

Dividend Income: Time to fall in love



Dividend Tree Bears Fruit Every
Quarter

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Salary plus bonus strategy

The salary plus bonus investment strategy is designed to generate a predictable flow of income, while providing growth of capital over time. Every holding in the portfolio generates income to form the SALARY. And, the expected rise in the price of the underlying securities in the portfolio forms the BONUS.



Huge Tax Advantage

- Top Marginal Income Tax Rates
- Interest Income 43.4%
- Canadian Dividend 22.2%
- Capital Gains 21.7%
- You can earn \$50,500 in eligible dividend income tax-free, if you have no other income.

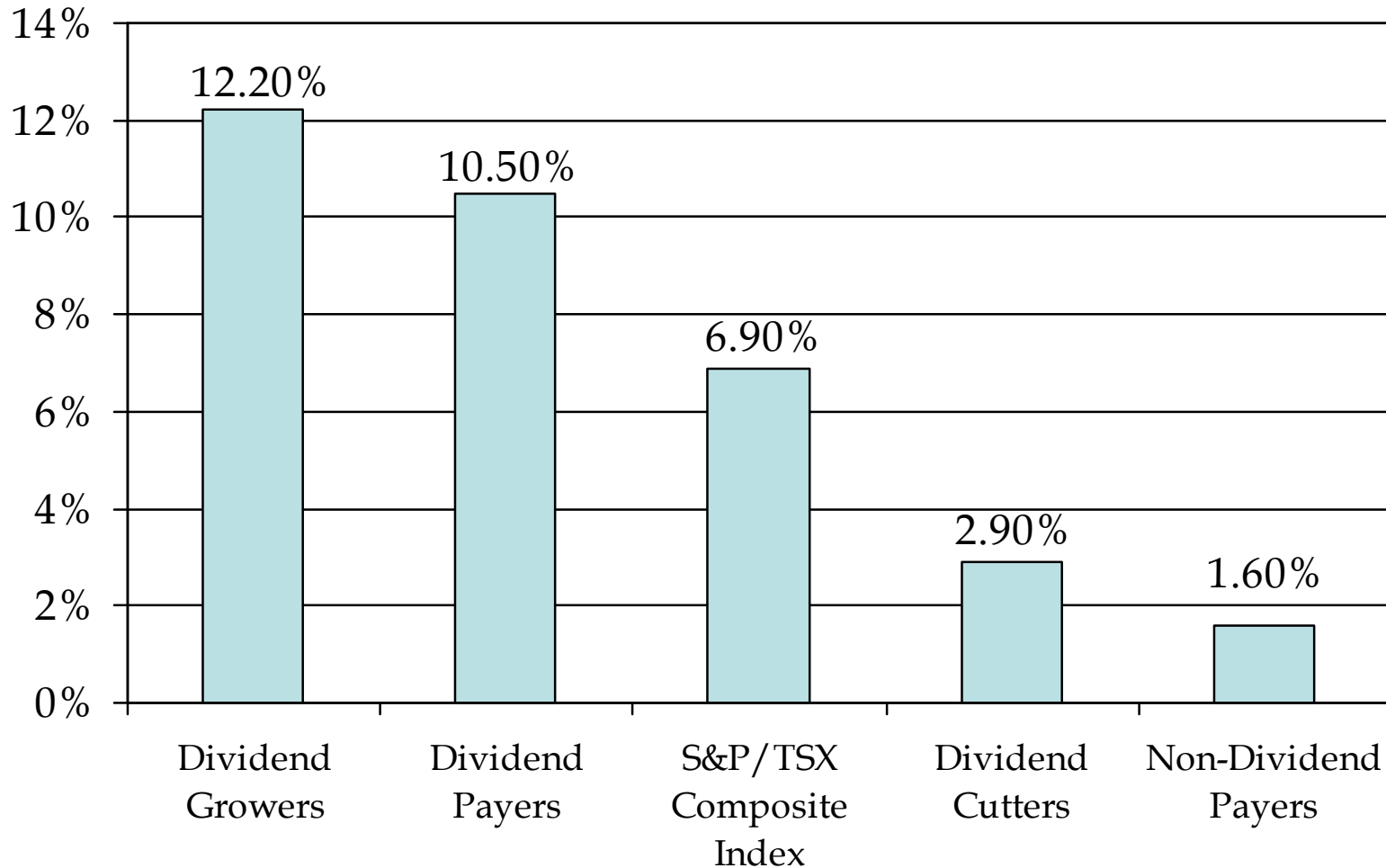


Income taxes are likely heading higher to reduce the deficit

Source: Ernst & Young

Canadian Companies Pay Dividends

Total Portfolio Returns (Dec 1986 – Jun 2011, equal weighted)

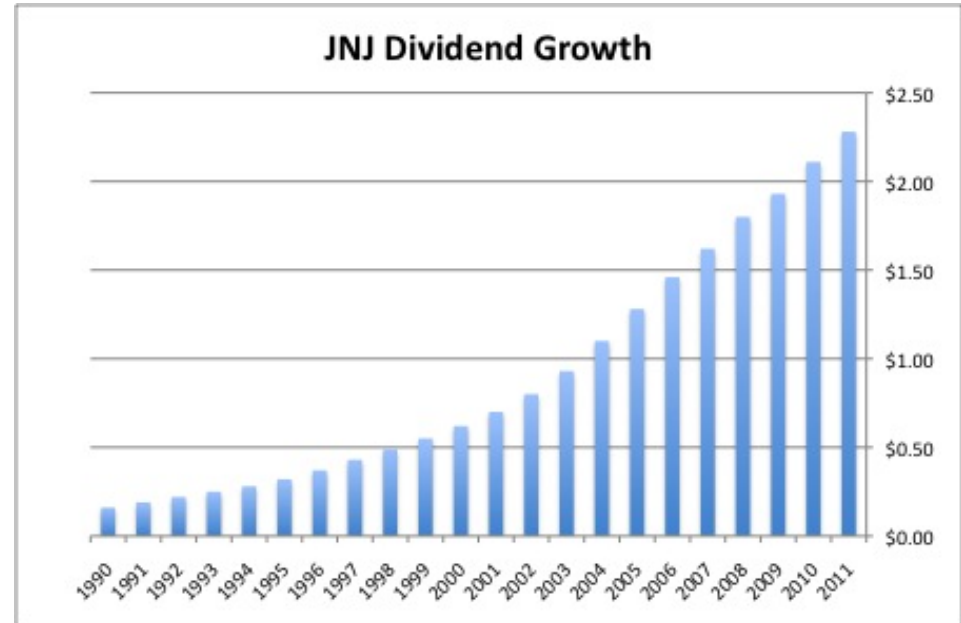


Dividend Payout Rates Can Grow

- Standard and Poor's reported that through 2010 the dividend component of the S&P 500 was responsible for 44% of the total return for that index over the last 80 years.
- The payout rate has gradually declined from 90% of operating earnings in 1940s to about 30% in recent years.

Dividend Payout Ratio:

$$\text{DPR} = \frac{\text{Dividends}}{\text{Net Income for the same period}}$$



Johnson and Johnson is an example of how great companies increase dividend payments to shareholders over time.

Preferred Shares Pay Dividends

- **Tax Advantage:** Often offer better after-tax return than similar credit quality bonds.
- **Security:** Rank above the interests of common shareholders.
- **Exchange Traded Markets:** Liquid in three business days.
- **Example:** Sunlife Series 12 (SLF.PR.I)
 - 4.7% yield to call
 - Interest equivalent 5.7%
 - P1 Low credit rating
 - Dec. 2016 reset
 - 5yr GOC +275bpts



Preferred Shares are considered a fixed income investment.

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