

# Balance, Dividends, and Value

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# Overview

- ✓ Before starting out
- ✓ Picking the right path
  - ✓ Balance
  - ✓ Dividends
  - ✓ Value
- ✓ An extended guide

# Before starting out

- ✓ Spend less than you earn

*“Annual income 20 pounds, annual expenditure 19 pounds 19 and 6, result happiness. Annual income 20 pounds, annual expenditure 20 pounds ought and 6, result misery.” - Charles Dickens*

- ✓ Be debt free

*“I've seen more people fail because of liquor and leverage - leverage being borrowed money.” - Warren Buffett*

- ✓ Have a rainy day fund

*T-Bills ~1% Savings ~1.3%*

- ✓ Plan for large ticket items

- ✓ Insurance

# Investment Road Map

## Portfolio Size

## Expertise

Start with Balance

Any

Any

Dividend Investing

\$50,000+

Moderate

Value Investing

\$50,000+

Above Average

# The Balanced Way

Buy a balanced portfolio of stocks and bonds

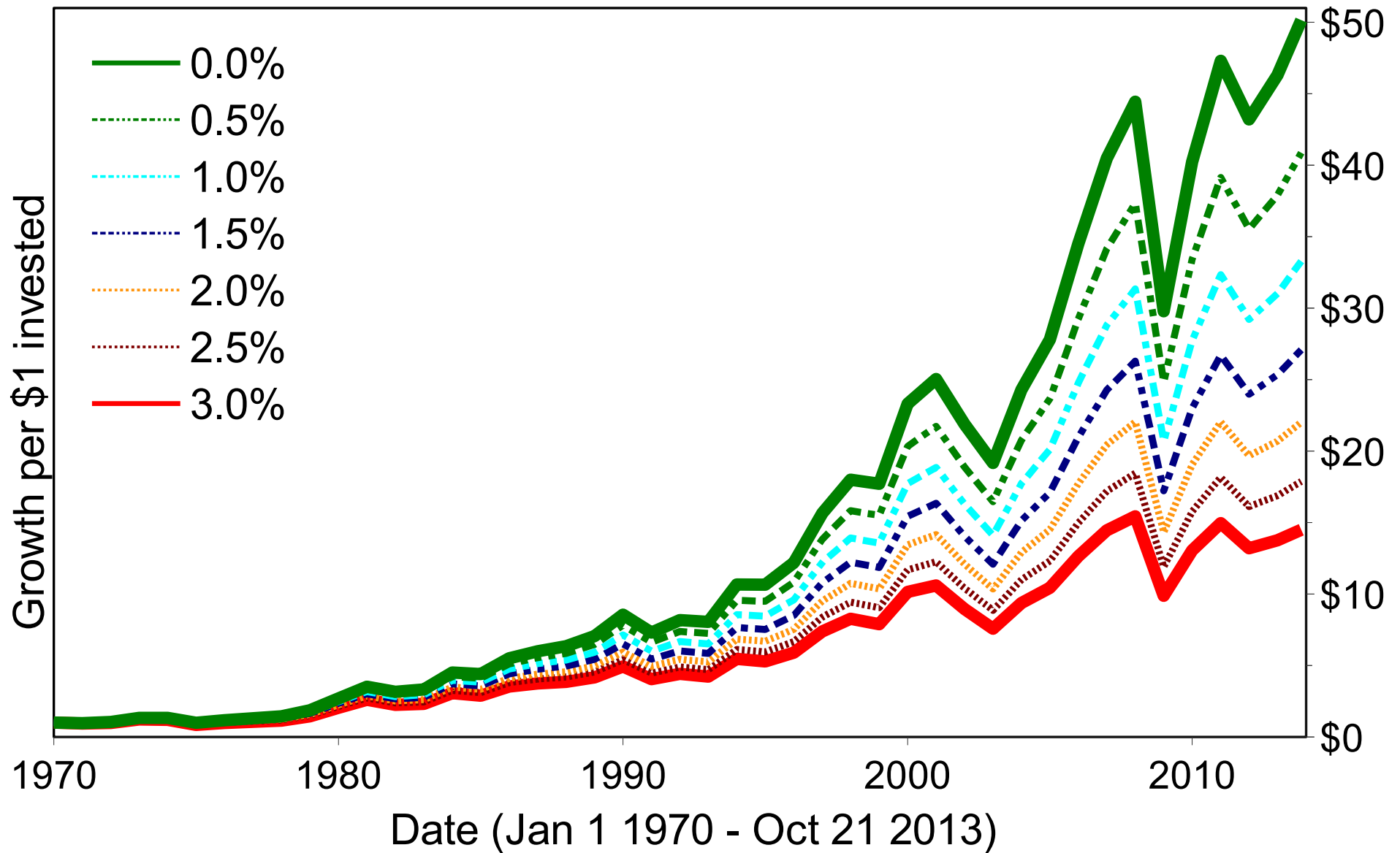
## Advantages

- ✓ Easy to implement
- ✓ The ride is smoother
- ✓ Likely to outperform

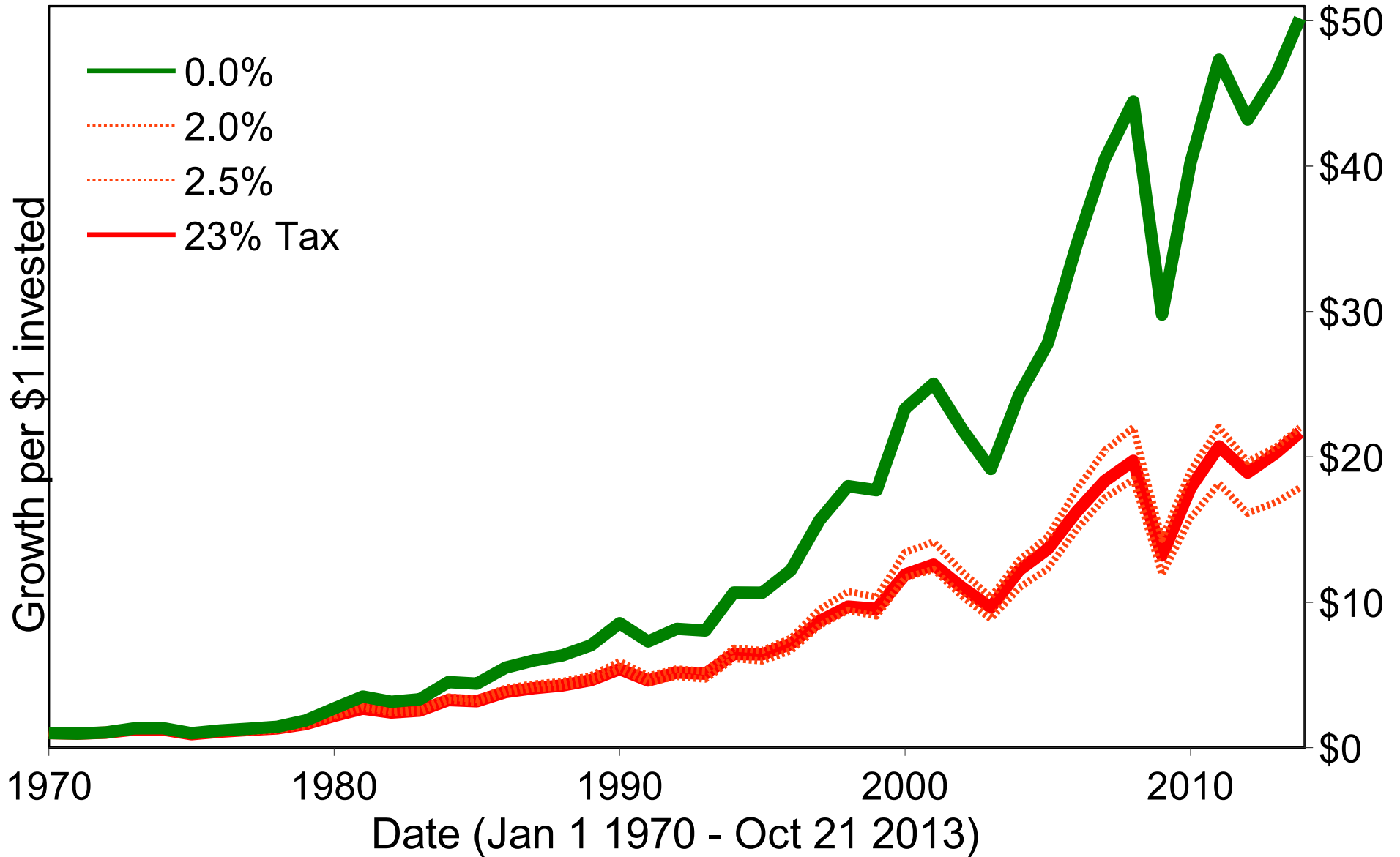
## Things to be wary of

- ✓ High-fee funds
- ✓ Taxes
- ✓ Complicated offerings

# Fee Drag



# Taxing Gains



# Terrible Timing

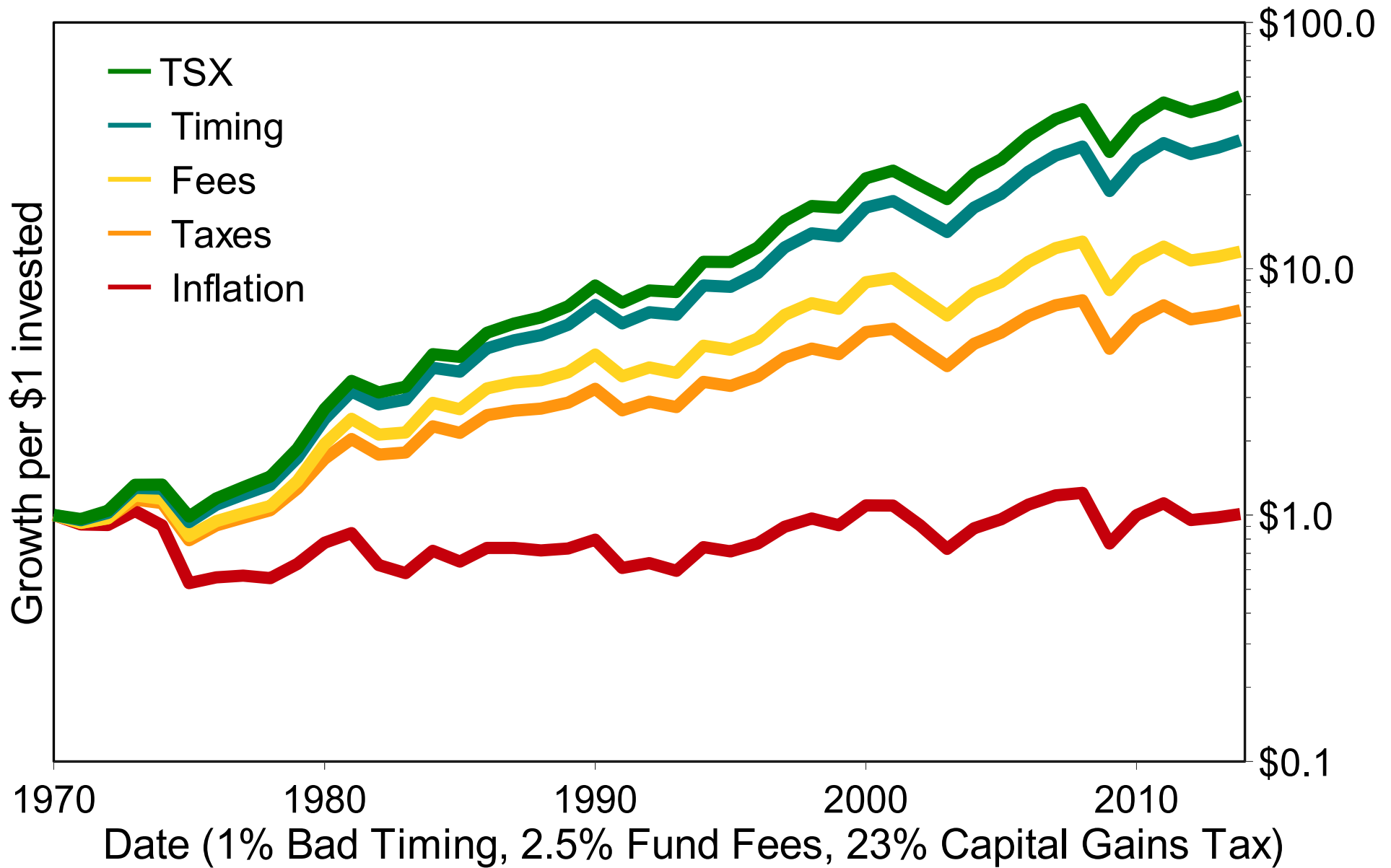
## 10 Year Average Annual Returns

Fund Category	Fund	Investors	Difference
US Equity	1.59%	0.22%	-1.37%
International Equity	3.15%	2.64%	-0.51%
All Funds	3.18%	1.68%	-1.50%
Balanced Funds	2.74%	3.36%	0.62%

(Source: Morningstar.com, 12/31/2009)



# Yikes!



# Minimizing Regret

	Performance Each Year (%)									
Mawer	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12
Bond	6.0	6.1	5.3	2.9	3.1	5.9	4.1	6.2	8.9	3.5
Equity	19.3	15.7	20.6	13.9	11.5	-29.7	29.5	13.7	1.9	12.7
New Cda	26.1	29.5	18.0	15.3	16.6	-38.4	51.2	23.9	1.1	16.4
U.S.	2.3	4.3	-3.3	14.7	-8.1	-14.3	2.4	5.8	4.4	12.0
Int'l	9.7	13.1	13.7	32.0	-2.4	-32.2	24.9	8.4	-7.5	19.5
Global S						-30.0	39.7	16.3	0.3	29.5
Balanced	11.0	10.7	10.3	13.9	2.9	-16.1	16.4	9.8	2.9	11.4

# Balanced Funds

Low-cost easy-to-hold portfolios

Fund Name	Fee	Bonds/Stocks	Style
Mawer Canadian Balanced	0.98%	40%/60%	Active
Mawer Canadian TE Balanced	0.99%	40%/60%	Active
PH&N Balanced D	0.90%	40%/60%	Active
Steadyhand Founders	0.69%-1.34%	40%/60%	Active
TD Balanced Index	0.89%	50%/50%	Index

# Dividend Investing

Grow your income via dividends

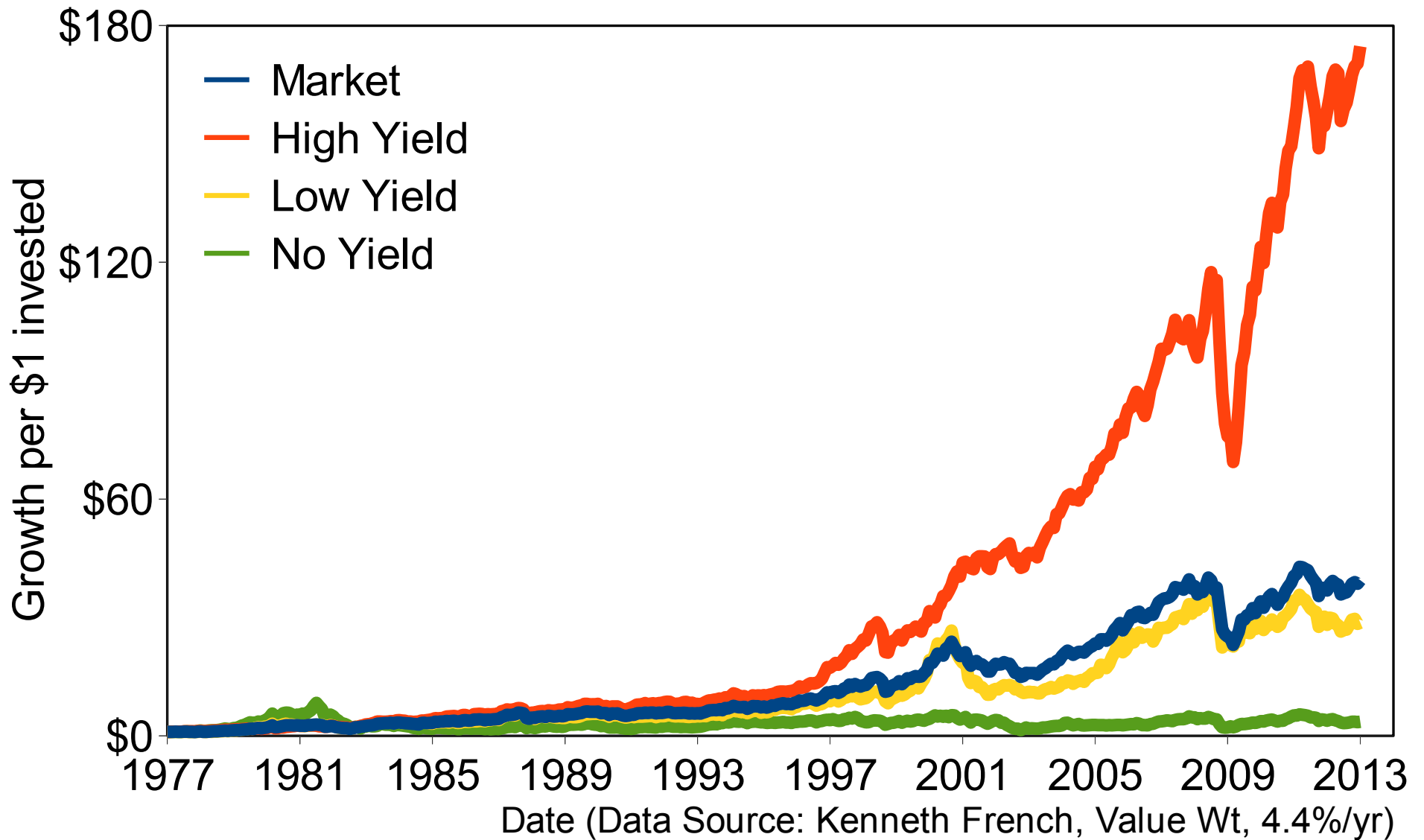
## Advantages

- ✓ Steady income
- ✓ Likely return boost
- ✓ Potential tax advantage
- ✓ Withdrawal discipline

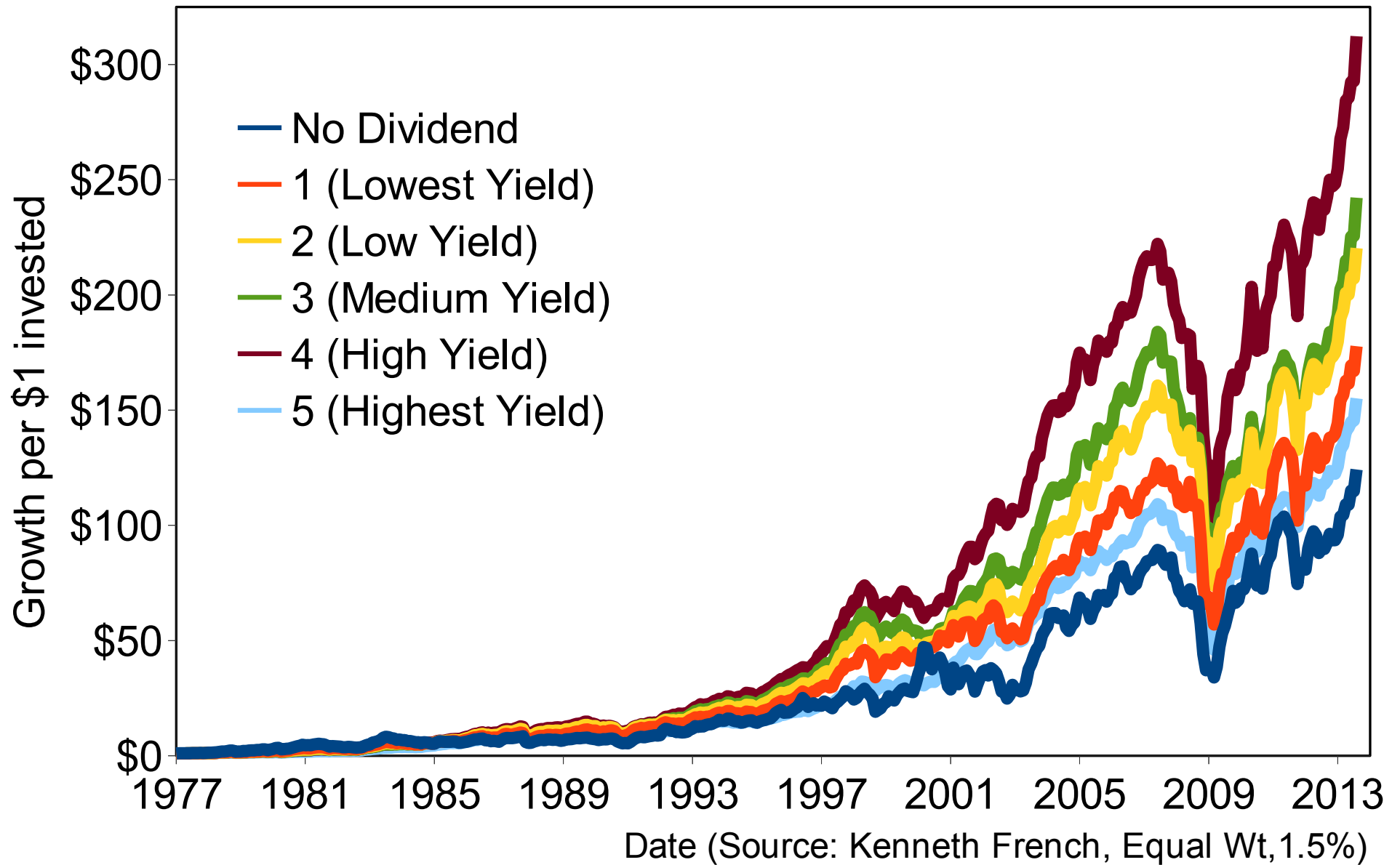
## Things to watch for

- ✓ Very high yield stocks
- ✓ Foreign dividend taxes
- ✓ High-fee funds
- ✓ Dividend cuts

# Canadian Dividend Advantage



# U.S. Dividend Advantage



# Easy Dividend Portfolios

## Exchange Traded Funds

### Canada

iShares Canadian Aristocrats ETF (CDZ, 0.66%)

Vanguard Canadian High Yield ETF (VDY, 0.35%)

~~iShares Canadian Dividend ETF (XDV, 0.55%)~~

### US

Vanguard High Dividend Yield ETF (VYM, 0.10%)

Vanguard Dividend Appreciation ETF (VIG, 0.10%)\*

\*Canadian versions: VGH (hedged) & VGG, ~0.32%

# Simple Dividend Stock Selection

## Dogs of the TSX

- ✓ Start with the 60 large stocks in the S&P/TSX60
- ✓ Buy the 10 top yielding stocks
- ✓ Rebalance each year

Look to David Stanley, Canadian MoneySaver  
1987-2012: 12.56%/yr vs 9.52%/yr index

We publish a weekly list of the Dogs of the TSX in our *free* Stingy News Weekly email letter. Sign up at  
[www.stingyinvestor.com](http://www.stingyinvestor.com)



# Individual Dividend Stock Tips

## Positive attributes

- ✓ Above average yields
- ✓ Dividend growth
- ✓ Financial strength
- ✓ Earnings > Dividends

## Negative factors

- ✓ Extraordinarily high yields
- ✓ Derivatives/products
- ✓ Negative momentum

# Value Investing

Buy stocks with a margin of safety

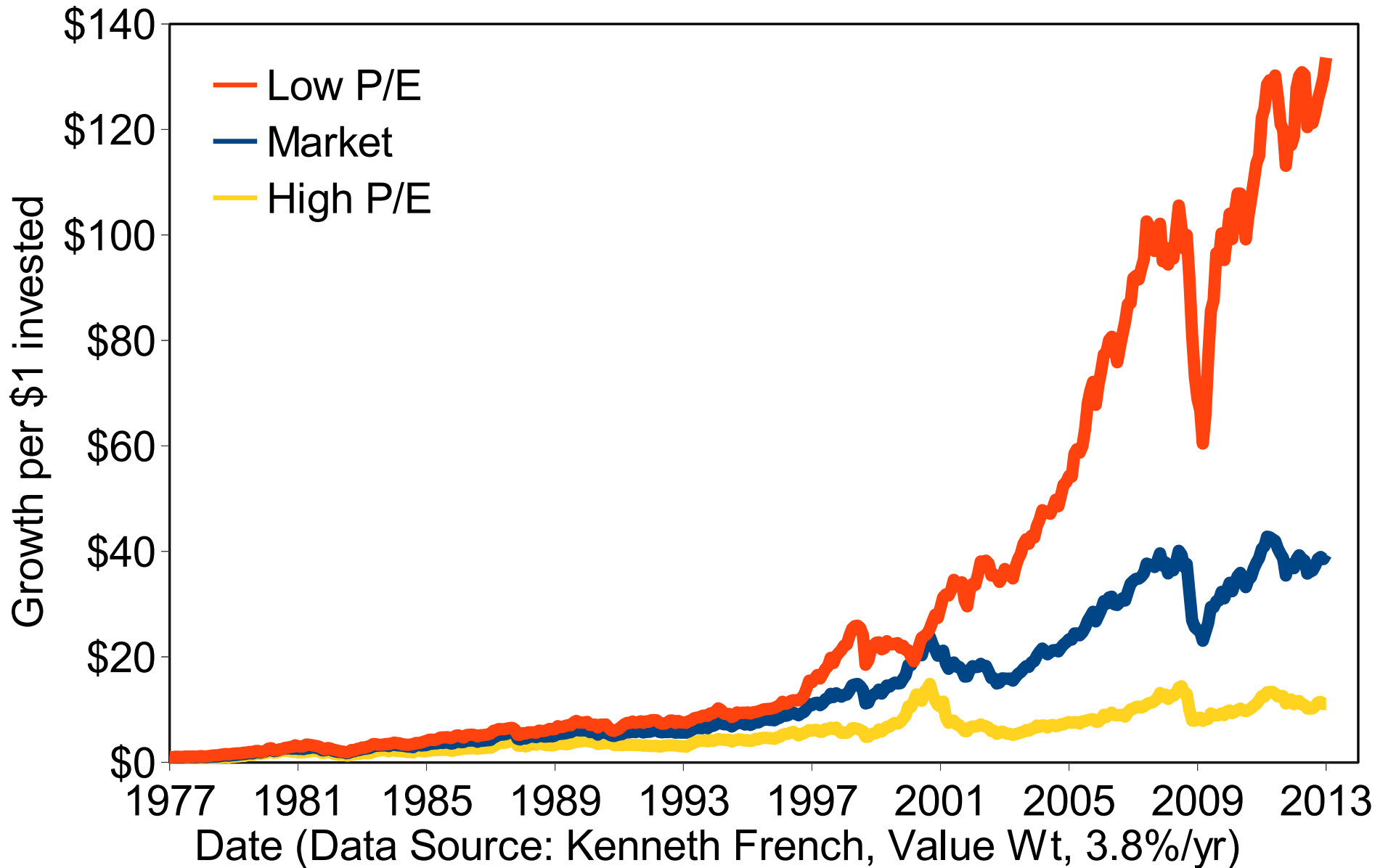
## Advantages

- ✓ High return potential
- ✓ Often less volatile
- ✓ Simple valuation measures

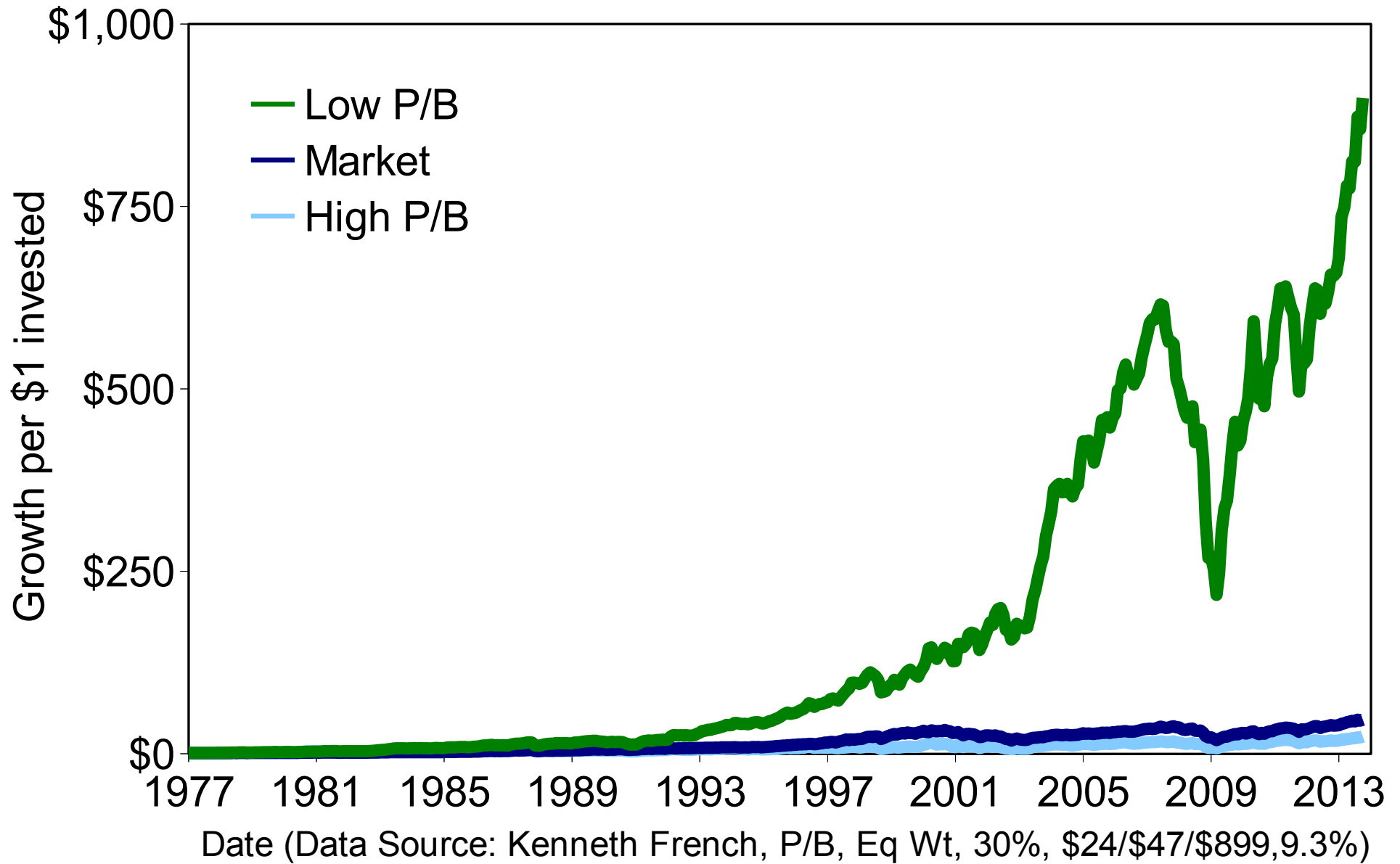
## Things to watch for

- ✓ Can be hard to follow
- ✓ Forced selling

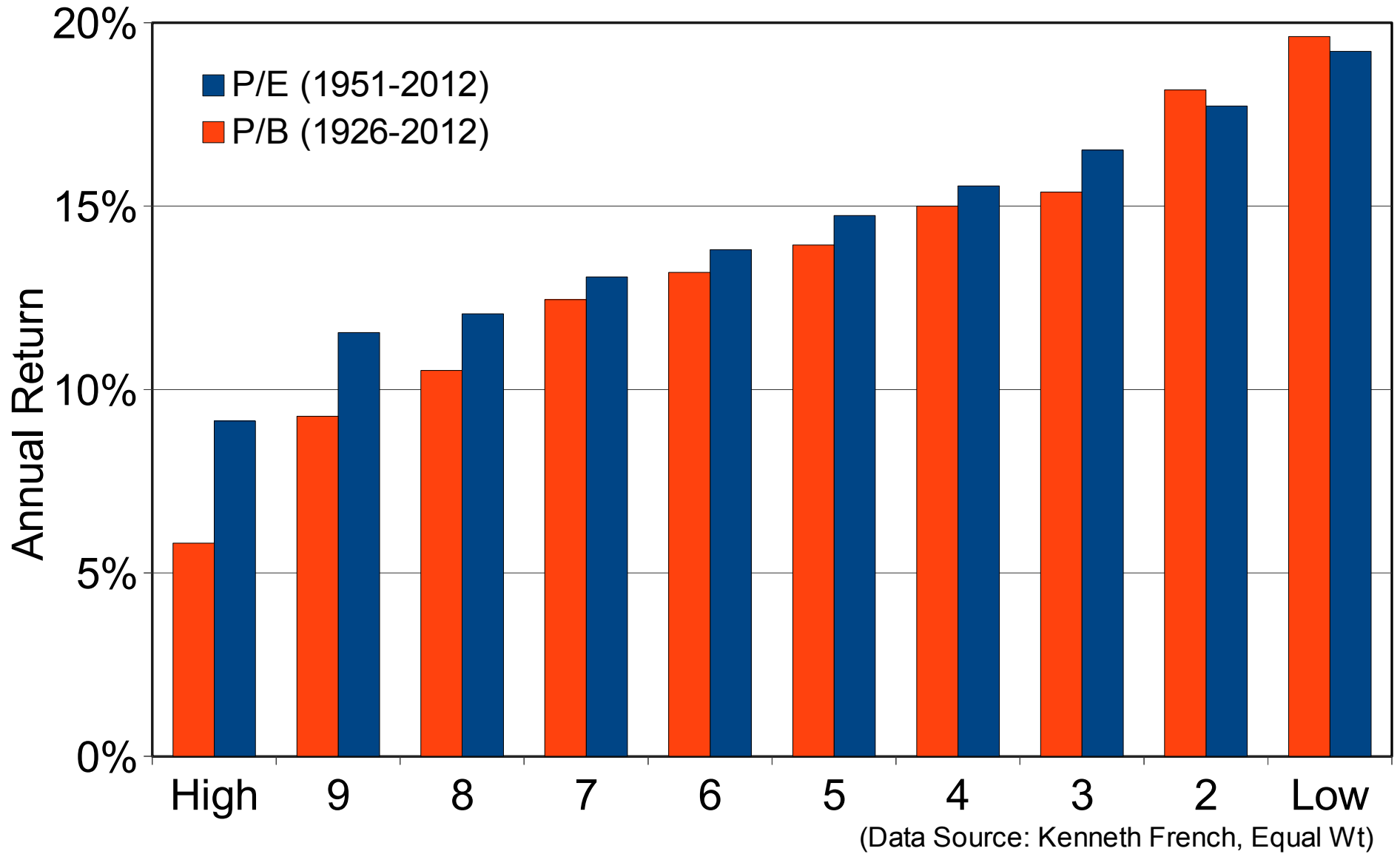
# Canadian Value vs. Glamour



# U.S. Value vs Glamour



# U.S. Value by Decile



# Value Stock Tips

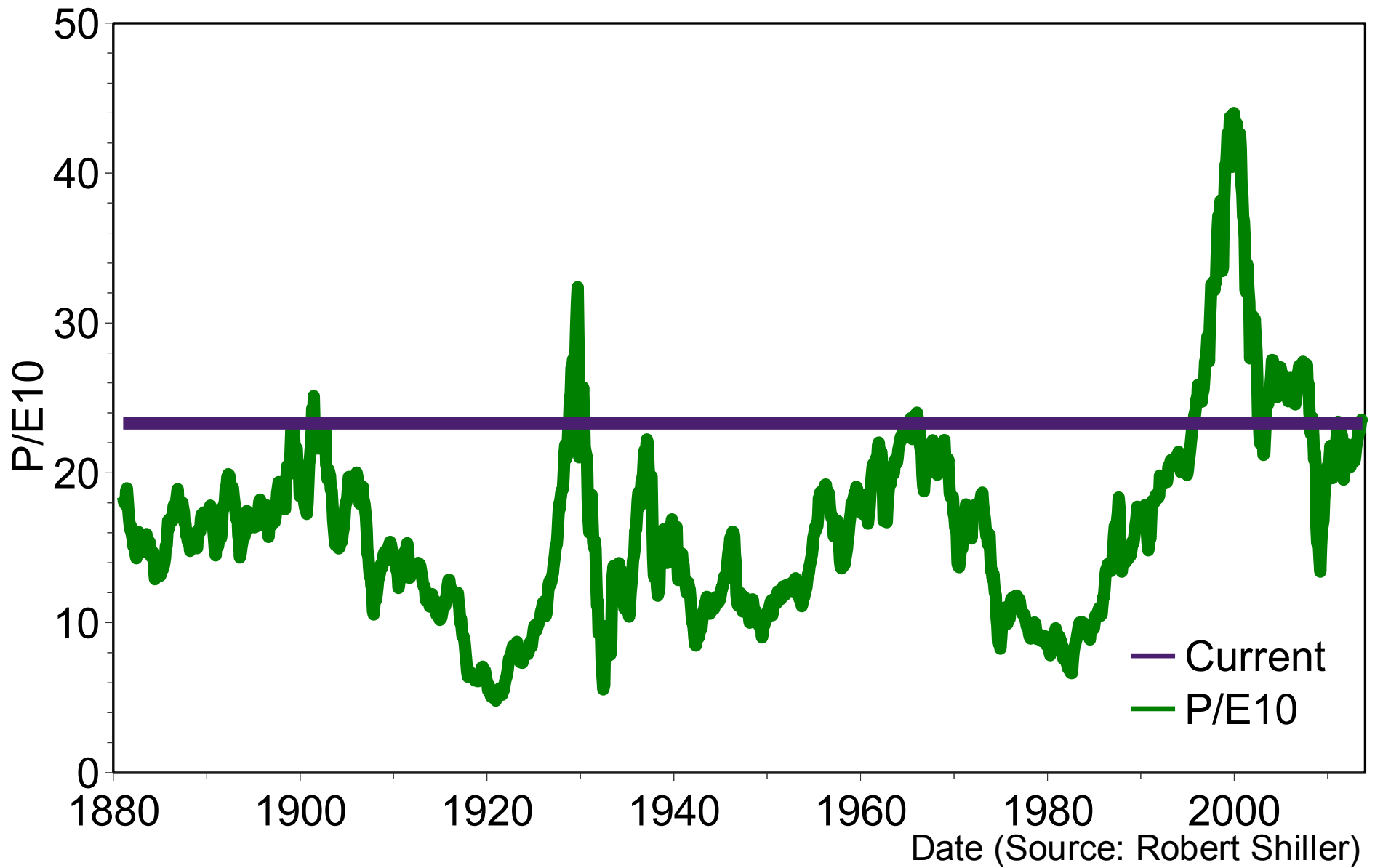
## Positive Attributes

- ✓ Low ratio stocks / margin of safety
  - ✓ P/E, P/B, P/S, P/CF, P/D
- ✓ Financial strength
- ✓ Dividends and dividend growth
- ✓ Low liquidity / small / neglected stocks

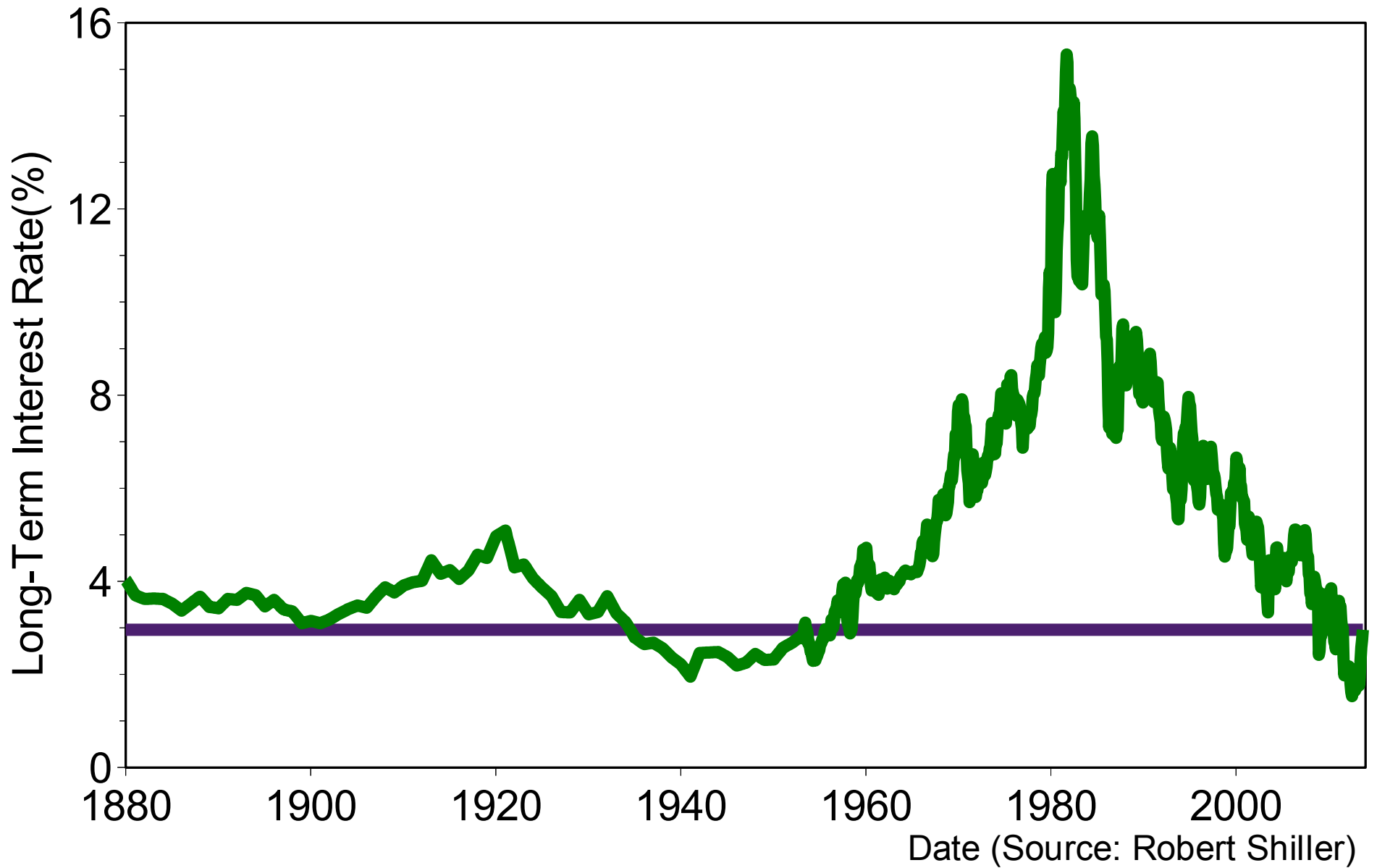
## Warning Signs

- ✓ Negative momentum
- ✓ Buggy whips / “value traps”
- ✓ Vampire squid management

# U.S. Stock Market Valuation



# U.S. Bond Market





Balance, Dividends, and Value by Norm Rothery

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Useful Books

A Random Walk Down Wall Street	by Burton G. Malkiel
The Intelligent Investor	by Benjamin Graham
Contrarian Investment Strategies	by David Dreman
What Works on Wall Street	by James P. O'Shaughnessy

Advanced Topics

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