Forget Dividend Stocks: Here’s What You Should Do to Grow Your Portfolio to $1,000,000

Description

Investing in dividend stocks is a great way for investors to be able to grow their portfolios over the years. While that’s a good modest and safe approach to investing and producing good returns, it may not always be the optimal strategy.

A stock like **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) offers investors a very attractive dividend yield of 4.9%, which is higher than some of the bigger banks.

And with growing payouts, it’s a good way to generate some good long-term returns. While investors will also benefit from capital appreciation, the stock’s share price has risen by just 16% in five years, averaging an annual increase of 3% per year.

Here’s how a $100,000 investment in Scotiabank would like if the company maintained that rate of growth along with its dividend being increased at a rate of 6.4%, which is what the bank stock has been averaging of late:

Year	Portfolio	Qtly Dividend	Annual Dividend	Cumulative Dividend
1	$103,020.00	$0.90	$4,868.81	$4,868.81
2	$106,131.20	$0.96	$5,180.39	$10,049.21
3	$109,336.37	$1.02	$5,511.91	$15,561.12
4	$112,638.32	$1.08	$5,864.65	$21,425.77
5	$116,040.00	$1.15	$6,239.96	$27,665.73
6	$119,544.41	$1.23	$6,639.29	$34,305.02
7	$123,154.65	$1.31	$7,064.17	$41,369.20
8	$126,873.92	$1.39	$7,516.25	$48,885.44
9	$130,705.51	$1.48	$7,997.25	$56,882.70
10	$134,652.82	$1.57	$8,509.04	$65,391.73

11	$138,719.33	$1.67	$9,053.58	$74,445.31
12	$142,908.65	$1.78	$9,632.96	$84,078.28
13	$147,224.49	$1.89	$10,249.43	$94,327.70
14	$151,670.67	$2.02	$10,905.34	$105,233.05
15	$156,251.13	$2.14	$11,603.23	$116,836.28
16	$160,969.91	$2.28	$12,345.79	$129,182.07
17	$165,831.20	$2.43	$13,135.86	$142,317.93
18	$170,839.30	$2.58	$13,976.49	$156,294.42
19	$175,998.65	$2.75	$14,870.92	$171,165.34
20	$181,313.81	$2.92	$15,822.59	$186,987.94
21	$186,789.48	$3.11	$16,835.16	$203,823.10
22	$192,430.53	$3.31	$17,912.54	$221,735.63
23	$198,241.93	$3.52	$19,058.85	$240,794.49
24	$204,228.83	$3.75	$20,278.53	$261,073.02
25	$210,396.54	$3.99	$21,576.26	$282,649.28
26	$216,750.52	$4.24	$22,957.04	$305,606.32
27	$223,296.38	$4.52	$24,426.18	$330,032.51
28	$230,039.93	$4.80	$25,989.35	$356,021.85
29	$236,987.14	$5.11	$27,652.54	$383,674.40
30	$244,144.15	$5.44	$29,422.18	$413,096.57
31	$251,517.30	$5.79	$31,305.06	$444,401.63
32	$259,113.12	$6.16	$33,308.43	$477,710.06
33	$266,938.34	$6.55	$35,440.02	$513,150.08
34	$274,999.88	$6.97	$37,708.01	$550,858.09
35	$283,304.87	$7.42	$40,121.15	$590,979.24

Over 35 years, the total investment will still not reach even $900,000 at these levels. While Scotiabank’s impressive dividend growth will contribute nearly $600,000 over those years, it’s still nowhere near enough to make up for the poor capital appreciation, which has added just $183,000 along the way.

Choosing a solid growth stock is the key

Investors can improve their overall returns if they can find invest in a top growth stock instead. **Alphabet** (NASDAQ:GOOG) has seen its share price rise by close to 150% in just five years and the stock has averaged annual returns over that time of around 20%.

That's good enough to beat many dividend stocks. While a 20% return may not be likely to carry on for decades, the point is to illustrate just how much of a discrepancy there is between the two investment options. Here's what Alphabet's returns would look like when investing $100,000 compared to Scotiabank's returns above:

Year	Alphabet	CIBC	Difference
1	$119,822.78	$107,888.81	$11,933.97
2	$143,574.99	$116,180.41	$27,394.58
3	$172,035.54	$124,897.49	$47,138.05
4	$206,137.76	$134,064.10	$72,073.67
5	$247,000.00	$143,705.73	$103,294.27
6	$295,962.27	$153,849.43	$142,112.83
7	$354,630.21	$164,523.85	$190,106.37
8	$424,927.78	$175,759.36	$249,168.42
9	$509,160.28	$187,588.21	$321,572.07
10	$610,090.00	$200,044.55	$410,045.45
11	$731,026.80	$213,164.64	$517,862.16
12	$875,936.63	$226,986.93	$648,949.70
13	$1,049,571.62	$241,552.20	$808,019.42
14	$1,257,625.89	$256,903.72	$1,000,722.17
15	$1,506,922.30	$273,087.41	$1,233,834.89

As you can see, a growth rate of nearly 20% would dwarf the modest returns that investors could earn even with a growing dividend stock like the CIBC.

It would take just 12 years for Alphabet to be able to reach $875,000 — more than the total CIBC reached after 35 years. And by year 15, the gap between the two investing strategies would be more than $1.2 million.

What does this tell us?

For investors, there's really no substitute for a top growth stock like Alphabet. While there's no guarantee that the stock will be able to continue growing at a rate of 20%, if it does, it could soundly outperform a dividend stock like the CIBC. Investors find growth stocks captivating because they always find ways to add value and grow their sales.

In Google's case, the company has gone from a search engine company to being one of the leading tech companies in the world that offers cloud-based services, email, and smartphones.

It's come a long way over the years in developing its business, and there's little reason to believe that it won't continue to do so for the next 10 years.

Innovation has driven the stock to the heights, and while it may not grow at this rate for a long time, it's definitely a stock that I'd invest in before Scotiabank.

While there may be a bit more risk, Alphabet offers a lot of value, and it's still a safe bet to continue delivering strong growth for investors for many years to come.

Scotiabank, however, could be a suitable option for investors looking to just buy and forget a top dividend stock, as it's a safe bet to continue producing strong profits for a long time.

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Author
djagielski