



BOW VALLEY WEALTH MANAGEMENT
GROUP OF RBC DOMINION SECURITIES

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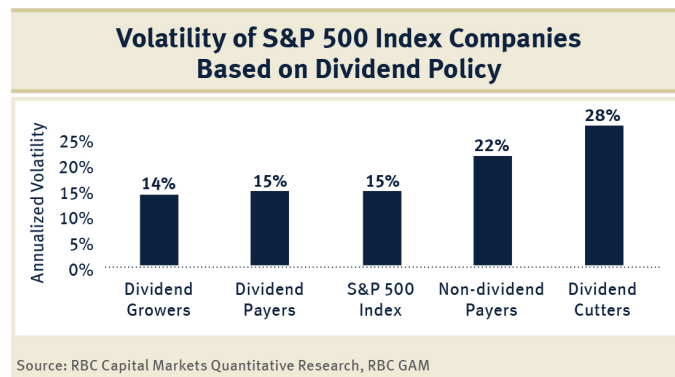
DIVIDEND INVESTING FOR INCOME, GROWTH AND DIVERSIFICATION

Portfolios focused on dividend equities are often looked at by investors as defensive. From the standpoint that a dividend-based investment approach lowers the volatility and risk measures of a portfolio, they are. However, over the last two decades dividend equities have provided a lot more than defence. They have provided the vast majority of market returns, growing tax-efficient income, and the opportunity to hold an effectively diversified portfolio entirely comprised of dividend-paying equities.

DIVIDENDS AND THE MARKET

Over the last decade, dividend growers and payers have provided the vast majority of growth on the S&P/TSX Composite Index. As shown in the chart below, dividend payers provided annualized returns of 13.2% for the period shown, while non-dividend payers (i.e. growth stocks) provided returns of only 5.7%.

Over the past 20 years, dividends have comprised 30% of total market returns (see chart on next page). The last five and 10 years, have seen dividends contribute an increasing percentage of total market returns. As many corporate dividend payout ratio policies have increased over the last decade, and with the conversion of many income trusts to high yield dividend-paying stocks, the importance of dividends is a trend that is expected to continue.



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YEARS AS AT 10/31/2012	S&P/TSX COMPOSITE INDEX ANNUALIZED TOTAL RETURN	RETURN FROM DIVIDENDS	RETURN FROM CAPITAL GAINS	PERCENT FROM DIVIDENDS
5 years	9.67%	3.20%	6.47%	33%
10 years	8.30%	2.74%	5.56%	33%
20 years	8.20%	2.32%	5.88%	28%

DIVIDENDS AND INCOME

Along with a significant portion of total market returns, dividends have also provided excellent inflation protection for income investors. As shown below, over the last 20 years, the S&P/TSX Composite Index dividend has grown at close to 10% annually, while inflation has caused price increases of 1.93% annually. Compounded over that time, inflation caused prices to increase by 46% while dividends grew by 664%. The end result – investors receiving these dividends saw their purchasing power increase by 84%.

	BASE YEAR 1993	31-OCT-13	ANNUALIZED GROWTH RATE
S&P/TSX Composite Index Dividend	\$100	\$664	9.93%
Canadian Consumer Price Index	\$100	\$146	1.93%

Index dividend was calculated using the following method:
 $\text{Index dividend} = \text{Index Total Return} - \text{Index Price Return}$.

Dividend income grew by 84% more than prices increased over the last 20 years.

DIVIDENDS AND TAXES

Dividends are one of the lowest-taxed sources of investment income in Canada. From the lowest to the highest combined federal and provincial tax brackets, dividends are taxed significantly lower than interest and regular income. Based on the tax rates in the table below, a yield in Ontario must be 34% higher on a bond over a dividend in order for equivalent after-tax dollars to end up in investor hands.

2013 Combined Top Federal & Provincial Marginal Tax Rates					
Province	Interest Income	Dividend Income	Province	Interest Income	Dividend Income
Alberta	39.0%	19.3%	Nova Scotia	50.0%	36.1%
British Columbia	43.7%	25.8%	Ontario	49.5%	33.8%
Manitoba	46.4%	32.3%	Prince Edward Island	47.4%	28.7%
New Brunswick	45.1%	24.9%	Quebec	50.0%	35.2%
Newfoundland	42.3%	22.5%	Saskatchewan	44.0%	24.8%