DSR 2024

DIVIDEND STOCKS ROCK

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

DSR RECESSION-PROOF PORTFOLIO WORKBOOK

FIFTH EDITION 2024

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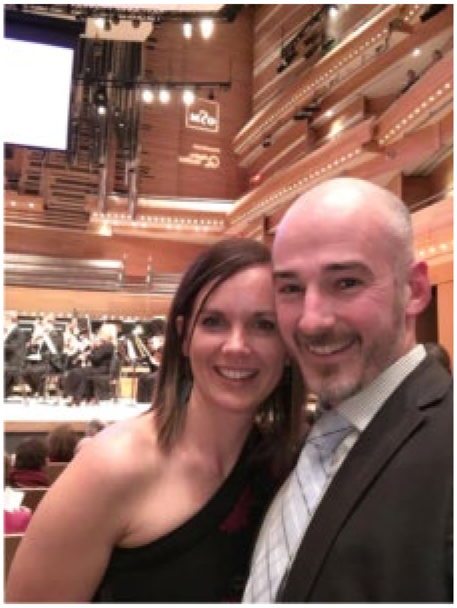
20+ YEARS OF INVESTING AND PLANNING AT YOUR SERVICE



My name is Mike Heroux and I'm the author of The Dividend Guy Blog, The Dividend Monk, along with being the founder of Dividend Stocks Rock (DSR) (yes, I thrive on staying busy!). I have an unusual sense of humor for a "nerdy finance guy".

I earned my bachelor's degree with a double major in finance and marketing along with an MBA in financial services. I worked in the financial industry for over a decade including 5 years as a certified financial planner and another 5 as a private banker managing accounts for high net worth (read $1M+) clients.

Since 2003, I have been 100% invested in equities. I shifted my entire portfolio into a dividend growth investing strategy in 2010. I've been through market crises such as the credit crunch in 2008, the oil bust of 2015, the "flash crash" of 2018 along with the COVID-19 in 2020.

I know how it feels to lose money and feel overwhelmed by the amount of information being disseminated by various market analysts. I've helped hundreds of retirees manage their portfolios in such a way as to assure their retirement was never at risk. I've always kept my portfolio aligned with my strategy and have ended-up with great results. I'm now offering my assistance to thousands of investors like you so you can **invest with conviction** and **enjoy your retirement**.

In 2017, after returning from a one-year leave everything behind RV trip across North America all the way to Costa Rica, I left my job as a private banker and invested all my energy in my fledgling online business. I chose to pursue my dream of helping people invest through my websites, as a full-time online entrepreneur.

You can read more about my investing journey here.

ABOUT THIS WORKBOOK

This book is a guide to help you to achieve three things:

- **Invest with conviction and address most of your buy/sell questions.**
- **Build and manage your portfolio through difficult times.**
- **Enjoy your retirement.**

Each section goes straight to the point and comes with a “get to work” section where you get to answer questions about your portfolio and apply what you just learned. This book is designed for all investors, but if you are a DSR member already, you will notice that you can use our tools to save time and grow your confidence.

2024 Revised Edition

Each year, we will revise this workbook. While the essence of our strategy will remain intact, we have improved some sections and kept all the information and graphs up to date. I hope you will enjoy this new edition and take the time to refresh your investment strategy.

CONTENTS

THERE ARE TOO MANY UNCERTAINTIES, I'M GOING TO WAIT…

I created DSR in 2013 while I was working full-time as a financial planner. The site slowly evolved until I quit my job and focused on my mission to help thousands of people invest with conviction. That was in 2017. This year, DSR will turn 11 years-old. We are very proud of our accomplishments to date. A lot has changed since its creation. We have made multiple upgrades to our products and services, we grew our team of professionals, and we created a premium service called DSR FI. One thing has remained the same throughout the past decade though:

Many investors think "Today is not the right time to invest".

I feel this general feeling is particularly strong in 2023. Maybe it's because we just got out of a once-in-a-lifetime pandemic. Maybe it's because the last time we saw raging inflation, most of us weren't even born or were too young to care about the stock market. Maybe it's because we don't see how the toxic mix of strong inflation and higher interest rates will impact our economy. And do we have time to talk about the war in Ukraine?

Now, let's take a trip back down memory lane and look at each year since the creation of DSR:

2013

- Taper Tantrum: The Federal Reserve announced plans to taper quantitative easing, leading to bond market volatility and concerns about rising interest rates.
- Eurozone debt crisis: Lingering concerns over the debt crisis in Europe, particularly in countries like Greece, Portugal, and Spain.

2014

- Oil price collapse: Oil prices declined rapidly which caused concerns about the energy sector and the global economy.
- Geopolitical tensions: Russia's annexation of Crimea and the ongoing conflict in Ukraine raised concerns about global stability.

2015

- China's stock market crash: China's stock market experienced a severe crash which prompted fears of an economic slowdown in the world's second-largest economy.
- The Greek debt crisis: Greece struggled to repay its debts, raising the possibility of a Grexit (Greece exiting the eurozone) and causing uncertainty in the European markets.

2016

- Brexit: The UK voted to leave the European Union creating uncertainty in European and global markets.
- US Presidential election: The contentious US election fueled concerns about economic policies and global trade.

2017

- North Korea tensions: Escalating tensions between the US and North Korea raised concerns about potential military conflict and its impact on the global economy.
- US Federal Reserve interest rate hikes: The Fed started raising interest rates, causing concerns about market reactions.

2018

- US-China trade war: Tensions between the US and China escalated into a trade war which created uncertainty for the global economy.
- Stock market volatility: The US stock market experienced significant volatility, including large declines in February and December.

2019

- Global economic slowdown: Concerns about a slowdown in global economic growth, particularly in Europe and China, worried investors.
- Inverted yield curve: An inverted yield curve in the US bond market raised concerns about a potential recession.

2020:

- COVID-19 pandemic: The global pandemic led to widespread market volatility and economic disruption, with numerous industries facing severe challenges.
- Oil price war: A price war between Saudi Arabia and Russia contributed to plummeting oil prices and concerns about the energy sector.

2021

- Inflation fears: Rising inflation and concerns about potential central bank responses led to market volatility.
- COVID-19 vaccine rollout: Uncertainties regarding vaccine distribution, efficacy and the emergence of new virus variants continued to impact the markets.

2022

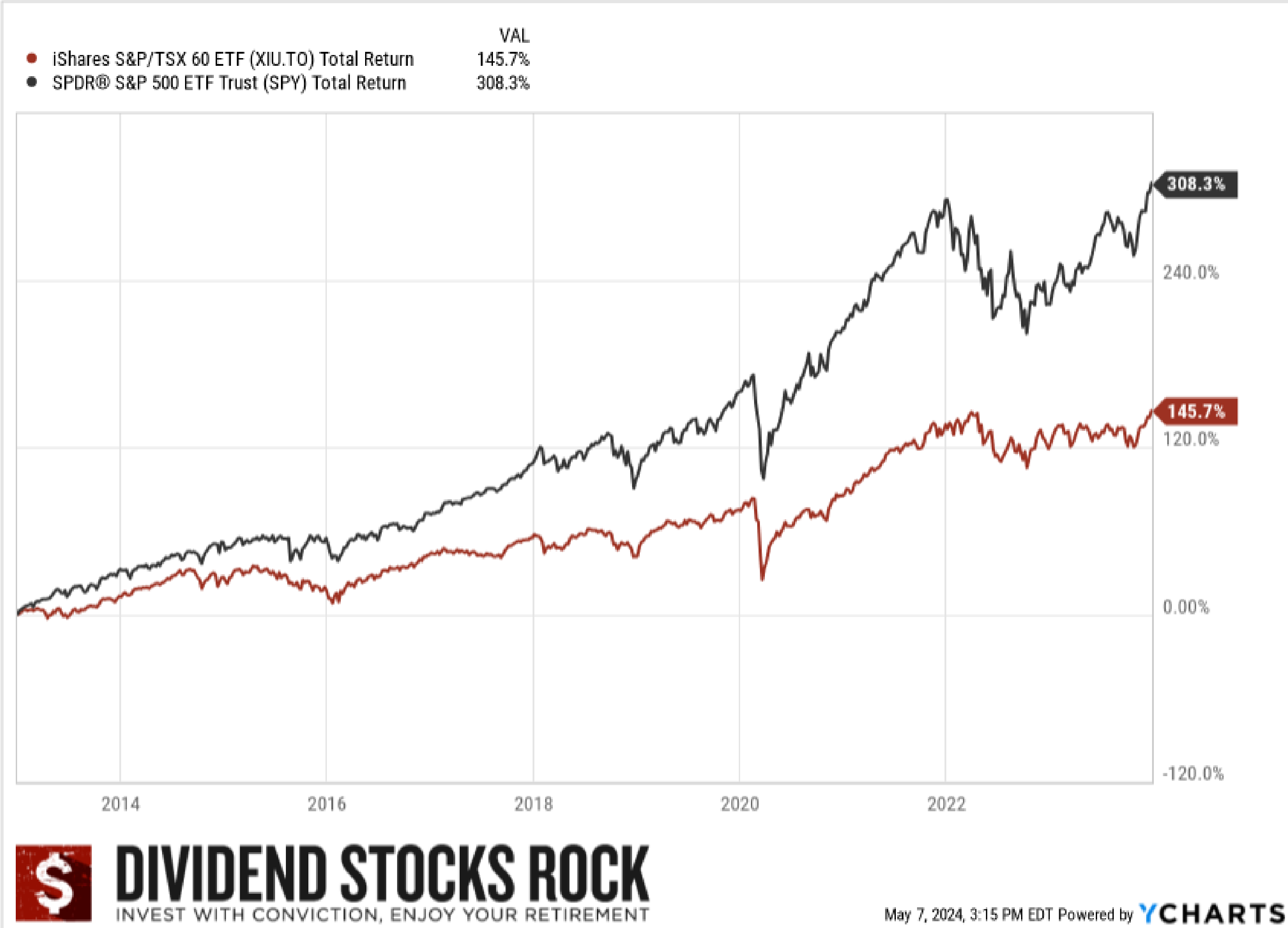
- Geopolitical tensions: Continued tensions between the US and China, as well as conflicts in the Middle East, contributed to global uncertainty.
- Bear market: the S&P 500 decreased by more than 20% meeting the minimum requirement to call for a bear market.

2023

- Inflation is still raging, and interest rates haven't been cut yet.
- The market ended on a positive note, it's probably just another bubble growing and it will burst in 2024.

While these events and uncertainties may have seemed like reasons not to invest, it's important to remember that markets have historically continued to grow over the long term despite short-term challenges. In this specific case, we are talking about more than doubling your money on the TSX (+145.70%) and more than quadrupling your money on the U.S. market (+308.30%).

Oh… and did I mention that for most of this time, investors said the market was overvalued and it was best to wait?

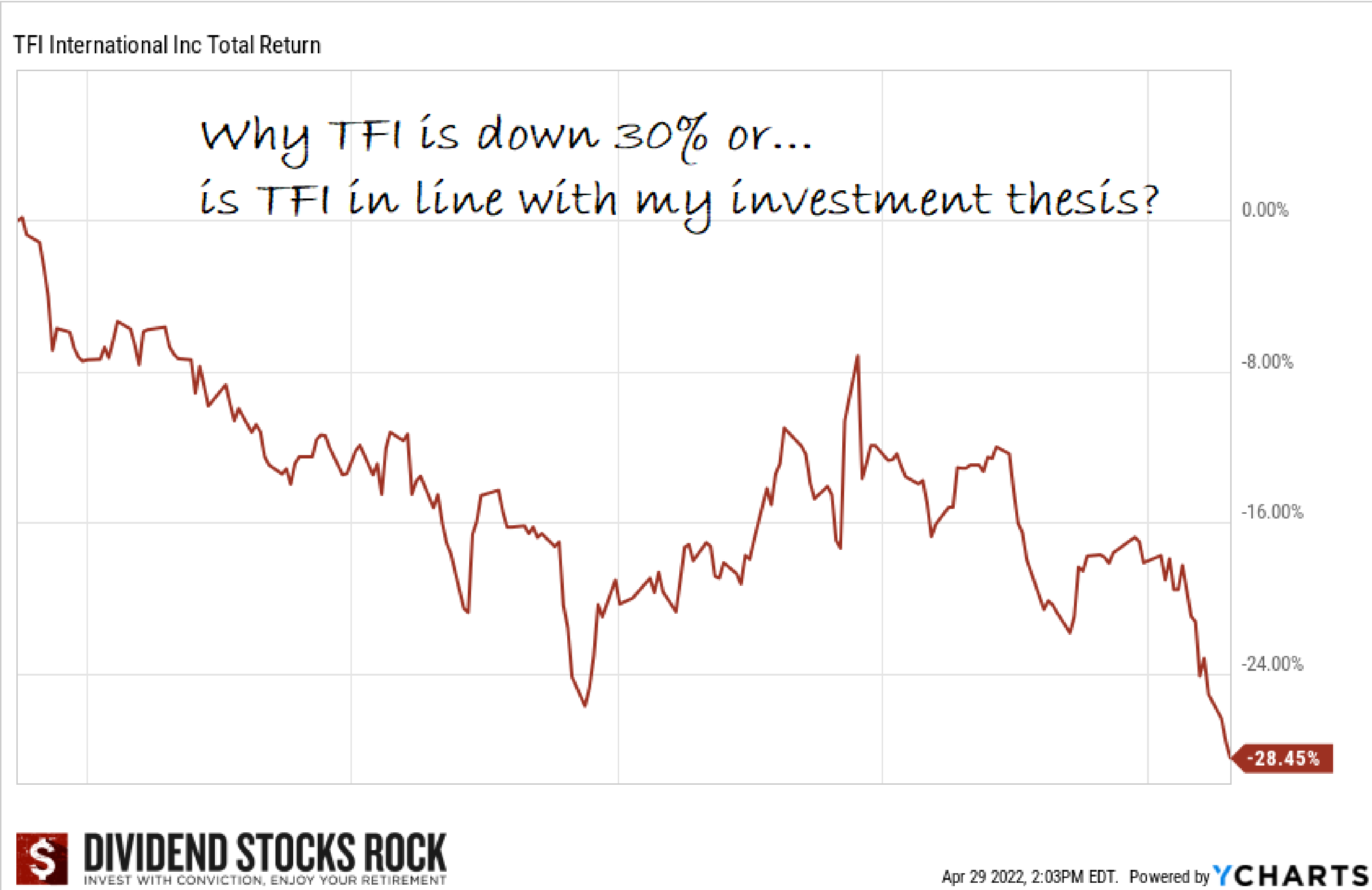


This calls for the real question:

Why the reasons not to invest in 2024 are more important than a Pan-European debt crisis, a war climate, natural disasters, an oil bust, a trade war, and a global pandemic?

Today is no different than yesterday – it's still the best time to invest

The market is filled with short-term investors that don't have the same investment goals as you and I do. They focus on performance for the next week, next month or the next quarter. As a dividend investor, you are smarter than this. You focus on the next decade, 25 years, half a century. If you don't believe me, here's an example for you to consider. Consider this stock price graph of TFI International (TFII.TO) for a nine-month period (please note that I've taken the year off the chart on purpose):

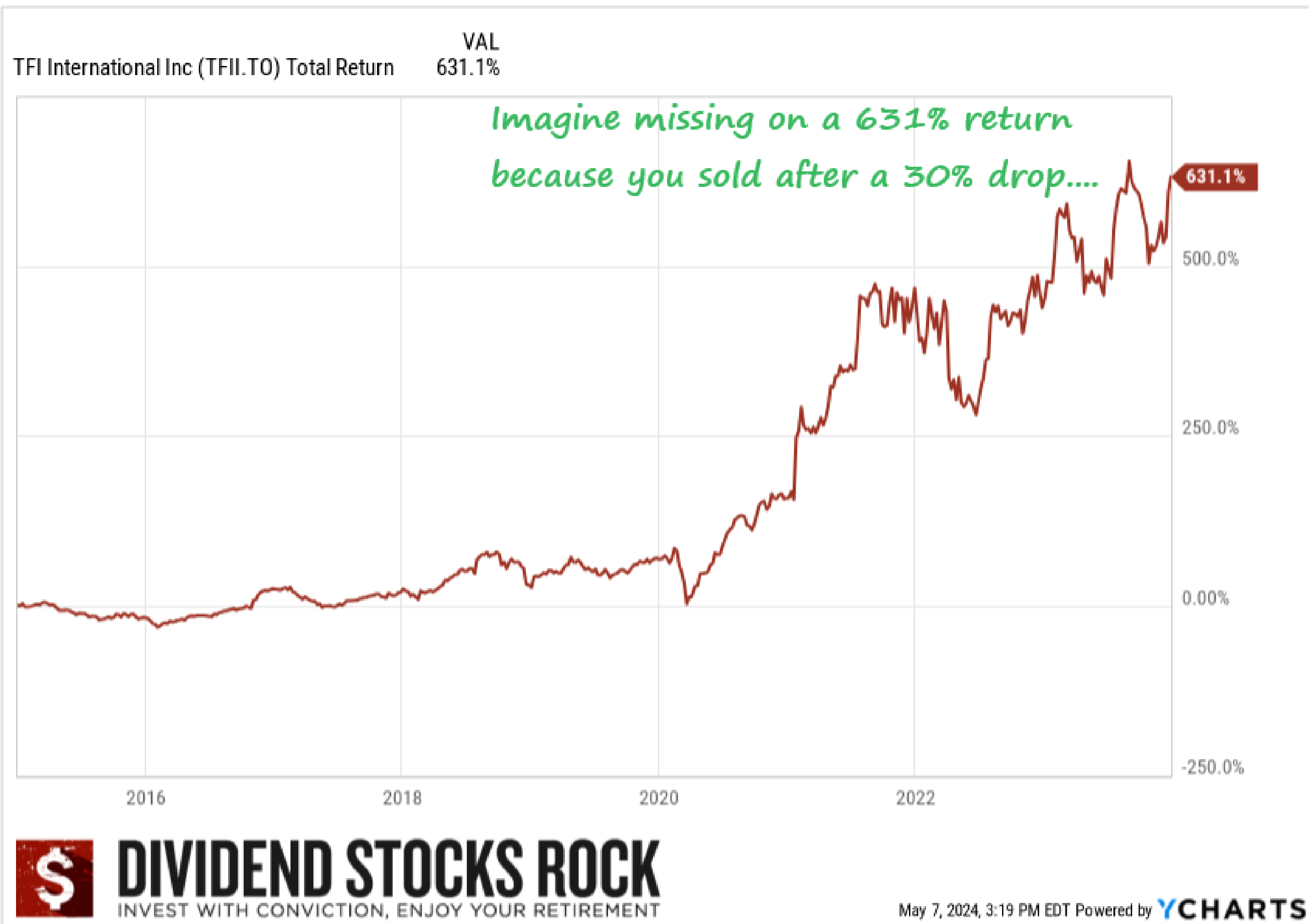


This graph shows how TFI stock (known as Transforce back then) went down from April 2015 to January 2016. Nine months and investors were down almost 30%! In 2015, the economy was struggling, and we were in the middle of another oil turmoil and most investors were nervous.

Interestingly, we featured TFI in a DSR newsletter in July 2016 as one of the best plays in the industrial sector at that time. Here's what I wrote:

"With lots of cash on hand and a weaker economic outlook, many analysts anticipate a merger or acquisition from TFI to make it even stronger when the economy bounces back. The stock is down 9% for the past 12 months and keeps dragging behind the TSX since the beginning of the year, ***this could represent a great buying opportunity."***

You already know the rest of the story (TFI was also added to some of our DSR portfolios back then), but imagine what investing with conviction (e.g., with strong belief in your investment thesis) would have done after seeing the stock going down 30%...



When I look at this graph, there are two things that stand out for me:

#1 TFII went through an amazing growth phase mostly related to the DSR investment thesis announced in 2016.

#2 TFII also went through several ups and downs testing investors' patience and volatility tolerance.

Again, I get it and it is very disappointing when you buy shares of a stock, and it drops over 20% within a few months. I've experienced that many times as well. In an ideal world we would have waited for that perfect moment to buy. Unfortunately, crystal balls are also victims of supply chain disruptions, and we can't find them anywhere. The best thing to do is to take the time to write down your investment thesis in order to invest with more conviction.

It doesn't look like this, but great companies always come back full strength and become winners on the stock market.

If you wait to invest or pull-out your money due to irrational fear, you may lose the opportunity to see your portfolio achieve very significant returns.

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

"Come on! Just jump! You don't have to be afraid, just do it!"

~ My son William

Some people may see that as a flaw, but I like to see it as one of my greatest qualities. I'm over-confident in pretty much everything I do. This excess of confidence has led me to do great things and has broken my teeth on a baseball bat on a few occasions. When we were in Costa Rica, we hiked a few kilometers to reach Nauyaca Falls. For a rare moment, I didn't have the guts to climb the waterfalls and throw my body in the air at such a height. I was paralyzed by this monument of slippery rocks and powerful running water. My son William did it first (and I eventually followed). He told me what I had been telling him about the entire trip until that day: *don't be afraid, just do it!* This is when I realized how a lack of confidence could completely throw you off your game. I needed someone to show me the way.

Today, let me do for you what my son William did for me back at the waterfall. Let me be your guide to attaining a state of confidence. Fear is a powerful emotion that is not easily dismissed. It is often the reason fueling your lack of confidence. A rational behavior when confronted with a lack of confidence is to seek more information. Your brain asks you to validate if your opinion/belief/investment thesis is right by digesting more information. Unfortunately, the more articles you read, the more people you talk to, and the more analysis you do, the less likely you are to act. Words are fun, but they are meaningless if they don't prompt actions. This is how you can suffer from "paralysis by analysis"

This book will be a great help if you recognize yourself in one of the following statements:

- *One of my stocks dropped 30%, I wonder if I should sell.*
- *I have cash ready, but I won't invest yet.*
- *I don't think adding money to my portfolio is wise right now.*
- *I'm thinking of selling 30% of my holdings to protect my capital.*
- *I'll wait until things settle down before I invest.*
- *I'm losing money right now; I don't like it.*
- *The market is down today. What if it's the beginning of the next crash?*
- *I'm paralyzed in front of my computer; I just can't click on the buy or sell buttons.*

In the following pages we will do three things. First, we will help you **define your investment strategy** according to specific factors. Second, we will help you **define what a market crash would mean for your portfolio**. Finally, we will show you **how you can use DSR tools to invest with conviction**.

GET TO WORK!

Throughout this book, you will be prompted to answer questions. Those questions will help you build a long-lasting investment strategy and use it with conviction. Whenever you have doubts or you are uncertain about the market, go back to your answers. They will guide you through the storm and help you stay the course.

What is your biggest investing struggle?

Explain in one or two sentences what prevents you from investing with confidence: what is the source of your doubt or how you feel in uncertain markets?

How does this struggle prevent you from enjoying your retirement?

It's important to define what the major obstacle is for your being able to enjoy your retirement or what is blocking you in your retirement planning?

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DIVIDEND GROWTH INVESTING = MORE MONEY, LESS STRESS

"When you have confidence, you can have a lot of fun. And when you have fun, you can do amazing things." ~Joe Namath

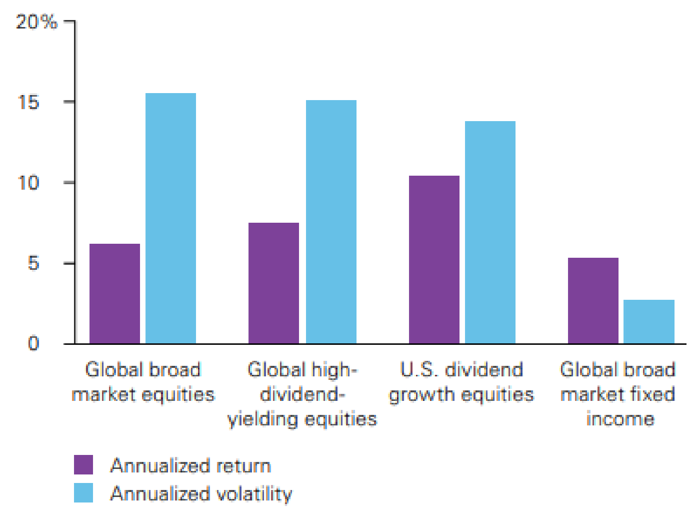
My entire portfolio is invested in dividend growing stocks. Some holdings act as “fixed income” as they offer a stable dividend yield and can weather market storms. Some others are my “growth equity” as they offer lower yields, but strong dividend growth and stock price appreciation potential. The combination of various dividend growers will create a balance where your portfolio will help you retire stress-free.

Strangely enough, even Vanguard (a pioneer in ETF investing) conducted its own studies on the recent market history and concluded that dividend growers are among the best performing assets.

A growing interest in dividend strategies and their implications

Dividend strategies have drawn increasing interest from investors around the world, for two primary reasons.[1] First, global bond yields have been in secular decline for more than two decades and have fallen below 2%, spurring a hunt for yield that has led investors to equity strategies that offer dividend yields, on average, of between 2% and 4%. Second, two common approaches to dividend investing—an emphasis on stocks with high dividend yields, and on those with a history of growing their dividends—have produced higher returns, with less volatility, than the global equity market, resulting in higher risk-adjusted returns, as shown in **Figure 1**. These strategies have also handily outperformed the global bond market.

Figure 1. The performance of dividend-oriented equity strategies has been strong



Notes: Data cover January 1, 1997, through December 31, 2016. Global broad market equities are represented by the MSCI World Index, global high-dividend-yielding equities are represented by the MSCI World High Dividend Yield Index, U.S. dividend growth equities are represented by the Standard & Poor's 500 Dividend Aristocrats Index, and global broad market fixed income is represented by the Bloomberg Barclays Global Aggregate Bond Index Hedged in USD.

Sources: Vanguard calculations, using data from Morningstar, Inc.; Bloomberg; and Macrobond.

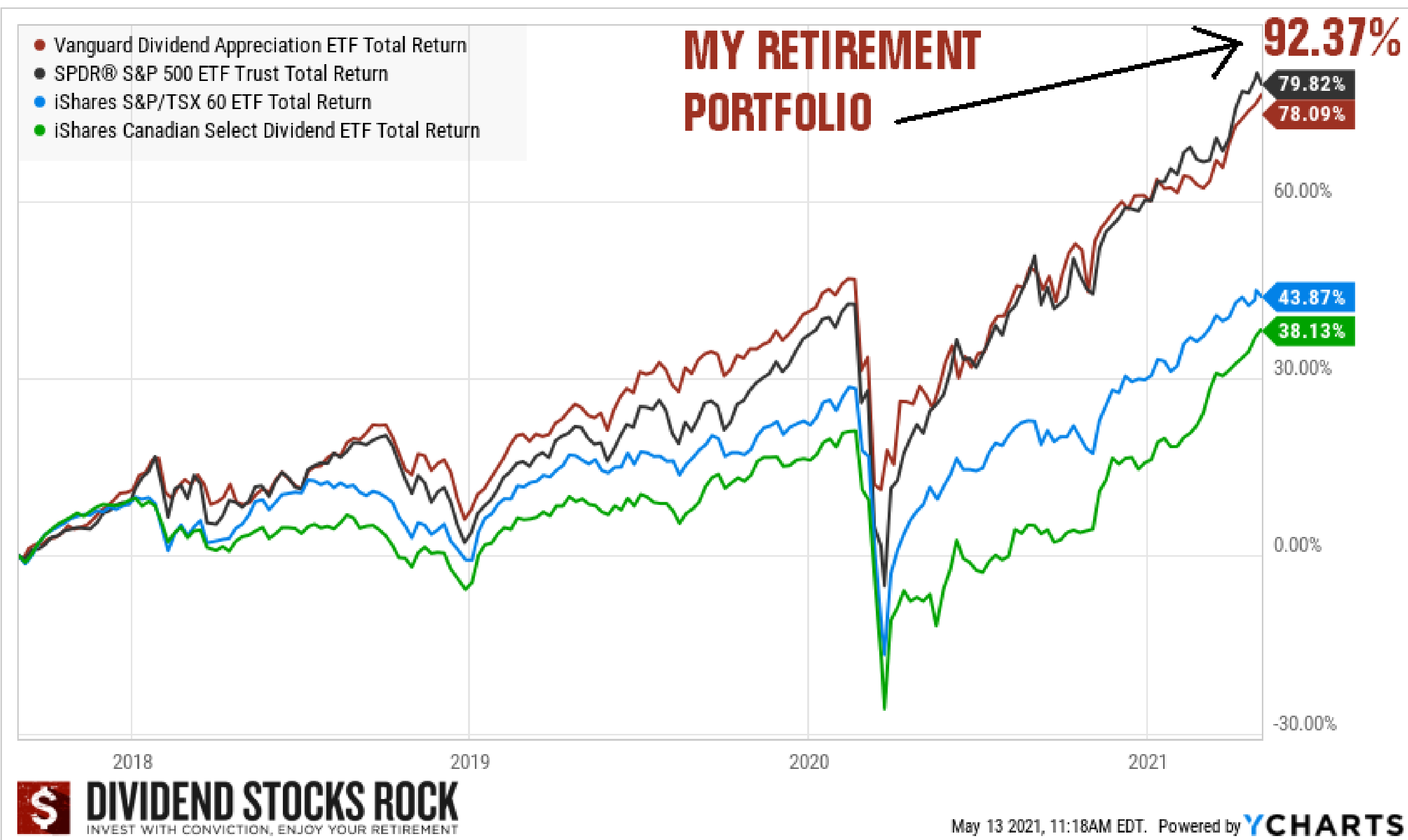
Source: [Vanguard]

According to Vanguard's study over this 20-year period, **dividend growth stocks not only beat the market, but they did it with less volatility.** While dividend growers usually provide investors with less volatility, you will still go through challenging periods where your favorite holdings will show red numbers. This is where you may start losing confidence and start wondering if it would be appropriate to cash your profits and protect your capital.

Instead of looking at your investment performance over the past 3 months or 12 months, you may want to look at your dividend payments over the same period. Whenever I do that with my portfolio, I smile as I made more money in the past 3 months than I did a year ago. I would bet you do too. Here's my question now:

"If you made more money in dividends than last year, why would you want to change anything?"

The previous Vanguard graph includes data until December 31st, 2016. It doesn't include the coronavirus market crash. During the COVID-19 bear market, I've looked at how my pension plan portfolio (created in September 2017) reacted after going through both the flash crash of 2018 and the major drop in early 2020.



Source: Ycharts

The same conclusion can be drawn - dividend growth investing = more money and less stress.

GET TO WORK!

This section is about your investment strategy. The first step of investing with conviction is to have some conviction! This may seem simple, but most investors don't take the time to write down the reason why they buy or sell stocks. Therefore, they get stuck in the paralysis by analysis syndrome.

What is your investment strategy?

At DSR, we invest in dividend growers. We are looking for companies showing strong growth vectors leading to revenue growth, constant profit increases, and, obviously, annual dividend increases. We understand that, in general, dividend growers are likely going to make more money and generate less stress for shareholders. Now it's your turn. What is your investment strategy? What is important for you when you analyze a company?

How will this investment strategy help you enjoy retirement?

If you are currently growing your portfolio (accumulation phase), how will your strategy help you grow your portfolio? If you are currently retired and depend on your portfolio to generate income, how does your investment strategy help you enjoy your retirement?

Define what a strong company is

In your own words, list the metrics or the qualities you are looking for in a company. What makes you buy a stock? Are you looking for dominant players? Blue chips? Disruptive companies?

THE SECRET IS IN YOUR SECTOR ALLOCATION

If you ever read any “investing 101” books, they will all tell you that your asset allocation is the prime determiner of your investment returns. If you were afraid of a recession in early 2020 and put most of your money in consumer staples and gold, you outperformed the market by a wide margin. If you were an oil & gas investor, you, no doubt regret that you made that decision. On the opposite side, the Oil & Gas sector was the place to be after the vaccine news started to spread in fall of 2020. The energy industry came back from the dead and all the courageous investors who invested in that dip were greatly rewarded. This is still true in 2024 and with rising inflation, we may enjoy this energy bull market for a while.

At DSR, we have a specific point of view on each sector. I believe nobody should ever invest more than 20% of their money in a single sector. The more you add to a sector past 20%, the more volatile your portfolio may be. When the market drops, it affects all sectors. However, each crisis will be particularly hurtful for a few industries. The problem is that we never know which ones will suffer the most. It could be tech stocks (1999 tech bubble), banks (2008 financial crisis), oil & gas businesses (2015 oil bust, 2020 COVID-19) or entertainment, travel, leisure, and retailers (2020 COVID-19). The key is to hold some of the best companies from each industry sector. Here’s my view on how each sector can help you build a stress-free retirement portfolio.

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CORE SECTORS

Core sectors include companies you should consider first. It doesn't mean they must all be in your portfolio, but they are less likely to be impacted by a global recession. Each one has its unique characteristics.

Information Technology

We will separate information technology stocks into two different categories:

#1 Companies with disruptive technology entering various fields such as retail (Amazon, Shopify), Television (Netflix), Financials (Robinhood) or accommodation (Airbnb). Those companies are fighting for market share, and they are growing rapidly. They are not typically interested in paying dividends. Many are burning cash and could be quite volatile.

#2 Companies that were once growing rapidly through technology breakthroughs but have now grown-up. These are the "adult" tech stocks that are well established in their respective markets. Since it's in their DNA to develop new technology, they are still manifesting several growth vectors.

At Dividend Stocks Rock, we are interested in the latter. Older tech stocks have developed markets that are relatively mature now. We can visualize Microsoft at the very beginning of the PC era. Now that consumers are shifting toward smartphones and tablets, PC sales are slowing down. However, MSFT still enjoys strong cash flow generation from their original business activities. At the same time, they have also developed other technologies (cloud, big data, data center, and recently artificial intelligence) that enables them to post high-single digit to double-digit revenue growth each year.

Sub-Sector (Industry)

Communication Equipment	Electronics & Computer Distribution	Semiconductor
Computer Hardware	Information Technology Services	Software - Application
Consumer Electronics	Scientific & Technical Instruments	Software - Infrastructure
Electronic Components	Semiconductor Equipment & Materials	Solar

Greatest strengths

If you want to find dividend payers among tech stocks, your best bet is in the semiconductor industry. This is where you will find companies like Broadcom (AVGO), Texas Instruments (TXN), Qualcomm (QCOM), Analog Devices (ADI), NVIDIA (NVDA) and Taiwan Semiconductor (TSM). They are all “old” techs that have gone through several technology cycles and found ways to become larger and financially more stable. Today, many of them are showing great promise for future growth. Their expertise, size and reputation are their best assets. With the shortage of chips, many semiconductor companies had weaker results in 2022 and saw their stock price drop. Last year, we mentioned it was a great time to fill up your portfolio with tech stocks. 2023 was a great year for tech, indeed!

You can treat the semiconductor segments like industrials. They are capital-intensive, they enjoy strong barriers to entry, they sell essential products, and they are highly cyclical. With the rise of AI, you will find several semiconductor manufacturers and also companies providing equipment & materials (ASML, LRCX and KLAC) on the rise. The need for chips and powerful computers to support AI has opened another growth vector for this industry.

Another industry that is on the rise in Canada is software or often called SaaS (software as a service). SaaS businesses are built around my favorite concept: **recurring revenues.** You will find companies like Absolute Software (ABST.TO), Enghouse (ENGH.TO), Open Text (OTEX.TO/OTEX), Constellation Software (CSU.TO) and Tecsys (TCS.TO). Those companies will usually use their cash flow generation capabilities to acquire smaller firms to increase their market share and grow their revenues. Their yield may be minimal, but their dividend growth and capital growth prospects are dynamic. One must be careful when investing in these companies. We saw how Sylogist’s (SYZ.TO) great dividend growth story ended with 9 consecutive years of dividend increases and then a massive axe swing to its distribution.

As technology is used everywhere, tech stocks are not just small-hyped companies that surge and then die. Many companies are now solid dividend growers and show great growth perspectives. I’ll cover how to buy them at the end of this newsletter.

Greatest weaknesses

It is unusual to find tech stocks with a high dividend yield. If you are looking for a tech stock with a 6% yield, you will not find them on our list. We use this sector to boost our portfolio’s value via stock price appreciation while supporting a minimum level of income.

The risk with tech stocks is to fall for the proverbial “false hope”. “Hope” that a new technology breakthrough will happen and save the business. “Hope” that the stock price will skyrocket during the next quarter. “Hope” that you will find the next Microsoft or Apple (AAPL). You are better off keeping the ones who have proven themselves instead of looking for the next homerun. If you continue with a “hope strategy”, you may create your own tech bubble and no doubt get burnt.

That “hope strategy” was also at the center of Sylogist’s mess. The company offered a compelling investment thesis (fragmented market, low debt, a new CEO with a growth by acquisition strategy). While the company could afford to pay the dividend and we “hoped” it would stick to the original plan, Sylogist was known as a long-time dividend grower for many years, but the new CEO saw things differently. The investment thesis is still interesting, but SYZ is not a dividend grower anymore and we sold right after the dividend cut for that exact reason.

The lack of innovation could also be costly for tech stocks. Intel had a great opportunity to become a growth stock with data centers and it worked for a few years. Unfortunately, the company ran into multiple innovation problems, and is now lagging its peers in new-tech chips construction (AMD, TSM and NVDA are growing their market share). This sad story ended with a dividend cut in early 2023 after another disappointing quarter.

The second risk with tech stocks is obviously the speed at which technology evolves over time. You never know if you are holding the next BlackBerry (BB) or the next Apple in your portfolio. Therefore, it is important to select companies that have a well-established growing business model, and they multiply that growth through other avenues at the same time.

Considering how fast tech stocks rose in 2023, there is a third risk that is worth mentioning: paying too much! We are seeing several cases of PE expansion. This phenomenon happens when a stock price rises faster that its earnings per share (EPS). In other words, investors are ready to pay a higher multiple of earnings for the same company based on greater assumptions. When the company meets expectations, everybody is happy. However, when the company reports good, but not good enough results, the stock price could fall sharply. For example, I wouldn’t be surprised to see MSFT shares drop by 10% if it reports single-digit growth for a few quarters in a row. The market expects more and has priced the stock accordingly.

How to get the best of it

It seems counter-intuitive to use dividend metrics to select companies that are anything but high yielders. However, if you use the dividend triangle to determine which tech stock to buy, you are likely to acquire a company thriving in its environment that feels confident enough to reward shareholders at the same time. Dividend growth is rare in this sector, but this is how you can identify a company that will not explode in your face.

The dividend triangle may prevent you from buying Netflix, Tesla, and the like. However, it will also prevent you from buying BlackBerry, Nortel, and Yahoo! at their peak price.

Over the long run, tech stocks are likely going to perform well in a higher interest rate environment since they generate serious cash flow, and they are not typically the most indebted. I've created a small guide to invest in tech stocks later in this newsletter.

The technology sector is best for growth investors but could also offer a haven for income investors.

Target sector weight: growth investors could look at a 10% to 20% exposure to this sector. For income investors, if you have a 5-7% exposure, you'll be well served without significantly affecting your total portfolio yield.

Favorite Picks

U.S.: Microsoft (MSFT), Apple (AAPL), Texas Instruments (TXN), Broadcom (AVGO).

Canada: Constellation Software (CSU.TO), Tecsys (TCS.TO) and Open Text (OTEX.TO / OTEX) to a lesser extent due to lack of growth as of late. Keep in mind you should probably shop the US side before looking seriously at Canadian techs.

Financial Services

The Financial Services sector is both exciting and scary for dividend investors. On the one hand, you have solid banks which are the heart of our capitalist system. They are a sign of trust, stability, and growth. On the other hand, you think about all the exotic financial strategies like mortgage-backed securities, options, and swaps. You realize that even those who manufactured those products don't always understand the complexity of the monsters they created. To simplify things a little, you can divide financials into three distinct sub-sectors:

Asset managers: companies that are managing/investing money for others. Mutual funds, hedge funds, real asset managers, and ETF managers are part of this group. Asset managers usually perform consistently with the overall market. It is very rare to see an asset manager's stock price increase during a bear market.

Banks: you can sub-divide this group into global and regional banks. You can also look at investment banking, commercial banking, or the credit side as individual industries. In the end, it all comes down to deposits and loans. This group benefits from higher interest rates as the spread between loan rates and deposit rates will often play to their advantage.

Insurance: this last financial segment includes life, property & casualty, reinsurance, speciality, and brokers. Insurance companies require strong asset management skills to align their revenues with potential claims costs. It is also easier for them to manage their assets during higher interest rate periods.

Sub-Sector (Industry)

Asset Management	Financial Conglomerates	Insurance - Reinsurance
Banks - Diversified	Financial Data & Stock Exchanges	Insurance - Specialty
Banks - Regional	Insurance - Diversified	Insurance Brokers
Capital Markets	Insurance - Life	Mortgage Finance
Credit Services	Insurance - Property & Casualty	Shell Companies

Greatest strengths

Financials represent a true investing opportunity for dividend investors. There are many strong Canadian banks, financial firms and insurance companies sharing the wealth with their shareholders. Just remember not to fall for a strategy you don't fully understand. For example, let's look at the two types of asset managers.

Asset-light (such as Brookfield Asset Management, BAM/BAM.TO): an alternative manager that doesn't have many assets, but rather manages funds coming from pension plans and other investors. BAM is responsible for managing those funds, establishing strategies and will charge a fee based on total assets under management (AUM). It's a sticky business model generating a constant flow of income.

Asset-heavy (such as Brookfield Corporation, BN/BN.TO): Brookfield Corporation will not only do the asset-light manager's job (strategy + earning fees on AUM), but it will also contribute with its own assets. Therefore, it can benefit from its strategies by selling those assets for a profit in the future. Asset recycling happens when a company sells assets that it deems to be at a very good value to reallocate the proceeds into new projects or undervalued assets. This is the classic "buy low, sell high" concept.

Asset managers will typically do very well during bull markets. They enjoy a very sticky business with recurrent cash flow (fees paid by institutional investors). There has also been an interesting shift from mutual funds toward ETF products. Leaders in ETFs or financial advisory services will lead this industry going forward. In general, there is a lot of money to be made in wealth management.

Second, I must admit Canadian banks are unique. The Big Six operate an oligopoly that is not only highly regulated, but also protected by the Canadian Government. In other words, they can use their core business in Canada to generate significant cash flow and use this money to grow outside those boundaries. This is how they can pay a yield of around 4% and still show a mid single digit annualized dividend growth rate over decades. Dividends were paused in 2020-2021 due to the pandemic but resumed at the end of 2021. Major banks show low payout ratios (40-60% range) and even if they had to increase their provision for credit losses (PCLs), we expect dividend increases to come in 2024.

Banks in general (US and Canadian) will give you a great hint about where the economy is going. When they increase PCLs, it decreases their earnings, and they tell you they expect more consumers to default on their loans. When they are right, they don't cause surprises down the road since you have been warned. When they are wrong (e.g., consumers pay their debts), they recover the PCLs, and it pushes their earnings up. Canadian banks are known to be conservative and "play" on the PCLs to present better earnings the following years.

Finally, I'm not a big fan of the insurance industry. I find them too dependent on external factors (catastrophes, interest rates, etc.). This is an industry I would rather ignore in my portfolio and focus on my strength which is a strong knowledge of the banking industry having been a private banker in my past.

On the positive side, however, higher interest rates in 2024 will be positive for both banks and insurance companies (even more for life insurance companies). Banks typically generate 50%+ of their income through interest income. If done gradually, rate increases could drive many consumers and businesses toward bankruptcy, but it will improve banks' interest rate spreads (which is their margin). Insurance companies must maintain a significant portion of their premium portfolios invested in bonds. With higher interest rates, they will generate better results from this portion of their asset allocation.

Greatest weaknesses

I think 2008 showed us how financial services could go from "too big to fail" to "the largest bankruptcy in history". Most companies in this sector will seek to inspire trust. Unfortunately, trust sometimes turns into blind faith. Be a better investor and research each company thoroughly.

In early 2023, we had another bad example with SVB Financial Group (SIVB) and First Republic Bank (FRC) both failing. Banks must keep a large amount of capital on their balance sheet. In general, they don't hold cash as it doesn't generate returns. They invest in various fixed-income products (including bonds for example). What happens with most of them when interest rates rise rapidly? Fixed-income products such as bonds and preferred shares drop in value. If a bank's collateral starts losing value, it's a problem if the bank is not capitalized properly. If it urgently needs additional capital, it could sell assets or issue shares, which generally causes a panic on the market (such as what happened with SIVB and FRC and their stock price literally crashed). **A bank's largest asset is the trust the market has in them**. If they lose that, all hell breaks loose. Canadian banks lost around 40-50% of their value in 2008 and they were barely affected by commercial papers and sub-prime mortgages. The problem was the trust lost during the crisis due to a big panic.

In general, interest rates and the equity markets will dictate if this sector does well or not. When interest rates are low, regional banks will see their interest rate spreads, which is the difference between what they pay in interest for deposits and how much they make on loans, shrink. In other words, their margin gets thinner. Insurance companies also have a similar problem. They must invest premium payments in such a way as to make money to cover future claims and generate a profit. Having an entire asset class like bonds offering mediocre returns does not help.

When the market goes sideways, we'll see many asset managers having a hard time. If you wonder why the market has been so volatile over the past 15 years, this is partially because of hedge funds and options and other "wild" trading strategies. As institutional investors can short positions or enter massive positions through options, they can also get into big problems. Margin calls happen when the market drops suddenly, and fund managers don't have enough liquidity to cover the minimum value. They are then forced to sell assets which then pushes the market toward new bottoms.

How to get the best of it

First, understand your investment. Financial businesses often generate revenues from complex strategies. If you don't understand how a life insurance company makes money and how it must protect its premiums, then move along and look for another sector or industry where you better understand the business. For insurance companies, focus on their underwriting process. I often highlight Brookfield as an amazing company, but I also put a major emphasis on its complex structure which represents its most important downside. Size is often a key component as the larger an insurance company is, the more data it gets from its contracts. Therefore, it's easier for them to manage risk for future contracts and they can price that risk accordingly.

When there is a market panic, Canadian banks are likely going to get hit and will offer you the most reliable dividends in the industry. They have proven their resiliency during the 2008 financial crisis, and once again throughout the pandemic. Canadian Banks reported increased provisions for credit losses during that period but remained well capitalized. Entering 2024, PCLs have been on the rise for a while now, but banks remain well capitalized, and all payout ratios are below 50% (besides BNS).

Going after leaders that have a diversified business model is better than a one trick pony. Most leaders will enjoy unrivaled economies of scale that are almost impossible to compete against. BlackRock (ETFs), JPMorgan (banking from A to Z) and T Rowe Price (retirement funds) show such competitive advantages.

Financial services can be a great fit for both income investors and growth investors. You can find a great variety of solid dividend growers with decent yields in this sector.

Target sector weight: For both investor types, you can aim at 10% to 20% in this sector. Please restrain yourself from falling in love with Canadian banks and buying them all. They are not Pokémons.

Favorite Picks

U.S.: BlackRock (BLK), Morgan Stanley (MS), JPMorgan (JPM), T Rowe Price (TROW).

Canada: Royal Bank (RY.TO/RY), National Bank (NA.TO/NA), Intact Financial (IFC.TO), Brookfield Corporation (BN.TO/BN), Brookfield Asset Management (BAM.TO/BAM).

Consumer Staples (Consumer Defensive)

Like consumer discretionary, consumer staples stocks also have an alternate name: consumer defensive. When we discuss consumer staples, we often describe it as all the products you may find in your house. Those are products you must buy no matter what happens in your life. These companies have built stellar brand portfolios supporting repeat purchases. Repeat purchases lead to constant and predictable cash flows. Therefore, food, beverage and household products could be a great foundation for building a dividend growth portfolio. If you are concerned about the current state of the economy, add some consumer defensive stocks to your portfolio.

Sub-Sector (Industry)

Beverages - Brewers	Discount Stores	Grocery Stores
Beverages - Non-Alcoholic	Education & Training Services	Household & Personal Products
Beverages - Wineries & Distilleries	Farm Products	Packaged Foods
Confectioners	Food Distribution	Tobacco

Greatest strengths

If you are looking for a place to stash your cash during tough times, forget about your mattress. Consumer staples stocks are defensive. When the market goes into panic mode, this part of the equity market isn't normally a source of worry. We clearly have seen how grocery and discount stores have done during the pandemic in 2020. Besides healthcare services, they were the first to be named as "essential businesses" during the pandemic.

On top of selling “essential goods” (we could discuss how alcoholic and tobacco products are considered as essential another time), this sector also shows another great characteristic. Most of its industries have built their business model around repetitive sales. What’s better for a dividend investor than to find a business that keeps selling the same products to the same consumers every week? This is what we call a cash cow.

Since we rely on many of these products, consumers will likely cut their expenses toward the consumer discretionary sector’s products and prioritize consumer staples companies’ products. Keep in mind that while this sector offers great protection when the market goes sideways, one must hold them ***before*** market sentiment shifts to benefit from the protection. When the market panics, consumer staples are usually trading at higher valuations (read higher PE ratios).

Throughout the years, many of these businesses have built iconic brands. You will even find companies managing portfolios of multibillion-dollar brands. Such large brands come with economies of scale and a wide distribution network. This increases the barriers to entry for potential competitors. This also provides many investors an element of calm as they can count on their dividend no matter what happens. Even better, when people lose their job, they will normally keep buying many of these brands!

Greatest weaknesses

Growth is often a matter of concern for this sector. When emerging markets came into play, they all rode the wave and discovered new playgrounds. As those markets grew many local competitors came on the scene. Smaller players normally can’t compete on price and scale. However, they are more flexible and know their customers better than those “gringos” coming from North America. Buy America or buy local is not just a slogan that we have here in our countries. It’s a movement trending around the world.

Speaking of competition, it now comes from everywhere. Beverage companies go after snacks and packaged foods industries while some discount stores first introduced packaged foods before transforming into full grocery stores. Such competition first created a shelf war where products had to compete against each other for top space in stores. This has now moved to the online world where shopping online has reached all industries. Margins are getting squeezed and inflation has done nothing to help those industries.

Those “old” companies must adapt to e-commerce as well. Many of those companies face similar challenges that consumer cyclicals face when it comes down to dealing with digital sales. Even groceries must invest massively in their online platform to enable consumers to order their food and pick it up at the store.

How to get the best of it

It's hard to determine a good time to buy consumer defensive stocks as they are rarely "on sale". When everybody is making money in the market and growth stocks get most of the love, you have a shot at buying unloved consumer staples. This is the type of investment that will make you almost regret having made the investment during a bullish year. They will often lag and show minimal growth during boom times. On the other hand, when panic spreads, these companies will hold the fort and make sure your portfolio doesn't go bust.

Most industries are a best fit for income investors. Not for their average yield, but rather for the stability they bring to one's portfolio.

Target sector weight: For income investors, you can get some "safe stocks" for 10% to 20% of your portfolio. You are not going to generate a maximum of dividend payments from this sector, but you will reduce value volatility. For growth investors, anything between 3% to 10% would work well. Too much money invested in this sector would impact your total return potential during a bull market.

Favorite Picks

U.S.: Costco (COST), Procter & Gamble (PG), Coca-Cola (KO), PepsiCo (PEP), McCormick & Company (MKC), Hershey (HSY).

Canada: Alimentation Couche-Tard (ATD.TO), Jamieson Wellness (JWEL.TO), Premium Brands Holdings (PBH.TO), Metro (MRU.TO).

Health Care

For all drug manufacturers (major, generic or specialty), biotech, diagnostics, and research companies, most of their budgets go towards Research & Development. They must manage their pipeline of new products and their patents. A company may be able to surf on its previous successes for a decade due to their patents' protection of their research. However, they must constantly renew their portfolios. This frequently impacts their ability to increase their dividends in a predictable manner. Price volatility both up and down are also frequent characteristics of companies in this industry.

As for Healthcare plans, long-term care facilities, medical care and distribution companies are more likely to be affected by governmental regulations. The cost of healthcare is a major topic for governments across the world. Should it be free, sponsored or insured? This question leads to much debate and uncertainty for the future. No matter what happens, the industry will find a way to adjust their business models, but volatility will be the continuing and on-going characteristic of this sector.

Sub-Sector (Industry)

Biotechnology	Health Information Services	Medical Distribution
Diagnostics & Research	Healthcare Plans	Medical Instruments & Supplies
Drug Manufacturers - General	Medical Care Facilities	Pharmaceutical Retailers
Drug Manufacturers - Specialty & Generic	Medical Devices	

Greatest strengths

The advantage for dividend investors in this sector is the wide choice of large and well-established companies. The best-performing companies in this sector are often the long-term established companies that have a strong distribution network or a large drug portfolio and pipelines full of new products. Big pharmaceuticals usually offer a haven for your money over the long run. They know how to manage their R&D budgets and drug pipelines. The healthcare sector often sees stock surges both upward and downward based upon the results of their discoveries. Patents and regulations are part of their daily routine.

Medical devices, instruments or supply companies will provide products with repetitive purchases. They enjoy wide distribution networks, loyal customers, and constant repeat orders. They can make great dividend growers as well.

Healthcare plans are massive companies generating sticky cash flow. The problem is usually their tiny margins and potential shifts in healthcare regulations. Pharmaceutical retailers are relatively stable and could be seen as consumer staples stocks as they are usually recession resistant.

Greatest weaknesses

Unfortunately, as R&D budgets are often a huge part of a healthcare company's expenses, there are many companies showing an erratic dividend growth track record. It is not that they will cut their dividend, but you may be waiting for a few years before seeing a dividend increase. Do not forget that many drugs never reach the market, but companies spend millions (sometimes billions) developing them. Lawsuits and product recalls are also an on-going threat. Therefore, it's not ideal to have a large exposure to a single stock in this sector.

When you consider healthcare plans and the medical distribution industries, they face harsh competition and must operate in a razor-thin margin environment. If they make one bad acquisition or hit a speed bump, those companies may see cash flow evaporate quickly. There are currently many changes and pending changes in the air around healthcare regulations. There is a political will to make healthcare more affordable. This could have an impact on those industries.

Finally, Medical care facilities have had their fair share of problems in the past. After the pandemic, it has become quite a challenge to manage the increasing expenses to make sure both employees and seniors are safe, and they have weaker occupancy rates than has been true historically. Proceed with caution in this sector.

How to get the best of it

Big pharmaceuticals will often come with massive stock price fluctuations. A patent expiring, news about a new drug or a major acquisition could contribute to Mr. Market's mood swing. These situations give you your chance to pick a solid dividend grower at a reduced price. I picked up shares of Johnson & Johnson (JNJ) during their quality control issues back in 2012-2013 and benefited greatly from that move.

In general, the healthcare industry is capital-intensive or requires a significant size to perform efficiently. Make sure the debt burden on your chosen company is not too large to manage efficiently. For distribution and healthcare plans, take a close look at their margins over time. Those companies operate with razor thin margins.

The healthcare sector is usually ignored during bull markets. There are more exciting companies to buy, and this could translate into a good buying opportunity. Most importantly, you must be patient with healthcare businesses. It may take time before the market realizes the value inherent in a particular company's stock.

The healthcare sector is best for income investors.

Target sector weight: Due to the lack of candidates with a decent yield, 3% to 10% seems to be reasonable for both income and growth investors.

Favorite Picks

U.S.: Johnson & Johnson (JNJ), AbbVie (ABBV), Lemaitre Vascular (LMAT), Abbott Laboratories (ABT).

Canada: well, hum… none! There are only a few senior REITs in this category.

Consumer Discretionary (Consumer Cyclical)

This is an "all-you-fit-in" sector. At DSR, we use the term "consumer discretionary", but you can also find the term "consumer cyclical" in financial literature. The bottom line is these companies make goods that are fun to have (or consume) but are not necessary. Therefore, they follow economic cycles and consumers' sentiment. These are the expenses you incur once you have covered the basics and you have some extra money. When the economy booms, consumer discretionary stocks follow. Keep in mind that Amazon (AMZN) isn't a tech stock anymore as it is retail, and that is part of the consumer cyclical sector.

Sub-Sector (Industry)

Apparel Manufacturing	Gambling	Recreational Vehicles
Apparel Retail	Home Improvement Retail	Residential Construction
Auto & Truck Dealerships	Internet Retail	Resorts & Casinos
Auto Manufacturers	Leisure	Restaurants
Auto-Parts	Lodging	Specialty Retail
Department Stores	Luxury Goods	Textile Manufacturing
Footwear & Accessories	Packaging & Containers	Travel Services
Furnishings, Fixtures & Appliances	Personal Services	

Greatest strengths

This is one of my favorite sectors when I want to secure growth stocks. This is also a unique sector where you can devote over 20% of your portfolio and still maintain wide diversification. The buying process for a new car isn't the same as for a burger or a t-shirt. Some companies in this sector could be surprisingly recession resistant too (thinking of McDonald's and its value meals, for example). You can select great companies from several different industries and build a solid portfolio. My own portfolio includes around 10-12% of consumer discretionary stocks. I have companies in home renovation (Home Depot), auto parts (Magna), restaurants (Starbucks), and internet retail (Amazon). Let's just not fall in love with a single sub-sector. Remember they all look good on prom night.

Some of these industries have amazing dividend growers. The key for these companies is to build a strong brand that serves them well over time. Brands like Nike, Home Depot, McDonald's, and Starbucks in the U.S. and Ski-Doo, Tim Horton's, Dollarama, and Canadian Tires in Canada are iconic brands. Those companies will do better when the economy booms, but they will also be resilient during recessions. The cyclical aspect of this sector will also propel your returns if you buy during economic downturns.

Greatest weaknesses

Unfortunately, while consumer cyclical companies can show double-digit growth during good years, the winds can change quickly. Inflation has forced central banks to increase rates in 2022 and 2023. We all hope for a "smooth landing", but chances are we will get into a recession. This will have a direct impact on consumers' budgets and, obviously, on consumer discretionary purchases. Companies' margins will get squeezed by inflation and labor shortages while consumers will work with restricted budgets. 2024 will be a tough year for this sector. This is what I like to call "looking good on Prom night". When people have jobs and are confident in their future, there is virtually no limit to growth. You'll see impressive sales growth for several years in a row giving you the impression that it will last forever. Due to the cyclical nature of this sector, however, nothing lasts forever. We had a good example with what happened to VF Corporation, a legendary brand manager that eventually failed its shareholders in early 2023 with a dividend cut after 50 years of consecutive increases. Did we say "cyclical"?

E-commerce has become a great disruptor for many industries in this sector. We have seen a wide range of retailers going bust in the past and this trend will continue. Direct-to-consumer sales (e.g., Nike selling you shoes directly through your computer or phone) has become a vital element of their business model. Those who resist will fail. Brick & mortar retail isn't dead, but it must work hand in hand with a digital sales space for overall company success.

How to get the best of it

While one must not get blinded by a strong brand, this is probably the first thing you should look for when selecting stocks in consumer cyclicals. When you have extra money, you want to reward yourself. Chances are you will feel a lot better with a pair of Nike shoes than some "Mikeymike brand" shoes at the discount outlet.

Quality matters even more when we talk about the extra dollar. This is where the margin is: perceived value brings pricing power. How do you think Starbucks can make you smile after you spent $7 on a coffee that probably cost $0.50 to make?

Following economic trends will tell you a great deal about how many industries will do. Unemployment rates, consumer sentiment indices, and job stats will help you to be on top of things.

Most industries are best fit for growth investors.

Target sector weight: For income investors, 3% to 10% should be enough (due to lack of generous yields). For growth investors, you can load up your portfolio with a 10% to 20% weighting in this sector.

Favorite Picks

U.S.: Starbucks (SBUX), McDonald's (MCD), Home Depot (HD), Genuine Parts (GPC), Nike (NKE).

Canada: Canadian Tire (CTC.A.TO), Dollarama (DOL.TO), Magna Intl (MG.TO/MGA), BRP (DOO.TO/DOOO).

Industrials

I often have the feeling we may overlook the industrials. There is nothing sexy about them. There are often minimal stimuli to create hype on the stock market. Even worse, this sector is not seen as a source for high dividend yields. As many industries operate through unique economic cycles, there are always a few industrials for sale.

Many industrial companies are 50+ years old. This is probably one of the few sectors where you can list many companies that have survived through a whole century. Due to their long-standing existence, they have built solid core businesses and commensurate impressive brand recognition. Those who have survived the passage of time and found ways to evolve often make solid dividend payers.

Sub-Sector (Industry)

Aerospace & Defense	Farm & Heavy Construction Machinery	Rental & Leasing Services
Airlines	Industrial Distribution	Security & Protection Services
Airports & Air Services	Infrastructure Operations	Specialty Business Services
Building Products & Equipment	Integrated Freight & Logistics	Specialty Industrial Machinery
Business Equipment & Supplies	Marine Shipping	Staffing & Employment Services
Conglomerates	Metal Fabrication	Tools & Accessories
Consulting Services	Pollution & Treatment Controls	Trucking
Electrical Equipment & Parts	Railroads	Waste Management
Engineering & Construction		

Greatest strengths

Barriers to entry are legion in most of the industries in this sector. It's quite difficult to secure military contracts or to build railways for a new, inexperienced company. Most industrials are large companies involved in massive spending on R&D and operate enormous facilities around the world. Since many industrials are old companies, you can often pick a business that has survived the last three recessions and kept its dividend alive as well. This is proof of time and sustainability when you can survive and thrive over repetitive challenging periods in the market.

Many industries will also enjoy repetitive contracts or sales. While the overall demand will fluctuate to follow the economy, those enterprises can often count on a solid core of demand coming from their customers. In many cases they operate sticky business models. Industrials will develop extensive expertise in niche domains and will offer customized solutions for their customers. It makes the switching costs significant when your entire business is tied to services or products that have been co-developed with your suppliers.

Finally, there is always a thriving industry among the industrials. This means you can surf several tailwinds if you follow macro economic data carefully.

Greatest weaknesses

The most significant problem with industrials is probably the fact that they often become too large to be managed effectively. We are all aware of the multiple problems at General Electric (GE) which has had to cut its dividend twice between 2008 and 2018. 3M is facing multiple legal issues and decided to spin-off a portion of its activities to “simplify” (and hopefully mitigate legal impacts) its business. In other words, the longevity of a company is not necessarily an accurate predictor of its likelihood of paying or increasing its dividend.

The other characteristic to track for industrials is their size as a business and their debt levels. Companies that have existed for long periods of time tend to grow through different segments and divisions. At one point, you look at the company and it becomes very difficult to fully understand where their true expertise resides. This is what happened with GE. With higher interest rates, we see these companies running into trouble.

Industrials are often required to invest massively in R&D and the construction of their facilities. When demand slows down, the company is often left with under utilized machinery and resources. Those are costly moments.

Finally, Industrials will likely be a victim of inflation. Many will suffer from the higher costs of raw materials and there is a limit to how much of their cost increases they can pass on to their customers.

How to get the best of it

Industrials are likely to follow cycles. Railroads, construction equipment companies, truck manufacturing, and trucking transportation will be quite busy during economic booms but will suffer during recessions. If you follow a specific industry closely, you will be able to catch great businesses when their stock price is devalued by the market.

There are several fragmented markets where a leader will make acquisitions to increase its market share. You can either target smaller players with low debt or go for the major player who wants to consolidate its position.

The industrial sector is best for growth investors, but you can often find some solid candidates for income investors as well.

Target sector weight: Depending on the number of industries you select; you could definitely have between 5% and 25% in this sector. This is a flexible sector for all types of investors.

Favorite Picks

U.S.: Automatic Data Processing (ADP), Lockheed Martin (LMT), A.O. Smith (AOS), Union Pacific (UNP), Honeywell (HON).

Canada: TFI International (TFII.TO / TFII), Canadian National Railway (CNR.TO / CNI), Toromont Industries (TIH.TO), Richelieu Hardware (RCH.TO). And a mention to CAE (CAE.TO / CAE) even if the company stopped paying a dividend.

INCOME/STABLE SECTORS

The section you have all been waiting for is the dream of all retirees: living off your dividends without touching your capital! This has become a difficult strategy to achieve as many high yielding stocks get crushed during recessions. By chasing yields (we'll discuss this issue at the end of this book), you put your entire retirement in danger. When a company cuts its dividend, you not only lose your source of revenue, but you also often suffer a capital loss. Fortunately, there are some sectors offering decent yields and peace of mind.

Real Estate (REITs)

REITs are not only popular because they distribute generous dividends, but also because they are easy to understand. Investors can picture an apartment building or an office tower and see how tenants pay their rent monthly. They are willing to purchase units of those businesses in exchange for the income and peace of mind.

The concept of being a landlord and having tenants is comparatively simple to understand. The company owns and manages Real Estate in exchange for receiving rental income from properties such as apartment complexes, hospitals, office buildings, timber land, warehouses, hotels, and shopping malls.

Most REITs are equity REITs. They must invest most of their assets (75%) into real estate or cash equivalents. In other words, they cannot produce goods or provide services with their assets. This is how REITs must also receive 75% of their income from those real estate assets in the form of rent, interest on mortgages or sales of properties. REITs must also pay a minimum of 90% percent of its taxable income in the form of shareholder dividends each year. Therefore, the classic earnings per share and dividend payout ratios cannot be considered the sole gage of the health of an REIT.

There are several types of REITs:

REIT TYPE	DESCRIPTION
Equity REITs	Equity REITs own and invest in property. They may own a diversified set of properties, and they generate income primarily in rent payments from leasing their properties.
Mortgage REITs	Mortgage REITs finance property. They generate income from interest on loans they make to finance property.
Hybrid REITs	Hybrid REITs do a bit of both, as they own property and finance property.

In general, REITs offer great investment opportunities by their nature. A growing economy leads to growing needs for properties. REITs can grow organically as the population requires more industrial facilities, healthcare centers, offices, and apartments.

Sub-Sector (Industry)

REIT - Diversified	REIT - Mortgage	REIT - Specialty
REIT - Healthcare Facilities	REIT - Office	Real Estate - Development
REIT - Hotel & Motel	REIT - Residential	Real Estate - Diversified
REIT - Industrial	REIT - Retail	Real Estate Services

Greatest strengths

REITs are unique as they distribute most of their income. In fact, they exist to pay generous distributions. This makes them one of the retirees' favorite sectors! Since these businesses must give most of their profits to shareholders, it is easy to understand how most of them offer a relatively high dividend income. This is one of the rare sectors where you can find "relatively safe" stocks paying 5%, 6% even 7%+. Investors must be careful not to get too greedy, though. We have seen several REITs cutting their distributions due to poor management or economic downturns.

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REITs usually bring stability in a portfolio along with higher yield. This is a great sector to start with when you are looking for additional income. Real Estate brings great diversification to your portfolio. Research has proved that REITs are not directly correlated to stock market movements over the longer term.

Finally, since most of them operate with escalator contracts, they offer good protection against inflation. Many Income trusts will include yearly rent increase in their rent to ensure rental income matches inflation. Some REITs also operate under a Triple-Net business model. In this case, tenants take care of insurance, taxes, and maintenance costs, reducing the REITs expenses (and risk of unexpected charges!).

Greatest weaknesses

One of the REIT sectors' favorite ways to finance their new projects is to issue more units. Therefore, if a company purchases a property generating $20M per year but needs to issue more units to finance the purchase, you must look at the net outcome for unitholders. If the FFO per share drops, this is not necessarily good for you as it will affect the REIT's ability to increase its dividend in the future. In a bear market, getting financing through more units could also be difficult as you issue them at a lower price.

The other way to finance their new projects is obviously through debt. Some REITs are highly leveraged which will not end well considering the current state of interest rates. Another impact high interest rates will have is on REIT's tenants. While REITs can increase their rent, they can only do so if tenants can pay. Assuming a recession, some tenants may run into difficulties and will eventually fail to pay their rent. That has an immediate impact on the REIT's FFO.

Another downside related to their business model is their lack of flexibility. We have seen many times where REITs try to shift their focus from one industry to another. In most cases (H&R, RioCan, Boardwalk and Cominar to name a few), the change of trajectory comes with a dividend cut and a loss in value for unit holders. A REIT wishing to get rid of their shopping malls to buy more industrial properties will likely have to sell properties at a lower price and pay a higher price to buy more appealing assets. RioCan seems to be in a good position to get back on track, but it still pays a very low distribution compared to 2019.

Finally, do not make the mistake of thinking REITs are safer than other sectors. These are companies facing challenges while benefitting from tailwinds. While you may argue that an apartment building can't go anywhere, I would answer back that if you have one hundred empty apartments due to an oversupply in a neighborhood, your money will also go nowhere.

How to get the best of it

While REITs are part of a short list of sectors that are perfect for retirees or other income seeking investors, it is important to understand that they cannot be analyzed using the same metrics as other sectors.

The Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) are probably the most useful tools to analyze a REIT's financial performance. Those two metrics replace the earnings per share and adjusted EPS for a regular stock. While those are different metrics, it's all about cash flow and the REITs ability to sustain their dividend payments. Fortunately for us, we can find those metrics inside each REIT's quarterly report and subsequent press release. It is important to not only follow the FFO/AFFO in total but also to follow the FFO/AFFO per unit of ownership.

FFO = Earnings + Depreciation (Amortization) – Proceeds from Property Sales

AFFO = Earnings + Depreciation (Amortization) – Proceeds from Property Sales – Capital Expenditures

The use of the loan to value ratio (LTV) is a great tool to analyze the REIT's future ability to raise low-cost capital. The LTV is easy to calculate from the financial statement, as you only need 2 measures of data:

LTV = Mortgage Amount / FMV of properties

You certainly don't want to invest in a REIT showing a high LTV. This means that their credit rating may be at risk and the price for future debt will be higher. In other words, it could mean less money for future dividends.

The last metric you must follow that is specific for REITs is the Net Asset Value (NAV). The NAV (usually shown by units) can be translated to the equivalent of a Price to Book ratio.

NAV = Total Property Fair Market Value – Liabilities

The idea is to compare a few REITs from your list against one another. This is how you should be able to find the ones with the best metrics. A lower than industry NAV is either a riskier play or a value play. The AFFO and LTV will tell you which one it is.

The REIT sector is best for income investors.

Target sector weight: For income-seeking investors, you can aim at 15% to 30% (if you invest in various industries). For growth investors, REITs could represent a 5%-15% portion of your portfolio.

Favorite Picks

U.S.: Stag Industrial (STAG), Essex Properties (ESS), Equinix (EQIX), American Tower (AMT), Realty Income (O).

Canada: Granite (GRT.UN.TO), CT REIT (CRT.UN.TO), InterRent (IIP.UN.TO), Canadian Net REIT (NET.UN. V) but please remember this company is a small cap with significant volatility.

Utilities

Electricity, gas, and water are three essential components in our modern civilization. It would be impossible to imagine a house that doesn't have power or running water in North America. Utility companies offer indispensable services to their customers, and then they reward their shareholders with generous dividends.

Utilities are defined as businesses providing the public with necessities, such as water, electricity, and natural gas. As you can imagine, utility companies represent a great deal of power for the population. As we depend on electricity and water, it would be catastrophic to see our utility bill being raised by 75% overnight. For this reason, some countries, provinces, or states nationalized their resources and provide them at a lower price. In many cases in Canada and in the U.S., the government has allowed private enterprises to manage and distribute electricity, gas, and water in a regulated environment.

Allowing such power to private entities couldn't be done without strict rules. For this reason, utilities usually operate in a highly regulated environment. Governments basically decide the cost of power and water charged to the customer base. While this seems like a break for future growth, utilities also enjoy a stable and predictable source of income over long periods of time. In other words, investing in utilities is not to make a quick buck. On the other hand, those businesses tend to grow at a steady pace, not unlike the turtle winning the race against the rabbit.

Sub-Sector (Industry)

Utilities - Diversified	Utilities - Regulated Gas	Utilities - Regulated Electric
Utilities - Independent Power Producers	Utilities - Regulated Water	Utilities - Renewable

Greatest strengths

Historically, utilities are known to be quite generous with their dividends. They tend to distribute more than 50% of their available cash flow to their shareholders. This is the perfect type of business for dividend investors. Utility companies require large infrastructures and most of their capital projects are now defined in billions of dollars. The fact that utilities require billions in infrastructure limits the number of competitors. In most cases, we can talk about natural monopolies. It wouldn't make much sense for three different electricity companies to spend billions on power generators and power lines to serve the same geographic area. Therefore, utility markets are typically well protected, and companies have nothing to fear, but themselves (e.g., poor management). We had a great example of poor management with Algonquin recently (more on that later).

If you are looking to invest in renewable energy, you will see those companies in the utility sector. Renewable energy companies aren't getting much market love of late. While wind and solar energy are getting cheaper to generate and governments offer generous subsidies, most of the "energy money" went back to the oil & gas industry. This is probably an opportune time to buy undervalued stocks in this crazy market!

Greatest weaknesses

One must be mindful of the volume of debt these companies carry. Each time a Utility has a project, you can bet it will cost at least several hundreds of millions, or even a few billion dollars. In most cases, those projects are financed through the issuance of additional shares of stock or new long-term debt. When interest rates rise, this increases the cost of new financing and reduces future projected profitability. In other words, there will be less cash left to increase the dividend.

Keep also in mind that some projects result in failure. The Atlantic Pipeline, a joint venture project between Duke Energy (DUK) and Dominion (D) was recently canceled. It resulted in billions in write-offs and Dominion even reduced its dividend because of the project cancellation.

In November of 2022 Algonquin reported their latest earnings. Management shared plenty of bad news (negative EPS revision, uncertainties around the financing for the acquisition of Kentucky Power, the impact of variable rates on their business model, etc.). The result was catastrophic on the market. The stock dropped from $11.51 to $7.49 (-35%) in 7 days. In early 2023, Algonquin held a conference call to update investors. It cut its dividend by 40% and announced more asset sales (for another $1B). This conference call was about a company that had lost its magic touch and where its business model (aggressive growth by acquisition) had blown up in its face. AQN now wants to strengthen its balance sheet which was greatly affected by variable rate increases. When the tide went down, we all discovered that management was swimming naked in the ocean.

With high-interest rates, capital-intensive utilities are facing a new challenge. Some income seeking-investors are leaving the boat to go back to their first loves like bonds, GICs, and preferred shares. Fixed-income products pay a better interest rate and show more stability than renewable utilities! This explains a part of the general stock decline since 2021. It could result in a solid opportunity, however, if you are a most patient investor.

Finally, demand for power will also follow the economy. During lockdowns in 2020, we saw industrial and commercial demand for power decline. In general, recession may also have an impact for the next couple of years. To increase their rates, regulated utilities must deal with regulators. During challenging times, they may not agree to increase utilities' rates and would rather give consumers a break. We had a good example in 2021 when Arizona regulators decreased the rate increase inquiry submitted by Pinnacle West Capital (PNW).

How to get the best of it

Utilities have become quite popular following the 2008 financial crisis. As interest rates were kept at very low levels, income-seeking investors ignored bonds and certificates of deposit and looked to equities to provide better yields on their investments. This could change now as interest rates are higher. At the same time, the renewable energy industry has taken some serious hits. This may be the opportunity you were waiting for. Since utilities can't expand their business in another state or province without an acquisition, keep track of which regions have the best economic growth opportunities. At DSR, we prefer utilities using clean energy. They are not too expensive right now and they offer great potential for the next 10 years.

We also favor companies that have been around for a while. Utilities like Fortis are showing 50 years of dividend increases. They have proven over a long time that they can reward shareholders even during challenging times.

The utilities sector is best for income investors.

Target sector weight: Income investors can invest between 10% and 20% without any worries. For growth investors, something between 5% and 10% should be enough.

Favorite Picks

U.S.: NextEra Energy (NEE), Sempra (SRE), and Xcel (XEL).

Canada: Fortis (FTS.TO / FTS), Emera (EMA.TO), Brookfield Infrastructure (BIPC.TO / BIPC), Brookfield Renewable (BEPC.TO / BEPC).

Communication Services

When you think of the communications services sector, you may automatically think of AT&T (T), Verizon (VZ), BCE (BCE.TO / BCE), or Telus (T.TO / TU). Those companies are praised by income-seeking investors as they pay high yields and have shown consistent dividend growth. While their dividend increases are sometimes modest, these companies' dividend growth typically matches inflation and thereby protects their payout from being eroded by inflation. But there is more than just the wireless industry here. We are talking about all types of content from advertising to cable and now streaming and internet content. This is how "tech companies" like Meta (META) and Alphabet (GOOG) have pushed this sector on a more bullish trend. The good news for low-yield, high-growth investors is that Meta is now paying a dividend and they will be covered by DSR later in 2024!

Sub-Sector (Industry)

Advertising Agencies	Entertainment	Publishing
Broadcasting	Internet Content & Information	Telecom Services
Electronic Gaming & Multimedia		

Greatest strengths

For a dividend growth investor, I'd say the marvels are to be found in the wireless/telecom services industries. This sub-sector is packed with reliable dividend payers (other than AT&T!). Their secret? Everybody needs a phone, and we are all glad to pay monthly for it. With such reliable and predictable cash flow, telecoms have a great business model to serve income-seeking investors. Even if cable TV (broadcasting/entertainment) or magazines (publishing) are on a secular downtrend, it will take years for those industries to become bad businesses. This shows you the power of a subscription-based business model.

New technology entering a market is both a blessing and a curse. It all depends on which chair you occupy. Powerful network (5G) and streaming services will be tailwinds for the 2020-2030 decade. At the same time, it will be an important threat to any companies ignoring the trends. I doubt cable companies will thrive in 2030. They must shift toward streaming and other types of content delivery to survive.

Last year, I wrote in this guide that "*we may eventually see internet content companies such as Alphabet consider paying a dividend…*". Funny enough, Meta is the first one to initiate this trend in 2024! It would not be surprising if Alphabet eventually does the same thing. That would create more low-yield, high growth stocks!

Greatest weaknesses

Except for the telecom industry, this sector is not strong on dividend growth industries. Even one of my favorite picks (Disney) suspended its dividend in 2020. Disney reinstated its dividend in 2023 and already announced a dividend increase in 2024. While I still like the stock, I sold it in my portfolio as it became more of a distraction than anything else.

Advertising agencies are facing strong headwinds as they must adapt quickly to this new environment. They are also operating in a highly cyclical environment. Publishing and broadcasting won't attract new customers with their current business model. The advertising money is now being spent on the platforms of Google and Facebook. Classic agencies are facing major struggles.

We saw a bubble growing around the streaming industry in 2020-2021. Electronic games and internet content also surfed that same bubble. Since then, the market has realized it was quite a challenge for streamers to be profitable (besides Netflix, the uncontested leader in this industry). Therefore, most streaming companies have been struggling ever since. As I expect a recession in 2024, I don't expect a lot from most of them.

As new technology can kill or save a business like DIS created a whole new business with Disney +, your ability to forecast the future will be important to make the correct choices. If you don't want to bother with the future of technology, stay with the telecoms and you'll be fine.

Speaking of which, telecoms face another type of headwind. While we all want smartphones, the money required to develop strong networks is significant. This often leads to heavy debt loads for many players. This industry is capital-intensive, and you must always keep that in mind. Interest rates aren't going down significantly anytime soon. So, do not overexpose your portfolio to telcos with high debt levels.

How to get the best of it

I like having a few boring stocks in my portfolio. Since I'm 100% invested in equities all the time I usually pick a few companies with limited growth potential but solid dividends. Telecom companies fit this description well. If you are more adventurous, you can look at electronic gaming, entertainment, and internet content industries to find some growth stocks. The choice is limited when it comes to dividend growers though. Therefore, I made an exception in keeping my DIS shares.

The telecom industry is best for income investors.

The Electronic gaming, entertainment, and internet content industries are usually better for growth investors.

Target sector weight: Due to the lack of candidates, 3% to 10% seems to be reasonable for both income and growth investors.

Favorite Picks

U.S.: Soon: Google (GOOG) and Meta (META)

Canada: Telus (T.TO / TU), BCE (BCE.TO / BCE).

VOLATILE SECTORS

To end this section on sectors, I will get straight to the point: I highly dislike the energy and materials sectors. The reason is quite simple: both sectors depend on commodity prices to be profitable. Since they have no control over those prices, their cash flows and net earnings are often volatile. This situation makes them marginal dividend growers. I understand you can occasionally make a great investment in those sectors, but most people get burnt more than they get rich. On the bright side, ***both sectors will offer great protection against inflation. If you pick the strongest companies from each industry, you should be okay.***

Materials

The basic materials sector will include most natural resources used to make goods. This sector includes companies involved in the discovery, development, and processing of raw materials. This includes various metals (copper, gold, silver, etc.), agricultural inputs like fertilizers, lumber & wood along with paper products and specialty chemicals.

Sub-Sector (Industry)

Agricultural Inputs	Coking Coal	Other Precious Metals & Mining
Aluminum	Copper	Paper & Paper Products
Building Materials	Gold	Silver
Chemicals	Lumber & Wood Products	Specialty Chemicals
	Other Industrial Metals & Mining	Steel

Greatest strengths

If you know a specific industry inside out like the needs and trends for copper, for example, you can make a lot of money. Basic materials companies' financial health will vary following the demand vs. supply cycle. This is a sector prone to show many significant stock price movements within a comparatively short period of time. If you can buy industry leaders at their bottoms, you will look like a genius during the next commodity boom.

Some companies in the chemical and specialty chemical industries offer products that will be bought no matter what is happening in the economy. Companies that produce those stable products enjoy stronger pricing power, are less dependent on commodity prices, and could become good dividend growers.

On another topic, gold is often seen as an asset class of its own. Throughout most recessions, gold (the metal) and gold companies (mining or royalties) have done very well. In general, when the market goes into full panic mode, many investors seek a place to store their money. They don't necessarily trust currencies (or governments) and believe gold is a more reliable currency. Therefore, if you hold gold stocks, you will likely see them doing nothing for several years, but they will look like saviors when there is panic in the streets. In my view, gold is a bet on fear. Over the long haul, its returns have simply matched inflation.

Finally, most materials will do well in an inflationary environment. Since they operate at the start of the economic chain, they fix the price of raw materials based on demand. They are inflation creators in that process. Other businesses need basic materials to produce goods, therefore, they will be willing to pay a higher price.

Greatest weaknesses

The materials sector is relatively small when you only consider dividend paying companies. This is explained by the highly cyclical and volatile nature of the sector. The price of many commodities fluctuates a great deal, and it makes it very difficult for management to plan steady and increasing dividend payouts.

In addition to their cyclical nature, most basic materials companies require significant amounts of capital to operate. This often leaves little room for dividend growth, particularly during economic downturns. This is also why these companies are likely to cut their dividend temporarily to assist the business in weathering challenging times. Management's goal is not to fill shareholders' pockets with distributions, but rather to improve their production abilities and lower their costs of operations.

Don't let yourself jump at the "hype of the moment". In 2020, many experts called for a long and prosperous path for gold mining stocks. They also expected several years of robust dividend increases as they became "money printing machines". Today, the gold market is relatively quiet as the gold price is about the same as it was at its peak price of $2,000/oz in August of 2020. Gold mining stocks have not become the super-powered dividend growers that was projected back then.

How to get the best of it

If you have been a DSR member for a while, you already know that I'm not a big fan of either the basic materials or the energy sectors. They make for poor dividend growers due to their dependence on commodity prices. However, if you want to make speculative plays, this is one of the best sectors to play. Whenever there is a bottom, you can aim at picking some leaders in the industry by looking at their balance sheets and ability to generate cash flow and you can often make great trades. However, you will not see me being overly excited about any basic materials companies.

There are also a few exceptions showing long dividend growth streaks (such as APD and CCL.B.TO). That's a great indication those companies can manage volatility and still reward shareholders.

Please note that some companies like DOW or CCL Industries will be considered as "industrial or consumer" stocks, but their high dependence on commodity prices will bring them into the materials sector.

The materials sector is best for growth investors.

Target sector weight: Due to the lack of candidates with a decent dividend growth policy, a 3% to 5% exposure is enough to add some spice to your portfolio without giving you too many headaches.

Favorite Picks

U.S.: Albemarle Corp (ALB), Air Products & Chemicals Inc (APD).

Canada: Franco Nevada (FNV.TO / FNV), Stella-Jones Inc (SJ.TO), CCL Industries (CCL.B.TO).

Energy

The world needs energy to function. The oil & gas industry has been fascinating investors for several decades. I guess this is due to the thrill coming from the next exploration results or an oil boom pushing oil and gas stocks to record levels. The oil & gas industry is usually divided into three activities:

Upstream: this term represents all activities related to exploration and production. This is usually the phase where the commodity price is the most important. Companies will establish their financial projections based on a specific price (or cost) per barrel. Then, they will decide to explore (drill wells) or not depending on the likelihood of profitable operations.

Midstream: Midstream activities include the processing, storing, and transporting of oil & gas and their by-products. This is where you will find pipeline related businesses. The transportation and storage activities are usually more stable as they usually operate on long-term contracts with producers.

Downstream: this is the final step of the process including refining (to produce gasoline for example) and marketing the product (selling it to the end-customer). Don't just think about gasoline, but all the other modified products such as liquefied natural gas, heating oil, synthetic rubber, plastics, lubricants, antifreeze, fertilizers, asphalt, and pesticides.

Please note that all "renewable energy" companies are part of the utility sector, not the energy sector.

Sub-Sector (Industry)

Oil & Gas Drilling	Oil & Gas Integrated	Thermal Coal
Oil & Gas E&P	Oil & Gas Midstream	Uranium
Oil & Gas Equipment & Services	Oil & Gas Refining & Marketing	

Greatest strengths

Oil & gas stocks will raise passions and attract many investors during bull markets (especially after the boom in 2021). As the economy grows, demand for such products increases accordingly. Commodity prices go up, profits skyrocket, and dividends are generous. The problem is that it rarely stays that way. We have already seen a slowdown since the summer of 2022. During 2023, experts told investors to "wait for summer vacation" and then "wait for winter and heating demands". They claim that another energy bull market is around the corner. The problem is that they have said this every year for as long as I've been an investor (since 2003).

The energy sector can generate great returns in your portfolio, but you will be required to follow this sector closely (and hopefully know what you are doing). If you can pick stocks during oil busts (as was the case back in March-April 2020), you will show double-digit (sometimes triple-digit) returns. Since we do not employ a "buy and sell quickly" strategy, we rarely like energy stocks at DSR. They generally make unreliable dividend growers.

Finally, the energy sector is a great hedge against inflation. Along with other commodities, energy companies can easily pass price increases to their customers as it's linked to supply vs. demand. There is usually a portion of the inflation that is directly driven by rising commodity prices. If you hold commodity-linked businesses, you will be sheltered from most inflation.

Greatest weaknesses

The energy sector is quite volatile and cyclical. This is not the best place to pick dividend growers. Many companies will attract investors with their high yield and generous promises, but they will eventually fail their shareholders. I've heard the best and the worst stories coming out of this sector. Therefore, it is crucial to do your homework prior to investing in the Energy sector.

The main problem with this sector is it is capital-intensive, and profits often depend on commodity prices. Companies have little to no control over the prices they receive for their oil or natural gas. Therefore, they spend billions on projects and hope the end price will remain profitable for several years. We are seeing pipeline companies having difficulties with their budgets as inflation, labor shortages, delays, and regulators are increasing costs of construction and maintenance. While the sector enjoys stronger commodity prices, it also faces higher interest rates.

Vertically integrated companies (upstream, midstream, and downstream) tend to maintain their dividend payments no matter what, but it is still a risky business. For example, BP (BP) had to cut its dividend after a major oil spill. Royal Dutch Shell (RDS.A or RDS.B) and Suncor (SU.TO / SU) also cut their distributions following the oil debacle in 2020. Fortunately, they are usually quick to get the dividend back on track whenever commodity prices surge. If you are comfortable with volatility and don't mind getting your dividend cut once in a while, you can enjoy strong capital gains and impressive dividend increases (following cuts). Do not be blindsided by impressive headlines such as **"Suncor doubles its dividend"**. SU's dividend went from $0.465/share before the pandemic to $0.21, to $0.42 (when it doubled), and now starting 2024 at $0.545. So, it's **a 17.2% increase (or a 4.05% annualized growth rate) between February 2020 and February 2024.**

How to get the best of it

The energy sector is the most cyclical of all the sectors. If you are courageous enough to ride the roller coaster, you can grab shares at highly depreciated prices every few years. If you would rather stay focused on a dividend growth investment strategy as we do here at DSR, you must be incredibly picky before investing a penny in this sector.

However, there are a few exceptions including pipelines like Enbridge, TC Energy, and vertically integrated companies such as Imperial Oil, Chevron, Exxon Mobil, and Canadian Natural Resources that didn't cut their dividend during 2020. Most of them (besides Exxon) even increased their dividend each year for several years in a row.

I think pipelines (the midstream industry) are part of the most interesting opportunities in the energy sector. Pipelines are capital-intensive and exposed to regulators and potential oil spills, but they also act as toll roads. The world needs energy and pipelines are the ones providing it. However, considering inflation and higher interest rates, companies like Enbridge and TC Energy are likely going to be deluxe bonds (companies with little capital appreciation potential, but with a generous yield) over the coming years. Watching over their quarterly earnings to ensure the payout ratio remains in order is now crucial as their funds from operations could be hurt by delays, inflation, and higher debt burdens.

This sector is more suitable for a growth investor. If you are retired and looking to enjoy a peaceful retirement, you may want to ignore this sector completely. One or two pipelines could help boosting your dividend income, but please make sure you don't get "Kindered".

Target sector weight: Since this sector doesn't offer the best dividend growers in town, I'd say that a 5% exposure should be enough (unless you really like roller coasters!).

Favorite Picks

U.S.: Chevron (CVX), Exxon Mobil (XOM) and Enterprise Products Partners (EPD) have not failed their shareholders, but I'm not a huge fan.

Canada: Canadian Natural Resources (CNQ.TO/CNQ), Imperial Oil (IMO.TO/IMO), Topaz Energy (TPZ.TO) and TC Energy (TRP.TO/TRP), Enbridge (ENB.TO/ENB) for income-seeking investors (please keep in mind those pipelines must be followed closely).

GET TO WORK!

Many DSR members have asked us when is it the right time to change sector allocations? The right time is always now. If you are in a bull market, it's the right time since you are making money and you can reallocate your portfolio and avoid getting hit too hard by the next crash. If you are in a bear market, it's the right time since you reallocate your portfolio to be positioned for the recovery. On top of that, you get to do some tax optimization since you can use your losses to offset capital gains in your taxable accounts!

What is your current investing goal? Growth or Income?

What are you trying to achieve with your portfolio? If you keep adding capital and look for growth, your sector allocation should reflect that. If you are retired or about to retire in a few years, you should keep a 12 to 24-month cash reserve of your retirement budget. Is your sector allocation reflecting your goals?

Identify your top sectors with their percentage

Your top 4 sectors should include both core sectors and growth or income sectors (depending on your goals). At DSR, we recommend not having more than 20% of your portfolio invested in any single sector. If you show over 20% in a sector, try to break it down into sub-sectors (therefore, we added more lines).

SECTOR / INDUSTRY	CORE /GROWTH /INCOME	PERCENTAGE OF YOUR PORTFOLIO (%)

Identify strengths and weaknesses of your portfolio

Based on what you just read in this section, describe your portfolio. Is your sector allocation in line with your investing goals (growth or income)? Are you overexposed to a specific sector? If you have too many stocks in a sector, can you break them down into sub-sectors? Do you wish to add stocks in a specific sector?

If you are a DSR member, you can use our portfolio models and compare your sector allocation and returns to ours. Our portfolios aren't perfect but comparing your sector allocations will help you understand where your strengths and weaknesses might be. You will understand how your portfolio grew in the past and how it has been successful or not. This will help you grow confidence in your own investing model.

Strengths / what I like about my portfolio:

Ex: it is well-diversified, it shows 5%+ dividend growth year after year, it generates a stable income, etc.

Weaknesses / what I can improve in my portfolio:

Ex: it is overweight in a sector, I have 5 Canadian banks, some stocks cut their dividend, etc.

STOCK SELECTION MADE SIMPLE: THE DIVIDEND TRIANGLE

When we left in our small RV to drive down to Costa Rica, we lived the adventure of a lifetime. It was a wonderful experience because we had a clear strategy. We knew where we were going, why we were doing it and we even had ways to handle more difficult days. The market will keep throwing you curve balls, so let's make sure you don't whiff on them.

At DSR, we also have a clear strategy: we focus on dividend growing stocks. We handpick companies showing a strong dividend triangle (e.g., revenue, earnings, and dividend growth potential) and make sure we understand their business model. It is sometimes frustrating to follow such a clear, but strict strategy. We sometimes must ignore great investing opportunities because they don't fit in our model. Since our model is quite easy to understand and we know why we are using it, we never doubt ourselves.

What is the Dividend Triangle?

Revenues: A business is not a business without revenues. What is the difference between a company with growing revenues versus a company showing stagnating results? We are looking for companies with several growth vectors that will ensure consistent sales increases year after year. I'm a big believer in "*offense is the best defense"*. Whenever we are about to face a recession, I want to make sure I have companies that have shown past revenue growth. This is an excellent indicator that their business model is doing well, and they won't enter a recession in a position of weakness.

Earnings per share: You cannot pay dividends if you don't earn money. Then again, this is a very simple statement. Still, if earnings don't grow strongly, there is no point of thinking that the dividend payment will increase indefinitely. Keep in mind that the EPS is based on a GAAP calculation. This is what makes EPS imperfect, as accounting principles are not aligned with cash flow. This means you are better off looking at the EPS trend over 3, 5, and 10 years. Use an adjusted EPS that discounts those one-time events revealed by the company to have a clear view of what is happening. Some companies could "play around" with earnings for a year or two, but you can't create a trend out of thin air.

Dividends: Finally, dividend payments are the *obvious* backbone of any dividend growth investing strategy. But I don't focus on the real dollar amounts or the yields because our real focus is solely on dividend growth. Dividend growers show confidence in their business model. This is a statement claiming that the company has enough money to both grow their business and reward shareholders at the same time. This also tells you that the business can pay off its financial obligations and invest in new projects (CAPEX). No responsible management team will increase their dividend if they lack the cash to run their business.

What a Strong Dividend Triangle Looks Like?

It's one thing to put those metrics into a stock screener, but it's another to know what to do with them. The problem I face with a simple stock screener is that it will give me the 3year or 5year annualized growth, but I can't see the trend.

Once I identify a company with a strong dividend triangle, my second step will be to look at the trend over the past 5 years for each metric. This period is long enough to show the current trend and highlight some jumps or drops that I must investigate. For example, I've pulled the dividend triangle of one my favorite stocks; National Bank (NA.TO).

Revenues: The biggest advantage in looking into the dividend triangle is that you can quickly identify trends and verify when there are unusual events happening. National Bank's revenue keeps growing year after year on a steady basis. Since the trend is stable, this tells us that this bank has a clear growth plan, and it executes that plan very well. We'll add a note to verify if National Bank's growth vectors from the past five years are still sustainable going forward. Maybe they just got lucky, and they surfed on a bullish market? Or maybe they focused on wealth management, international banking through acquisitions and capital markets. They have been successful with their growth venture. That fills in the first requirement of the triangle.

Earnings per share: As you can see, there is an EPS drop between 2020 and 2021. This doesn't mean you should toss away this stock. It means you should investigate and find out the reason why earnings dropped. In this case, the answer is easy; the pandemic created a massive panic and banks reviewed their loan portfolio, increasing their provision for credit losses. We know how this story ended and this explains why 12 months later, the EPS trend went back on track.

It's also a great example demonstrating how EPS will not always show the reality, because it sticks to generally accepted accounting principles. Now we have a decent explanation telling us the earnings decrease wasn't due to a flawed business model or poor management. It was clearly due to an unpredictable event that affected all businesses (good or bad). With a good explanation on what happened and a clear view of where EPS is going now, NA passes the second dividend triangle's requirement.

Dividends: For the final "test", we look at dividends throughout the years. In an ideal world, we would pick companies with 10+ years of consecutive increases. Over the past two decades, I've discovered you could miss some amazing stocks if you limit yourself to 10 years (hello Apple in 2014!). For this reason, I look at the past five years as it reflects what recently happened to the company. The past 5 years graph has a much better chance to be replicated in the next 5 years compared to the past 10. What happened in 2012 seems like an old fading memory now.

When you look at NA's dividend trend, you see a clear line going up with a pause that corresponds to the same period where EPS decreased. Again, a 1–2-year dividend growth pause isn't a good sign, but you should investigate the causes before you skip this company. After review, you would have found out that NA's balance sheet and payout ratio were very strong, but regulators (OFSI) established a dividend growth freeze policy following the pandemic on the entire Canadian financial industry. You can also see that National Bank played catch-up with a generous increase at the end of 2021. Again, NA passes the last dividend triangle requirement.

Can you find a perfect dividend triangle?

Unfortunately, we would all wish for clear and perfect dividend triangles over 5 and even 10 years. The economy being cyclical and the stock market being full of surprises, the image of a perfect dividend triangle is more like an ideal goal and not something you will find each time you do your due diligence. However, the triangle will give you hints on what went well and what didn't go as planed during that period. After some reading of the quarterly financial statements (found on the company's website), you will be in a better position to understand where the company is going in the future. Don't worry, you don't need a master's degree in accounting to read quarterly updates. You will find most of your answers through a look at the company's press release and the investors' presentation. We obviously cover those during our DSR PRO quarterly updates.

The dividend triangle as a protection for your capital

If there is one thing I hate, it is to lose money. We work hard to earn it, we make sacrifices to save and invest it, so it would be unfair to see the market get away with the fruits of our labors. The dividend triangle helps me protect my portfolio from the potential storm that inevitably will come.

Companies losing market share due to their lack of competitive advantages will see their story unfold through their revenue trends. It is very rare to see any business publish growing revenues year after year if they are losing market share. For many reasons, a company could publish weaker results. It could be the end of a cycle, a change in the business model, or simply the economy slowing down. However, if this situation persists for several years and management can't find growth vectors, the red flag must be thrown.

The same logic applies to earnings. Since earnings calculations are based on GAAP, we are not talking about real money. This number is far from being perfect. In fact, you are better off combining this metric with free cash flow or cash flow from operations to see what is really going on. Nonetheless, if a company is unable to generate growing EPS over a long period of time (5 to 10 years), the chances are dividend growth will not happen.

Keep in mind dividends aren't magic as they are the result of strong free cash flows, not the cause of good free cash flows.

What usually happens when you find companies generating strong free cash flows? They usually offer a reliable dividend growth policy, and their share price tends to rise over the long haul making you a richer investor.

RATE YOUR STOCKS

At DSR we classify dividends and stocks in 5 categories. You don't need to be a DSR member to rate all your holdings. We use two simple methodologies:

DSR PRO Rating

5 = Exceptional Buy – a strong business model, several growth vectors, and an undervalued price.
4 = Buy – It's a good company and the short-term upside is good, but not flabbergasting.
3 = Hold – A classic "right company at the right price".
2 = Sell – If we were you, we would seriously consider getting rid of this one.
1 = Screaming Sell – Enough said.

DSR Dividend Safety Score

5 = Stellar dividend – Past, present, and future dividend growth perspectives are marvelous.
4 = Good dividend – The company shows sustainable dividend growth perspectives.
3 = Decent dividend – Don't expect much more than 3-5% annual dividend growth rates.
2 = Dividend is safe – but, not likely to increase this year.
1= Dividend Trash – It has been cut or is likely to be cut soon.

You can find a complete explanation in the video about the PRO Rating and Dividend Safety Score here.

When reviewing your portfolio, you can easily rate all your holdings using a similar methodology. While we do it for you at DSR, you can do it yourself with additional research. Then, you should seriously try to justify why you keep any "1's" or "2's" in your portfolio. If you can't come up with a strong investment thesis, chances are those should be sold **not eventually, but now**.

Remember, the best time to make changes to your portfolio is **now**. What is lost is lost. However, you can reallocate your money in a better way going forward. Next, we will show you how we manage stocks according to our dividend safety score.

Manage stocks with the DSR Dividend Safety Score

Dividend trash has cut their dividend within the past 12 months or are about to do it. They are usually lost causes, and you should get rid of them right away. Considering the COVID-19 impact on the economy, some businesses decided to suspend their dividend temporarily. It's hard to make money when your business is closed. For this reason, you can keep companies that used to have a strong dividend triangle prior to 2020. Look at each of them and determine if they are likely to resume their dividend growth policy once this exceptional event is over.

The dividend of "2's" shows no dividend growth for a while. Remember, an absence of dividend growth is the first step before a dividend cut. In some rare occasions, you will find companies using all their money to acquire new businesses. We still prefer those who can do both (acquisitions and increase their dividend), but you may want to hold on to a few "2's".

"3's" should be reviewed quarterly to make sure the situation has not changed. "Decent dividend" rated stocks offer a modest dividend growth rate that should beat inflation. We will often see them in the "income sector" as the yields tend to be higher. If a REIT can increase its dividend by 2-3% yearly, I'm good with that. However, keep an eye on them to make sure management keeps its promise each year.

Dividend scores of "4" and "5" offer great dividend growth perspectives. They usually show a strong dividend history and payout ratios that are under control for the future. The dividend safety is not only about the past, but also about the company's ability to maintain its dividend growth streak going forward. The stronger the dividend triangle is, the stronger the score should be.

When selecting new holdings for your portfolio, I would favor only companies with a score of "4" or "5". Those companies won't let you down should the market turn rocky for a while. You can count on those payments to smooth the path that leads you to retirement.

DIVIDEND STOCKS ROCK
INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

GET TO WORK!

This section will require lots of work on your part. You should examine each of your holdings through the "dividend triangle glass" and rate them accordingly. This will help you identify both the weaker holdings and the stronger ones. We think that with over 40 positions, you spread yourself too thin. Each position won't have much impact and you may duplicate similar holdings for no impact (e.g., holding 5 different banks, for example). You can use the quick comment line to identify why you rate the company a 3 instead of a 4 for example.

If you are a DSR member, you can use our stock cards and compare your ratings with ours. Our ratings are updated quarterly and have helped thousands of investors make more informed investing decisions.

Rate your stocks (Dividend Safety Score)

COMPANY NAME	SYMBOL	DIV SAFETY SCORE	QUICK COMMENT

Rate your stocks (Dividend Safety Score) (Continued)

COMPANY NAME	SYMBOL	DIV SAFETY SCORE	QUICK COMMENT

If you have more than 50 holdings, you are getting very close to managing your own ETF. There may be duplicates or simply “okay” companies that don’t deserve your money. Remember that you worked hard to save that money and only the best of each sector should be employed to work for you.

If a company shows only “okay” metrics, or if you “hope” things will get better (without any rationale behind this hope), this is your signal to sell your shares. To help you in this process, you can list a potential buy list with companies showing stronger metrics. When you compare both (your weak stocks vs potential replacements), you will justifiably be tempted to make a switch.

DIVIDEND STOCKS ROCK
INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

Build your potential replacement list

If you still have doubts about a few of your holdings, build yourself a "watch list". Select companies with a strong dividend triangle and keep track of how they reacted in the past to bad news, recessions, or market crashes. It will help you understand the difference between a strong business and an "okay" business.

You will notice that dividend growers tend to outperform weaker companies during a market crisis. Don't wait for the bounce back and put your money on a winning horse as soon as possible.

COMPANY NAME	SYMBOL	DIV SAFETY SCORE	QUICK COMMENT

A personalized list of potential replacements is available for DSR PRO members in their quarterly portfolio reports. All DSR members receive the Mike's Buy list monthly through the DSR newsletter. Those are great resources to help build your watch list!

Define what is a strong buy opportunity

Many investors have difficulty determining which company shares to buy and when to buy them. At DSR, we focus on businesses with strong dividend triangles. This means we are looking at businesses with strong growth vectors for the future, posting consistent earnings growth and with a sustainable dividend growth policy. The stronger the dividend triangle, the stronger the dividend growth should be. When we find such businesses, we dig into their earnings to understand the business model and write down a complete investment thesis. The investment thesis includes both the reasons why we think this company is great and the potential downsides. It's important to understand where the company is going and what could go wrong. Then, and only then, do we press the buy button. We will cover the timing issue later in this workbook.

In your own words, define which type of company would make a great buy for your portfolio. You can use a specific company and write down your investment thesis. If you are a member, you can look at our DSR stock cards for inspiration.

Define what is an immediate sell

The buy and sell struggles are one of the most common dilemmas cited by investors. Many hold on to their losers for too long, and some others wonder if they should sell some of their winners. At DSR we mostly sell for two reasons, and they are not linked to price fluctuation. The first (and most important) reason is when a company doesn't fulfill our investment thesis. We may have been wrong in the first place (thinking a company would thrive in a specific segment), or the business or the environment may have evolved differently over time. When this happens, we simply sell and never look back. Having the potential replacement list ready helps shift our focus onto another dividend grower. The second reason is when the company cuts its dividend. Besides exceptional events such as the COVID-19, most companies cut their dividend because their business model is flawed. Unless there is a very good reason (such as stores or manufactures are forced to be closed due to an economic lockdown), we will get rid of the dividend cutters in a heartbeat.

In your own words, define the reasons why you would sell a company in your portfolio.

DIVIDEND YIELD, TIMING, AND VALUATION CONFUSE YOU?

So far, we have established the following:

#1 Dividend growth investing works, but you can also follow other types of strategies. The point is to stick to the strategy that works for you.

#2 Sector allocation is key. If you don't focus on the right sectors, you will not achieve your investing goals.

#3 Rating your holdings according to a simple, but efficient set of metrics will solve your buy/sell dilemma. You will automatically identify the strong companies and weak companies in your portfolio.

#4 It's always the right time to make changes in sector allocation or in the buy/sell transactions in stocks.

I'm aware the last point makes some of you cringe. "Waiting" often sounds more reasonable. Sorry, but that's terrible advice. This last section will attack three misconceptions that creates more doubt in your mind and leads you to making bad investment decisions. The following statements are completely wrong:

#1 I need high yielding stocks to retire on my dividends.

#2 There is a good time and a bad time to invest. I must wait for the good time to happen.

#3 The market is overvalued. I must wait until it is undervalued to buy.

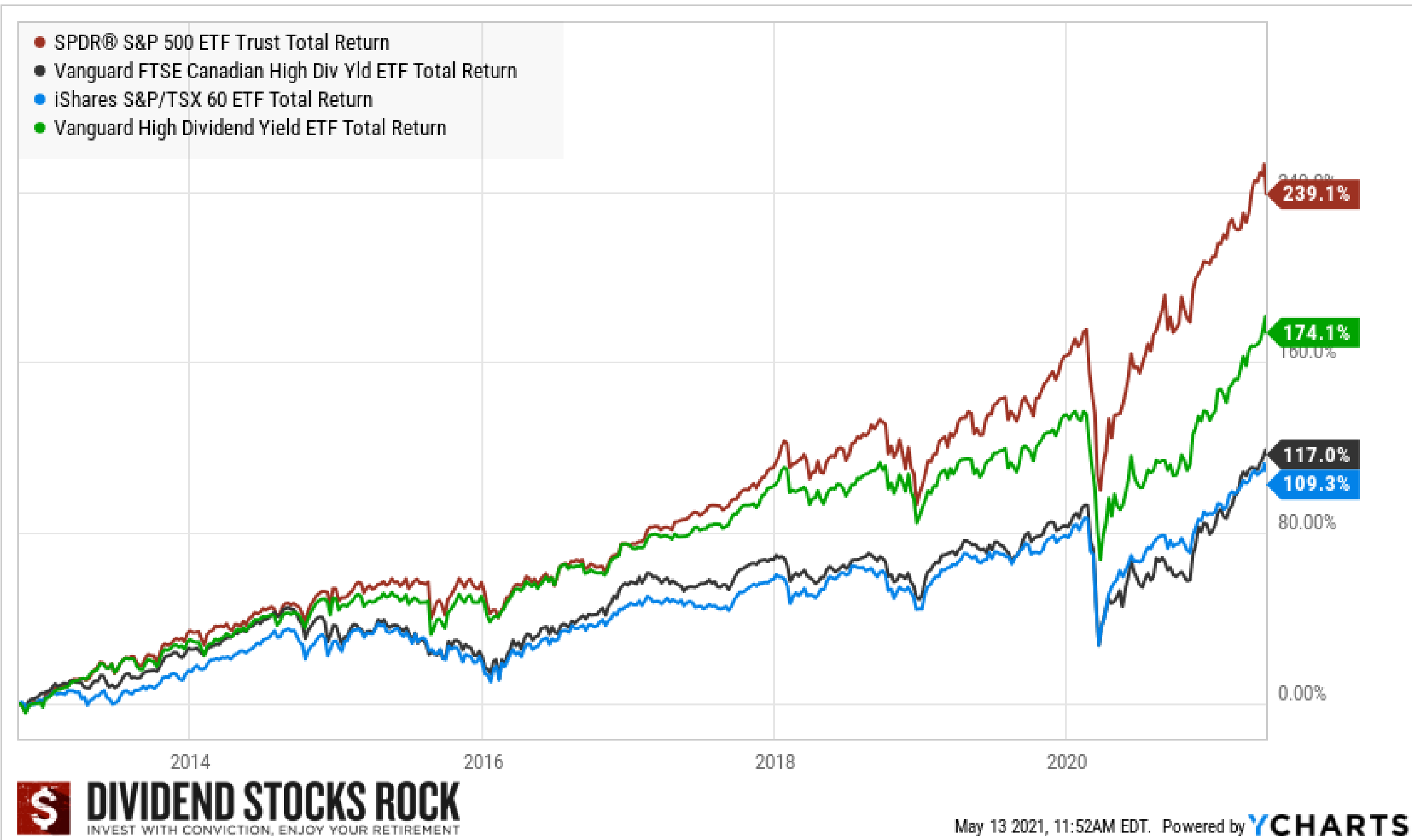
Fair warning: you will not likely agree with me as I will not be gentle about those affirmations. Just stay with me and keep reading. You can make up your mind afterward.

I need high yielding stocks to retire on my dividends

For many DSR members, the #1 reason they choose a dividend investing methodology is to create an income stream from their portfolio. I am sure you dream of living off your dividends while your capital is comfortably secured in your brokerage account. You can then live a happy retirement and make sure you leave something behind. If you hold your shares, you get your paycheck. It is like a pension plan, but you get to manage it! Through the choice of high yielding companies, you see the opportunity to increase your pension check. But the additional inherent risks of that stock selection methodology could put your whole plan in jeopardy. While I appreciate the desire for dividend income, I respectfully think you should look at the bigger picture.

Why are you doing this?

If you consider the past 10 years history in the market prior to the 2020 crisis, you probably don't understand why I am waving the red flag. After all, high yielding assets have performed just as well (and sometimes better) than the entire market. Why would you change a winning strategy, especially when it helps you live more comfortably in retirement? The search for high yielding stocks makes plenty of sense when you look at the graph below.



Source: Ycharts

The problem usually arises during a market crisis. If you look at the number of dividend cuts among high yielding stocks during the recent 2020 market correction, you will come to realize that your dividend income is not safe.

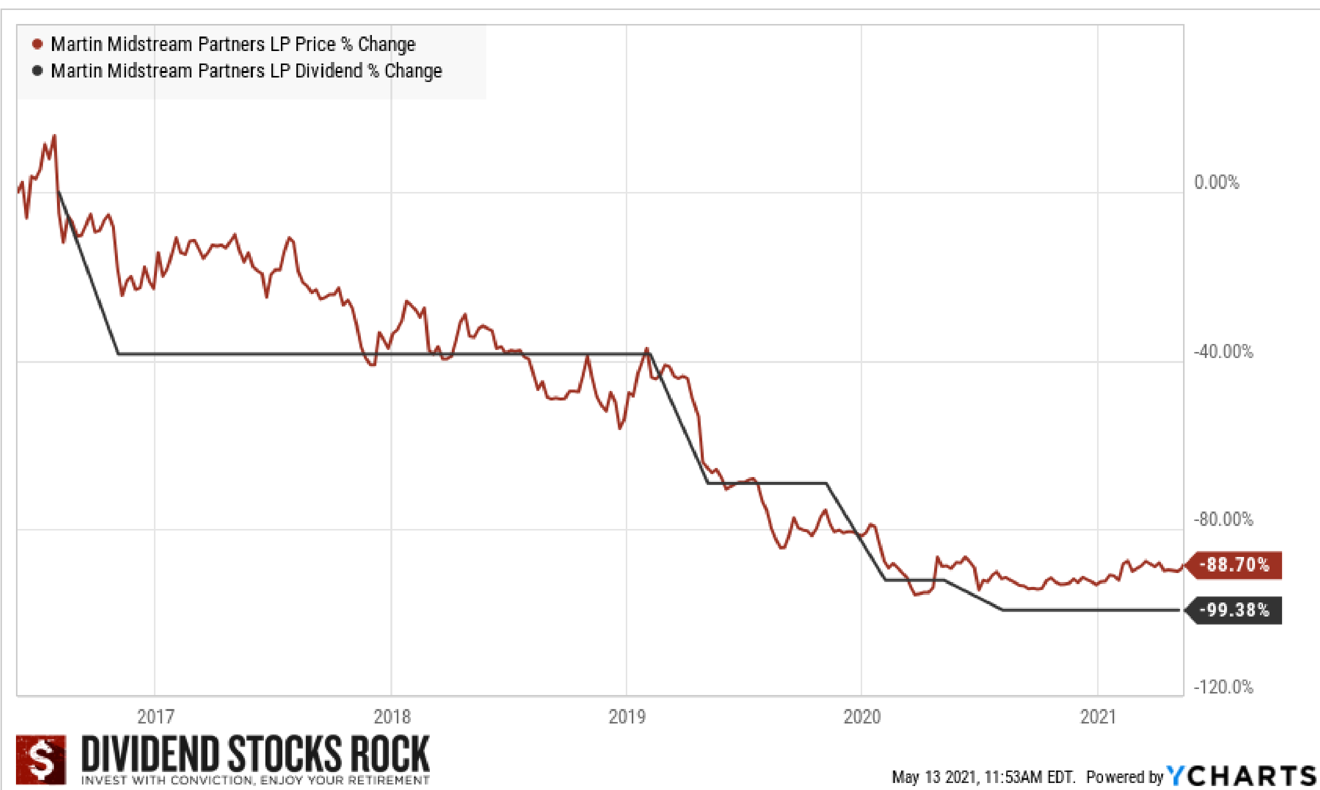
How it may hurt your portfolio

In the light of what has happened in the market over the past decade, I can confirm that not all high yielding stocks are bad investments. However, you must take some precaution when it comes to selecting high yield stocks.

First, consider inflation. A high-income solution is only interesting if the dividend increases by at least 2% per year. If you cannot reasonably expect that from each company in your portfolio, then you are running into potential trouble. Unless you are 80 today (you can skip this part if you are), you will have to generate income for 10, 20 maybe 30 years. With the likelihood of living up to 90 or 95 years, no dividend increases should be a concern.

Second, an absence of dividend growth is the first step toward a dividend cut. While the stock market went up and down a few times in the past decade, we haven't recorded a single recession. If some of your holdings have not increased their dividend payouts in the past 5 years while interest rates were low and the economy was doing well, what is going to happen when we go through difficult times? You are right, a dividend cut is likely to happen.

In most cases, a dividend cut will have a terrible impact on your portfolio. On top of reducing your income stream, your capital will likely take a hit at the same time. Here's an example of what could wait around the corner if you hold companies that are likely to cut their dividend in the future.



You will notice the weak dividend increases for a few years just before the company stopped its dividend growth policy. The stock price started to go down before the first dividend cut. Therefore, it is important to follow your holdings quarterly. The market saw it coming, they sold the stock leaving you with an important loss at the first dividend cut and the bleeding just kept going.

GET TO WORK!

Identify your high yielding stocks

Make a quick list of any stocks showing a yield over 5% and rate them according to the dividend safety score.

SYMBOL	YIELD (%)	DIV SAFETY SCORE	SYMBOL	YIELD (%)	DIV SAFETY SCORE

DIVIDEND STOCKS ROCK
INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

Write down your investment thesis for each company

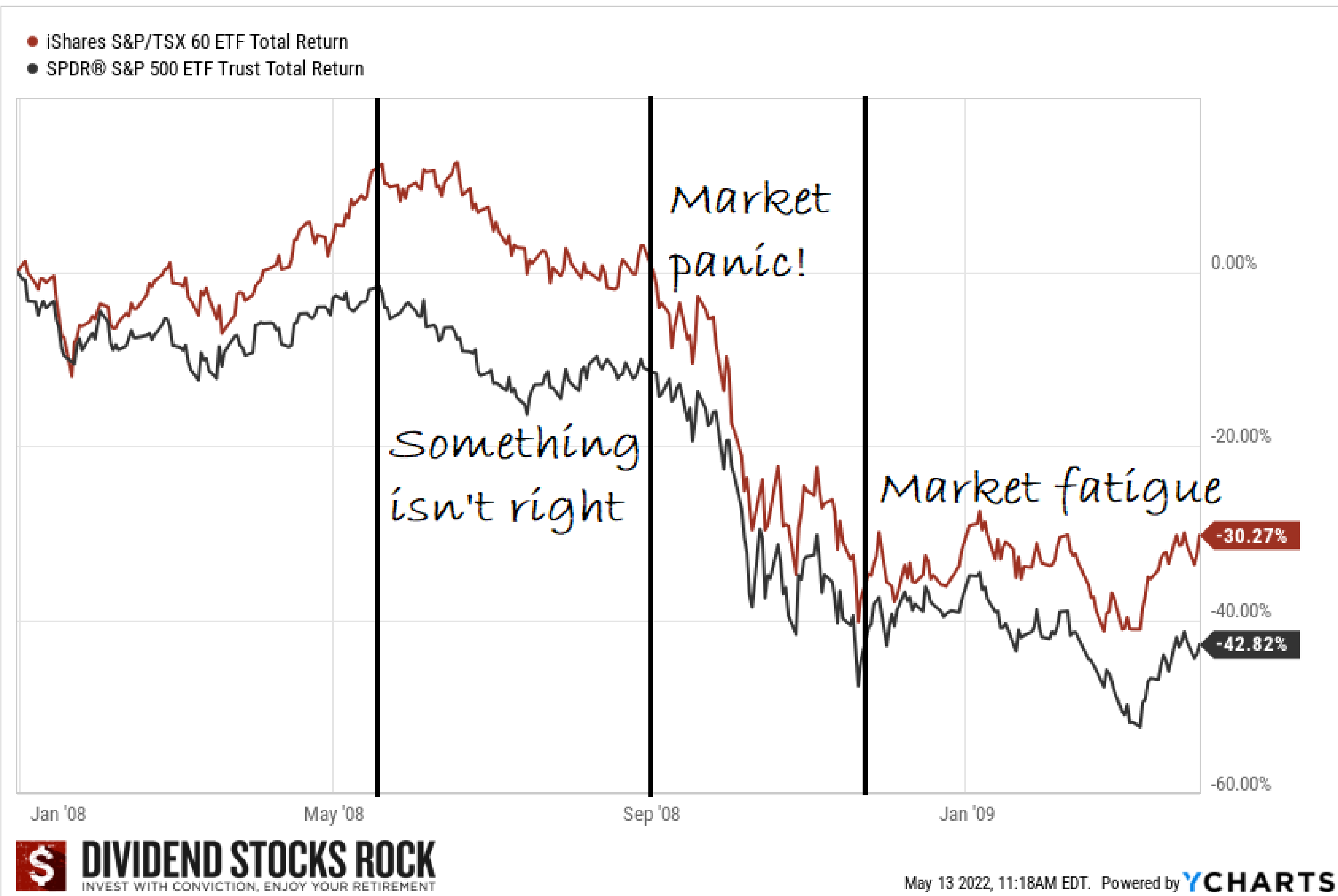
For each company, determine the reasons why you hold this stock and the likelihood of their cutting the dividend. Keep in mind that for each year where you don't have a dividend increase, your buying power is reduced by the inflation factor. It's like a "silent" dividend cut.

There is a good time and a bad time to invest. I must wait for the good time

"I'll wait until everything settles and then I'll start investing"

Besides "*this market is going to crash and burn to ashes*", this is probably the line I've read the most during the COVID-19 crisis. I will not address the latter but will concentrate on the eternal "when is the right time" dilemma. Let me share with you a few personal notes.

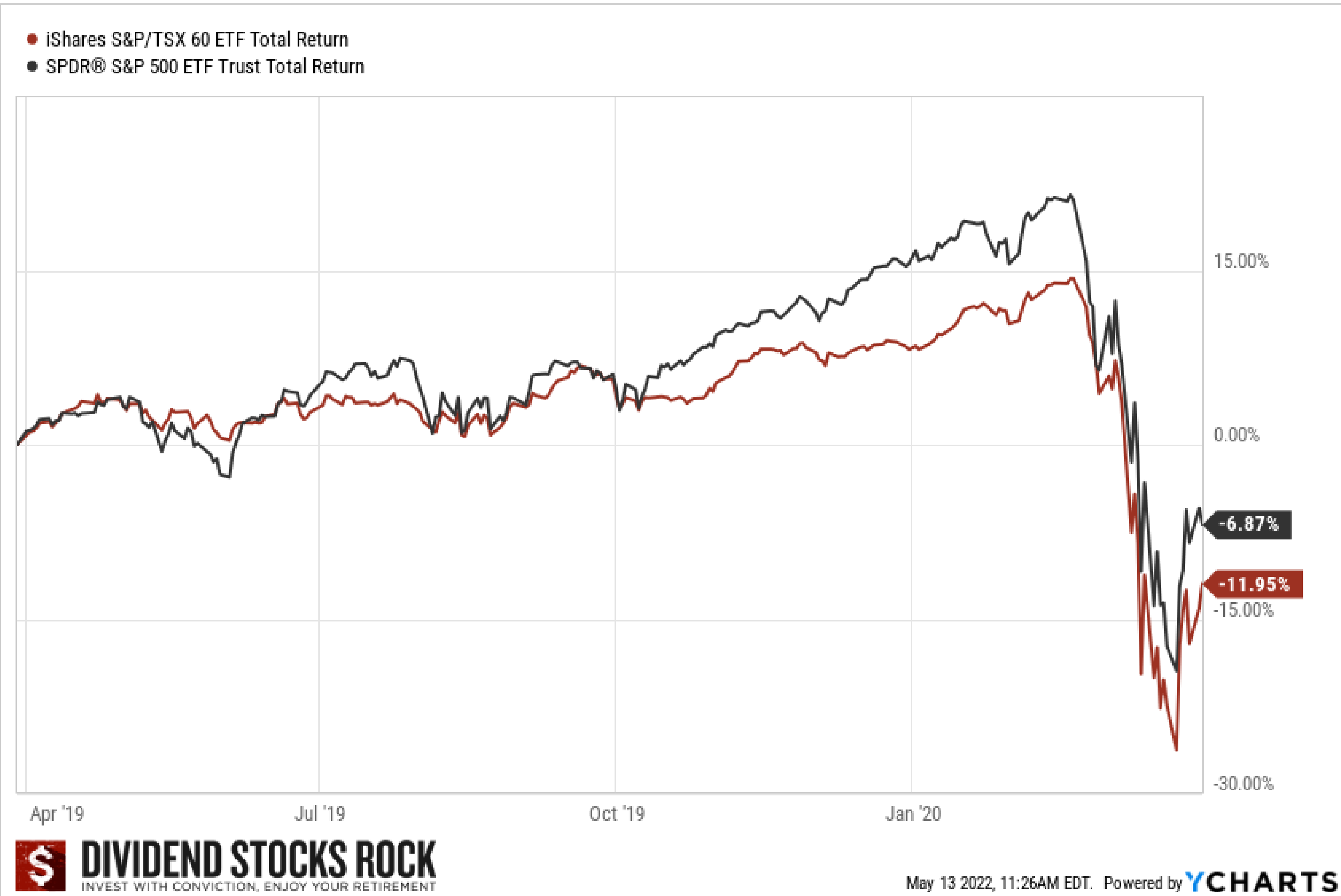
First, please know that I'm invested 100% in equities all the time. I have been since I first bought my first shares (it was Power Corporation POW.TO) back in 2003. I did not change my approach in 2008 and I certainly won't today. **Second**, I must admit the thought of cashing out and buying back into the market in full force in a few months when the "market hits the bottom" sometimes crosses my mind during a bear market. I'm not worried about market fluctuations. I just feel greedy about the possibility of cashing in on profits now and investing in the same portfolio at a 20% discount later down the road. **Third**, I quickly discard this thought after reviewing what the most recent crash taught me (or rather confirmed): stay invested.



Source: Ycharts

What the previous graph reveals is how both the US and Canadian stock market (XIU.TO and SPY total return) evolved between Jan 1st, 2008, and March 2009. As you can readily see, it was not that easy to determine when the market bottom happened in March 2009 (especially when you look at the November bottom which was close to the March levels). Panic took over the market towards the end of summer of 2008 and it was followed by "market fatigue" where investors hardened to the continuing bad news. They were just "done" with trading.

So, let's look at what happened between March 31st, 2019, and March 31st 2020: a strong bull market, then a big drop followed by a rebound. Some call it a dead cat bounce (just going up to go back down once again):



Source: Ycharts

Now, before you jump to conclusions and call for the market fatigue: **each bear market is different, and we don't know if we have hit the bottom on this screen.** There are signs of a slowdown in volatility and volume right now, but we are not out of the woods yet. As you read this book, you already know what happens next. Were you able to guess it on March 31st, 2020? How strong were your convictions at that time? Bear market, market bottom, V shape recovery or a three+ year long recovery? I know, it's hard to guess. Also, please note how it doesn't look that bad when you put the drop on a 12-month graph.

We tend to look at the recent market drop from its peak level. But what was a 30-35% market drop in a month becomes a -10% drop over a year a non-event over 3 years (XIU.TO was down 2% and SPY was up 15% between March of 2017 and 2020, respectively).

GET TO WORK!

No matter how many tools we use to predict market peaks and bottoms, we only tend to be great at doing so when we look backward. Why don't you go back in time and try it?

Go back in time

Here's an exercise I'd like to offer. Select a company that you know and follow. Go back in time and look at their major drops. Note those periods. Look back using metrics, previous quarterly earnings reports or an article written about this company a few months before the drop happened. List the reasons that make it an "obvious" movement:

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Now, do the same process with a company that thrived. Identify when the stock started to outperform the market by a wide margin (you can try Microsoft in 2017 if you run out of ideas). Identify what makes it obvious and try to understand why didn't "everybody" buy that stock? A side note: back in 2017, Microsoft was rated as being overvalued by many investing firms and financial analysts.

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****If you want to save hours of research read this:*** *I've done the research many times and there is no way you can predict the future. Each single year, there are great threats to our economy. Most of them are handled without much damage. You may get lucky occasionally and sell or buy on a hunch. However, you will never be able to have your "investing sense" alarm on for each bottom and each peak.*

The market is overvalued. I must wait until it is undervalued to buy.

DSR was created back in 2013. Between 2013 and 2014, most financial analysts and the media said the market was overvalued. You could find some juicy quotes back then:

"Of course, with stocks at all-time highs, some seem to have nowhere to go but down."

~Business Insider (2013) (quote from Goldman Sachs)

"At ValuEngine.com we show that 77.8% of all stocks are overvalued, 45.2% by 20% or more. All 16 sectors are overvalued; consumer staples by 17.6%, retail-wholesale by 26.4% and utilities by 9.8%."

~ Forbes (2013)

"The market has jumped nearly 30%. This means the stock market's rally has been based solely on people paying more money for the same amount of earnings — this is known as "P/E multiple expansion."

~ Motley Fool (2013)

You already know what happened between 2013 and 2020: one of the most amazing bull markets on record. It wasn't a quiet ride as the market dropped in 2016, 2018 and again in early 2020. Overall, those who have been sitting on the sidelines in 2013 (because the Euro zone was on the verge of collapsing due to Portugal, Ireland, Italy, Greece, and Spain having unsupportable debt levels) have missed a unique opportunity.

In 2017, I officially quit my job as a private banker and invested 100% of the commuted value of my pension plan in dividend growth stocks. Then again, everybody agreed the market was way overvalued back then. In other words, most investors agreed the market was overvalued for 4 consecutive years.

After nearly 20 years of looking at the market, I've come to the following conclusion: When you have doubt, the market, or the stock you look at is overvalued. When you have conviction; everything is a deal, no matter the price you pay.

In theory, I agree with you that we are better off when we can buy a stock at a cheap price. The problem is that we only know that a company was trading at a great price when we look backward. The price you pay would only matter if you know what will happen in the future. Timing and valuation only create confusion and hurt your confidence.

Nobody knows what will happen in the next 6 months or 12 months. Therefore, determining a "good entry point" or "fair value" is pretty much a waste of your time. It will also put a strong break on your investment strategy as you will keep wondering "what is a good price for this stock?". Personally, I would rather buy the stock now and be confident it will be worth a lot more in 10 years.

When you look at what has happened over the past 3 years, you can readily understand that market valuation is just a matter of perception. We almost hit a "bottom price" three times on this graph:

Source: Ycharts

Back in 2017, the market was significantly overvalued. Then, the 2018 market drop brought us back to about the same levels. What was overvalued in 2017, was the beginning of the end in 2018. A solid recession was about to hit the market and we would test new lows. It's only normal, the market was overvalued. Surprisingly, 2019 came with its load of positive earnings and economic data. Then, the COVID-19 hit the market and brought the market back closer to April 2017 levels. Suddenly, many investors found amazing deals and cheap stocks to buy. How can a US market up 15% and a 2% market drop over 3 years on the Canadian market make such unheard-of deals?

GET TO WORK!

I realize the discussion about stock valuation is almost impossible to close. Many think the price they pay matters. It only matters if you know what will happen next. If you don't, you may just as well add to your portfolio overpriced shares of a great company than the cheap shares from a mediocre company.

Identify a stock valuation method or an investing firm

When I first started investing, I was keeping track of analyst's price forecasts from one year to another. It turns out that most of them were not only wrong all the time but ended up closing their follow-up after a while if they kept getting it wrong. In other words, I have yet to find an analyst, a firm or a valuation model that was able to correctly price a stock. I challenge you to look backward once again and look at any of your favorite analysts, firms, or models. Make a list of 10 stocks with their price as of January 2009, 2015, and 2020. Then look at their predictions 12-24 months prior to those dates. Please send me any methodology showing an 80%+ result (+5% variation).

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****If you want to save hours of research read this:*** *Like market timing, determining the fair value of a company is a pure sense of perception. In general, great businesses will appear overvalued most of the time. You can wait several years to see if you will grab them at a discount or buy them today and let them work their magic in your portfolio. I choose the latter. DSR members do as well.*

I would rather buy great overvalued stocks over not buying them at all. I would rather buy great overvalued stocks than buy weak stocks at a cheap price. You can hit a homerun and get great stocks at a cheap price. **But chances are you could have bought them 5 years ago and enjoyed the dividends over time.**

DSR CAN HELP YOU WITH YOUR INVESTMENTS

First, I want to congratulate you for taking the time to read this book. I hope you took good notes and grew your confidence!

I've always been passionate about investing. After a successful career in the financial industry, I quit my position as a private banker in 2016 to spend all my time on Dividend Stocks Rock (DSR). This unique dividend investing program now helps over 3,500 investors to invest with conviction and enjoy their retirement. DSR is rapidly growing, and our team is doing everything they can to help investors like you gain conviction and succeed. When I receive emails like this one from Anne, I feel like my DSR team is progressing in the right direction.

> *"I want to thank you for this excellent service. I have been a dividend growth investor for 30 yrs.*
>
> *Your service is the most outstanding I have found in years of searching, with consistent comforting advise and very much in line with my values…*
>
> *I appreciate your division of dividends into USD and CAN in the last PRO report. Please keep up the great work and I wish you and your team every success. The world needs more of you and much less of the kind of reporting that makes people think they need those pick pocket mutual fund salesmen."*

- Anne, DSR PRO member since July 2018.

DSR content clears the noise and gets straight to the point. Within minutes, you'll know if a company is worthy of your hard-earned money. No more doubts, no more "I should have / could have", the best investing tools are at your disposal to enjoy the retirement of your dreams.

Our portfolio models provide you with real-life examples of how to invest your money in which type of companies and in which sectors.

Our stock cards tell you all you need to know about a company within minutes. In a glimpse, you'll get the metrics you need to decide with conviction. Our ratings will tell you which stocks to look at and which dividends are safe.

Finally, our weekly newsletter keeps you up to date with timely buys, market commentaries and video answers to your questions. You will never again be left in the dark if you join our DSR community.

DIVIDEND STOCKS ROCK
INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

Invest with conviction, enjoy your retirement

Investing is like hiking a mountain. It is challenging, but there is real fun throughout the journey and the end-result is highly rewarding. What makes hiking fun is having someone with which to share the adventure. Not someone that will do the hard work for you, but just a buddy that you can reach out to and discuss issues with while you are on your path to financial independence.

Market fluctuations create confusion and leave you with the impression you may lose all your savings. It doesn't have to be this way. Dividend Stocks Rock gives you the actionable tools you need to invest with confidence and retire stress-free. Combine this workbook along with the DSR tools and you will secure a solid investment plan.

To your success!

Mike, Passionate Investor

Founder of Dividend Stocks Rock.

P.S. Please forward this book to any of your friends and family members who believe taking care of their retirement plan is important.