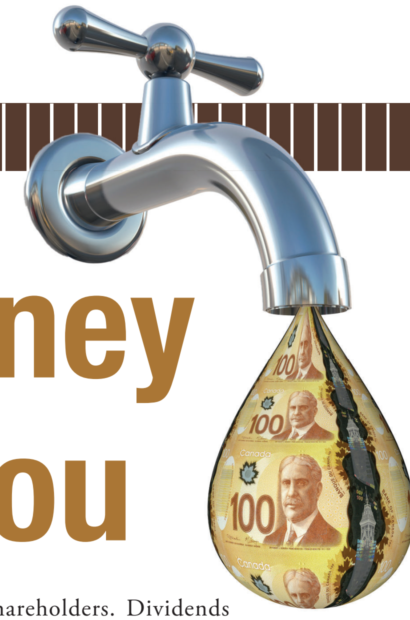

Letting Your Money Work Hard for You

> *She works hard for the money*
> *So hard for it, honey*
> *She works hard for the money*
> *So you better treat her right*
> (Donna Summers, 1983, *She Works Hard for the Money*)

It's not only Donna Summers who works hard for her money; I know my readers and clients are also all hardworking individuals, with extraordinary dreams and an unyielding spirit to achieve them.

One of my clients, Gerald (not his real name), was shown the importance of hard work from an early age. He has always worked hard on the family homestead alongside his dad, who taught him the value of repairing instead of buying new.

It is not easy fixing farm equipment with rusted parts, greasy hands, and heavy lifting, not to mention the time spent looking for replacement parts or redesigning them if they cannot be found, just to save a buck.

This back-breaking work ethic has helped him become a valuable employee at a utility company where he spends his time working outside in the heat, rain, and frigidly cold weather that is part of the Manitoba climate. The long hours working outdoors has weathered his skin and made this pre-retirement fellow look older that he actually is – with one look, you can see that this man has worked hard all his life.

One of the most important lessons Gerald has learned is to save and invest his money. He has always been a believer in the power of long-term investments and, while working with me as his advisor, he has also become fond of dividend paying stocks, where the companies he invests in pay the surplus of their earnings out to the shareholders. Dividends are nothing new – some well-known companies have been paying dividends for more than a century, such as the Bank of Montreal, Royal Bank, Toronto Dominion Bank, and BCE.

Every month, Gerald sends in a portion of his savings to invest, and we discuss companies that would allow him to become a shareholder so that he can enjoy the benefits of dividend income. We also talk about diversifying his portfolio and investing in high quality companies that pay and increase their dividends over time.

When investing, we plan out the portfolio of companies based on the dividend cycles of when they pay their dividends. Most dividends are paid out four times per year, and some companies pay dividends on a monthly basis as well. Because each company will pay dividends on different schedules, we set up the portfolio so there would be close to an equal amount of dividend income coming in each month. We have also discussed the power of compounding growth with enrolling the dividends in the Dividend Reinvestment Program (DRIP).

The DRIPs add up

Many common shares can be purchased with the option of having their dividends reinvested back into the company, rather than receiving a cash payout. Consider the potential growth over the long term if your portfolio increases not only in dollar value, but also in quantity of shares.

There are several advantages

to using a Dividend Reinvestment Plan (DRIP) for your own portfolio:

- Tax-Advantaged – the dividend tax credit.
- Cost-effective – there is no commission to use a DRIP, no annual fee.
- Selection – more than 60 TSX companies participate.
- Effective – DRIPs put your dividends to work immediately, instead of having the cash just sitting around doing nothing.
- Dollar Cost Averaging – buy more shares at lower prices and fewer shares when the market moves up at higher prices. The result is that you have reinvested in more shares at a lower cost.
- Simplicity – no forms to complete.
- Liquidity – shares can be sold at anytime.
- Compounding – DRIPs give you compounding; as your reinvested dividends buy more and more shares your dividends get bigger over time.

As the years have gone by, Gerald's investments have started to bear fruit. The companies he has invested in have not only grown in value, but he is also receiving dividends that have compounded with the distribution reinvested in more shares. Compounding really has a snowball effect – it starts out rather modestly then gathers momentum.

During our last meeting, Gerald brought up the impact of his dividend income in his portfolio. He realized that the dividend income was more than just a financial tool, it was a testament to his patience, discipline, and belief in the long-term potential of quality companies. Dividends have not only provided him with financial stability but have also granted him the freedom to pursue outside interests and – unlike his father – go out and buy new parts for the equipment at home. I told him quality companies that provide dividends tend to offer better long-term appreciation and greater downside protection. Gerald just nodded and let me know he couldn't have said it better himself.

So, instead of working hard for your money, let your money work hard for you by investing in top companies that pay dividends, and then compound that growth by investing into DRIP.

For more information, contact an investment adviser. ◗

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