DSR PREMIUM NEWSLETTER

IN THIS ISSUE…

What's wrong with ETF investing? In an attempt to answer this question, we look at …

- ETF Basics
- Is ETF investing all that simple?
- The case against ETFs
- Why we prefer dividend growth investing

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.

MARCH 15th, 2024

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.**

WHAT'S WRONG WITH ETF INVESTING?

A quick personal note from Mike before we start: I receive emails about "what is the performance of ABC ETF vs. your portfolio models or your portfolio" from time to time. They come from investors seeking the "best-performing strategy" going forward. Therefore, we explore the ETF alternative today and we explain why we prefer selecting dividend growers at DSR.

I'll be blunt right away: ***if you are chasing return, you will never become a successful investor.*** *While Peter Lynch averaged an annualized return of 29.2% between 1977 and 1990, most investors lost money with his fund managed at Fidelity during that period!*

Why? Because they couldn't invest with conviction. *Therefore, it's a lot more important to invest with conviction than any strategy you pick based on past performance.*

This newsletter was co-written by Mike and Claudia.

So, what's wrong with ETF investing?

Short answer: nothing! Investing in Exchange Traded Funds (ETFs) is one among many valid, sound, and perfectly reasonable investment strategies. It offers several advantages, and like all investment strategies, there's nothing wrong with it as long as investors understand what ETFs are and that the strategy employed suits the needs of that particular investor.

ETFs make investing simpler, which appeals to investors who feel they don't know enough about investing to buy individual securities, or who have little interest in or time to dedicate to investing. Since each ETF contains many securities, they offer almost instant diversification. They are also great for investors who are just starting their journey and have limited funds to invest.

ETFs are actively traded on the major stock markets giving investors quick and easy access to liquidity. They cost less than old-fashioned mutual funds and are more transparent because their holdings are shown every day. This makes it easier for investors to see changes in the ETF's portfolio composition. These reasons sound like they may represent serious advantages over picking individual stocks. We'll dive deeper into this issue, but first, let's go over some basics.

ETF BASICS

ETFs are baskets containing many assets such as stocks, bonds, or commodities. Just like stocks, ETFs have ticker symbols and are traded on stock exchanges which allows investors to buy and/or sell shares at any time during the trading day.

For example, Vanguard's U.S. Total Market Index ETF (VUN.TO) holds 3750 different stocks across all sectors. Its factsheet shows both the sector allocation and the top 10 holdings as a percentage of the ETF's portfolio value (their weight).

VUN.TO ETF - sector allocation and top ten holdings

Sector weighting

	VUN
Technology	31.1%
Consumer Discretionary	14.5
Industrials	13.1
Health Care	12.0
Financials	10.8
Consumer Staples	4.7
Energy	
Real Estate	
Utilities	
Telecommunications	
Basic Materials	
Other	
Total	

Top 10 holdings (% of net asset value)

	VUN
Apple Inc.	6.1%
Microsoft Corp.	6.0
Alphabet Inc.	3.3
Amazon.com Inc.	3.0
NVIDIA Corp.	2.5
Meta Platforms Inc.	1.7
Tesla Inc.	1.4
Berkshire Hathaway Inc.	1.4
Eli Lilly & Co.	1.1
Broadcom Inc.	1.1
Total	27.6%

The dividends paid by the holdings of the ETF are collected as income by the ETF, which then distributes them to investors of the fund. Depending on the ETF, the dividends may be distributed quarterly or monthly. Often, dividends distributed to investors are automatically reinvested to buy more fund shares, but investors can choose to receive them in cash instead.

ETF fees

The expense ratio is the most common fee associated with ETFs. It represents the annual operating expenses of the fund as a percentage of its total assets. For example, the expense ratio for VUN.TO is 0.17%.

This fee covers management fees, administrative costs, and other operational expenses. Expense ratios for ETFs are usually lower compared to actively managed mutual funds, but they can still vary widely between different ETFs. Expense ratios are disclosed in the fund's prospectus. They are deducted from the fund's assets, and while they are low, they do affect the fund's returns to investors. Always read the fine print!

Types of ETFs

ETFs come in different shapes and forms, each designed to meet specific investment goals or provide exposure to particular market segments. At a high level, we have:

- Equity ETFs, which hold stocks
- Fixed-income ETFs, which hold bonds
- Asset allocation ETFs, also called multi-asset ETFs, which hold a mix of asset types

Beyond these three high-level categories, you'll find ETFs that try to replicate the performance of an index (S&P 500, TSX, etc.), or that focus on specific economic sectors (information technology, healthcare, etc.), or invest in a country or geographic region (U.S., emerging markets, etc.), and more.

The table below summarizes some common types of ETFs:

ETF Type	Description
Index ETFs	Aim to replicate the performance of a specific market index. They hold a portfolio of securities that mirror the composition of the index they are designed to track. These funds provide investors with broad market exposure and are often used for passive, long-term investing strategies.
Sector and Industry ETFs	Invest in companies within a specific sector or industry, such as technology, healthcare, energy, or finance. Allows investors to target particular segments of the market and capitalize on sector-specific trends or themes.
Bond or Fixed Income ETFs	Invest in a diversified portfolio of bonds, including government bonds, corporate bonds, municipal bonds, or international bonds. Provides exposure to fixed-income securities and offer investors access to the bond market with liquidity and diversification.

ETF Type	Description
International & Emerging markets ETFs	Provide exposure to stocks or bonds of companies found outside the investor's home country, or target companies in developing or emerging market economies. These ETFs provide exposure to global markets or developing economies and can help diversify a portfolio beyond domestic investments.
Commodity ETFs	Invest in physical commodities like gold, silver, oil, or agricultural products, or in futures contracts that track the price movements of commodities.
Currency ETFs	Track the performance of foreign currencies compared to the U.S. dollar or other currencies. Investors use currency ETFs for currency hedging, speculation, or as part of a diversified portfolio.
Inverse ETFs	Also known as short ETFs or bear ETFs. They seek to profit from declines in the value of the underlying index or asset. They use derivatives or other financial instruments to achieve inverse returns compared to the index they track. Generally used for hedging or tactical trading purposes.
Leveraged ETFs	Aim to amplify the returns of the underlying index or asset by factors like 2X or 3x by using financial derivatives and borrowing techniques. Designed for short-term trading and can entail higher risks and costs due to leverage.
All-in-one ETFs	Offer a complete, diversified portfolio in a single ETF. Provide investors with a convenient way to invest in a broad range of assets, including stocks, bonds, and other securities, across various industries and geographic locations.

SIMPLE, YOU SAY?

You may have noticed that some ETFs are specialized in sectors, commodities, currencies, and in using derivatives and opaque strategies to, hopefully, get good returns when the markets are down or double even triple market returns.

Now, the average investor who's looking to ETFs to accumulate enough to retire comfortably and stress-free, without having to put in too much time and effort along the way, won't be investing, and shouldn't be, investing in these types of ETFs. That investor will probably turn to index or sector equity ETFs, fixed-income ETFs, and/or asset allocation ETFs. Even then, there's a plethora of options.

We've mentioned equity ETFs focus on an index, sector, or region. Some equity and asset allocation ETFs are tailored to specific investment goals (fixed-income, growth, or dividends), risk tolerance levels (conservative, balanced, or growth), trends or societal change (clean energy, artificial intelligence, or cybersecurity), and even a target retirement date. Some fixed-income ETFs focus on duration (short-term vs. long-term bonds).

Seems to us that having all these options, provided by multiple firms (BMO, Vanguard, iShares, etc.), doesn't make the selection process that much easier than choosing individual stocks.

A simple approach to ETF investing

ETF investing can be right for investors who aim to achieve market returns with minimal effort and low costs, as long as they keep it simple.

The thinking is that investors can easily match the results of professional portfolio managers by picking a few diversified low-cost index ETFs, thus achieving returns they find satisfactory. This passive approach is called the "couch potato" investment strategy, and it is based on the idea that most active investors who pick their stocks do not consistently beat the market over the long term. It's a good way to start for new investors who don't have enough money accumulated to buy 20 stocks to achieve appropriate diversification.

One of the best uses of ETFs would be to buy a single, all-in-one ETF and have a single line in your brokerage account. The all-in-one ETF would be aligned with your risk tolerance and financial goals and would rebalance periodically. But that would take a lot of fun out of the equation, right?

THE CASE AGAINST ETFs

Why are so many investors staying away from ETFs? In a nutshell, probably because ETF investing does not suit their investment style and philosophy. To that end, let's add that index ETF investing doesn't necessarily achieve market matching returns on investment. Dividend growth investing can outperform the market without having to be geniuses or the next Warren Buffet! More on all that later.

Here are some objections to investing in ETFs. Again, let's reiterate that we're not saying ETF investing is a bad strategy, but for many investors, like us at DSR, it doesn't stack up against dividend growth investing.

No control over stock selection, undesirable companies

By buying an ETF, we relinquish the ability to handpick individual stocks. We can choose which index or sector we want to replicate, and even choose an investing goal, be it growth or dividends, but not the individual stocks. We're basically buying a basket of stocks picked for us based on metrics or a philosophy that may not be entirely ours. In other words; we're not investing according to our strategy but according to someone else's.

The reason so many people pick individual stocks to build their portfolio is that they like to make their own decisions and remain in control. Beyond the taste of independence that do-it-yourself investing gives us, it just might also beat several ETFs.

When we look at the composition of ETFs, most of them include stocks that we don't like and that we would never pick. ETFs often include high and low-quality stocks within a particular index or sector, which dilutes the overall quality of the portfolio.

Examples

Investors might be tempted to invest in well-known dividend-paying ETFs instead of picking individual stocks. After all, you save time, you save fees, and you get a "professional diversification" with a single holding.

Let's look at two dividend-paying ETFs, one Canadian and one U.S., to see what's under the hood:

- CDZ (BlackRock's iShares Canadian Dividend Aristocrats Index ETF)
- SCHD (Schwab U.S. Dividend Equity ETF)

CDZ - Canadian Dividend Aristocrat Index ETF

The word “aristocrat” makes it tempting to invest in CDZ. After all, its name implies the ETF contains companies that all show a stellar dividend growth history. Here are the top ten holdings in weight for CDZ:

Top 10 Holdings | All Holdings

as of Feb 23, 2024 Custom Columns

Ticker	Name	Sector	Weight (%)
FSZ	FIERA CAPITAL CORP CLASS A	Financials	3.09
AP.UN	ALLIED PROPERTIES REAL ESTATE INVT	Real Estate	2.50
ENB	ENBRIDGE INC	Energy	2.40
TRP	TC ENERGY CORP	Energy	2.36
BNS	BANK OF NOVA SCOTIA	Financials	2.22
BCE	BCE INC	Communication	2.18
CPX	CAPITAL POWER CORP	Utilities	2.12
FN	FIRST NATIONAL FINANCIAL CORP	Financials	2.05
T	TELUS CORP	Communication	2.02
EIF	EXCHANGE INCOME CORP	Industrials	2.01

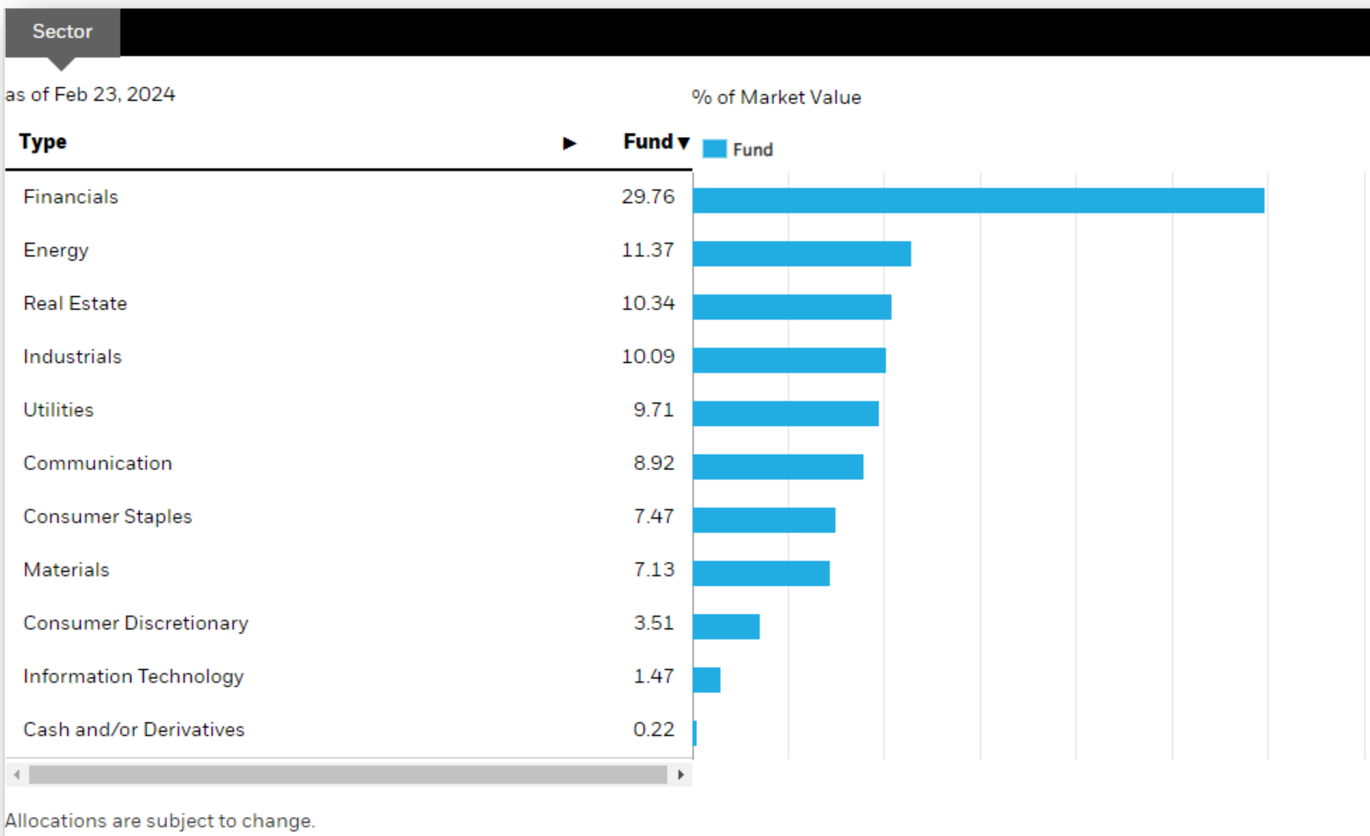
Just a glance reveals this list is full of stocks we would never pick at all!

- The top holding, Fiera Capital Corp (FSZ.TO) is a Canadian asset management company that is struggling to get people to invest in its products. Its assets under management (AUM) are declining, as is their EPS. Revenue was down in early 2023, is now stagnating, and it hasn’t raised its dividend since late 2021! We downgraded its DSR PRO rating to 2 (Sell). So, not a stock we would ever consider buying.
- Enbridge and TC Energy are both dealing with higher interest costs on their debt due to higher interest rates. They have high debt ratios and lack growth vectors. Both provide dividend income that is safe for now, but we feel high dividend growth rates are not in the cards, and neither is stock price appreciation. Mike sold both in Q1 2023 and explained why in detail in an earlier newsletter.
- Then, there is the Bank of Nova Scotia (BNS.TO) which is the poorest-performing bank within Canada’s Big Six banks.
- BCE is also struggling across the board (revenue, EPS, etc.) and has announced layoffs of about 9% of its workforce, and has slowed down its dividend growth. BCE’s outlook for 2024 expects lower growth in revenue, EPS, and free cash flow compared to 2023.

Allied Properties REIT (AP. UN) and Exchange Income Corp (EIF) aren't bad picks, but as small to mid-cap companies they are high-risk/high-reward and will subject investors to significant volatility. So, this ETF's top ten fails to impress.

Also, as shown below, CDZ is overweight in the financials sector (almost 30% of its portfolio) and significantly exposed to the volatile energy sector at 11.37%. It has very little exposure to the information technology and consumer discretionary sectors which is understandable because there aren't many Canadian aristocrats in these sectors.

However, these are two sectors where investors can find a lot of high-growth companies. This ETF does not provide optimal diversification to get the best total returns (dividend yield + stock price appreciation).



SCHD - Schwab U.S. Dividend Equity ETF

The SCHD ETF's top ten holdings are better than CDZ's, with several stellar companies we would, or do, have in our portfolio, including AVGO, ABBV, HD, TXN, and KO.

Top 10 Holdings

Portfolio Details | Price Performance

Symbol	Description	% of Assets	Sub Industry
AVGO	BROADCOM INC	4.8%	Semiconductors
ABBV	ABBVIE INC	4.7%	Biotechnology
MRK	MERCK & CO. INC.	4.7%	Pharmaceuticals
AMGN	AMGEN INC	4.4%	Biotechnology
HD	HOME DEPOT INC	4.3%	Home Improvement Retail
VZ	VERIZON COMMUNICATIONS INC	4.1%	Integrated Telecommunication ...
CVX	CHEVRON CORP	3.9%	Integrated Oil & Gas
CSCO	CISCO SYSTEMS INC	3.9%	Communications Equipment
TXN	TEXAS INSTRUMENTS INC	3.9%	Semiconductors
KO	COCA COLA CO/THE	3.8%	Soft Drinks & Non-alcoholic B...

Portfolio Details data as of 02/06/2024

But, yet again, there are other holdings that we would not buy:

- Verizon pays a generous yield but it's well on its way to becoming a dividend trap as its growth perspectives are limited and dividend growth has slowed down.
- Chevron has resumed its robust dividend growth in the last 5 years, and it is investing in low-carbon businesses to adapt to the energy transition. But, it's still an oil and gas company that depends on commodity prices. Its stock price has been stagnant for many years now and will continue to do so if oil prices don't increase.
- Cisco has potential but with lackluster sales growth in the last five years (+14% total), a slowing dividend growth rate, and a downgraded sales outlook for 2024, it needs to find and solidify growth vectors for the future. There are better stocks in the information technology sector. Let's just say we would go for Apple, Microsoft, Broadcom, Texas Instruments, etc. before taking Cisco as our top holding!

SCHD's sector allocation offers good diversification with 92% of its assets well distributed across seven sectors but has slight to no exposure to income-oriented sectors like utilities and REITs.

Sector Weightings as of 02/06/2024

Sector	% of Assets
Health Care	17.3%
Industrials	16.5%
Financials	16.1%
Information Technolo...	12.6%
Consumer Staples	12.0%
Energy	9.1%
Consumer Discretiona...	8.2%
Communication Servic...	4.6%
Materials	3.2%
Utilities	0.4%

Dividend growth investors can easily follow their investing process diligently and build a stronger portfolio than these two ETFs provide.

Hidden cost of ETFs eroding returns

While ETFs are often praised for their low expense ratios, even a seemingly modest fee can significantly erode the compounding effect of dividend reinvestment over the long term.

The popular notion that index ETFs are an easy avenue for beating the market is, in our view, somewhat misleading. Mirroring the market's performance becomes much more difficult when you factor in these fees. In essence, by investing in an index ETF, we're willingly sacrificing a portion of our returns. Therefore, it's virtually impossible to beat a benchmark with index investing. Investors are eternally behind the index by a small margin.

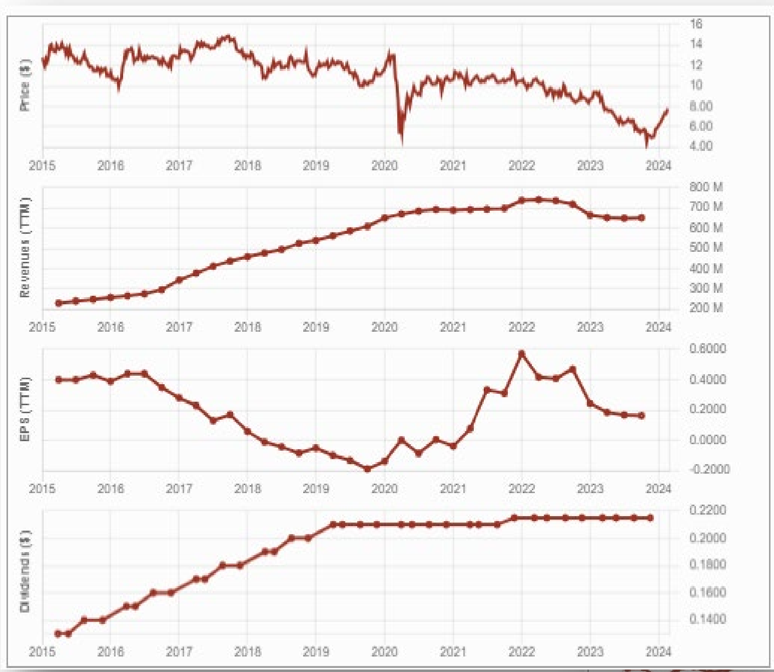
What about dividend ETFs then?

Investors might want to adopt a simplified dividend growth investing strategy by choosing dividend ETFs, rather than individual equities. From what we can see, most dividend-focused ETFs are built based on stocks of companies that are dividend aristocrats, or on a specific yield or dividend growth target.

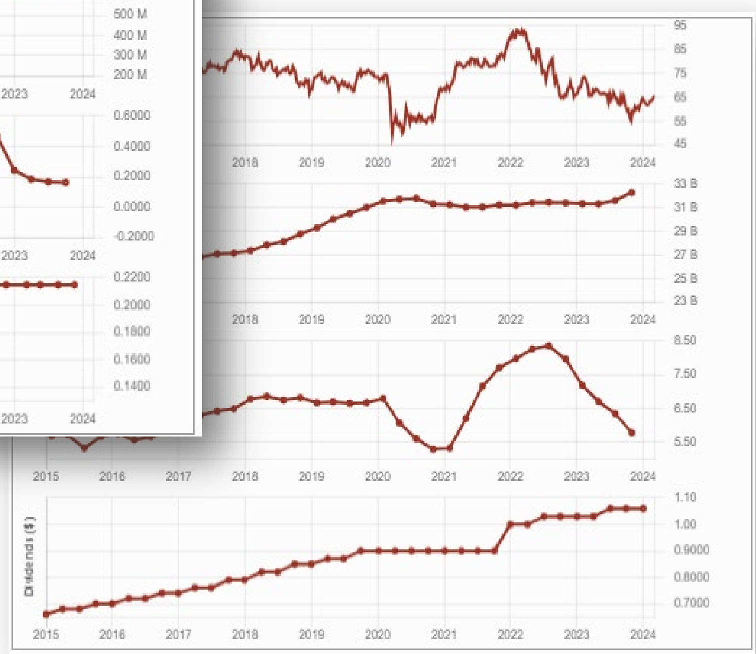
It makes sense to create a basket with such metrics, but we would add a little bit more human thinking to the process. Case in point: Fiera Capital Corp (FSZ.TO) and Bank of Nova Scotia (BNS.TO); both qualify as dividend aristocrats and are part of the CDZ ETF since its job is to track "aristocrats".

However, as we've noted earlier, things aren't going well at FSZ. This is clearly evident just from a glance at its dividend triangle; stagnating revenue, dwindling EPS, and no dividend increase. The situation is much the same with BNS, albeit with a slightly better trend of dividend growth.

FSZ.TO Dividend Triangle



BNS.TO Dividend Triangle



There's more to dividend growth investing than dividend yield and dividend growth metrics. Metrics only tell us about the company's past, not much about what is coming. To assess a company's ability to keep growing its dividend, you must look at graphs to see trends over time and read quarterly earnings and annual reports to see where the company is headed, and most importantly, how it can sustain its growth. In the world of ETFs, you'll only find this level of scrutiny in very actively managed ETFs.

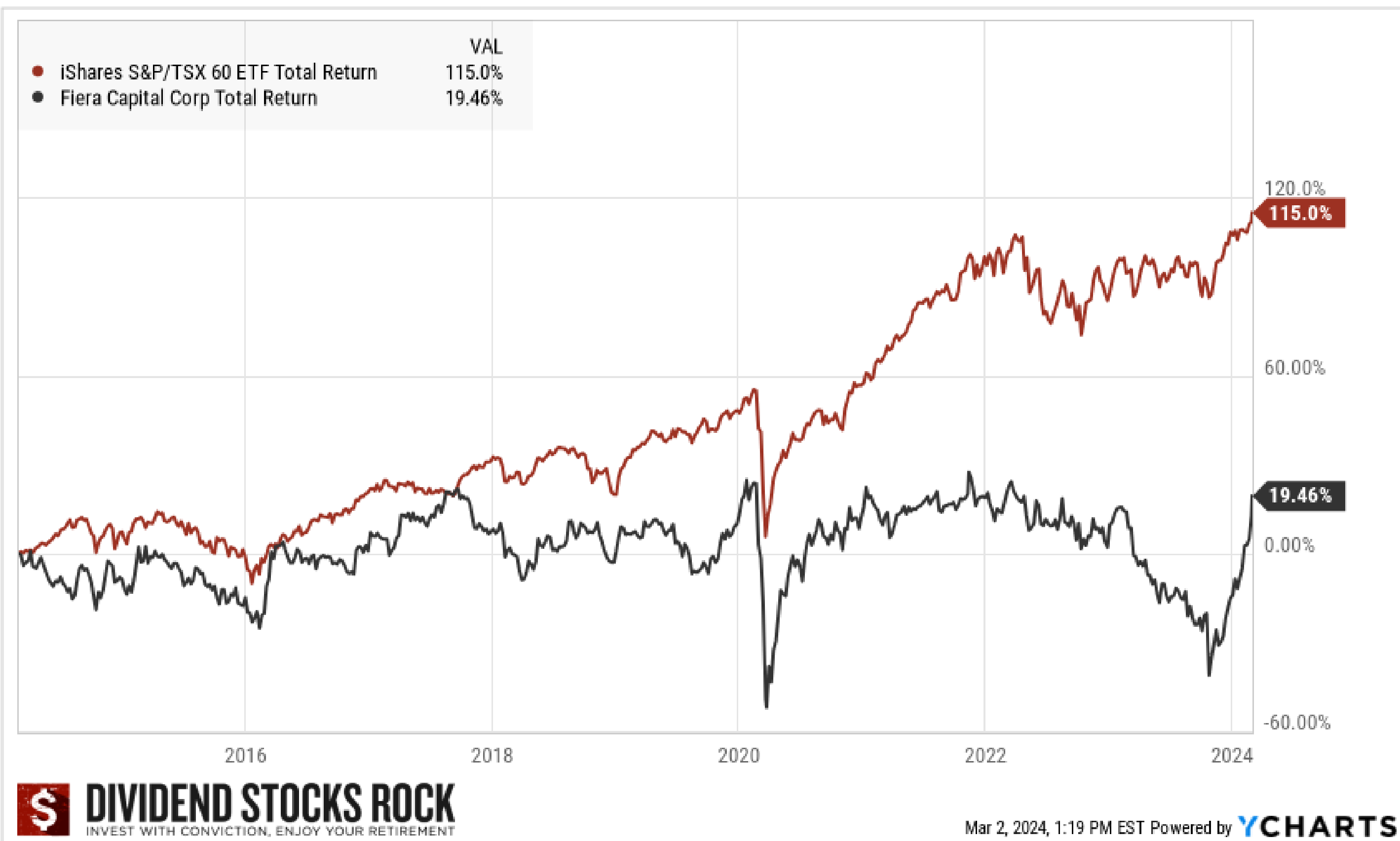
This point also highlights the fact that you need to know what you are doing even if you invest in ETFs. The moment you stop investing in ETFs tracking major indices and you look towards ETFs targeting sectors, industries, investment goals, or other characteristics, you enter a world of infinite possibilities. This is why many ETF investors should continue to consult an advisor to ensure they choose the right ETFs for them.

Management that's not all that active

Another drawback with many ETFs is their lack of active management. Some ETFs merely replicate the composition of an index without adjusting to evolving market conditions or individual company performance. In today's market, situations change rapidly. A dominant player in a strong niche could rapidly see its revenue evaporating like water in a sauna. Talk to any BlackBerry shareholder to get an idea of how that feels.

Dividend growth investors who dutifully review their portfolio quarterly will easily detect when earnings are slowing in their growth or falling, or when there isn't any dividend growth. This active management allows them to make informed decisions about when to dig for more information, buy, hold, or sell a stock based on the company's fundamental health and its ability to sustain dividend growth. ETFs often hold on to positions despite worsening company fundamentals.

As mentioned earlier, some holdings just should not be part of an ETF. Again, let's go back to Fiera Capital Corp, the top holding in the CDZ ETF. Here's how it performed over ten years compared to an ETF tracking the TXS performance. Why on earth would anyone want to invest in that stock?



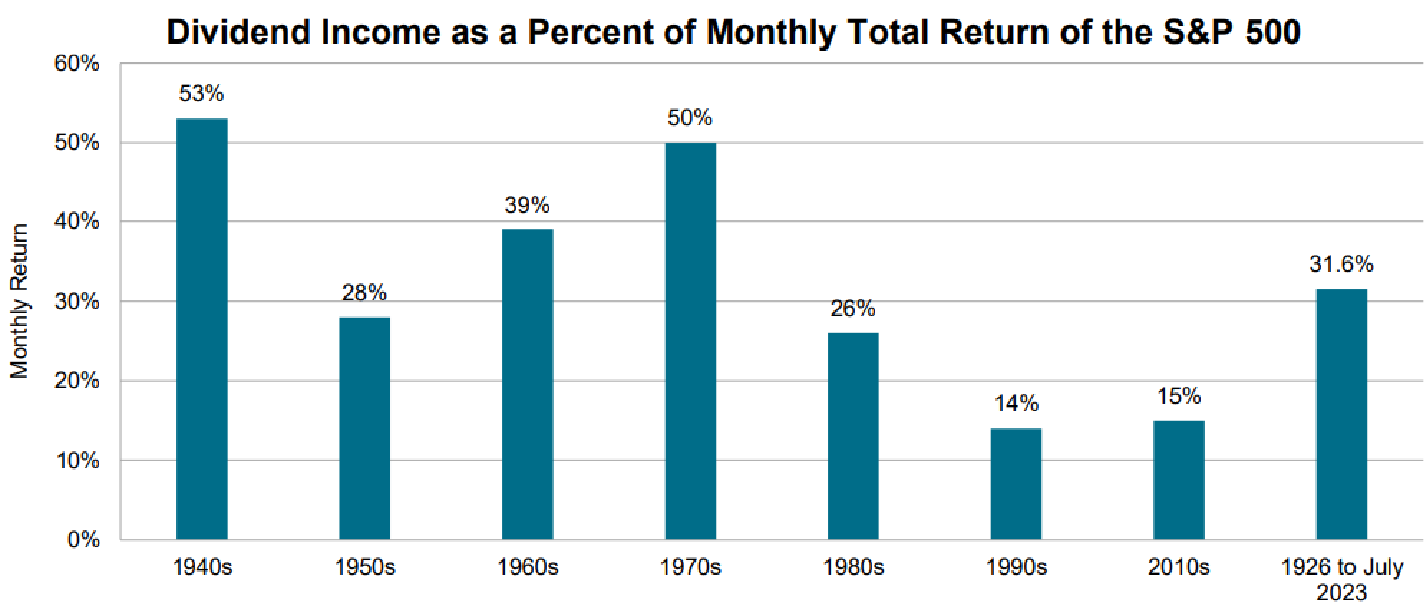
WHY WE LIKE DIVIDEND GROWTH INVESTING

Do-it-yourself dividend growth investing means picking individual stocks to build a portfolio and managing that portfolio. It's not a quick or easy project. It requires time, sound financial knowledge and understanding, and the ability to set your emotions aside. Some investors think that ETF investing removes the need to have these qualifications and that it's for everyone. We agree that ETF investing can be easier, but it falls short of our preferred strategy.

The compounding power of dividends

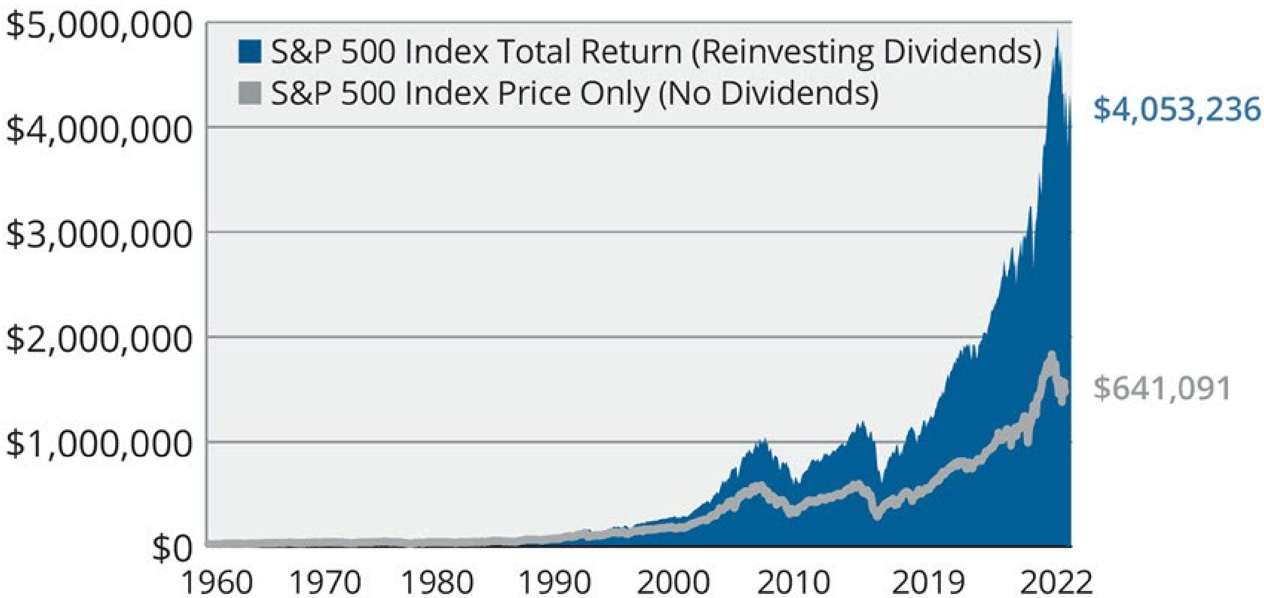
Dividend growth investing is a long-term strategy, not a get-rich-quick thing. Its superpower is compounding.

Looking at the S&P 500, we see that dividends made up close to 32% of the historical total return, while the rest came from stock price appreciation. Below you also see the portion of the average monthly total return provided by dividends by decade. (Source: S&P Dow Jones Indices, division of S&P Global)

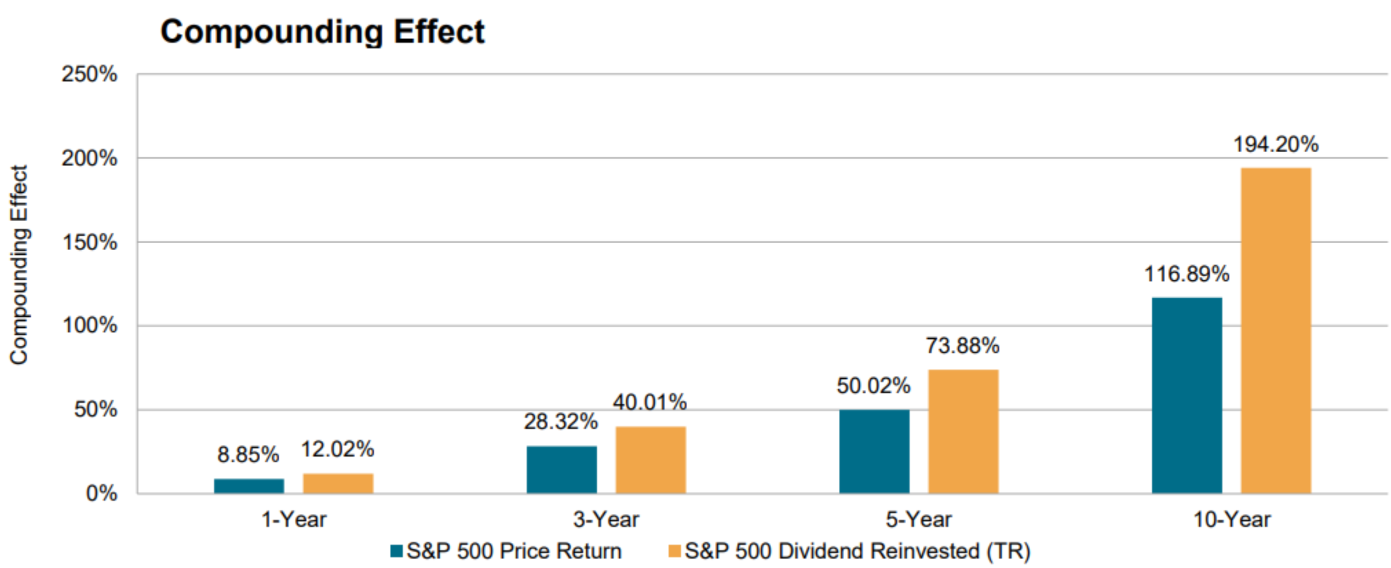


Notice that in the 40s and 70s, dividend income accounted for over 50% of total return, while during the 90s, as little as 14%. The graph excludes the 2000s, during which dividend income formed about 68% of total return due to the massive stock price crashes when the tech bubble burst and the financial crises of 2008.

The compounding power of reinvesting dividends is quite clear in the graph below. It shows the value as of 2022 of $10,000 invested in 1960 with dividends reinvested (over $4M) versus not reinvesting ($641K). Magic! (Source: Morningstar and Hartford Funds, 2022).



Even over shorter periods, the compounding effect of dividend reinvestment is obvious.



What does this mean? Well, with patience and discipline, this superpower of dividend growth investing will cause your portfolio to generate so much money that you don't have to work. Don't believe us? Dividend Growth Investor, a fellow blogger, reached financial freedom in 2018 with a dividend growth portfolio, and says, "…my forward dividend income from my taxable and tax–deferred accounts is set to meet or exceed my expenses."

When thinking about retirement planning, dividend growth investing provides a solution that few investing strategies offer. Picking stocks from the best dividend growers will help you achieve this milestone.

Dividend growth: a sign of strong companies

A dividend paid is not in and of itself a guarantee that you found a good company to invest in. A company offering a very high yield that sounds too good to be true (15%, 20%) might just be too good to be true. That dividend will probably be cut eventually and/or you'll lose capital value.

Many companies that are old and well-established pay a good dividend yield (above 4%) and increase them regularly at a good enough rate to keep inflation in check, but they often lack areas for further growth. You won't see much stock price appreciation or strong dividend growth. They are good for generating income and for the stability of a portfolio. We sometimes refer to such stocks as deluxe bonds. Examples include BCE (BCE), Enbridge (ENB), Verizon (VZ), and Altria (MO). Over time, deluxe bonds can become dividend traps, when they have nothing going for them except dividend yield, as they slowly fade away.

A history of paying dividends is good. A history of dividend growth is even better. Why? While the former is often a sign of a stable company, the latter shows the company is still growing. Growing companies might have lower dividend yields, but they increase their dividend at higher rates and their stock price often goes up as well.

That's what dividend growth investing is all about. Finding dividend growers in different sectors and industries is our goal. Depending on the type of investor you are and how close you are to retirement, part of the portfolio can be occupied by stable deluxe bonds to produce sufficient income.

For more detail and examples of how lower-yielding growth stocks outperform those with higher yields, take a look at our Dividend Income for Life Guide, and our recent Low-Yield, High Growth Selection newsletter in which we started tracking a selection of stocks to see whether the conclusions reached in the guide still hold water over time. We expect them to.

Debunking a myth

In the investment world, there are portfolio managers, analysts, bloggers, etc., who think that companies are better off using their cash to invest in profitable projects, such as research & development, mergers & acquisitions, marketing, etc. than giving it back to shareholders through dividends or share repurchasing. They aren't fans of dividend growth investing as they see dividend payments as a poor use of money.

According to the financial theory (emphases on *theory)*, companies only distribute money they "don't know what to do with" to shareholders. When all other options have been looked at and management hasn't found a way to make it more profitable, they write a check to their stockholders.

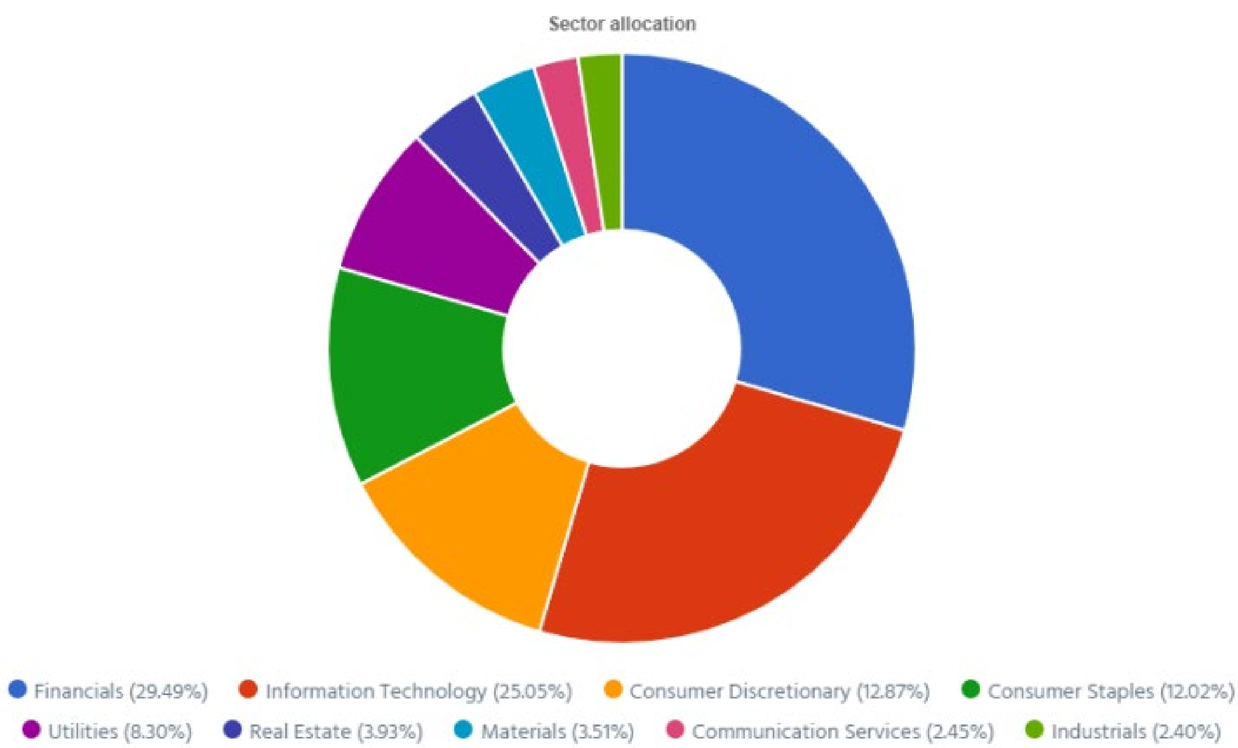
In real life, however, many companies decide to split their cash flow among various opportunities including paying dividends. At one point, it gets difficult to find attractive projects continuously; might as well reward shareholders. Companies like Microsoft (MSFT) and Apple (AAPL) are perfect examples. Both use their cash in smart ways and also add value for shareholders with share repurchases and dividend increases.

Pick only the best

We've mentioned that index ETFs, and other ETF types, often contain very good companies and pretty bad ones that drag the returns down. Not so with well-executed dividend growth investing! Do-it-yourself investors who research and analyze companies usually pick only the cream of the crop. Of course, a DIY portfolio must also be well-diversified across sectors and industries, but it should hold almost exclusively good picks. We say almost because all of us make the occasional mistake regardless of our investment strategy.

Debunking a myth

There is this belief that investing only in dividend-paying companies leads to poor diversification. While it is true that 35-40% of all public companies don't pay dividends, roughly 75% of those on the S&P 500 do, and about 60% of the companies trading on the NYSE, NASDAQ and TSX. So, thousands of companies in all sectors pay dividends so there are plenty of companies to choose from. Here is the sector allocation of Mike's portfolio which holds only dividend paying stocks as of December 2023.



Protection in down markets

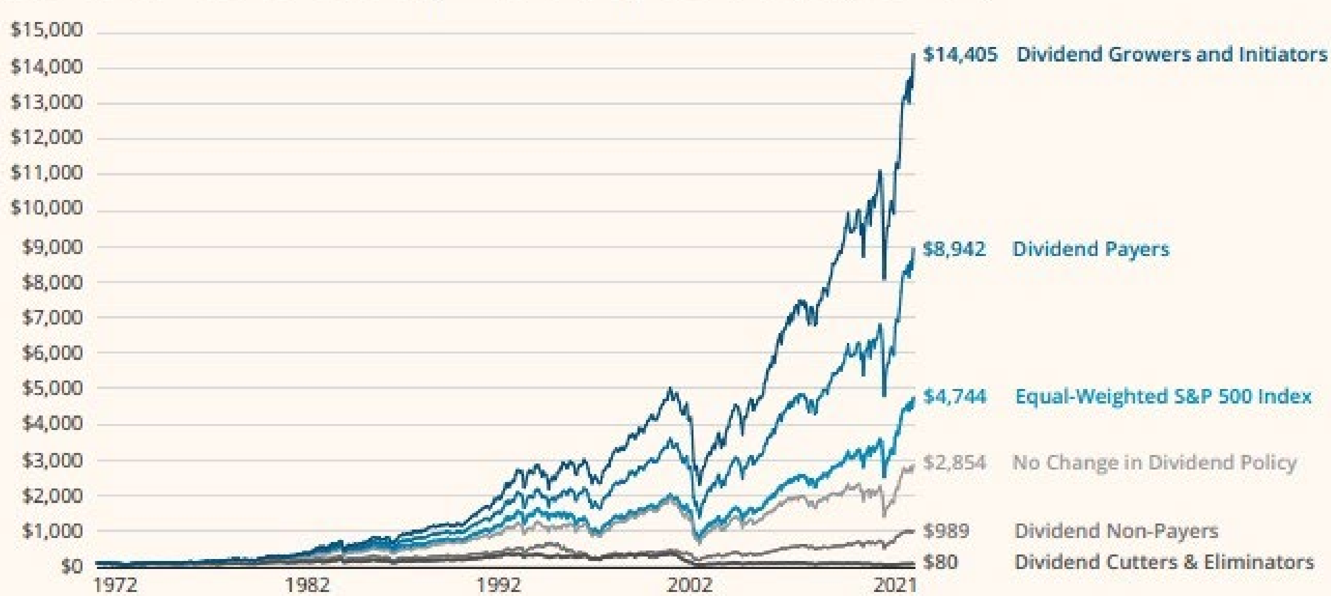
Dividend-paying stocks can protect you when the market takes a downturn. Of course, amid the financial crisis in 2009, 14% of the companies worldwide canceled their dividend, and 43% reduced them. If you do a poor job of selecting companies and end up with several that eventually cut their distributions, you're not covered during a down market.

However, if you hold on to dividend growers during down markets, your portfolio will do just fine. A company that can generate sufficient cash flow to increase its payout during a crisis is solid. The key is to avoid the red flags that announce a potential dividend cut: 1) high yield, 2) absence of dividend growth, and 3) a weak dividend triangle.

For example, 2018 was a bad year on the market. Both US and Canadian markets even entered into a short bear market as they decreased by 20%+ during the last 6 months of the year. When looking at Mike's 2018 returns, the portfolio generated about 3% in dividends while the total return was +5.11%. You can see that most of the profit was made through dividends. The point here is while the market goes nuts and value drops like nonsense, your holdings will continue to pay their due on time.

This is what happens in all down markets: shares of great companies likely get hit as hard as the bad ones because people sell in bulk. If you invest in index ETFs, you take the full hit. If you invest in solid businesses, you get your dividend paid during the crisis and shares quickly recuperate afterward. But you don't have to believe us, you can believe Ned Davis's Research instead. Over a period of 50 years that saw full-blown recessions, the tech bubble bust, the financial crisis of 2008, and even the beginning of the pandemic, the growth of $100 is greatest in companies that were starting to pay dividends and the dividend growers then followed by the dividend payers.

Returns of S&P 500 Index Stocks by Dividend Policy: Growth of $100 (1973–2021)



Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data Sources: Ned Davis Research and Hartford Funds, 2/21.

OUTPERFORM THE MARKET WITH DIVIDEND GROWTH INVESTING

The last reason for favoring dividend growth investing over ETF investing is that many investors who adopt this strategy outperform the market pretty consistently. Not because they are geniuses or have access to information others don't. They succeed because they execute their strategy well. Researching companies well before buying, buying with conviction, diversifying their portfolio, and monitoring their holdings quarterly, and sticking with their strategy. In doing so, they pick the best companies and avoid undesirables, unlock the effect of compounding dividends, and are protected through downturns in the market.

In other words, the outperformance isn't coming from the selection of dividend growth investing over ETF investing. It comes a lot more from selecting a strategy that works and sticking to it. The best way to stick to a strategy is to have complete conviction in what you do.

If you go with ETFs, you must have 100% faith in the strategy because you won't be able to explain why your S&P 500 ETF drops more than the TSX in a given year. If the magnificent seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) were to crumble in 2025, you'd be okay with an ETF that has a maximum of 30% weight in them. As the ETF share value goes down month after month though, you might wonder why and eventually feel panic rising.

When we monitor our portfolios during down markets, we can see if the businesses we own will be all right. Many of them provide us with extra information in their earnings reports, presentations, and calls to explain what they're doing to face the storm. By focusing on the dividend growth of our portfolio rather than the portfolio value, we increase the likelihood of sticking to our strategy and riding out that storm.

While dividends will smooth any down market, there is also another benefit to dividend growth investing during bear markets: **the protection against yourself**. In the introduction, we told you about Peter Lynch's fund performance vs investors' performance. The difference in returns is staggering but it's only due to one single factor: conviction.

When your portfolio of ETFs filled with 1,000+ stocks goes down, you must have complete faith that "the market will do better going forward". For example, when all stocks were going down by 30% during the covid crash, it was easy for investors to rationalize how Microsoft will continue to thrive if we stay in lockdowns for a while. However, when we looked at the entire market, all we saw was a line going down day after day.

Mike suggested focusing on the dividend growth graph during bad times. Seeing payments increase year after year helps you grow confidence in the stocks you hold and in your strategy. As we all know, conviction is your best ally during a crisis.

Since we know we picked the best apples from the basket, our odds of beating the market over the long run are pretty good if, you guessed it, we stay invested.

FINAL THOUGHTS

The whole point of this newsletter was to answer this often-asked question: why not simply invest in ETFs? To do so, we had to explain the drawbacks of ETFs, and the reasons why we prefer dividend growth investing.

While doing so, we just might have painted a pretty bleak landscape for ETF investors. We still think it is a very good way to invest one's money. ETFs offer wide diversification, and they are the best vehicle if you want a simple way to invest in the stock market or if you are starting your investing journey and have limited funds.

Simply buy an ETF that tracks the S&P 500, the TSX, and the MCSI equity indices and you'll do just fine. Things get messier if you try to track specific sectors or types of investments - another reason why we'll stay the course with dividend growth investing. **If we had to invest in ETFs, we would likely pick an all-in-one ETF** that rebalances automatically. Ironically, it would lead towards our having a single line in our investment account. Most investors aren't able to keep it that clean. But that strategy would work handsomely.

What's wrong with ETF investing? Nothing, as long as you understand it and it suits you well.

Cheers,

Claudia & Mike.

RATING CHANGES

This section communicates rating changes on the most popular stocks held at DSR. The changes mentioned below happened during this week upon our latest review.

No rating changes.

COMPANY	SYMBOL	PREVIOUS RATINGS (PRO/DIV)	NEW RATINGS (PRO/DIV)	COMMENT

OVERALL PORTFOLIO PERFORMANCE

Listed Returns are as of March 14th 2024:

Portfolios	Inception Date	Return	Benchmark	Added Value	Annualized Return	1 Y	YTD
CAD 25K	10/31/13	207.94%	139.90%	68.04%	11.35%	7.59%	-0.20%
USD 25K	10/31/13	175.80%	204.58%	-28.78%	10.18%	11.27%	0.54%
CAD 100K	10/31/13	140.35%	139.90%	0.45%	8.74%	9.21%	1.01%
USD 100K	10/31/13	233.34%	204.58%	28.76%	12.20%	19.76%	2.79%
USD 500K	05/31/14	121.74%	170.29%	-48.56%	8.47%	12.02%	2.31%
CAD 500K	05/31/14	133.27%	111.10%	22.17%	9.03%	8.86%	2.62%
100% CAD	07/31/17	83.03%	49.52%	33.51%	9.68%	7.38%	1.13%
Retirement CAD	07/31/18	26.85%	38.15%	-11.30%	4.32%	-6.92%	-2.06%
Retirement USD	07/31/18	63.37%	83.75%	-20.38%	9.12%	7.88%	-1.59%

*Canadian portfolios added value is calculated based on 50% of VIG and 50% of XDV as half of portfolios are US stocks. Currency hasn't been taken into consideration.

Benchmarks are VIG and XDV.TO for all portfolios.