

# UPSON'S UPDATE

SUMMER 2024

## DIVIDENDS- A FORMIDABLE SOURCE OF RETURNS

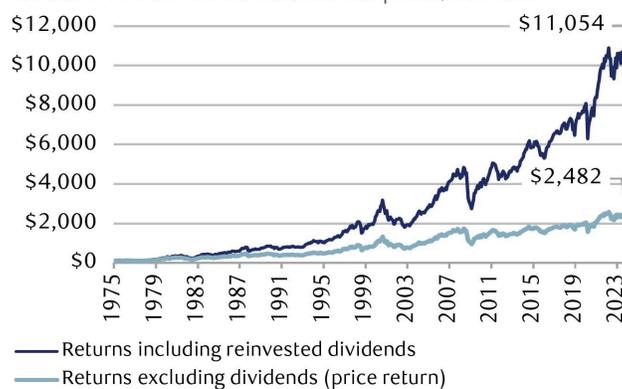
*Dividends have historically accounted for a substantial portion of stock market returns. Beyond generating a steady income stream, dividend-paying stocks offer capital appreciation potential and a layer of protection against inflation.*

### Don't overlook dividends

Investing in the stock market means investors will also capture the market's dividend yield as well. Over time, these dividends add up to a large portion of total returns. Over the past 50 years, dividend income has contributed an average of 32% to the S&P/TSX Composite's annual total return (see chart on page 2). The impact of dividends on equity returns can be further enhanced through reinvestment. By reinvesting these payouts into additional shares, investors can leverage the power of compounding, which helps amplify total returns over the long term (see chart top right). Another worthwhile feature of dividend-oriented investing is that income distributions have historically outpaced inflation over the long term. Since 1998, dividends on the Canadian stock market have increased at an annualized rate of roughly 6.4% per year, compared with 2.2%

### The power of reinvestment compounding

Growth of \$100 invested in S&P/TSX Composite, 1975–2023



Source - RBC Wealth Management, Bloomberg; data through 12/31/23. Returns data based on S&P/TSX Composite and S&P/TSX Composite Total Return Index

for inflation (see chart on page 2).

### Flexible strategies

Dividend-paying stocks offer strategic versatility and have historically performed well compared to the broader market with lower volatility (see charts on page 2). The relative stability of dividends can cushion portfolios during periods of economic uncertainty and stock market volatility, providing returns even when stock prices fall. Depending on the investment objective, there are two broad approaches to consider: dividend yield and dividend

growth. Strategies that fall into the former category typically focus on stocks that generate a high dividend yield (which can help fulfill income needs), while those in the latter category tend to prioritize stocks with greater growth potential in dividend distributions. Both approaches have merit and can be complementary. A balanced approach to combining above-average current yield and future income growth potential enables investors to capitalize on opportunities across the full spectrum of dividend-paying companies.



### SPECIAL POINTS OF INTEREST:

- *By reinvesting dividend payouts into additional shares, investors can leverage the power of compounding, which helps amplify total returns over the long term.*
- *When legacy planning, it's helpful for your loved ones to have relationships with your trusted network of advisors, including financial advisors, lawyers and accountants. Making introductions and explaining why you have confidence in your team can help smooth the process.*
- *If you have already enrolled for eDelivery through DS Online, or if you would like to, you can view your account statements online.*

### INSIDE THIS ISSUE:

DIVIDENDS AS A RETURNS SOURCE	1-2
WEALTH TRANSFER- 5 TIPS	3
CANADIAN INCOME RATES	4
AVINASH'S ADMIN NOTE	4

**Desirable attributes**

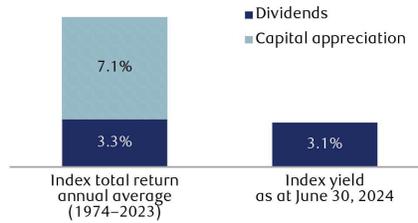
An allocation to companies that demonstrate a firm commitment to consistent and/or growing dividend payments through all market conditions potentially allow investors to capture coveted characteristics, including stronger profitability and earnings quality. Importantly, a steadfast pledge to a dividend policy can serve as a signaling mechanism, conveying pertinent information such as management's confidence in the stability and sustainability of cash flows generated by the underlying business and future growth prospects. Additionally, it can create a greater degree of capital discipline and risk management awareness among management teams, improve focus on investment project selection, and maintain a robust balance sheet.

**Approach from strength**

The performance of dividend-oriented portfolios, like any investment strategy, can experience significant short-term fluctuations. Nevertheless, several strategic guidelines can help bolster the resilience and quality of dividend portfolios over the long run. The process for selecting companies should rigorously evaluate business fundamentals, valuations, balance sheet strength, cash flow generation relative to capital spending requirements, long-term returns on capital, payout ratios, and both historical and forecast dividend growth rates. In addition to company due diligence, a well-constructed dividend portfolio should broadly look to balance current dividend yield attractiveness against dividend growth prospects and long-term sustainability of payouts, with holdings adequately diversified across sectors and industries.

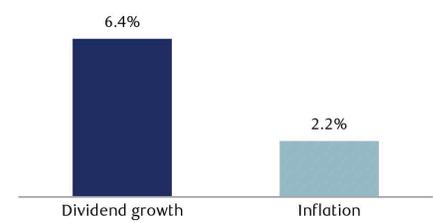
- Greg Upson

A stable anchor component of total returns  
S&P/TSX Composite total return versus price return



Source - RBC Wealth Management, Bloomberg; data through 12/31/23; returns data based on S&P/TSX Composite and S&P/TSX Composite Total Return Index.

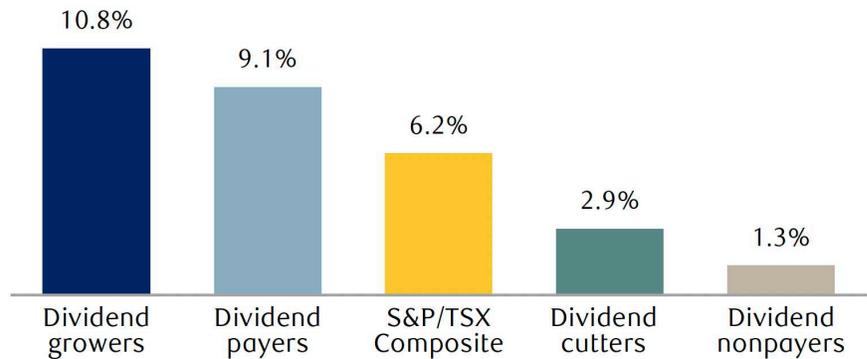
Dividends have grown faster than inflation  
S&P/TSX Composite annualized dividend growth versus inflation, 1998-2023



Source - RBC Wealth Management, FactSet; data through 12/31/23. Dividend growth calculated based on weighted dividends per share of index constituents and inflation based on Canada's Consumer Price Index.

**Dividend-paying stocks have outperformed**

Compound annual total returns, October 1986 through December 2023

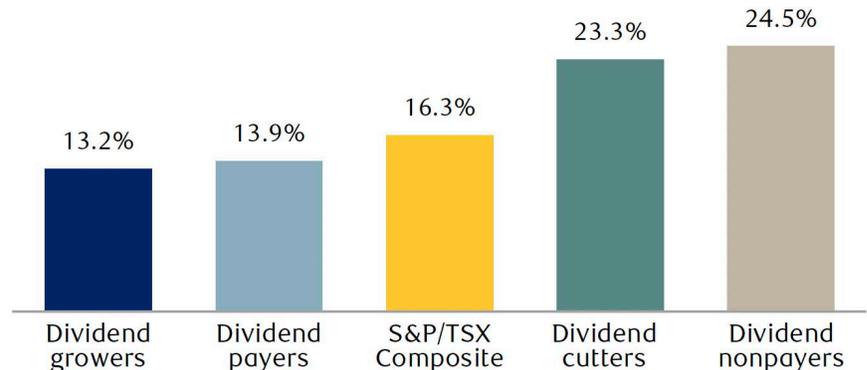


Equal-weighted, equity-only total return indexes. Dividend growers, payers, cutters and nonpayers determined annually. Growers had a positive 12-month change in dividends paid; payers paid dividends; cutters had a negative 12-month change in dividends paid; nonpayers did not pay a dividend.

Source - RBC Capital Markets Quantitative Research, RBC Global Asset Management, RBC Wealth Management

**Dividend-paying stocks have exhibited lower volatility**

Annualized volatility, October 1986 through December 2023



Equal-weighted, equity-only total return indexes. Standard deviation is a statistical measure of variability (volatility) in observed returns. A larger standard deviation indicates greater variability in investment performance.

Source - RBC Capital Markets Quantitative Research, RBC Global Asset Management, RBC Wealth Management

Source: RBC Wealth Management Dominion Securities—Dividends—A formidable source of returns.  
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## WEALTH TRANSFER: FIVE TIPS TO HELP AVOID FAMILY CONFLICT

*You can preserve family harmony and your wishes for your estate with careful planning and open conversations.*



After spending their lives building wealth, most parents hope their legacy will provide their heirs security and enjoyment— not family strife. Unfortunately, when it comes to wealth transfer, it doesn't always work out that way— families may say they all get along great, but finances have a way of creating strife during heightened emotions. If you want to preserve relationships among family members after you pass away, while also making sure your estate will be managed according to your wishes, consider these five tips.

### 1. Recognize underlying family conflicts

Much of the emotional turmoil that professionals see while handling estates comes down to long-simmering conflicts that boil over. If you know this kind of resentment exists, deal with it now and build in safeguards to minimize it when you're not around.

### 2. Introduce family members to your advisors

It's helpful for your loved ones to have relationships with your trusted network of advisors, including financial advisors, lawyers and accountants. Make

introductions and explain why you have confidence in your team.

That group should have up-to-date versions of your estate plan and legal documents and instructions on how to contact your loved ones after you pass away.

It's also important to leave clear instructions for your relatives about what documents exist and where to find them. Too often, people spend weeks searching for their parents' important files.

### 3. Clearly communicate specific wishes

Many disagreements revolve around one beneficiary who wants to sell the family home and another who wants to keep it in the family. Make clear what should be done with your major assets, including property. Personal items that hold sentimental or historical value may also cause conflict. One family member could claim they've been "promised" something, but the estate documents do not have clear instructions.

Talk to your family now about what items they would like to have— and avoid the possibility of a future argument. Take pictures of special or meaningful objects— such as jewelry,

heirlooms or furniture— and list who should inherit them, either in your Will or in an addendum. Making those wishes known in writing helps eliminate room for misinterpretation.

### 4. Appoint an objective executor

Many may think administering an estate is a straightforward task and often select their oldest child or a close friend as their executor out of tradition. Few appreciate the proper settlement of an estate is critical and it is far more important to have someone in charge who has the time, health, patience and objectivity to ensure accurate record keeping and timely administration than doing what traditionally was done.

For this reason, choosing a professional, such as a corporate executor, can be a smart decision.

### 5. Hold a family meeting

The last people to find out the details of the estate plan are often the beneficiaries— not an ideal situation. To ensure there are no surprises, a family meeting can help smooth the future process and explain your wishes to beneficiaries. If you're leaving a donation to charity, for instance, your heirs could be confused or resentful if the first they hear of it is after your death. But if you explain in advance that the charitable gift is your heart's desire, they are more likely to appreciate the gesture.

You could also take the family meeting as an opportunity to invite your financial advisor. By helping to conduct the meeting, your financial advisor gets to meet your beneficiaries and can help take emotions out of the conversation. You can't plan for every single family conflict that may arise after you're gone. But by taking the time to explain your plans in advance, you may help avoid future conflict and preserve family harmony.

# CANADIAN INCOME RATES

Below is a chart comparing the yields of various Canadian income producing securities. The products range from a money-market daily interest fund, to guaranteed investments, bonds, preferred shares and equities. The interest rate equivalent column examines the after-tax impact of the Canadian dividend tax credit for applicable equity securities if held in a non-registered investment account.\*

Investment	Yield	Interest Rate Equivalent
RBC High Interest Savings	4.05%	4.05%
GICs:		
1 year term	4.35%	4.35%
3 year term	3.85%	3.85%
5 year term	3.70%	3.70%
10 Year Government of Canada Bond	3.08%	3.08%
iShares Canadian Preferred Share Index	5.25%	7.25%
iShares Canadian High Dividend Index	5.30%	7.30%
BCE (Bell) common shares	8.45%	11.65%
Bank of Nova Scotia common shares	6.80%	9.35%
Enbridge common shares	6.75%	9.30%

Source: FactSet and RBC Wealth Management. \*Rates/yields as of August 13, 2024.



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1. Log-in to your DS Online and then from the dropdown menu on the left click *Documents*. Then, select *Account Documents*.
2. Select the account you'd like to view the statements for, then click *Statements*.

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"EMOTION IS ONE OF THE INVESTOR'S GREATEST ENEMIES."

-HOWARD MARKS