

Ingram Investment Management Perspectives



Wealth Management
Dominion Securities

August 2016 | Volume 29 | Number 8



Ingram Investment Management
RBC Dominion Securities Inc.

**Richard Ingram, B.A. (Com),
CIM, FCSI, CIWM**

Vice President and Portfolio Manager
richard.ingram@rbc.com
250-712-2124

Jessica Nouwen, CFP

Associate
jessica.nouwen@rbc.com
250-712-2193

Marco Avolio, CIM

Associate Advisor
marco.avolio@rbc.com
250-712-2135

1100-1708 Dolphin Avenue
Landmark Square II
Kelowna, BC V1Y 9S4

www.ingraminvesting.com
1-877-862-0722

Creating and Maintaining Wealth the Total Return Way

An excerpt from Rick Novak – Portfolio Analyst, U.S. Equities 07/28/2016

Note: We read this article and thought it was interesting and timely. This excerpt summarizes our general philosophy on investing.

Creating wealth takes time. Wealth is created by owning assets that have the potential to appreciate faster than the rate of inflation and taxation. Numerous asset classes can create wealth, but equities are one of the more convenient asset classes to utilize. Equities usually have a lower dollar cost of purchase versus other asset classes such as real estate, precious metals or art. Whether investors use mutual funds, ETFs or individual equities they can systematically re-invest, equities offer daily trading liquidity and have a proven track record of appreciation outpacing inflation.

Equities provide the best long-term returns

\$100 invested in 1972 in the S&P 500 became \$6,036 at year-end 2015. The same \$100 invested in the U.S. Government Bond Index turned into \$2,293. And what \$100 bought in 1972 cost \$577 due to inflation.

There are some intriguing points about this 43-year time frame. Forty-three years is the length of the average person's wealth creation phase of their lives. The average person joins the work force after college at age 22 and plans on retiring at 65, or 43 years later.

After retirement, investors normally switch from wealth creation mode to wealth preservation mode and generating income from their investments.

It's also important to note that this time frame includes a large portion of the 1966-1982 secular bear market, the entire 1982-2000 secular bull market, and the 2000-2015 secular bear market. We're in the camp that this is the early stage of the new secular bull. So what we've seen is that despite two secular bear markets and one secular bull, equities still provided investors with very attractive returns.

Compounding matters

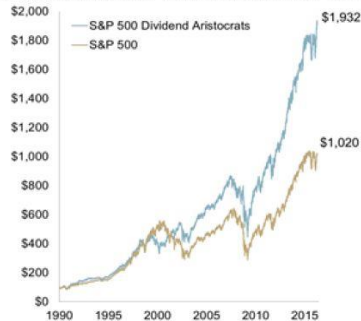
Total return investing, dividends/dividend growth, and reinvesting dividends are excellent ways to create wealth.

The chart below shows the importance dividend growth can have on an investor's total return. \$100 invested in the S&P Dividend Aristocrats* with dividend reinvestment became \$1,932 from 1990 through 2015. The same amount invested in the S&P 500 with dividend reinvestment only grew to \$1,020 over the same period.

Compounding growing dividends significantly enhances an investor's total return over time.

*S&P 500® Dividend Aristocrats® measure the performance S&P 500 companies that increased their dividends every year for the last 25 consecutive years.

Reinvesting dividends helps create wealth
\$100 invested in 1990 with dividends reinvested through 2015



Note: S&P 500 Dividend Aristocrat index measures performance of S&P 500 constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years. Both series are indexed with 1990 = \$100.

Source - Bloomberg, RBC Wealth Management, daily series; data through 12/31/15

Tilt the balance

As investors, it's important to put the odds in our favor. Investing for total return does just that, especially over a long period of time. A Wellington Management study shows dividend payers and dividend growers have a long history of outperforming the market. The study began by dividing the S&P 500 into five groups based on their dividend yields. The first group (top 20%) consisted of the highest dividend payers, while the fifth group (bottom 20%) consisted of the lowest or non-dividend payers. The first group had an average dividend payout ratio of 67%. The second group saw an average dividend payout ratio of 47%. The second group outperformed the market every decade except the 1990s, or 87.5% of the time. The last group was a coin toss, as it outperformed 50% of the time.

Personal Note

Richard finished the GranFondo this year with only a few bumps and bruises. He's on his way to his annual fishing trip to Caamano Sound for the first weekend of August and then off for a few weeks in Wales to play rugby.

Jessica is taking a couple of weeks holidays at the end of August. Her daughter Camryn was selected to play for Team BC and they won gold at the National Team Cup Challenge. Now it's time to take some time off before school volleyball starts and training ramps up again.

Marco's dog Inka still hasn't taken to the boat, but he loves the hot sun. Inka is a street dog from Peru and this is his second year in the Okanagan.

Richard, Jessica & Marco



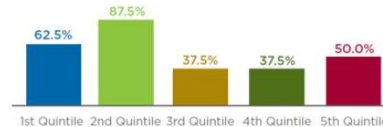
Wealth Management
Dominion Securities

The first group are basically dividend payers, while the second group are dividend growers. So, investing for dividends/dividend growth and total return improves the odds of long-term investment success.

Dividend-paying stocks beat the market nearly every decade

CAGR (%) for U.S. portfolios by dividend yield quintile by decade, 1929-2009

	S&P 500®	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile
December 1929 - 1939	-0.5%	-1.0%	0.8%	-1.3%	-1.0%	2.3%
December 1939 - 1949	9.0%	14.0%	13.3%	10.4%	8.7%	7.0%
December 1949 - 1959	19.3%	18.5%	20.2%	18.3%	16.4%	19.8%
December 1959 - 1969	7.8%	8.7%	8.9%	6.6%	8.0%	9.3%
December 1969 - 1979	5.9%	9.7%	10.2%	7.0%	7.8%	3.8%
December 1979 - 1989	17.6%	20.2%	19.6%	17.1%	16.2%	14.7%
December 1989 - 1999	18.2%	12.4%	15.6%	15.1%	18.1%	18.9%
December 1999 - 2009	-0.9%	5.5%	4.2%	4.3%	1.9%	-1.7%



Source - Professor Kenneth French, Dartmouth College

http://mba.tuck.dartmouth.edu/pages/faculty/ken_french/ (Data compiled by RBC Capital) and Wellington Management, 10/11. U.S. stocks are represented by the S&P 500 Index, which is a composite of the 500 largest companies in the U.S. The Index is unmanaged and not available for direct investment.

Slow and steady wins the race

For wealth creation, longer-term investors might want to consider the slow and steady approach with a portion of their investment portfolio. Investing for total return with dividend reinvestment has a long-term proven track record of providing very attractive returns. Like the tortoise and the hare, it's not how you start the race, it's how you finish.

Market Pulse		as of 08/02/16	
Indexes	Last	%Chg	
Dow	18,309	-0.10%	
S&P 500	2,160	-0.20%	
Nasdaq	4,739	-0.10%	
TSX	14,468		
Commodities			
WTI Crude	\$40.57	1.30%	
Gold (\$/oz)	\$1,365	0.40%	
Silver (\$/oz)	\$21.00	1.30%	
Currencies			
CADUSD	\$0.77	0.50%	
EURUSD	\$1.12	0.30%	
Fixed Income		Yield	
10-yr Treasury		1.55%	
10-yr Canadian		1.03%	

Source: Bloomberg

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc. and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. Insurance products are offered through RBC Wealth Management Financial Services Inc. ("RBC WMFS"), a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WMFS. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC WMFS. RBC DS WMFS is licensed as a financial services firm in the province of Quebec. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2016 RBC Dominion Securities Inc. All rights reserved.