Royal Bank as a long-term hold for your portfolio is the company's stellar record of dividend growth. Although it did pause its dividend during the 2008-10 period, it has consistently grown its payout over the years.

This growth is especially striking when you look at it over the long term. Back in 2000, the bank upped its quarterly dividend from $0.135 to $0.15 per share. These days, the stock offers a quarterly dividend of $1.02 per share.

That kind of dividend growth alone would be impressive, but there's more to this story. Royal Bank shares have appreciated significantly over the last 20 years. Add this to the growth in the payout and we start to see some truly remarkable results. Pay attention; this is the kind of thing that can make you rich.

A case study

Let's do a little experiment to demonstrate the power of dividend-growth investing and how much re-investing your dividends matters.

Let's say you bought $10,000 worth of Royal Bank shares back in 1999, exactly two decades ago. If you kept those shares and kept plowing your dividends back in, just how much would you have today?

The results are stunning. Royal Bank generated a 13.29% annual return, which was enough to turn a $10,000 original investment into one now worth $121,457.

Now we're talking.

But wait. It's unlikely an investor would only put $10,000 to work once and then abandon the exercise. So, let's expand our back test and say an investor added $10,000 each year to their Royal Bank investment in 2000, 2001, and 2002. They then moved their attention onto other things.

Results of this back test are even more impressive. $10,000 invested in Royal Bank shares 19 years ago is worth $100,881 today. A similar investment made 18 years ago is worth $80,382 today. And finally, the same investment made in 2002 would be worth $65,023.

In total, $40,000 invested into RBC shares over four years from 1999-2002 would be worth close to $370,000 today. This investment would generate nearly $15,000 in annual dividends — cash that could be put back to work buying an additional 150 or so shares per year, assuming the price stays the same as today.

The bottom line

It's amazing just how much a simple investment in a great company can pay dividends down the road. I truly believe Canadian investors who put their cash to work in our best companies will be very happy in a few decades' time.

I know I sure regret not loading up on Royal Bank shares 15 years ago when I first started investing. The good news is, it's not too late. You can start loading up on shares today and create the bedrock of a passive-income empire in the future.

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