DSR PREMIUM NEWSLETTER

IN THIS ISSUE…

- What if your dividend income was more than a yield?
- Low yield, high dividend growth at retirement
- Income portfolio building made easy
- Withdrawal mechanics at retirement

This is your site and your exclusive newsletter. Please, feel free to share any ideas, opinions, comments, or suggestions with us via email at dividendustries@gmail.com.

SEPTEMBER 29TH, 2023

Dear DSR member,

It is with great pleasure that we present our weekly premium newsletter which is an important component of your subscription to Dividend Stocks Rock.

You may benefit from viewing our video explaining the differences between the Buy List, our ratings, and our portfolio models. You can retrieve this information in the Videos section of the website.

Referral

Feel free to share our ideas with your friends or associates who may benefit from this information. **We would personally consider any referrals you make on our behalf to be the ultimate compliment for our efforts.**

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WHAT IF YOUR DIVIDEND INCOME WAS MORE THAN JUST A YIELD?

Warning: this is not a guide to high-yielding stocks (quite the opposite). ***This is a guide to creating a lifetime dividend income.***

For those who have been Dividend Stocks Rock members for a long time, you will recognize a compilation of some of my best work in this guide. For those who are new to DSR or have never been a member, **the Dividend Income for Life Guide** will introduce you to my investing methodology that has been applied at DSR since 2013 with great results.

This guide is for any investor who wants to create a sustainable income from his/her portfolio. It will be useful during your accumulation phase as you will avoid major mistakes and build a solid portfolio for your retirement. It will be even more useful if you are retired and count on your portfolio to pay the bills.

We all invest with the same goal in mind: having our money working for us.

How to generate income? Yield or Growth? Why Not Both?

When it comes down to generating income from a portfolio, some may tell you to aim for high-yielding stocks. You have a million dollars, you invest in 7% dividend payers, and BOOM, you earn $70K per year. That's what I call "napkin calculations". It's easy to understand, it's straightforward and quite appealing.

It's also incredibly misleading. Dividend cuts happen all the time and then, you lose both your income and your capital. You don't want that as a retiree.

Some others may tell you how they invested most of their money in Tesla and became rich. That's also easy to understand, straightforward, and quite appealing.

But it's also incredibly hard to repeat. It's fun to play Monday morning quarterback, but when it's time to guess the next stock that will generate 10X growth, many crystal balls get broken.

What if the solution is to find a combination between dividend-paying companies and high-growing companies? This is what I call **dividend growth investing**.

This guide will show you an alternative way to invest in dividend stocks that will avoid most dividend cuts and make sure you have enough money accumulated to retire stress-free.

A dividend income for life starts by creating your own dividends from your portfolio.

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LOW YIELD, HIGH DIVIDEND GROWTH AT RETIREMENT

I've discussed the importance of having low yield, high growth stocks in one's portfolio many times. Many DSR members have accepted that this type of stock usually generates the strongest returns. However, many of you may think this strategy is better for younger investors in their accumulation phase.

I respectfully think you are wrong.

At 60, I'll generate a 5% yield from my portfolio. That's a common belief that a 5% yield portfolio is a safe way to retire. I'm sorry, but I beg to differ.

I want to thank Greg, a DSR PRO member since 2020, who asked me for more detail on the comparison between low-yield, high-dividend growth and high-yield stocks at retirement. I had an interesting email discussion with him, and I wanted to expand on that topic here.

Warning: you may not like what you will read today. But I'm not here to be your friend. I'm here to be your hiking buddy and tell you there might be a bear on your investment path.

But instead of saying "Believe me, I've seen the bear", I invite you to follow me on the trail to see it with your own eyes. But first, let's go back to explain why a company pays a low yield or a high yield.

WHAT MAKES A COMPANY PAY A LOW YIELD OR A HIGH YIELD?

Today, it takes 5.5 years for Alimentation Couche-Tard to pay 1 year of a Canadian Utilities' Dividends.

It also takes 122 years of a Canadian Utilities' dividends to equate to 10 years of ATD's total returns.

You probably have heard me say that in a podcast or in a recent webinar. That's my new favorite line to illustrate that once an investor focuses on one metric or factor, he/she may become blind.

Again, one may argue that Alimentation Couche-Tard's total return is not guaranteed for the next 10 years. I would argue that Canadian Utilities' dividends are not guaranteed either.

Just imagine if I had picked Visa (V) vs AT&T (T). AT&T didn't perform well and cut its dividend on top of it!

Just for fun, I ran the DSR stock screener searching for a list of stocks paying a yield under 2% but showing a 10%+ dividend growth rate over the past 5 years. Then, I looked at their total return (stock appreciation + dividend) graph for the past 10 years. I did that for 12 US stocks and 12 Canadian stocks. The results on the next page will show a range of growth from 203% to 1,300% for US stocks and from 210% to 782% on the Canadian market.

Long story short: those 24 low yield, high growth stocks killed it. For the record, an ETF tracking the S&P 500 (SPY) reported 201.6% in total return while the iShares TSX 60 (XIU.TO) was up 125.4%.

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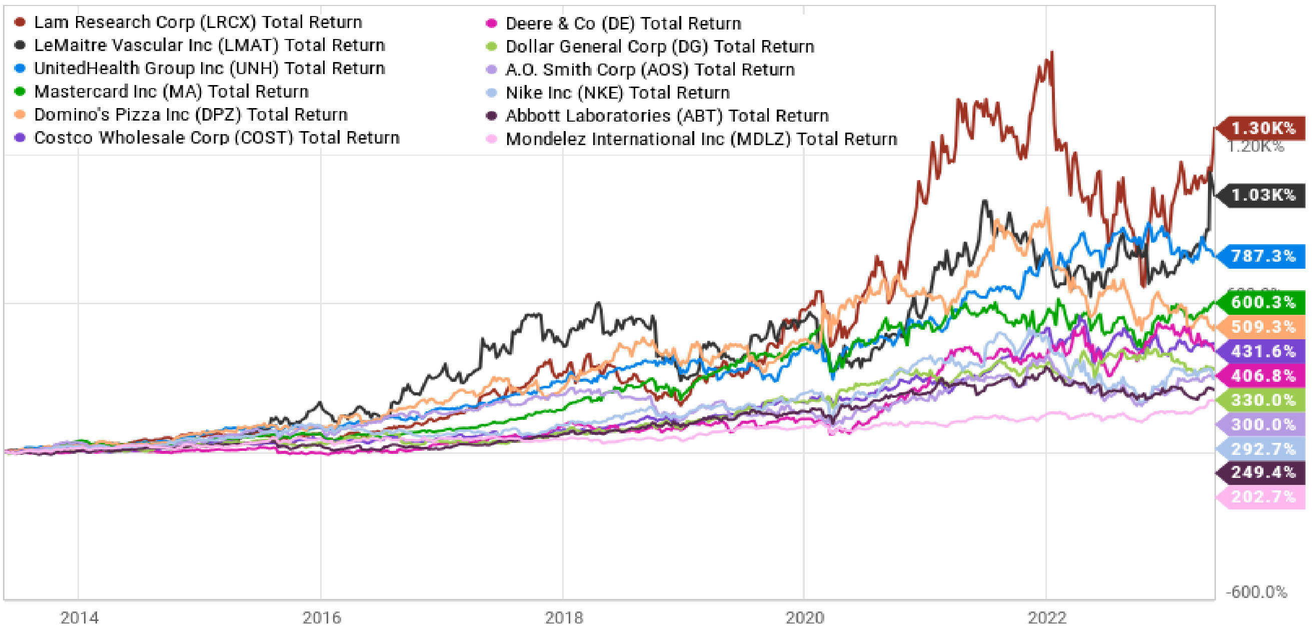

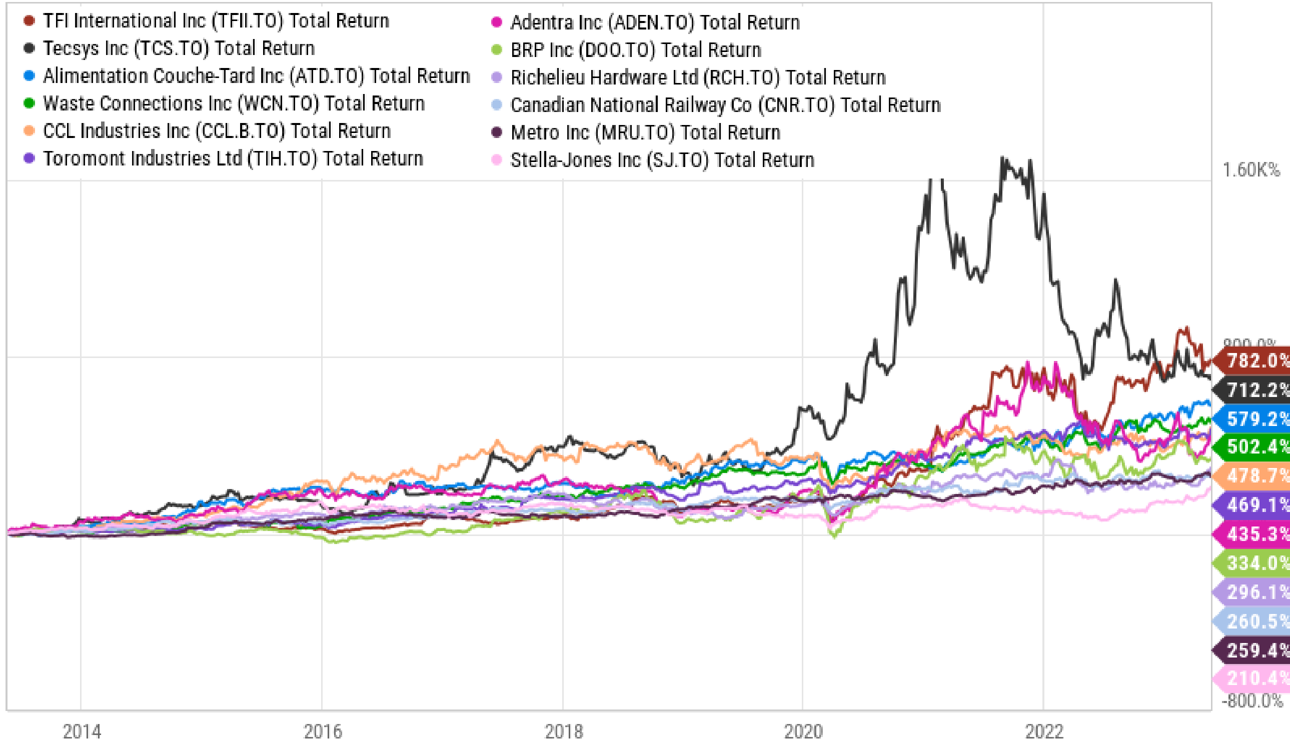

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As I mentioned at the beginning of this guide, most DSR members would agree with me at this point. Many low-yielding stocks come with a robust dividend growth policy (read high-single-digit and often double-digit dividend growth rate).

Therefore, if you focus on total return, you want low-yield, high-dividend-growth stocks.

But the argument about building a high-yield portfolio is still valid at this point. I get it as at one point in your life you may be more interested in getting paid in predictable increments than trying to figure out when is the right time to sell shares at their peak value.

You are probably concerned about selling shares as you may be thinking you may hurt your portfolio. I'll address both concerns later in this newsletter. But I wanted to see how high-yield stocks (over 4-5%) did during the past 10 years. Remember, between 2013 and 2023, we had low interest rates, strong consumer confidence and a growing economy for the most part. In other words, it was the perfect timing to run a business.

I did the same type of research, but I made sure those companies were paying a high yield 10 years ago. Therefore, a company like Enbridge couldn't qualify as the yield in 2013 was around 3% (see how things change quickly in this world?). I've picked 12 US and 12 Canadian stocks. It was easy to find those since DSR was around 10 years ago and many members inquired about high yielders at that time.

First conclusion: high-yield stocks' performance is terrible compared to low-yield, high-growth companies.

Only two out of 12 US stocks could have made the first graph for performance (e.g., 200% total return) and none of the Canadian securities reached 200% total return. Even worse, 6 out of 24 (25%) reported a negative total return. In other words, you had a 25% chance of losing money (even after receiving the dividends) and only 16% (4 on 24) chances to match / beat the market.

Second conclusion: retiring on those dividend payments would have been deadly for your portfolio.

From that list, we find 8 dividend cutters (33%!) and 8 more that didn't increase their dividend enough to match inflation (dividend increase under 30% over 10 years). In other words, that's a 66.66% chance of investing in a company that doesn't protect your buying power at retirement.

That's also 66.66% of stocks that would greatly hurt your retirement plan.

Picking 48 stocks and pulling out a few graphs won't allow me to enter Harvard for my thesis. This is not an academic study, but it's enough to have a strong feeling that something is off when a company pays a yield above 5%.

There are also expectations both ways (bad low-yield stocks and great high-yield stocks). I'll let you digest the two pages of graphs and I'll get to the explanation behind the reasons why a company pays a low yield and grows its dividend generously.

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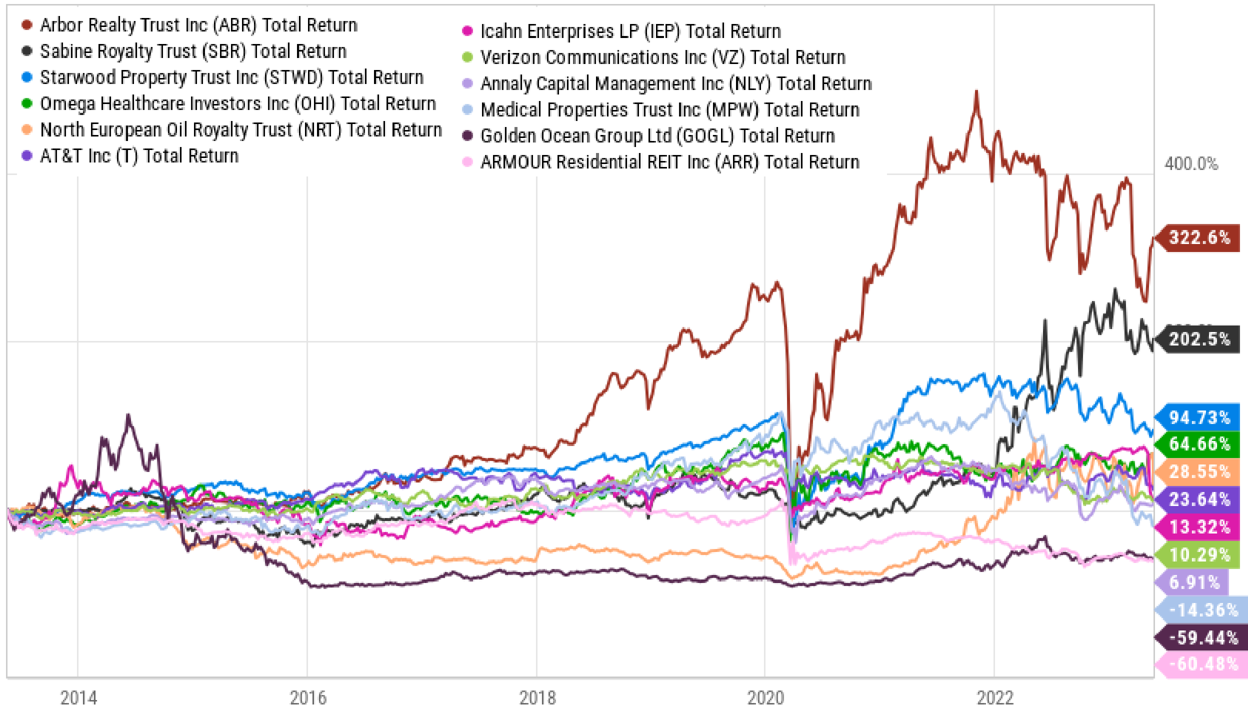

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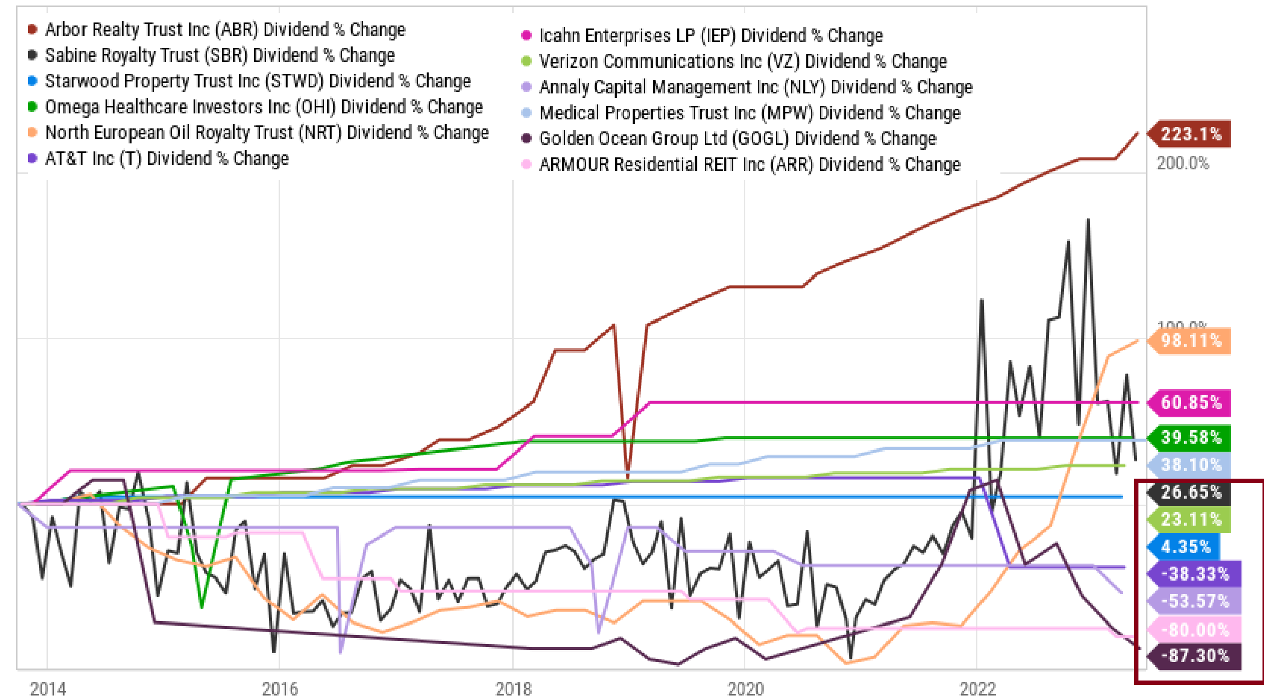

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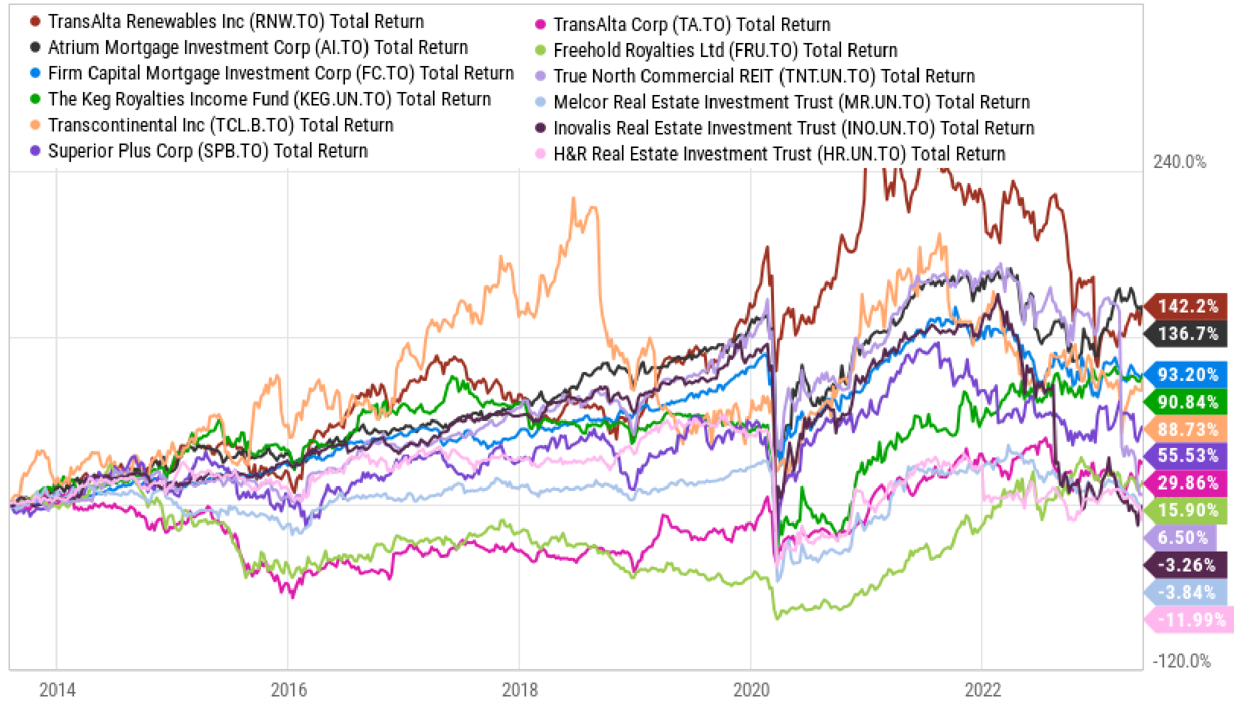

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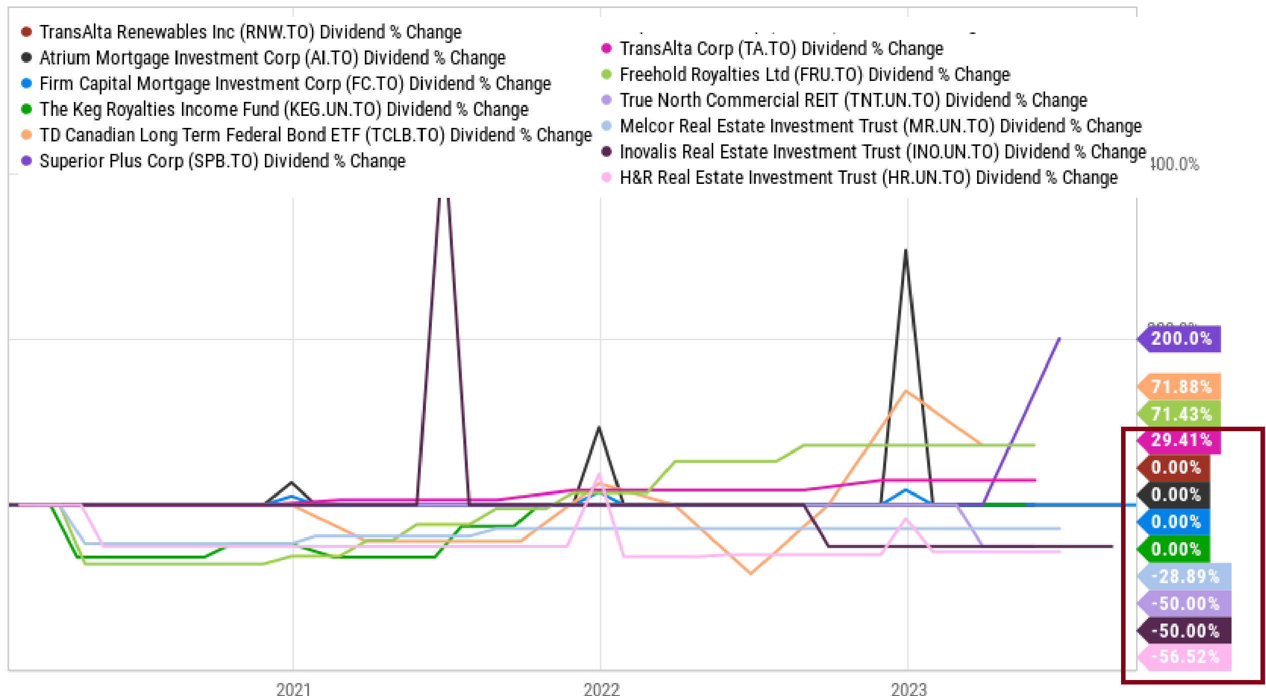

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There is a rational explanation

What is the difference between Visa and AT&T? Why Visa pays a yield under 1% while AT&T offers nearly a 7% yield? The explanation is found within the dividend triangle. Ignore the dividend payment for a second and concentrate on the business' health.

What makes our businesses great? Growth.

At DSR, I like to look at revenue growth (ability to generate more sales) and EPS growth (ability to generate more profit). It's a bit simplistic, but businesses growing their sales and profits consistently tend to be good investments.

What you see on this graph is two low-yield, high growth stocks (Visa & Alimentation Couche-Tard) vs. two high yield, low growth stocks (AT&T and Canadian Utilities). We can draw two conclusions from this graph:

Conclusion #1 low-yield, high-growth stocks show a strong ability to grow their sales.

Conclusion #2 low-yield, high-growth stocks are even better at growing their profits.

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We can deduce that both companies benefit from strong growth vectors and are also able to expand their margins along the way. In other words, they are growth stocks that happen to pay a dividend. The dividend is small because the companies are growing very fast, and often at double-digit growth rates.

On the other hand, high-yield, low-growth stocks are mature businesses with limited growth potential. They are trying to make moves to generate growth, but it doesn't always work. AT&T completely failed in its attempt to participate in the media & entertainment industry and ended up cutting its dividend and spinning-off its media segment.

Conclusion #3: Higher-yielding stocks show mature businesses with less growth potential.

Unfortunately, the line is often thin between being mature and generating growing cash flow (enabling a minimum of dividend increases) and struggling slowly, but surely (and eventually cutting its dividend). Here are two examples of high yielders that are coming to that crossroad (IBM and Transcontinental TCL.B.TO).

Transcontinental Inc Revenue (TTM) % Change
International Business Machines Corp Revenue (TTM) % Change
28.04%
0.00%
-24.99%
-50.00%
Transcontinental Inc Normalized Diluted EPS (TTM) % Change
International Business Machines Corp Normalized Diluted EPS (TTM) % Change
50.00%
0.00%
-46.49%
-69.72%
-100.0%
Transcontinental Inc Dividend % Change
International Business Machines Corp Dividend % Change
7.50%
7.14%
5.73%
2.50%
0.00%
2019
2020
2021
2022
2023
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In both cases, the inability to find growth has already weighed in on their ability to generate more profit and starts to weigh on their ability to grow their dividend. The problem with higher yielding stocks is that we will often end-up with this conclusion: they once were great companies, now they may be marginal companies.

Their weak fundamentals may put your retirement at risk.

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The dividend mechanic vs. the dividend magic

Dividends aren't magic money deposited into your account.

The other aspect to consider is why a company is paying you a dividend in the first place?

When we receive money, we don't always want to know where it's coming from, and we would rather focus on what we will do with it. But we should dig further.

By definition, a company pays a dividend when it is unable to create value for shareholders. In other words, a company would rather pay you $1 in dividend if it cannot find a good project to invest in with that same dollar. Management has investigated marketing spending, research & development, acquisitions, hiring talent and more. They couldn't find anything that was worth the investment. Therefore, they transfer that responsibility into your hands and call that a "dividend". You, as a shareholder, now have the responsibility to allocate that dollar and find a better investment.

Therefore, a company paying a lower yield will likely show a lower payout ratio since the business is growing so quickly. This also means that management is able to find plenty of projects to generate value (e.g., stock price increase) for shareholders. The dividend mechanic is a simple money transfer from one bank account to another.

It doesn't mean there is no magic.

The magic happens when you find DIVIDEND GROWERS. Dividend growers are companies that can increase their dividend every year. This means they must be able to grow their sales and profit accordingly to maintain their dividend growth policy.

Again, who doesn't want to invest in a company growing their sales and profit? Dividend growth is the result of a great company with a great business model and a robust balance sheet.

Unfortunately, we find fewer of those amazing companies amongst high yielders. Low-yield, high-growth stocks don't have the monopoly on being great companies, but there are many more great companies amongst the low yield, high growth stocks.

So why in the world would retirees tend to ignore them? Because they don't pay the bills and are seen as potentially risky.

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WHY LOW YIELD STOCKS ARE IGNORED?

If I had to answer this question in one sentence, I'd say it is because they make retirement planning more complicated. Nobody wants to figure out how many shares they must sell each year on top of getting their dividends, their pension income and more. In other words, "low yield stocks don't pay the bills", or do they?

They don't pay the bills

Let's take the example of ATD.TO and V and imagine you invested $10,000 in each of them in 2013. In late May of 2013, you could buy 1,031 shares of ATD.TO at ~9.70/share and 222 shares of V at ~$45.05. 10 years later, those shares are trading at $66.01 and 231.30, respectively. Imagine you did the same with T and CU.TO and you reinvested those dividends and bought more shares. Today, you have a portfolio that is worth almost $150K… with 123K invested in the low-yield stocks!

Alimentation Couche-Tard Inc (ATD.TO) Total Return Growth
Visa Inc (V) Total Return Growth
AT&T Inc (T) Total Return Growth
Canadian Utilities Ltd (CU.TO) Total Return Growth

$67.92K
$55.11K
$14.45K
$12.36K

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I don't want to sell my shares to generate income.

The more you sell shares, the less you must generate income.

Let's look at this example at retirement and imagine that you retire today with no more dividend reinvestment, and you just want to live off your dividends. Let's look at what the dividend brings:

ATD.TO: 0.85% * $67,920 = $577.32

V: 0.77% * $55,110 = $424.35

CU.TO: 4.72% * $14,450 = $682.04

T: 6.81% * $12,360 = $841.72

Interestingly, your low-yielding stocks generate $1001.67 and your high yield stocks generates $1,523.76.

You see, Mike, high yield generates more income!

I agree, in fact, it's a little more than 50% more! However, I have $123K invested in the first two stocks and $27K in the high yielders.

If I sell for $523 of ATD.TO to compensate, the following year, my shares will generate 0.85% * 67,397 = $572.87 or ~$5 less than last year. That is, without considering any capital gain or dividend increases.

I could probably do this operation for another 100 years and I will still have money invested in both ATD and V.

Conclusion: selling shares of low-yield, high-growth stocks have a small impact on the ability to generate the basic dividend.

One could argue I could sell my ATD.TO and V shares and buy more of CU.TO and T to generate a higher income. From the chart I've pulled at the beginning of this webinar I wouldn't feel confident with 66% of chances to see my retirement income depleting once we factor inflation. This seems like the perfect path to eat a lot of peanut butter and jelly toast and Kraft Dinners.

Retiring on low yielders is dangerous

I needed to address this point loud and clear as some investors think low yielders are dangerous as their performance is solely coming from stock price appreciation. I think I made it clear over the past 10 pages of this newsletter how **low-yield; high-growth stocks offer protection rather than risk**. Companies that are growing their revenue and earnings by high-single to double-digits will attract investors. If they attract investors, the stock price trends will remain solid. The 24 low-yield stocks I've picked at the beginning of this newsletter show you convincing results. But on top of strong performance, there are more advantages of investing in them.

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MAIN ADVANTAGES

I'm a big believer in understanding why you hold shares of specific companies and understanding how these companies will contribute to your retirement plan. Now that we have discussed the outperformance of low-yield, high-growth stocks, let's see why they perform that well.

Exposure to the 5 factors

If you have done any research about market performance, you rapidly fell on academic papers discussing the 5 factors explaining most of the stock market return. Interestingly, many financial advisors or dividend adverse investors will pull out those studies to tell you dividends are relevant. According to them, dividend growth is a symptom of a strong exposure to the 5 factors:

1. **Market beta** (Invest in stocks that collectively have lower volatility than the broad market)
2. **Size** (Invest in smaller, and more nimble companies)
3. **Value** (Invests in stocks that are lower cost relative to their peers)
4. **Momentum** (Invests in stocks that are outperforming and reduce exposure to stocks that are underperforming)
5. **Quality** (Invests in companies with strong financials relative to similar cost peers)

Source: BlackRock

I would rather say that dividend growth is a result of thriving companies that are exposed to those factors. We have determined that the chances of picking a high yielder that is also a thriving company are slim. However, if you look at low-yield, high-growth companies, they are usually checking many of those boxes.

Long-term wealth preservation

Based on the graph provided in this newsletter, I'd say it's safe to conclude that thriving companies offer great protection for your portfolio. As those companies grow, their share prices increase. That's just pure logic. Therefore, selecting high-quality companies with a generous dividend growth policy is a better strategy than selecting companies based purely on yield.

Sustainable income growth

I'm not going to tell you that you should aim to build a portfolio with a yield under 2% after reading this newsletter. However, by adding a few of those low-yield stocks, you increase your chances that your portfolio income grows and beats inflation. If you retire at 60 and need $50K income from your portfolio, this means you will need $68K from the same portfolio at 75 and $84K at 85 (assuming inflation at 2.10%). Now, imagine that your portfolio's dividends aren't growing at this pace. Even a 2% inflation rate could derail your retirement plan.

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HOW TO IDENTIFY LOW-YIELD, HIGH-GROWTH STOCKS

I want to thank Barry for his email referring to a recent newsletter I wrote about adding low-yield, high-growth stocks to your portfolio, even at retirement. I find it likely that you will share his point of view:

It's easy to identify low-yielding stocks, but how do we identify low-yield, high-growth stocks for the future?

The first step to start your research would be to use the DSR stock screener with the following metrics.

Use the DSR stock screener

Views | Columns | Filters

Filter	Min.	Max.
Pro Rating	3	Max.
Dvd Safety	3	Max.
Dvd Yield Fwd	Min.	2
EPS 5yr AGR	5	Max.
Rev 5yr AGR	5	Max.
Dvd 5yr AGR	5	Max.

With a **minimum PRO rating and Dividend Safety Score of 3**, you ensure you are looking at quality stocks. I always add the 3s as it's possible our team may have missed a few great stocks (remember, ratings are useful, but they are never 100% accurate).

To select low-yield, high-growth stocks, you must **cap the yield to 2%.** This will insure you only look at stocks from which the market expects strong growth. If they weren't priced to offer a low yield, then you have a signal that, in general, the market doesn't expect much growth from them.

Narrow your research with a strong dividend triangle with a **minimum of 5% for a 5-year growth rate for revenue, EPS, and dividends.** This filter will put the emphasis on thriving businesses over the past 5 years.

This research will bring you to roughly 10% of all stocks we follow at DSR (in June, it brought up 99 stocks out of 1,191 in our database). It's still a lot of companies to look at, but it's a good start.

Narrow down by sector

Chances are you are not looking to add stocks coming from all sectors in your portfolio. By selecting a sector, you will likely reduce your research to around 10 stocks. From the results I got in early June, all sectors had 15 or less candidates and the industrial sector was the champion with 31 opportunities.

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Review each business model

Once you have selected the sector you want to work with, a deep dive is necessary in each stock. You want to make sure you can identify what has made each of those companies thrive over the past 5 years. Then, you must review the business model and the economic environment to determine the likelihood of their repeating those performance levels over the next 5+ years.

For example, Alimentation Couche-Tard (ATD.TO) has been showing a robust dividend triangle for the past 5 years. If you look at the stock card, you'll notice the dividend triangle has been strong for at least 10 years.

Dividend Triangle

The stats are on our side and then you can look at ATD's key elements explaining its success: a strong combination of growth by acquisition and organic growth by improving the convenience store experience for customers. Since the management team in place is the same and their latest investors' presentation forecasts more growth going forward, the likelihood of seeing a strong triangle over the next 5 years is pretty good.

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However, the past is never a guarantee of the future. At one point, low-yield, high-growth stocks will either become mature businesses or will find other growth vectors that will bring them right back to the fast track. With the recent acquisition of Total Energies gas stations in Europe, ATD seems to be able to pursue its growth model for a while longer. However, when we look at Apple's dividend triangle, we see the economic slowdown weighing on their recent results:

Dividend Triangle

Revenues (TTM): 150 B, 200 B, 250 B, 300 B, 350 B, 400 B
EPS (TTM): 1.50, 2.50, 3.50, 4.50, 5.50, 6.50
Dividends ($): 0.1200, 0.1600, 0.2000, 0.2400
2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023

Since 2022 Apple has shown a slowdown in revenue, EPS, and even the dividend wasn't increased massively. Should you be worried? This is when the deep dive becomes important. If you look at Apple's business model, it regularly goes through a business plateau where growth slows down. It is typical of the technology sector. A few years ago, Microsoft reported 90-100% growth each quarter for its cloud business (Azure). Today, we see strong growth (25-30%), but this segment isn't doubling year-over-year anymore. Apple faces an important challenge with its iPhone business where many see a limit of how much greater the next version will be. I will continue to bet on Apple based on their expertise and track record in building, and integrating, new products/technology into their existing ecosystem. However, this is a narrative, not data I see right now. Therefore, even monitoring such a giant beauty like Apple is important.

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Conclusion

Identifying low-yield, high-growth stocks or high-yield, low-growth stocks is relatively easy when you look at the past. A simple search in the stock screener will provide you with a list of what happened over the past 5 years. It's a good starting point for research (or to identify red flags in your portfolio), but the deep dive into a company's business model is crucial in both cases.

You want to understand what made those low-yield high-growth companies successful. Once you identify the key elements that made that business thrive, you will be in a better position to determine if the story will continue.

You also want to make sure that the high-yield, low-growth companies will continue to be safe investments. The analysis of the dividend triangle and the understanding of the business model is as crucial for your high yielders. You want to ensure the dividend is safe and will at least grow by 2-3% per year to show a minimum level of growth. Central banks like to see modest inflation (2-3%) because it tells them the economy is healthy and growing. You should be happy to see modest growth from your high-yielders as well. In the opposite case, however, chances are you may be getting closer to a dividend cut.

Now that I've demonstrated that a combination of low-yield, high-growth stocks with some solid yielders is likely the best way to build your portfolio, we are going to see how we can do that together using DSR PRO tools.

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INCOME PORTFOLIO BUILDING MADE EASY

There are zillions of books on portfolio building and I won't bore you with tons of theory. While you can get lost in a rabbit hole, I'd like to offer a simple way to build your portfolio.

First, most of your portfolio return will be explained by your asset and your sector allocation. If you are mostly on fixed income during a stock market crash, you will do well. If you moved your money into the energy sector at the end of 2020, you look like a genius today. In both cases, the allocation was the key to the success.

Since I'm a passionate dividend growth investor, I'll leave the asset allocation and bond discussion for another day. I'll concentrate this section on sector allocation.

In short, there are 11 sectors that could be qualified under three categories:

Income/stability: Where you will find many mature businesses that are recession resistant.

Growth: Where you will find companies with multiple growth vectors, able to surge during economic booms.

Both: Where you will find companies showing a balance between growth and stability.

INCOME / STABILITY	BOTH	GROWTH
Consumer Staples	Financials	Consumer Discretionary
REITs	Communication Services	Information Technology
Healthcare	Industrials	
Utilities		
		Energy / Materials

To explore each sector thoroughly, I'd invite all DSR members to review our DSR fundamental newsletters on sectors and how to get the best of it. If you are not a member, you just found another great advantage to subscribing 😉. In the meantime, here are a few questions you may ask about sector allocation.

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Do I need to invest in all 11 sectors?

Not at all. First, you must invest in sectors that fit with your objectives (stability vs growth) and in sectors you understand. There is no point in investing in tech stocks if you have no clue how the semiconductor industry cycles work. When your investments are down, you won't be happy, but you will avoid panic if you understand the mechanism and the industry's characteristics.

How much in each sector?

Again, there are no hard rules here. I like to have a maximum 20% invested in my favorite sectors and around 10% in others. However, it happens that I go above 20% due to great performance of a few companies. I make sure that I invest in various industries in the same sector so as to avoid getting wacked by a single market event.

For example, there is a big difference between having 25% in the financial services spread across 5 Canadian Banks at 5% each and investing 5% in Royal Bank (Canadian bank), BlackRock (asset management), Visa (payment processor), Great-West Life (life insurance) and Brookfield Corp (alternative asset management).

Which sectors are best?

There are no best or worst sectors, but rather good timing for a specific sector. Investing in the energy sector in 2015 or at the end of 2020 would have created two completely different outcomes. Again, the best sectors are the ones you understand and have a comfort level with how the companies operate their businesses.

How many stocks per sector?

That will depend on how many stocks in total you want to hold and how many sectors you want to invest in. You can select the best 2-3-4 companies in each sector you want exposure to. That would likely lead to a 20-40 stocks portfolio. What a coincidence, that's very close to what I think is the ideal number of stocks.

How many stocks in my portfolio?

If you hold less than 20 stocks, your room for error is thin. This strategy could be great for high-conviction investors, but I want to secure a little bit more diversification. On the other end, if you go above 40, you are getting closer to building an ETF. Monitoring 70 companies quarterly may prove to be quite daunting and you will eventually miss information. Also, if a stock is 0.32% of your portfolio, even if it doubles in value or crashes by 80%, you will never feel it.

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DIVIDEND STOCKS ROCK

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

How to select one stock over another in the same sector

When you dig into a sector you may find more than one company that looks interesting. But buying 4 railroad companies or 5 Canadian banks won't improve your diversification. Therefore, you must find a way to compare more than one industry in the same sector.

The first step would be to understand each business model and identify their differences. For example:

Pepsi Vs Coca-Cola: PEP is 50% snacks, 50% beverage while KO is all about beverages.

TD Bank vs ScotiaBank: TD is 2/3 in Canada, 1/3 in the USAs while BNS is concentrated in Canada and expanded its business in Central and South America.

If you don't find a more appealing business model than the others, then you can rely on comparing numbers. I would usually go with the companies with the strongest dividend triangle (5 year or revenue, EPS and dividend growth). At DSR PRO, we have created a stock comparison tool that does the hard work for you:

	CP Canadian Pacific Kansas City Ltd	CNI Canadian National Railway Co	CSX CSX Corp	UNP Union Pacific Corp
Overview	**Overview**	**Overview**	**Overview**	**Overview**
Company Name	Canadian Pacific Kansas City Ltd	Canadian National Railway Co	CSX Corp	Union Pacific Corp
Symbol	CP	CNI	CSX	UNP
Sector	Industrials	Industrials	Industrials	Industrials
Industry	Railroads	Railroads	Railroads	Railroads
Beta	1.02	0.92	1.21	1.12
PRO Rating	4	5	4	4
Dividend Safety Score	2	4	4	4
More info	View stock card	View stock card	View stock card	View stock card
Dividend Triangle	**Dividend Triangle**	**Dividend Triangle**	**Dividend Triangle**	**Dividend Triangle**
5-Yr Rev. Growth	6.02 %	5.50 %	5.42 %	3.21 %
5-Yr EPS Growth	8.47 %	6.10 %	11.02 %	9.12 %
5-Yr Div Growth	11.59 %	12.08 %	9.00 %	15.42 %
Dividend	**Dividend**	**Dividend**	**Dividend**	**Dividend**
Dividend Yield Fwd	0.73 %	2.04 %	1.41 %	2.44 %
Dividend Frequency	quarterly	quarterly	quarterly	quarterly
Payout Ratio (%)	20.10 %	39.16 %	20.45 %	45.16 %
Cash Payout Ratio (%)	26.96 %	45.68 %	26.80 %	58.33 %
DGR 1yr	-5.01 %	2.45 %	10.00 %	0.00 %
DGR 3yr	7.28 %	11.61 %	7.72 %	11.14 %
DGR 5yr	11.59 %	12.08 %	9.00 %	15.42 %
DGR Streak Chowder Score	12.32	14.12	10.41	17.86

You can add as many companies as you want to simply load a sector or an industry to see all companies operating in a similar environment. It's usually easier to use hard data to make a decision.

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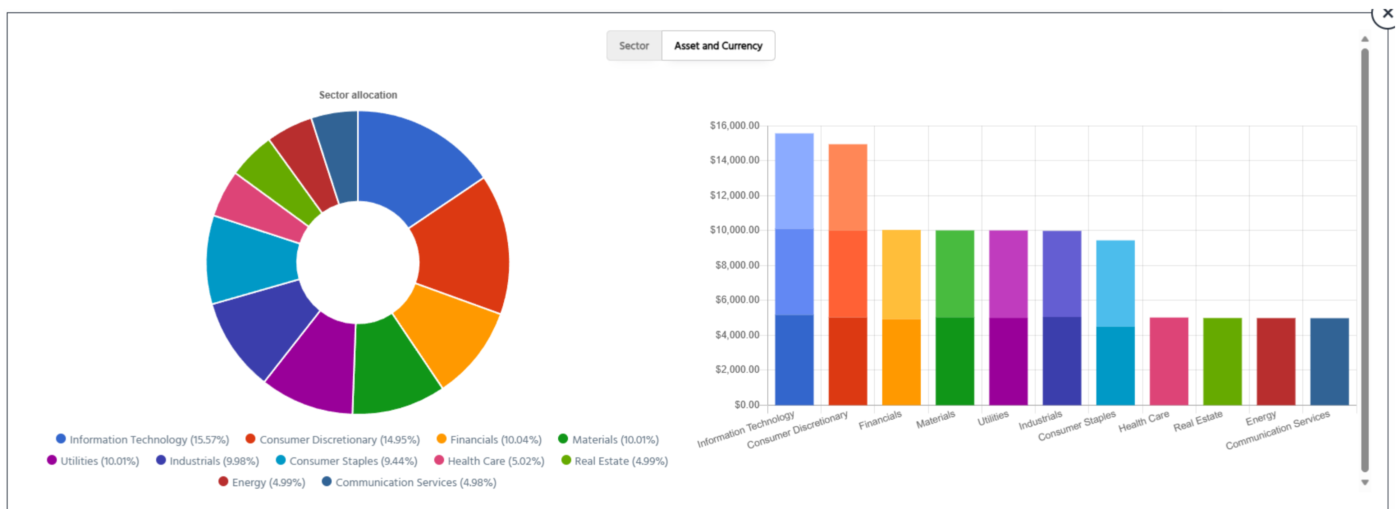
Portfolio example

Just for fun, I've built a 100K portfolio with 20 positions. I've favored a low yield, high dividend growth approach and selected 2-3 of my favorite stocks per sector. You can see what it looks like on the next page:

You can see that I carefully ensure that I'm not over exposed to any sector:



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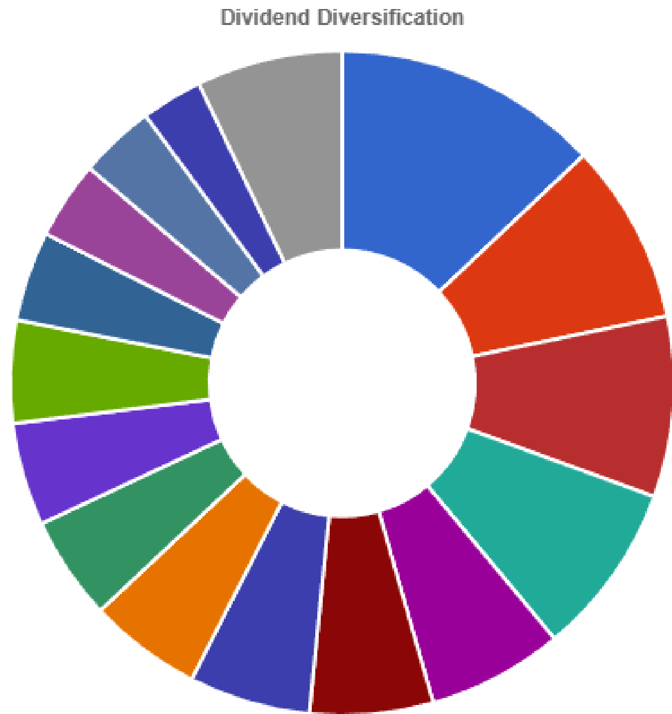
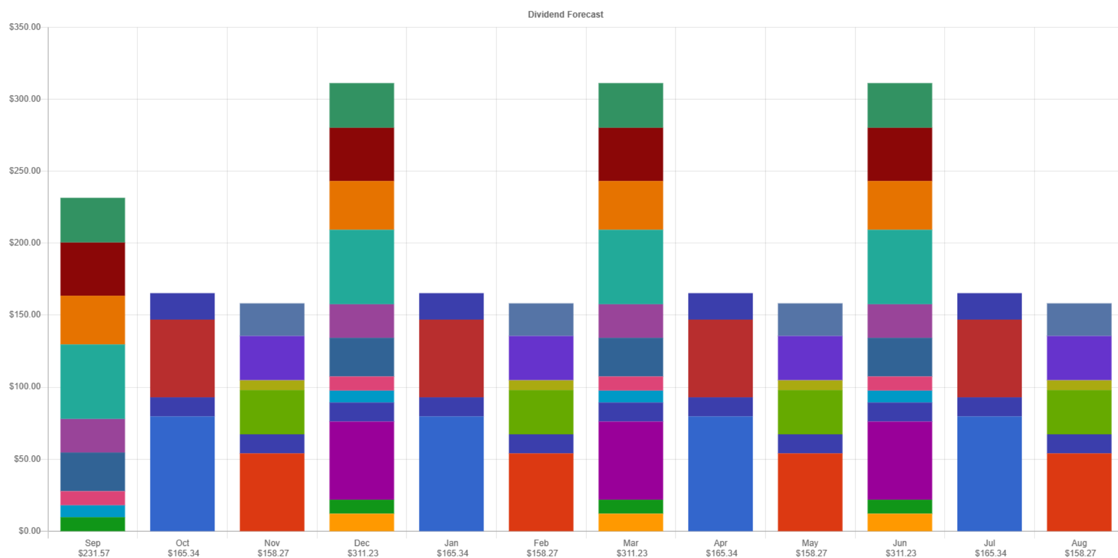
I also made sure that my dividend income is well diversified:



T.TO NA.TO CNQ.TO BIPC.TO FTS.TO JNJ GRT.UN.TO HD AVGO SBUX APD CNR.TO CCL.B.TO AOS NKE Others

I even got lucky with my income distribution per month!



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As you can see, by applying simple research to find the strongest dividend triangle per sector, you can rapidly build a solid foundation. I know you are curious, so I'll share the portfolio here, but please know that this is not a recommendation to buy any securities. Further reading of the companies' stock cards at DSR and further due diligence is required. Here are the 20 holdings:

PORTFOLIO HOLDINGS

TICKER	COMPANY NAME	SECTOR	WEIGHT (%)	PRO RATING	DIV SAFETY
AVGO	Broadcom Inc	Information Technology	5.46%	5	4
MSFT	Microsoft Corp	Information Technology	5.18%	5	5
V	Visa Inc	Financials	5.11%	5	5
CNR.TO	Canadian National Railway Co	Industrials	5.05%	5	4
APD	Air Products and Chemicals Inc	Materials	5.04%	4	4
SBUX	Starbucks Corp	Consumer Discretionary	5.03%	4	4
JNJ	Johnson & Johnson	Health Care	5.02%	4	4
BIPC.TO	Brookfield Infrastructure Corp	Utilities	5.01%	4	4
FTS.TO	Fortis Inc	Utilities	5.00%	4	4
GRT.UN.TO	Granite Real Estate Investment Trust	Real Estate	4.99%	4	4
CNQ.TO	Canadian Natural Resources Ltd	Energy	4.99%	4	4
T.TO	Telus Corp	Communication Services	4.98%	5	4
CCL.B.TO	CCL Industries Inc	Materials	4.97%	4	4
HD	Home Depot Inc	Consumer Discretionary	4.97%	4	5
NKE	Nike Inc	Consumer Discretionary	4.95%	4	4
ATD.TO	Alimentation Couche-Tard Inc	Consumer Staples	4.95%	5	5
AAPL	Apple Inc	Information Technology	4.93%	5	4
AOS	A O Smith Corp	Industrials	4.93%	4	4
NA.TO	National Bank of Canada	Financials	4.93%	5	4
COST	Costco Wholesale Corp	Consumer Staples	4.50%	4	4

Now that we have established that a good mix of dividend growers is the best way to create a dividend income for life, let's see how you can create your own dividend from your portfolio.

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WITHDRAWAL MECHANICS AT RETIREMENT

In this final section, we'll elaborate on a simple, but effective, plan to make sure you always have enough money to enjoy your retirement. I will tell you what I intend to do once I retire. It may or may not fit with your situation, but this will give you a good starting point.

As you can probably guess, my portfolio is geared toward low-yield, high-dividend growth stocks. Therefore, my avg yield is between 2% and 2.5%. If I was to retire today, I would not change my portfolio composition. As explained earlier in this guide, I believe those companies are safer and constitute a more reliable source of income for my retirement.

That also implies that I will have to sell shares to bridge the gap between what my portfolio generates in dividends and my retirement budget needs. When the market is up, I won't mind trimming my holdings and cashing a hefty profit to retire stress-free. But we all know there are bad years too.

What do you sell when your portfolio is down 15%?

If there is something that could cripple your retirement plan, it's selling shares when the price is down. The sequence of withdrawal at retirement could completely change your plan.

The timing of your retirement within the market cycle could dictate how many trips you can afford per year or how many times you will be able to buy a new car. I found this interesting article from QTrade where they make up three scenarios :

	Scenario A	Scenario B	Scenario C
Starting balance	$500,000	$500,000	$500,000
Annual withdrawal amount (indexed at 2%)	$21,000	$21,000	$21,000
Return year 1	-15.00 %	5.40 %	27.00 %
Return year 2 to 29	5.40 %	5.40 %	5.40 %
Return year 30	27.00 %	5.40 %	-15.00 %
Value at year 30	$104,148	$548,881	$835,723
Average return for 30 years	5.40 %	5.40 %	5.40 %

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As you can see, selling shares when your portfolio is down in the first year of retirement creates a big hole in your budget.

This is what most retirees fear when they think about low-yielding stocks.

They know they must sell shares and they know it will have a terrible impact if they do that during a bear market. Therefore, they prefer taking a chance with higher-yielding stocks. However, we saw that this solution is even riskier.

The solution to this problem is to have a cash reserve.

THE CASH RESERVE CONCEPT

The cash reserve can be used to facilitate the transition from the accumulation phase to the decumulation phase. It is a strategy to protect your portfolio during times of volatility.

Throughout your retirement years, you will go through bull and bear markets. Selling shares to generate your homemade dividend during a bear market could hurt your retirement plan.

Here comes the concept of having a cash reserve. The cash reserve is money that is not invested in the stock market anymore. It should be liquid and secure.

How to use the cash reserve

The cash reserve will bridge the gap between what your portfolio generates in dividends and your retirement budget. For example, if you need $50,000 per year and your portfolio generates $25,000, there is a gap of $25,000 per year.

The $25,000 gap must come from selling shares. If you sell shares at a depreciated value, this could hurt your retirement plan. You can dig into your cash reserve and keep your portfolio intact until the market recovers. Then you can sell additional shares and refill your cash reserve.

How much is enough?

There is no clear answer to this question. On one side, you want to mitigate the impact of market volatility on your withdrawal sequence. On the other hand, you want to maximize your portfolio returns.

A large cash reserve will increase the short-term protection of your withdrawals but will negate your portfolio's ability to generate higher returns in the stock market over the long haul.

Therefore, the amount of your cash reserve depends on the gap you must fill and your volatility tolerance. Some investors will be comfortable with no cash reserve and simply accept they will sell shares yearly to complete their retirement budget regardless of where the market is.

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Some others will prefer a large cash reserve to cover all catastrophes. While most bear markets take around 24 months to recover, some have or could take more than four years to fully recover.

Cash reserve example

Imagine a $1M portfolio with an average yield of 2.5% and a retirement budget of $50,000. The gap between what you generate and what you need is $25,000.

To make sure you don't have to sell during a bad year, you can create a cash reserve through a three years GIC/bond ladder that would look something like this:

- $25,000 for 1 year at 5%
- $25,000 for 2 years at 5.30%
- $25,000 for 3 years at 5.50%

Then, you have the remaining invested in your portfolio (925K) at 2.5%, generating $23,125 in dividends.

At the end of each year, you have $25,000 in available liquidity from your GIC.

You earned interest from the three GICs totaling $3,950 ($1,250 + $1,325 + $1,375).

The total amount available to fund your retirement budget is therefore $23,125 + $25,000 + $3,950 = $52,075.

You can then use $50,000 for your retirement and invest the $2,075 in a GIC for 3 years to keep the ladder rolling. If it's a good year (e.g., your portfolio is up), you sell enough money to "refill" your bond ladder with another $22,925 to make it $25K ($2,075 from the interest + selling shares for $22,925) to complete the bond ladder. Remember that $22,925K on $925,000 equals a 2.48% capital gain. Chances are, you'll be able to do that most years.

The cash reserve will be good enough to cover for most bear markets and minimize the impact of the timing of your withdrawals.

Now you will ask me which stocks you should sell during good years. I have the answer to this question in this guide too.

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Which stocks to sell?

I've established a clear order to sell shares:

#1 Any stocks that don't fit in my portfolio.

During my yearly review, I could simply sell a company with a weak dividend triangle or one that doesn't meet my investment thesis anymore.

#2 Overweight stocks

There is nothing like trimming your winners to ensure you are not too exposed to one stock. I set a limit of 10% of my portfolio for a single position. If one of my stocks goes above 10%, I'll trim a few percentage points to avoid putting my retirement at risk.

#3 Sector balance

Once I've cleaned my portfolio of bad stocks and trimmed my winners, it's time to look at my sector allocation. Similar to my stock allocation, if I'm overweight in a specific sector, I'll sell a few percentage points to rebalance my portfolio.

FINAL THOUGHT

I hope I have shed some light in this guide on the rationale of adding some low-yield, high-dividend-growth stocks to your portfolio. The point is not to transform your entire portfolio and sell everything that is over 5% yield. In fact, you can find quality companies offering high yields as well.

The point is to ensure that all companies in your portfolio show strong fundamentals so they can continue to pay their distributions and increase that payout to at least beat inflation.

Start seeing your portfolio as your "big" holding corporation like Warren Buffet. Create your own dividend and keep a cash reserve for the bad days. This is how you create a dividend income for life.

Cheers,

Mike.

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