

# THE STANTON REPORT

Summer 2014

*Views and opinions for  
the friends and clients  
of Investment Advisor  
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## *A Word from Richard*

Welcome to summer everyone! This is the best time of year to live in the North. You can't beat the endless summer days and warm, sunny weather. Boating, fishing, golfing, gardening or whatever your pleasure is, it's great to be able to soak up the Vitamin D! I hope everybody gets a chance to get some rest and relaxation in the sun this summer.

With the ongoing teachers strike the girls got an early start to the summer break. We weren't unhappy about that because the end of the school year is always so busy it helps the kids sleep in a bit and relax before heading out to piano recitals, soccer and sports days. They are happy to be done for another year and spend the next couple of months hanging out with us and their friends.

If you are in the Smithers area this summer, make sure you check out the Fall Fair, August 22nd- 24th this year. My family and I are always down at the Rotary booth, cooking corn or helping out in the kitchen. Despite the busy weekend we really enjoy people watching and talking to everyone that comes by to chat. It's a great community event and there is something for everyone down at the Fair!

If you have any questions regarding your portfolio or if you simply want to discuss your investment goals and objectives for the coming year, give Tracy a call or send her an email to set up an appointment either in person or via telephone.

Here is how things have played out so far in 2014;

- › **S&P/TSX Composite Index 12.9%**
- › **Dow Jones Industrial Average 1.5%**
- › **MSCI World Index 6.6%**
- › **Crude Oil 3.6%**
- › **Natural Gas 7.4%**
- › **Gold 10%**
- › **Silver 8.1%**



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## HARNESSING THE POWER OF DIVIDENDS

### Income, Growth & Diversification

The last few years have seen a number of factors driving the popularity of dividend-paying equities. As more and more income-seeking baby boomers retire, demographics increasingly support a need for dividend-paying investments. Record low interest rates and an abundance of defensively positioned portfolios have also supported dividend investing since the financial crisis of 2008/2009.

However, over the years, dividend payers have offered a lot more than an income boost or a “safe” way to buy stocks. They have provided the majority of long-term market returns and contributed to lower portfolio risk. They have also provided tax-efficient growing income and the opportunity to build an effectively diversified portfolio.

Here we look at the power of a dividend-focused investment strategy, including:

- The performance of dividend equities relative to the overall market.
- The effectiveness of dividends as an income strategy.
- How to combine attractive dividend yields with the potential for dividend growth.

### DIVIDENDS AND THE MARKET

A key role in portfolios: Dividend-paying companies represent a significant portion of the global equity market. For example, over 80% of S&P 500 Index companies and close to 80% of S&P/TSX Composite Index companies pay a dividend.

Among these are a broad range of well established, stable and soundly managed businesses from which to build a diversified portfolio. Dividend payments can provide a steady cash flow stream that can be reinvested, reallocated or used for income. When markets decline, they can help offset losses. And when markets rise, they can help boost portfolio returns. An important component of long-term returns: In Canada, dividend payments comprised over 30% of total equity market returns between 1986 and 2013. As shown in the chart below, investors who reinvested dividends over this period saw total returns that were nearly twice the size of the market’s price returns.

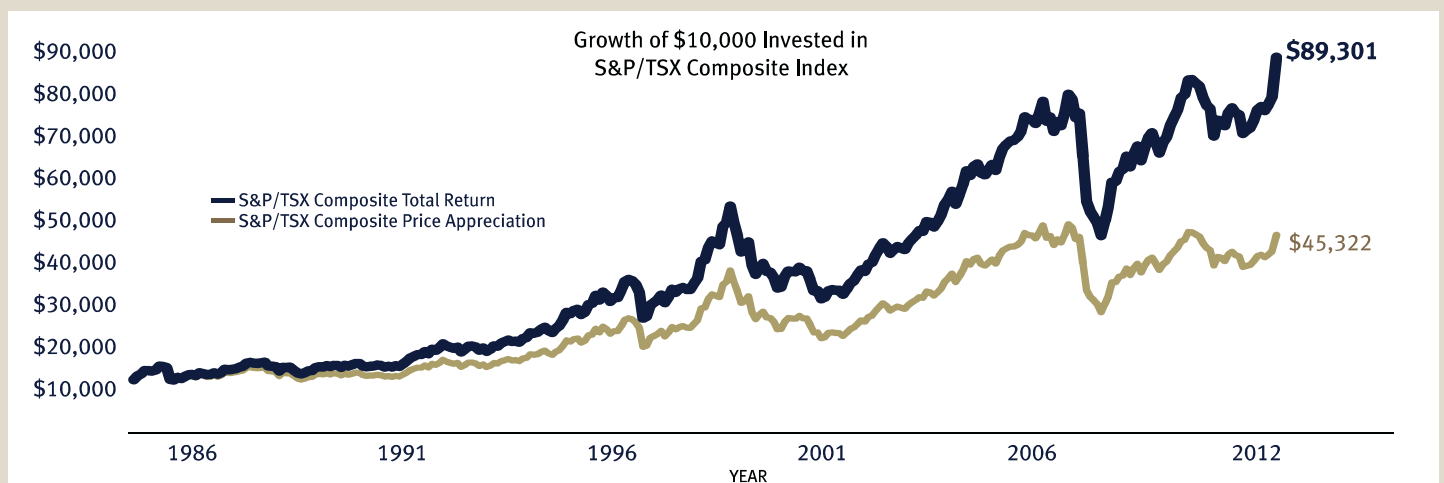
### Chasing yield and looking to the past

Historically, the focus of dividend ETF investing has been dominated by two strategies. The first dividend ETF strategy is to invest in companies with high dividend yields in the hopes of providing outsized income and the long-term benefits of dividend-payer outperformance. However, many investors have learned that high yields are often red flags for value traps, low-to-no earnings growth or, even worse, future dividend cuts.

The second dividend ETF strategy is to focus solely on historical dividend growers with the assumption that the trends of dividend growth and capital gains will continue. One significant downside to this strategy can be a sacrifice of the attractive dividend of a yield-oriented strategy. A focus on historical long-term dividend growers might also ignore companies that have a smaller capitalization; are newer, yet still fundamentally attractive; are currently transforming

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### Dividends Have Consistently Contributed to Total Returns, Year After Year



Source: RBC Global Asset Management – December 1986 to December 2013.

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their strategy into a dividend-paying model; or are turning the corner on their ability to pay and grow their dividend. Further, research by RBC Global Asset Management's Quantitative Investment Management team has shown that historical dividend growth alone has not been a reliable indicator that a business is healthy or will continue to grow its dividend.

With these two dividend ETF strategies, investors are forced to make a mutually exclusive decision to either chase high yields or purchase dividend growth stocks. But, ultimately, neither strategy provides the full breadth of benefits from dividend investing.

### Follow the leaders

Payment decisions for company dividends are generally made by the board of directors on a quarterly basis. When a board declares a dividend, it has to review whether or not the company can safely pay and/or grow the dividend. Key fundamental factors that the board reviews include whether paying a dividend will allow the company to maintain balance sheet strength and flexibility; future expectations for free cash flow; required capital for future investments and expenditures; and expected profitability of those investments, continuing operations and new lines of business.

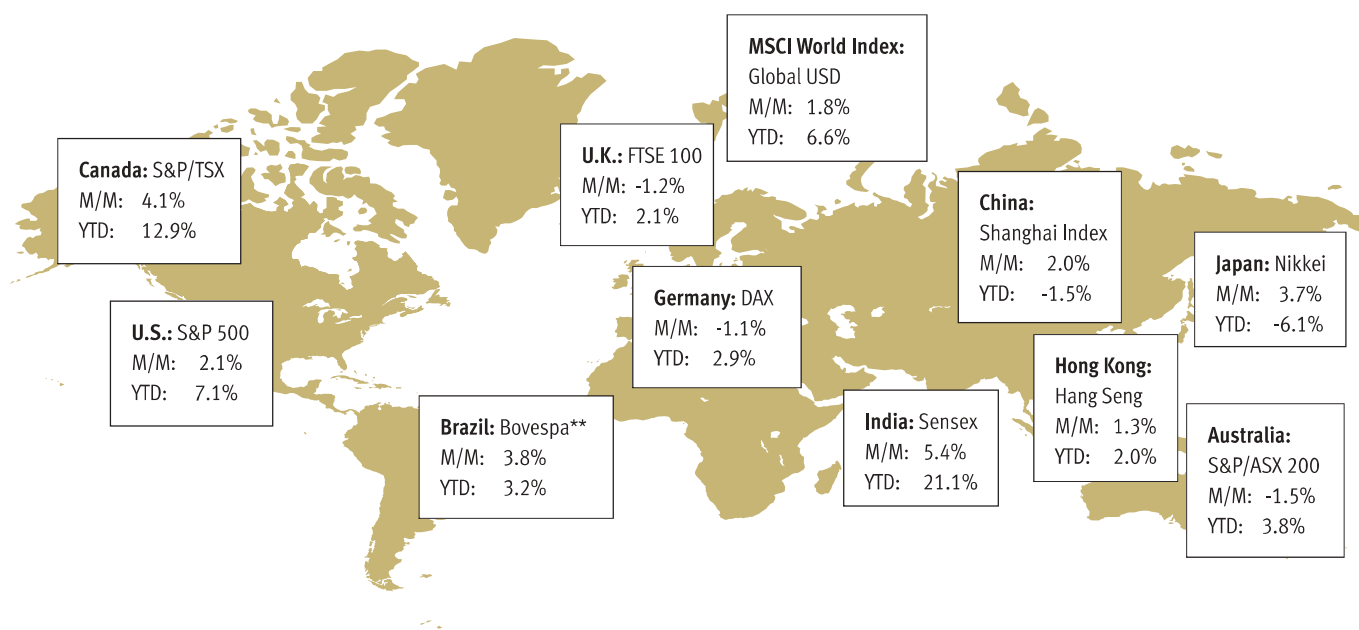
As an equity investor, why not also review these forwardlooking factors? After all, a company's future health and profitability are more likely to drive stable and growing dividends than a historical dividend-paying track record.

### RBC Quant Dividend Leaders ETFs: The best of both worlds

In order to build a portfolio that provides attractive income, RBC Quant Dividend Leaders ETFs ("RBC ETFs") first filter their investment universe for attractive dividend yields. Second, they filter for many of the same forwardlooking factors used by company boards to help ensure a portfolio of companies that can provide stable dividends and potential dividend growth. To prevent some of the risks of relying entirely on company financial statements, the RBC ETFs may also use market sentiment factors like short interest to gauge whether other market participants deem the companies healthy. Finally, unlike many other dividend strategies, the investment universe considered includes small-, mid- and large-cap names, leaving no "income opportunity stone unturned" to provide broad diversification by both sector and cap size. Today's investors want it all – an attractive monthly income stream that has the ability to grow over time, and long-term capital growth from a diversified portfolio of sound, stable dividend-paying companies. RBC ETFs offer a strategic, well-thought-out solution that uses forward-looking variables to provide these characteristics. Instead of forcing investors to choose one objective or the other, RBC ETFs offer the best of both worlds: the growth potential of a dividend growers portfolio, combined with the attractive income of a high-dividend portfolio. And they do so by answering the key questions that dividend investors are always asking: Is the dividend safe and is it likely to grow? Where are the best dividend-paying opportunities? RBC Quant Dividend Leaders ETFs is designed to solve for these questions and take the weight off of the shoulders of investors looking for attractive income, growth potential and diversification from their dividend portfolios.

## World Markets

### June 2014



All returns are on a total return basis unless otherwise noted  
All returns calculated in local currency except for MSCI World  
\*\* These indices are calculated on a price return basis  
Source: Bloomberg

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## FUN FACTS!

- The longest time between two twins being born is 87 days.
- Everyone has a unique tongue print, just like finger prints.
- There is a glacier called "Blood Falls" in Antarctica that regularly pours out red liquid, making it look like the ice is bleeding
- The top of the Eiffel Tower leans away from the sun, as the metal facing the sun heats up and expands. It can move as much as 7 inches
- Months that begin on a Sunday always have a Friday the 13th in them
- You are born with 300 bones, by the time you are an adult you will have 206
- Coca-Cola would be green if the food colorant wasn't added
- "Almost" is the longest word in the English language with all the letters in alphabetical order.
- Earth is the only planet not named after a god
- 400 Quarter Pounders can be made from a single cow



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