GET RICH WITH DIVIDENDS

A PROVEN SYSTEM FOR EARNING

DOUBLE-DIGIT RETURNS

MARC LICHTENFELD

AGORA

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Marc Lichtenfeld

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Additional Praise for *Get Rich with Dividends*

Marc Lichtenfeld's name may be hard to pronounce, but his guide book is easy to implement. H practices what he preaches with his incredibly successful Perpetual Income Portfolio at the Oxfo Club. His book should be called *Get Rich Sooner than You Think*. Investing in stocks that pay stead and rising dividend will make you a fortune you can enjoy while you're still young!

—Mark Skousen, Editor, *Forecasts & Strategi*

Marc has put together a New Bible for Investing. And in the process, he's debunked one of Wa Street's most widely held beliefs: that the average investor simply cannot outperform the marke He can! All it takes is a little legwork to find great companies that pay steady, rising dividends. An Marc's step-by-step system makes it easy. So put it to work, get rich, and start spreading the goo news.

—Louis Basenese, chief investment strategist, *Wall Street Dai*

Speculators can get lucky occasionally. They can even get rich once in a while. But if you want build wealth consistently, you have to let your money work for you. There is only one time-teste strategy for doing this and that is through dividends and reinvesting those dividends. Howeve investing in dividends is a strategy. Fortunately, you now have one of the best guides an guidebooks in the business. Marc Lichtenfeld is an accomplished researcher, with years o experience in the field of investing and dividends. His information is well thought out, we researched, and well written. Save yourself some time and set yourself up with a perpetual mone machine by reading and following Marc's advice—religiously! You will get rich . . . or richer b doing so.

—Karim Rahemtulla, editor, *Wall Street D*aily; author, *Where in the World Should I Invest: A Insider's Guide to Making Money Around the Glob*

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For Holly, Julian, and Kira, who have made me rich in the most important way

Foreword

When it comes to the stock market, most investors prefer glamour to profits.

Why do I say this? Tell average investors about a company with a cutting-edge technology, a exciting Phase III drug, or a new gold strike and they are all ears. But tell them about a blue chip stoc with steady sales, a big order backlog, and a rising dividend yield and they are more likely to stifle yawn.

That’s unfortunate. Because, contrary to what most investors believe, startling innovation is not good predictor of business success. Or, as the famous industrialist and steel magnate Andrew Carneg succinctly put it, “Pioneering don’t pay.”

A young company that is just feeling its oats—and retaining all its earnings—is unlikely to be th best long-term investment. It’s a widely recognized fact that 80% of new businesses fail in the fir five years.

What really makes money for investors over time—and without the hair-raising volatility hypergrowth stocks—is steady businesses paying regular dividends.

For example, over the past decade, with dividends reinvested, oil producer Chevron Corp h returned 200%. Altria Group, the U.S. tobacco giant, has returned more than 300%. Even musty o Con Edison, originally founded as New York Gas Light Company—a utility that was born 23 year before Thomas Edison—has returned 130% over the period.

In this excellent new book, my friend, colleague, and fellow analyst Marc Lichtenfeld shows yo how and why to invest in great dividend stocks. And let me make two things clear at the outse Number one, you could not find a more worthy, knowledgeable, or trustworthy guide to the investme landscape. And, second, this investment approach really works.

How can I be sure? Marc runs the Oxford Club’s Perpetual Income Portfolio, a portfolio base solely on growth and income investments. He has done a superb job. In fact, when I looked at th returns recently, I had to ask him, “Holy crap, Marc. How do you do it?”

Fortunately, Marc shows you how you can earn returns like this yourself. He has made me believer. At investment seminars today, I tell attendees, if you are looking for growth, invest i dividend stocks. If you are looking for income, invest in dividend stocks. If you are looking for safet invest in dividend stocks.

Why? Earnings may be suspicious due to creative accounting. Revenues can be booked in one ye or several years. Capital assets can be sold and the value listed as ordinary income. But cash paid in your account is a sure thing, a litmus test of a company’s true earnings. It’s tangible evidence of firm’s profitability.

Regular payouts impose fiscal discipline on a company. And history reveals that dividend-payin stocks are both less risky and more profitable than most stocks.

Dr. Jeremy Siegel, a professor of finance at the Wharton School of the University of Pennsylvani has done a thorough historical investigation of the performance of various asset classes over the la 200 years, including all types of stocks, bonds, cash, and precious metals. His conclusion? Hig dividend payers have outperformed the market by a wide margin over the long haul.

There is an awful lot of fear and anxiety about the economy and the stock market today. Investo are understandably confused and uncertain about what to do with their money.

Marc Lichtenfeld has your solution. He demonstrates that even during market declines, dividen paying stocks hold up better than non-dividend-paying stocks and often fight the broad trend and ri in value. The reason is obvious: These tend to be mature, profitable companies with stable outlook plenty of cash, and long-term staying power.

Bear in mind that U.S. companies are sitting on a record amount of cash right now, more than $ trillion. Companies are not hiring, and they're not boosting spending. So a lot of this cash is rightful going back to shareholders. The Dow currently yields more than bonds. And dividend growth amon U.S. companies has averaged 10% per year over the last two years, more than double the long-ter dividend growth rate.

The current outlook is especially promising. Over the last 50 years, for instance, the highest 20 yielding stocks in the Standard & Poor's 500 returned 14.2% annually. That's good enough to doub your money every five years—or quadruple it in ten. And if you were even more selective, sa investing only in the ten highest-yielding stocks of the 100 largest companies in the S&P 500, you annual return would have been even better, 15.7%.

I should add the standard caveat here about past performance and point out that there are risks wi dividend stocks too. As Marc points out, an investor would be foolish to plunk down money for stock just because the dividend is large. You have to be selective. The market is full of "divider traps," troubled companies that pay hefty dividends to keep investors from bailing out.

In the pages that follow, you'll learn how to avoid those and zero in on potential winners. Ma shows you how to look at cash flow and payout ratios and whether the dividend is sustainable.

Does this require a bit of legwork? Yes, but the payoff is large.

It astonishes me that investors are willing to lend money to the U.S. Treasury for the next ten yea at less than 2%. What a terrible bet, one that virtually guarantees a negative, real (after inflatio return over the next decade.

A far better bet is a diversified portfolio of dividend-paying stocks. Over the eight decades throug 2010, dividends contributed 44% of the U.S. stock market's return, according to Fidelity Investment Sometimes it was much more. During the 1970s, for example, dividends generated 71% of returns.

Marc makes a strong case that dividend stocks today represent a historic opportunity. Not only a U.S. companies flush with cash, but payouts are less than one third of profits, a historic low.

Dividends alone won't generate a mouth-watering return. But they will rise over time—an surprising things happen when you reinvest them. Picture a snowball rolling down hill.

Albert Einstein understood this. As he observed, money compounding "is the most powerful force the universe." And the best way to compound your money? Great companies that pay steady, risin dividends.

This book is your key because Marc Lichtenfeld does a great job of showing you just where to fin them.

Alexander Gree

Preface

It was a eureka moment.

I was working on a dividend spreadsheet, changing the variables, when the size of the numbe surprised me. I realized that if my kids' money was invested according to the formula I was workin with, they should never have any financial problems in adulthood, no matter what job or career the choose.

I also realized that using the same formula, my wife and I should never have to worry about incon in retirement.

And, last, I understood that if my parents invested according to the formula, they too should have r worries about income in old age.

That's when I knew I had to write this book.

Get Rich with Dividends is for the average investor—the investor who is just getting started and th investor who is playing catch-up, the investor who has been burned by the booms and busts of the pa decade and the investor who trusted the wrong advisor and ended up paying thousands of dollars f worthless advice.

This book is for any investors who are serious about creating real wealth for themselves and the families. Investors who are willing to learn a simple system for making their money work as hard they do (or did). It's easy to learn and implement and takes very little free time. Importantly, it's not theory. It's been proven to work over decades of bull and bear markets.

And it's designed for investors who have other things they'd rather do than spend hours on the portfolios. Implement the 10-11-12 System and let stocks and time work their magic. All that required is the occasional check-in from you to make sure the companies in your portfolio are sti behaving the way you expect them to. If they are (and you'll learn how to pick companies that a most likely to meet your expectations), no further action is necessary.

As the editor of the Oxford Club's *Ultimate Income Letter*, I receive e-mails every month fro investors who are yearning for higher yield. In today's low-rate environment, current yields aren cutting it for many retirees. I was inspired to find a strategy that would ensure today's investors wi not be in the same boat in the future as today's income seekers, who are taking on too much risk b chasing yield.

The 10-11-12 System outlined in *Get Rich with Dividends* will enable investors to achieve yields at least 11% (and possibly much more) in the next ten years—all while investing in some of the mo conservative stocks in the market. These are companies with track records, some decades long, taking care of shareholders. And if you don't need the income today, 12% average annual total return (which crush the stock market average) are easily attainable. Earning 12% per year more than tripl your money in 10 years, quintuples it in 15 years, and grows it by almost 10 times in 20 years. In oth words, earning an average of 12% per year for 20 years turns a $100,000 portfolio into nearly $ million. And that's with no additional investments.

What would an extra $1 million mean to you in retirement? First of all, it might spin off enoug income that you wouldn't need to touch the principal. The money could be used for vacations wi your family, a grandchild's college education, or peace of mind that you'll always have the be medical care.

Perhaps most important, you'll learn how my 10-11-12 System can still enable you to ear ~~significant yields and double-digit returns in flat or down markets. Should a nasty bear market~~ occu you'll still be sleeping comfortably, even smiling, once you implement my 10-11-12 System.

As you make your way through this book, you'll learn everything you need to know to become successful investor. It's easy to read and even easier to get started.

In Chapters 1 and 2, we go over why dividend stocks are the best kind of investment you can mal for the long-term health of your portfolio. Since you don't want to invest in just any old compar paying a dividend, we discuss the special kind of stocks that you should select and how to find them.

I don't expect you to take my word for the claims I'm making, so in Chapter 3, I show you how arrived at the various numbers, taking you through examples of how your income and total return ca grow each and every quarter and illustrate how the 10-11-12 System still works and even thrives bear markets.

In Chapter 4, we look at the big picture and the reason companies pay dividends. You'll learn wh dividends are an important factor in determining the health of a business.

You'll see why certain conservative stocks are your best bet in Chapter 5. There's no reason to tak excess risk to achieve your goals when some of the most conservative stocks on the market wi achieve better results.

Chapter 6 discusses some interesting types of stocks you may not be aware of—stocks that typical yield more than regular dividend payers.

In Chapter 7, we lay the foundation for your portfolio. Chapter 8 is where you'll learn all about th 10-11-12 System that you'll use to set you and your family up for long-term double-digit yields an returns.

In Chapters 9, 10, and 11, we go over DRIP programs, options, and foreign stocks—all ways t turbocharge your returns

Chapter 12 discusses everyone's favorite subject: taxes. Even if a CPA does your taxes for you, b sure to read this chapter; it contains important information that could make your investments muc more tax efficient.

And we wrap everything up in the conclusion and set you on your way to a lifetime of marke crushing returns and nights of worry-free (at least about your portfolio) sleep.

The strongest endorsement of the 10-11-12 System that I can make is this: I'm using it for m investments and for my kids' money as well.

Writing this book has been a labor of love because I know there will be thousands of families wh will achieve financial freedom, be able to send a kid to college, make a down payment on a house, an enjoy retirement as a result of following the 10-11-12 System.

I'm glad yours will be one of them.

CHAPTER 1

Why Dividend Stocks?

Let me start by making a bold statement: The ideas in this book are one of the most important gif you can give to yourself or your children. On the pages that follow is the recipe for generating 11 yields and 12% average annual returns for your portfolio. Significantly more if the stock market your particular stocks cooperate.

I'm not trying to brag. I wasn't the one who thought up this strategy. I just repackaged it in compelling, easy-to-read book that you will want to buy more copies of for all your friends a family. Or at least lend them yours.

If you follow the ideas in this book and teach them to your children, it's very conceivable that mar of your concerns about income in the future will be over. And perhaps just as important, if you children learn this strategy at a young age, they may never have financial difficulties. They will hav the tools to set themselves up for income and wealth far before they are ready to retire.

Keep in mind that I cannot teach you or your kids how to save. If you would rather buy a new car the expense of putting money away, I can't and won't attempt to fix that. This book is for the peop who already know how to save and are trying to make that money work as hard as they do.

As far as saving money is concerned, the only advice I'll offer can be found in one of my favori finance books, *The Richest Man in Babylon*, by George S. Clason. In that book, first published in 192 Clason writes: "For every ten coins thou placest in thy purse take out for use but nine. Thy purse w start to fatten at once and its increasing weight will feel good in thy hand and bring satisfaction to t soul."

Many personal finance gurus proclaim the same advice, but with a more modern bent to it, statir "Pay yourself first."

Even if you are not able to save 10% of your current income, saving anything is crucial. As you wi see, the money you save and invest using the ideas in this book will grow significantly over the year So if you can only save 8% or 5% or even 2%, start doing it now. And if you get a raise or a inheritance or win the football pool, do not spend a dime of it until you have put away 10% of yo total income.

Here are some scary statistics. According to the Employee Benefits Research Institute, only 14% Americans believe they will have enough money to retire comfortably. Even worse, 60% of worke reported household savings of less than $25,000.

If you are serious about improving your family's financial future—and I know you are becau you're investing the time to read this book—start saving today, if you haven't already.

Imagine if you saved 10% of your money and put it into the kinds of dividend stocks discussed this book. Over time, your wealth should grow to the point that it will have generated significa amounts of income, perhaps even replacing the need to work.

This is the last point I will make about saving. You didn't spend your money on this book (or driv all the way to the library) just to have me beat you up about saving. Instead, I will assume you real are serious about securing your future and want to learn how to take those funds and add a few zeros the ~~end of the total number in your portfolio.~~

And if you're already retired and need income right away, the strategies in this book can help yo too. You may not have the ability to compound your wealth, but you can invest in companies that wi generate more and more income for you every year. Not only can you beat inflation, but you can als give yourself and even your loved ones an extra cushion.

There are lots of ways to invest your hard-earned money. But you'll soon see why investing dividend stocks is a conservative way to generate significant amounts wealth and income. This isn theory. It's been proven over decades of market history.

Some people believe that real estate is the only way to riches. Others say the stock market is rigge so that the only people who make money are the professionals—therefore, you should be in the safe of bonds. Still others only trust precious metals. None of these beliefs is true at all.

Within the stock market, there are various strategies that are valid. Value investors insist you shoul buy stocks when they're cheap and sell when they're expensive. Growth investors believe you shou own stocks whose earnings are growing at a rapid clip. Momentum investors suggest throwin valuation out the window and investing in stocks that are moving higher—and getting out when the stop climbing.

Still others only trust stock charts. They couldn't care less what a company's earnings, cash flow, o margins are. As long as it looks good on the chart, it's a buy.

Each of these methodologies works at some point. Value and growth strategies tend to switch on an off: One will be in favor while the other is out until they trade places. For one stretch of time, valu stocks outperform. Then for another few years, growth will be stronger. Eventually, value will be bac in fashion.

Whichever is in vogue at the moment, supporters of each will come up with all kinds of statisti that prove their method is the only way to go.

The same dynamic applies when it comes to fundamentals versus technicals. The technical analys who read stock charts assert that everything you need to know about a company is reflected in its pric and revealed in the charts. Fundamental analysts, who study the company's financial statement maintain that technical analysis is akin to throwing chicken bones and reading tealeaves.

There are plenty of other methodologies as well. These include quantitative investing, cyc analysis, and growth at a reasonable price (GARP) to name just a few more.

Diehard supporters of all these strategies claim that their way is the only way to make money in th markets. It's almost like a religion whose most fanatical followers act as if their beliefs are the onl truth—period, no debate, end of story. They're right and you're wrong if you don't believe the sam thing they do.

I'm no authority when it comes to theology. But when it comes to investing I know this: Dogm does not work.

You will not consistently make money investing only in value stocks. Again, sometimes they're ou of favor. If you only read stock charts, sometimes you'll be wrong. Charts are not crystal ball Quantitative investing tends to work until it doesn't. Just ask the investors in Long Term Capit Management, who lost everything in 1998.

Long Term Capital was a $4.7 billion hedge fund that utilized complex mathematical models t construct trades. It made a lot of money for investors for several years. It was supposed to be fai proof. But like the *Titanic*, which was also supposed to be unsinkable, Long Term Capital hit a iceberg in the form of the Russian financial crisis and nearly all was lost.

“Y’all Must’ve Forgot”

During his prime, legendary boxer Roy Jones Jr. was one of the best fighters that many fans had ev seen. However, Jones didn’t seem to get as much respect as he thought he deserved. So, in 2001, h released a rap song that listed his accomplishments and reminded fans about just how good he wa The song was titled “Y’all Must’ve Forgot.” Roy was a much better fighter than he was a rapper. Th song was horrendous.

Looking back, investors in the mid- to late 1990s remind me of boxing fans in 2001, when Ro released his epic tribute to himself. Both groups seemed to have forgotten how good they had it- boxing fans no longer appreciated the immense skills of Jones, while investors grew tired an impatient with the 10.9% average annual returns of the Standard & Poor’s (S&P) 500 (includin dividends), since 1961. After decades of investing sensibly, in companies that were good businesse that often returned money to shareholders in the form of dividends, many investors becan speculators, swept up in the dot-com mania.

I’m not blaming anyone or wagging my finger. I was right there with them. During the high-flyin dot-com days, I was trading in and out of Internet stocks too. My first “ten bagger” (a stock that go up ten times the original investment) was Polycom (Nasdaq: PLCM). I bought it at $4 and sold som at $50 (I sold up and down along the way).

However, like many dot-com speculators, I got caught holding the bag once or twice as well. probably still have my Quokka stock certificate somewhere in my files. Never heard of Quokka Exactly. The company went bankrupt in 2002.

With stocks going up 10, 20, 30 points or more a day, it was hard not to get swept up in hysteria.

And who wanted to think about stocks that paid 4% dividends when you could make 4% in abo five minutes in shares of Oracle (Nasdaq: ORCL) or Ariba (Nasdaq: ARBA)?

Did it really make sense to invest in Johnson & Johnson (NYSE: JNJ) at that time rather tha eToys? After all, eToys was going to be the next “category killer,” according to BancBosto Robertson Stephens in 1999. Interesting to note that eToys was out of business 18 months later an BancBoston Robertson Stephens went under about a year after that.

If, in late 1998, you invested in Johnson & Johnson, a boring stock with a dividend yield of abo 1.7% at that time, and reinvested the dividends, in late 2011, you’d have made about 8.6% per year o your money. A $3,000 investment would have nearly tripled.

Johnson & Johnson is a real business, with real products and revenue. It is not as exciting as eToy or Pets.com or any of the hot business to business (B2B) dot-coms that took the market by storm.

But 13 years later, are there any investors who would complain about an 8.6% annual return p year? I doubt there are very many—especially when you consider that the S&P 500’s annual retur including reinvested dividends, was just 2% during the same period.

Now, you might have gotten lucky and bought eBay (Nasdaq: EBAY) at $2 per share and made 1 times your money. Or maybe you bought Oracle and made 5 times your money. But for every eBa and Oracle that became big successful businesses, there were several Webvans that failed and whos stocks went to zero.

In the late 1990s, the stock market became a casino where many investors lost a ton of money ar

didn’t even get a free ticket for the buffet. It doesn’t seem that we’ve ever completely returned to th
old way of looking at things.

My grandfather, a certified public accountant who owned a seat on the New York Stock Exchang didn’t invest in the market looking to make a quick buck. He put money away for the long term expecting the investment to generate a greater return than he would have been able to achiev elsewhere (and possibly some income).

He was willing to take risk, but not to the point where he was speculating on companies with suc ludicrous business ideas that the only way to make money would be to find someone more foolish tha he to buy his shares. This is an actual—and badly flawed theory used by some. Not surprisingly, it called the Greater Fool Theory.

There were all kinds of companies, TheGlobe.com, Netcentives, Quokka, to name just a few, whos CEOs declared we were in a new era: This time was different. When I asked them about revenue, the told me it was all about “eyeballs.” When I pressed them about profits, they told me I “didn understand the new paradigm.”

Maybe I didn’t (and still don’t). But I know that a business has to eventually have revenue an profits. At least a successful one does.

I’m 100% certain that if Grandpa had been an active investor in those days, he wouldn’t have gon anywhere near TheGlobe.com.

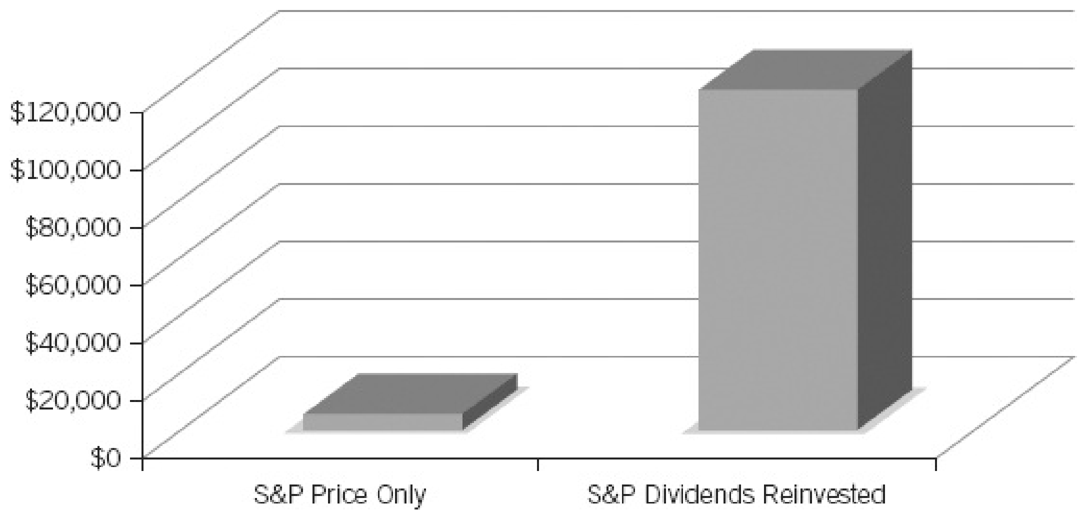
One principle that I believe many investors have forgotten is that they are investing in a busines Whether that business is a retail store, a steel company, or a semiconductor equipment manufacture these are businesses run by managers, with employees, customers and equipment and, one hope profits. They’re not just three- or four-letter ticker symbols that you enter into Yahoo! Finance once i a while to check on the stock price.

And these real businesses can create a significant amount of wealth for shareholders, particularly the dividend is reinvested.

According to Ed Clissold of Ned Davis Research, if you invested $100 in the S&P 500 in at the en of 1929, it grew to $4,989 in 2010 based on the price appreciation alone. However, if you reinveste the dividends, your $100 grew to $117,774. Clissold says that 95.8% of the return came fro dividends.[1] (See Figure 1.1.)

Figure 1.1 **1929–2010: $100 Original Investment**

Source: Ned Davis Research



Marc Lichtenfeld's Authentic Italian Trattoria

Years ago, my wife and I were in Ashland, Oregon. We loved the town and started talking abou escaping the rat race, moving to Ashland, and opening a pizza place. We've repeated that conversatio on trips to Banff in the Canadian Rockies, Asheville, North Carolina, and even Tel Aviv, Israel.

Considering that I know nothing about how to run a restaurant, would be unhappy if not in clo vicinity to a major American city, and am a lousy cook, the pizza joint remained a happy fantasy.

But for the purposes of this book, Marc Lichtenfeld's Authentic Italian Trattoria will serve as a example of a business with revenue and profits. We're also going to assume that I'm your brother-in law (your sister was always a very good judge of character) and you've agreed to become my partn in the business.

One day I come to you, my favorite brother/sister-in-law, with my plans for the restaurant. I hav the space lined up. It's in a popular location with a lot of foot traffic. I've been talking with wonderful young chef who is eager to make an impression on local diners and critics. All that missing is start-up capital.

This is where you come in. In exchange for a $100,000 investment, you will receive a 10 ownership stake. I show you my projections: The restaurant will break even the first year, mak $100,000 in the second year and $200,000 in the third year.

One of the questions you may have is how you'll get your money back. Do you have to wait for th restaurant to be sold, or will you receive some of the profit each year?

If I tell you that my goal is to build the business to $1.5 million in sales and then sell it for tw times sales ($3 million), where you'll receive $300,000, your response might be very different fro what it would be if I tell you that half the profits will be invested back in the business with the oth half split up among the partners in a yearly payout (dividend).

Your decision on whether to give me the money will depend in part on your goals. Are you willin to speculate that you'll receive the big payoff in several years when the business is sold, or would yo rather receive an income stream from your investment but no exit strategy (plan to sell th restaurant)?

When buying stocks, investors have to make similar decisions. Do they buy a stock with the so purpose of selling it higher down the road, or do they buy one that provides an income stream an opportunities for income growth in addition to capital gains?

I don't know about you, but if I'm investing in someone's business, I want to see some money a soon as possible rather than wait for an exit strategy.

Here is another factor that might affect your decision to invest in my trattoria: Instead of offering pay you your cut of the profits ever year, I might offer to reinvest that money back into the restaura and give you more equity. That way, your piece of the profits gets larger each year. Eventually, yo can start receiving a significant cash payout on an annual basis or receive a bigger slice of the p when you sell your stake in the business because your equity has increased above your original 10%.

This last scenario is the same as reinvesting dividends, a method that is the surest way I know of create wealth.

And what I love about this strategy is that it works (and has worked) no matter who is President the United States; what happens in Europe, Iran, or the Middle East; unemployment; inflation; and s on. Sure, those things will impact your short-term results, but over the long haul, they mean nothin and in fact could help you accumulate more wealth, as I'll explain in the section on bear markets

The Numbers

Investing in dividend stocks is the best way to make money in the stock market over the long term.

But don’t just take my word for it. Harvey Rubin and Carlos Spaht, II, both of Louisiana Sta University in Shreveport, wrote, “For those investors who adopt ten- and fifteen-year time horizon the dividend investment strategy will lead to financial independence for life. Regardless of th direction of the market, a constant and growing dividend is a never ending income stream.”[2]

Just a few pages ago, I told you that dogma doesn’t work, yet here I am sounding fairly dogmati The proof that dividend investing creates wealth is in the numbers.

First of all, investing in the stock market works. Since 1937, if you invested in the broad mark index, you made money in 67 out of 74 rolling ten-year periods, for a 91% win rate. That includ reinvesting dividends.

The seven ten-year periods that were losers ended in 1937, 1938, 1939, 1940, 1946, 2008, and 200 The periods 1937 to 1940 and 1946 were tied to the Great Depression. The ten-year periods endin 1936 to 1940 were brutal with an average decline of 40%. The decade ending in 1946 was much tam with a loss of 11%. The 2008 and 2009 ten-year periods each lost 9%.

So the only ten-year periods that didn’t make money were associated with near financi Armageddon. And even in some decades tied to those financial collapses, such as 2000–201 investors still came out ahead.

Paul Asquith and David W. Mullins Jr. of Harvard University concluded that stocks that initiated dividend and increased their dividends produced excess returns for shareholders. Additionally, th larger the first dividend payment and subsequent dividend raises, the larger the outperformance.[3]

And research shows that dividend stocks significantly outperform during market downturns.

Michael Goldstein and Kathleen P. Fuller of Babson College concluded, “Dividend-paying stock outperform non-dividend-paying stocks by 1 to 2% more per month in declining markets than advancing markets.”[4]

Later on in the book, I’ll show you how you can achieve double-digit yields, which would nullify th effects of even the weakest historical markets, performance and enable you to make money regardle of what the overall market is doing.

Think back to other methods that I mentioned at the beginning of the chapter: value, growth, an technical analysis. They all work—sometimes. No system, strategy, or methodology that I know o has a 91% win rate that can approach 100% when the dividends have been reinvested.

Oh, I know, but it’s different this time. We’re in an unprecedented period of debt, unemploymen financial crises, and everything else unpleasant under the sun.

Things were pretty lousy in 2008 and 2009, with the entire financial system on the precipice collapse. Nevertheless, the market came roaring back, doubling in two years.

Similarly, there was little to get excited about during the 1970s—with mortgages and inflation in th teens and each U.S. President less popular than the last. Yet the ten-year return on the market wa positive every year throughout the 1970s and 1980s (encompassing years from the 1970s).

Since 1937, the average cumulative rolling ten-year total return on the stock market is 129%. Th includes the seven negative ten-year periods. Since 1999 (the first year the ten-year data w available), the S&P Dividend Aristocrat index's ten-year rolling return average has been 187% ar was ~~positive every year, with the lowest ten-year return of 40% in the period ending in 2008~~ (when th market tanked 38% that year), compared to a 9% loss for the S&P 500 in the ten years ending 200 (and a loss of 26% when you exclude dividends). I'll explain what a Dividend Aristocrat is in the ne chapter.

I recently read a government official's estimate (and we know how accurate they usually are) tha over the next ten years, stocks will lose 13% due to baby boomers taking their money out of th market.

I don't think that's likely. As I've shown you, historically, there's a 91% chance of the marke giving you a positive return over ten years. Additionally, where are the baby boomers going to p their money? Bonds are paying ridiculously low interest rates right now. Is it worth it to lock up you funds for ten years to earn 2%? That won't even keep up with inflation.

For that little, I'd rather invest in a stock with a 4% or 5% yield and take the risk that in ten year the stock will at least be where I bought it today.

But you know what? Even if the stock falls, you can still make money.

Let's assume you buy 500 shares of stock at $20 for a total of $10,000. It pays a dividend of $1 p year or a yield of 5%. Now, this company has a long history of raising its dividend every year. Ov the next ten years, it raises the dividend by an average of 5% per year.

Let's also assume that the government official was right and the stock tracks the market and fal 13%.

If you reinvest your dividends for the next ten years, while the dividend is increasing and the stoc price is falling, you'll wind up with about $17,000. That's a 70% increase, or a compounded annu growth rate of 5.45%—despite a *decline* in stock price of 13%!

But what if you invested in a ten-year treasury, paying 2% per year? After ten years, you get you $10,000 back, plus you've collected $2,000 in interest for a total of $12,000, or a compound annu growth rate of 1.84%.

So in this example, your stock investment lost 13% in price yet still nearly tripled the performan of a ten-year bond where your principal is guaranteed.

Think about that for a moment. Your stock lost value, but because you reinvested your dividend you nearly tripled your return on the guaranteed principal of the ten-year bond. And that takes in account a drop in the market over a ten-year period that would be equal to the fifth largest in the la 74 years.

Oh, and if you decide after ten years to start collecting the dividend instead of reinvesting it the you'd receive $1.63 per share, up from $1 per share. And because you reinvested the dividends, you' collecting that $1.63 per share on 1,000 shares instead of your original 500. So your yield is going be over 16% on your original investment. This alone should convince you to run out and buy divide stocks. As they say on TV, but wait, there's more.

Keeping Up with Inflation

People don't talk much about inflation these days. Since 1914, the average inflation rate in the Unit States is 3.4%. In 2009 and 2010, inflation was well below the historical average. The year 2011 saw return to more normal levels.

Inflation of 3.4% seems pretty tame, especially for any of us who remember the 1970s and 198 ~~when inflation hit double digits. But even at 3.4%, your buying power is cut in half after 20 years~~.

Because inflation is low today, people underestimate its erosive powers. Despite the fact that for th past decade inflation has averaged nearly three quarters of a point below the historical 3.4% figur buying power has still been cut.

What would have cost $1,000 in 2001 cost $1,270 at the end of 2011.

And what if you're saving for something whose price rises faster than the average 3.4% rate, such college tuition or retirement (and the associated medical costs)?

For example, in 2011, the College Board reported that tuition at public four-year universiti increased 8.3%. And since 2006, it has risen at a rate 5.1% above the inflation rate.

Where are you going to find an investment that will grow 8.3%? Today, if you lock up your mone for 20 years in a treasury, you'll be lucky to get 3% per year.

Let's see how cost increases could impact tuition fees in the future. Right now, tuition for in-sta students at a public university averages $8,244. Private university students are paying an average $28,500. If those tuitions continue to increase by 8.3% per year, in 18 years, you'll have to shell o $34,629 per year for the public university and $119,717 for the private school. And that doesn include room and board (or beer). Sure hope your kid can hit a jump shot.

So if you're lucky enough to be able to buy $100,000 worth of treasuries for your newborn child education, and they pay 3% per year, you should be where you need to be to pay tuition for four year but you'll still have to come up with some cash for room and board, books, and more (beer). B remember, this is just an in-state school. At the private university, forget it. You need to average a 9% compound return per year to hit your target.

This is an extreme example, but you can see that treasuries are a tough way to fund any futu expense. One of the problems with fixed income is that you can't reinvest it in order to let compound, the way you can with dividend stocks.

As you'll soon see, a 12% compounded annual return is readily achievable when you invest in stoc that pay dividends. In fact, if you reinvest those dividends, there is no reason why you shouldn't b earning 12% per year, over the long run.

12%. That was not a typo. You can earn that much per year (and even more) by investing in borin large-cap, dividend-paying companies that simply match the overall return of the market. And at 12 per year, all you need to do is start off that college fund with $1,000 and add $2,000 per year and th in-state school is entirely paid for by the time your little boy or girl graduates high school.

We're not taking any extra risk here. We're not investing in speculative companies with ne technologies that may or may not work. All we are doing is trying to match the market wi companies that have a long track record of paying shareholders. But through the system I'm about show you, it can help you achieve your financial goals.

You need to know which types of dividend stocks to buy in order to achieve the maximum return So now, let me show you.

The 10-11-12 System

When I started the process of writing *Get Rich with Dividends*, my objective, besides spreading th gospel of dividend investing, was to give readers a process for achieving their financial goals. Th process had to have three simple but key components.

1. It had to be easy to understand and implement.
2. It had to work.
3. It had to be inexpensive.

I've read truckloads of financial books and products in my lifetime, many claiming to have an eas system that would make me rich. The problem was they usually didn't work. Often they weren't eas to use, nor were they cheap.

For example, one book I read recommended buying tax lien certificates and explained how I cou make 16% per year on those investments.

Maybe somebody has achieved those kinds of results, but when I checked with offices of vario county governments around the country that were selling those certificates, I found I'd be lucky make a few percentage points on my money. And the process was far from easy or inexpensive.

Other strategies have recommended changing my entire portfolio every year, incurring hundreds o dollars in commission charges, even with a cheap discount broker.

So I set out to create a system for investors that would be so easy to use and so inexpensive, they be free to devote their energies to things that really excite them, like their families, friends, wor hobbies, rather than having to spend countless hours working on and constantly adjusting the portfolios.

If you're the kind of person who likes to check stock quotes during the day, research companies, an follow business news—that's great. You and I will have a lot to talk about if we meet.

But most people want to invest and more or less forget about it, checking in only occasionally make sure everything is going according to plan.

The result is the 10-11-12 System. It is designed so that, in ten years, the investor will be generatin 11% yields and will have averaged a 12% *annual* return on his or her portfolio. Just to be clear, yo won't achieve a total return of 12% in year 1. But by year 10, your average annual return over th entire ten-year period should be 12% and quite possibly higher.

It is so easy to use that my ten-year-old son instantly grasped the concept and was excited about i prospects for his money when I explained it to him. He took his birthday and allowance money an bought shares in the kind of stocks I talk about in the book, understanding his funds should more tha double by the time he gets to college.

And other than the commission on buying the stocks when you set up the portfolio, it doesn't hav to cost you *anything* after that.

Simple, easy to use, and it works.

For example, Southern Company (NYSE: SO), which has raised its dividend every year for the la ten years, returned 193% over the past ten years when dividends were reinvested. This is a real-li example, not theoretical. A $10,000 investment was worth $29,332 versus the S&P 500, which woul have been worth $13,931.

So let's get started so you can begin earning 12% returns right away.

Summary

- Save money—try to save 10% of your income to put to work in dividend-paying stocks. If you can't save 10%, start smaller and work your way up.

- Investing in dividend-paying stocks is the best way to create wealth in the stock market.
- ~~Dividend stocks will help you beat the ravages of inflation, unlike treasuries.~~
- The 10-11-12 System is designed to generate 12% annual returns over the long term, cost next to nothing, be extremely easy to implement, and take up very little of your time over the many years you'll use it.
- Roy Jones Jr. made one of the worst songs in the history of recorded music.

Notes

1. Harvey Rubin and Carlos Spaht, II "Financial Independence Through Dollar Cost Averaging and Dividend Reinvestments," *Journal of Applied Business and Economics* 12, no. 4 (2011) pp. 11–19.

2. Ibid.

3. Paul Asquith and David W. Mullins, Jr., *Journal of Business* 56, no. 1 (1983), pp. 77–96.

4. Kathleen P. Fuller and Michael A. Goldstein, "Do Dividends Matter More in Declining Markets?" *Journal of Corporate Finance* 17, no. 3 (June 2011), pp. 457–473.

CHAPTER 2

What Is a Perpetual Dividend Raiser?

When I first got into the financial industry, I was an assistant on a trading desk, eventually workin my way up to trader.

Before I knew how to analyze a company by reading balance sheets and income statements, learned about stock charts.

Two key concepts in reading stock charts are:

1. The trend is your friend.
2. A trend in motion stays in motion.

Essentially, what these two concepts mean is that a stock will continue moving in the same directio until it doesn't any more. How's that for insight?

But when you look at a chart of a stock that is heading higher, although there are some min corrections, it often moves on a diagonal line (called a trend line) upward. Stocks traveling along o of these trend lines usually continue until something changes their direction. The cause of the chang of direction could be a bad earnings report, weak economic data, or a large institution selling i shares. Frequently, once the trend is broken, the stock will reverse.

Investors who trade using chart data look for opportunities to buy shares of stocks that are trendi higher. I bring this up because the same can be said about companies that raise their dividends.

Typically, a company with an established trend of increasing their dividends will raise them aga next year and the year after that and the year after that . . . unless it becomes impossible to do s Management knows that investors have come to expect the dividend boost every year and any chang in that policy will send them running for the exits.

I call these companies Perpetual Dividend Raisers, and they come in more than one variety.

Dividend Aristocrats

The concept of a Dividend Aristocrat is simple. A Dividend Aristocrat is a company that is a membe of the S&P 500 index and has raised its dividend every year for at least 25 years.

These are primarily blue chip companies with long histories of growing earnings and dividends.

If your investing goals are to impress your friends at cocktail parties with your knowledge of bran new technology and to brag about the millions of dollars you will make off of the companies behin those technologies—well, then, Dividend Aristocrats aren't for you.

Most people don't find a company like Genuine Parts (NYSE: GPC), which makes auto replaceme parts, to be terribly exciting. I'm not even sure Genuine Parts' CEO is all that excited abo replacement parts.

But the company makes a ton of money—$565 million in 2011—and it has increased its dividen every year since 1956. That is pretty exciting.

Think about that for a minute: Every year. Since 1956.

Through the Cuban Missile Crisis, the Kennedy assassinations, Vietnam, Watergate, gas lines, th Cold War, the rise of Japan, the rise of China, 9/11, the dot-com collapse, the housing bust, and th Great Recession—through all of these difficult, and in some cases tragic, events, when pundits we saying the sky was falling, at times when the economy really did stink, Genuine Parts went about i business, making and selling auto parts and returning more money to shareholders than it did the ye before.

The last time Genuine Parts did *not* increase its dividend, President Eisenhower was in the Whi House and Elvis Presley made his television debut on *The Louisiana Hayride* on KSLA-TV Shreveport, Louisiana.

That was a long time ago.

And that is pretty darn exciting.

The Index

The Dividend Aristocrat Index is currently made up of 51 companies and is rebalanced every year. If company raises its dividend for the twenty-fifth consecutive year, it is added to the index th following December. If a company fails to raise its dividend, it is removed.

In order to qualify to be an S&P Dividend Aristocrat, a stock must meet these four criteria:

1. Be a member of the S&P 500 index

2. Have increased its dividend every year for at least 25 years in a row

3. Have a market capitalization of at least $3 billion on the day the index is rebalanced

4. Trade a daily average of at least $5 million worth of stock for the six months prior to the rebalancing date

In 2012, ten companies, including Nucor (NYSE: NUE), were added to the index, while or company, CenturyLink (NYSE: CTL), was dropped.

Each company is given equal weight in the index. This means that the size of the company isn't factor in the calculation of the performance of the index. A company with a $20 billion market cap ha the same impact on the index as a $40 billion company.

Some other variables can impact a company's ability to be placed in the index, such as secto diversification. But these other considerations don't come into play often. The most important facto are 25 years of consecutive dividend increases and being a member of the S&P 500.

The index is great for showing you all kinds of performance statistics as to why Divider Aristocrats make excellent investments and how they outperform the S&P 500. But you can't buy th index. Surprisingly, there isn't an exchange-traded fund (ETF) or mutual fund that tracks the S&P 50 Dividend Aristocrat index.

> ETF: A fund that is bought and sold like a stock. It often tracks an index or sector and is passively managed—meaning an investment manager is not actively making buying and selling decisions based on the economy, market, or a company's prospects. Stocks in an ETF are bought and sold based on their inclusion or weighting in an index or sector.

There is, however, an ETF that is based on the S&P High Yield Dividend Aristocrats index. Thi index is made up of the 60 highest-yielding members of the S&P Composite 1500 that have raise