

# THE VALUE OF DIVIDENDS

Investing, in its simplest form, means putting a dollar to work with the hope of receiving more than a dollar back in the future. The price you're willing to pay for an investment should be determined by the amount and timing of the cash you expect that investment will return to you. Dividends are one way you receive a cash return on your investment, and we think dividends are a key item to consider when making equity investment decisions.

Do you know that dividends:

- Provide income, and rising income can help when prices rise?
- When reinvested, contributed to more than 50% of the TSX Composite's total return over the past 30 years?
- Helped dividend-paying stocks outperform non-dividend-paying stocks over the last 10 years? Companies that raised their dividends every year performed even better.
- Are taxed less than capital gains in six provinces?

## Dividends Provide Income

As baby boomers enter retirement, they represent roughly one-third of the Canadian population. In addition to fixed-income investments, stocks that can offer rising income and the mutual funds that own them may provide a potential solution for investors who are living increasingly longer in retirement. We believe companies that pay and increase dividends signal to investors that the business is growing and generating money and is expected to continue to do so.

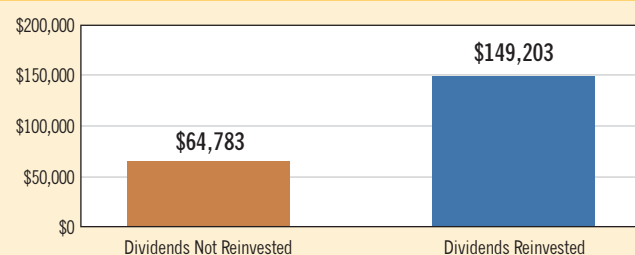
Most investors look at the current dividend yield when they buy a stock or mutual fund, which is important because it can tell the income they may receive over the next year. We believe you should also look at the expected dividend growth. Stocks that raise their dividends regularly may provide a better choice for future income, which can help when prices are rising.

For example, a dividend that increases an average of 7% per year will nearly double in 10 years. If you invested \$10,000 and the initial yield was 4%, you would receive \$400 in dividends the first year and about \$428 the second year. In the 11th year, the dividend payment would be about \$786 if the company increased the dividend by 7% each year. While in reality dividends can be changed or eliminated at any time, this example shows why we think investors should pay attention to the expected dividend growth as well as the yield.

## Why You Should Reinvest Dividends

If you don't need current income, should you invest in companies that pay dividends? The answer is absolutely yes, because reinvesting your dividends can add significantly to your long-term returns. Looking back over the past 30 years, more than half of the total return from the TSX Composite was due to reinvested dividends. A \$10,000 investment made at the end of 1979 with reinvested dividends grew to \$149,203, more than double the \$64,783 it rose to without dividends reinvested.

**S&P/TSX Composite with and without Dividends Reinvested**  
\$10,000 Invested 12/31/1979 – 12/31/2009



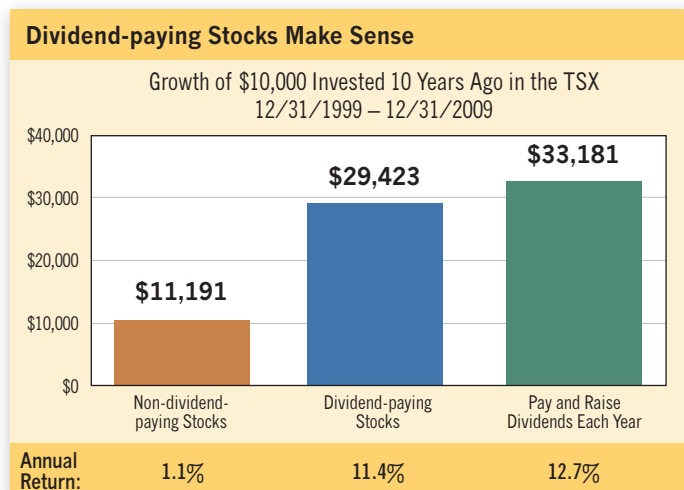
## The Value of Investing Dividends

	Dividends Not Reinvested	Dividends Reinvested
10 years	3.4%	5.6%
30 years	6.4%	9.4%

Source: Annual rates of return calculated from S&P/TSX Composite index (TSX Composite) data ending 12/31/09. This chart represents the value of \$10,000 invested in the TSX Composite at the end of 1979. Past performance does not guarantee future results. The TSX Composite is an unmanaged index that cannot be invested in directly.

## The Power of Dividends

Dividend reinvestment contributes a large portion to long-term equity returns. Dividends also provide an indication of a company's quality, we believe, even though dividends may be reduced or totally eliminated at any time. During the past 10 years, companies that paid dividends had higher returns than those that didn't, as shown in the chart below. The difference was quite large.



Source: Edward Jones, FactSet returns, 12/31/1999 – 12/31/2009. Past performance is not a guarantee of future results. These calculations do not include commissions or transaction fees that an investor may have incurred. The TSX Composite comprises approximately 1,318 stocks and cannot be purchased directly. Dividends can be increased, decreased or totally eliminated at any time without notice.

For example, if you invested \$10,000 in Canadian companies that paid dividends, your initial investment increased to approximately \$29,423 at the end of 10 years. On the other hand, investing that same \$10,000 in companies that didn't pay dividends increased your initial investment to about \$11,191. Companies that paid and raised dividends each year performed better than the overall group of dividend payers: \$10,000 invested in these companies grew to about \$33,181, an annual return of 12.7%.

## Dividend Income Is Tax-advantaged

Many Canadians are concerned about high taxes. Although your investment decisions should not be driven solely by tax considerations, the tax efficiency of your portfolio should be taken into consideration.

Eligible dividend income and capital gains are taxed at a more favourable rate than interest income. Therefore, a dividend-paying stock or mutual fund is more tax-advantaged than a bond or GIC. In some provinces, such as British Columbia and Alberta, dividend income is also taxed at a lower rate than capital gains, making dividend-paying stocks and mutual funds a wise choice for many investors.

### 2010 Combined Top Federal and Provincial Marginal Tax Rates

Province	Interest Income	Capital Gains	Dividend Income
Alberta	39.00%	19.50%	15.88%
British Columbia	43.70%	21.85%	21.45%
Manitoba	46.40%	23.20%	25.09%
New Brunswick	43.30%	21.65%	19.46%
Newfoundland & Labrador	44.50%	22.25%	24.37%
Northwest Territories	43.05%	21.53%	19.81%
Nova Scotia	48.25%	24.13%	29.79%
Nunavut	40.50%	20.25%	23.64%
Ontario	46.41%	23.20%	26.57%
Prince Edward Island	47.37%	23.69%	25.96%
Quebec	48.22%	24.11%	30.68%
Saskatchewan	44.00%	22.00%	21.64%
Yukon	42.40%	21.20%	18.80%

Source: Taxtips.ca 2010

Please note the marginal tax rate is for "eligible dividends" and is a percentage of actual dividends received, not the grossed-up amount. The marginal tax rates for capital gains and dividends at any income level are the marginal rates on the next dollar of capital gains or dividend income.

Dividend-paying stocks and the mutual funds that own them may offer several benefits for your portfolio. Because every investor's situation is unique, we suggest contacting your Edward Jones advisor for a portfolio review to determine what dividend-paying investments are appropriate to help you meet your long-term financial goals.

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