

My Dividend Investing Quest

Seeking Passive Income Through Dividend Investing



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Remember: In a bull market, even morons can seem like financial geniuses.

A DIVIDEND INVESTOR'S ORIGIN STORY...

- Until 2007 I was good saver, putting away 30-40% of my net income.

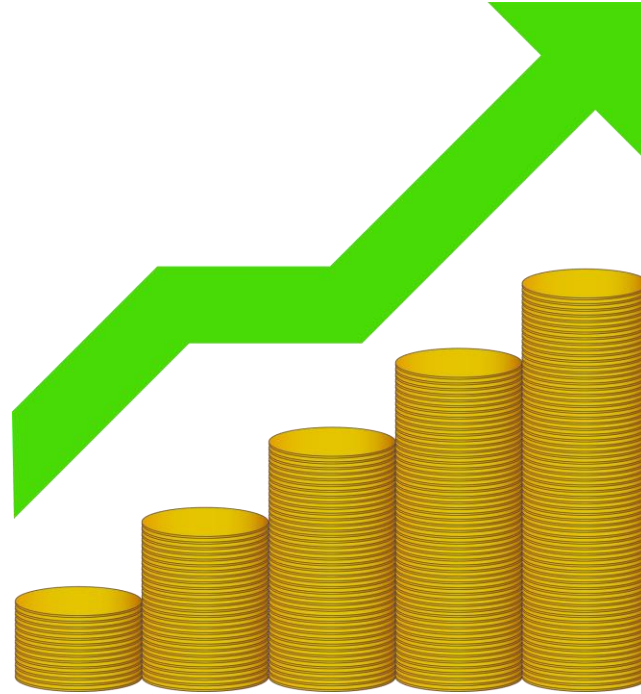


- My only ongoing investments were a tax-deferred IRA and company 401(k).

- 2007: The Year Three Important Things Happened.

- I Turned **40** and decided to get serious about money.
- Savings interest rates fell to nearly 0%
- I read...
Rich Dad, Poor Dad by Robert Kiyosaki
Neatest Little Guide to Stock Market Investing by Jason Kelly.

WHY DIVIDEND INVESTING?



Cash Flow

is

EVERYTHING

Cash flow is the oxygen of personal finance and business.
Individuals and businesses cannot survive without it.

Versus Other Investment Methods

- I want dividend paying milk cows, not fat capital gains bulls.



- Unlike income investments such as house rentals, a stock portfolio has simplicity, high liquidity, and predictable cash flow.
- **Ease of Entry**
Research and little cash to buy stocks are low barriers to entry.
I'm no business genius, so I leave management of companies and funds to those more knowledgeable than I.

■ Taxes

IRS defines dividend income as either...

- *Regular* (taxed at your appropriate income bracket, just like normal income)
- *Qualified* (taxed at a lower income bracket)
- *Tax-free* (typically via gov't bonds)

■ Passivity

- Second only to interest income.

■ A Simple Process

- Research, buy, collect dividends. Repeat.
- Make mistakes. Learn. Adjust. Repeat.
- Have fun!

DIVIDEND INVESTING STRATEGIES



A Common Strategy

- Dividend Growth Investing (DGI)
 - Dividend Aristocrats
Proven track record of growing dividends
 - *Champions* (25+ years)
 - *Contenders* (10-24 years)
 - *Challengers* (5-9 years)
- Example: mrfreet33.com (Jason Fieber)
 - Started with negative net worth.
 - Crazy frugal for first few years and then generally frugal thereafter.
 - Applied Dividend Growth Investing strategy.
 - Nine years later, retired in Thailand.
 - ~\$13.6K/year in dividends. Additional income from coaching and book sales.

My Uncommon Strategy

- Why high-yield dividends (8-10%)?
 - Being 40+. Time is NOT on my side.
 - Limited cash. Ultra-frugality is not for me.
 - Want to significantly beat inflation (~2-3%).
- High yielding dividends are found in Exchange Traded Fund (ETF) and Closed-End Fund (CEF) stocks
- What are ETF/CEF stocks?
 - An ETF is a fund that invests in a group of stocks, bonds, or other assets. ETFs are traded like stocks on a stock exchange. Investors like ETFs because of their low price, tax efficiency, and ease of trading.
 - CEFs are essentially the same as ETFs, except their fees are often higher and cannot be part of buying/selling options.

ETF/CEF Risks

The ETF/CEF stocks I've invested in are typically based on junk bonds, high risk equity firms, and municipal bonds.

- Frequent dividend cuts.
- High yields = high leverage = high risk.
- Return of Capital (ROC) dividends. Reduces cost basis over time. When the adjusted cost basis falls to zero, ROC dividends become capital gains. When selling a ROC stock, it may be a capital gain because of the reduced cost basis.
Note: I have never sold off a ROC stock, so I don't know what the potential tax complexities may be.

How I Manage Risk

- **Diversify.** Mix of ETF/CEF, REIT, and corporate stocks.
- **Limit Exposure.** 20-25 stocks, each contributing no more than 5-6% of total dividend income.
- **Buy.** Buy stocks below 52-week average. Low stock price also means better yield.
- **Sell.** Only in response to deep dividend cuts or steep drops in stock valuation.

How am I Doing?

- Current portfolio value: ~\$109,000
- Current projected average monthly dividend income: \$867.11
- Approximate annual yield: 9.5%

MY PORTFOLIO'S NOTABLE BEAUTIES AND BEASTS

Beauties

- CIK: Equities ETF (64% US), high yield (9%) monthly dividend, high leverage (32%), tiny ROC (0.01¢/share), relatively stable valuation. Oldest held stock, with 10+ years of dividends paying for initial cost basis.
- AWP: International equities ETF, high yield (~10%) monthly dividend, low leverage (3%), no ROC.
- OHI: REIT with good yielding (7.4%) quarterly dividend, good stock price growth, and Dividend Aristocrat.

Beasts

- NCV: Corporate debt and convertible bonds ETF, large valuation drop, dividend has declined 41%, yield is now 6.5%, high leverage (33%). The only positive is that total dividend income exceeds valuation decline, so little or nothing would be lost if sold today.
- (sold)WWE: huge div cut (-66%), slow to sell off, dividend never recovered, price has grown significantly.
- EXG: Equities ETF (60% North America, 30% European, 10% Asia), monthly dividend has declined 61%, yield is now 6.27%, large ROC (88% of total dividend).

RESEARCH TOOLS & BUYING CRITERIA

Research Tools

- ETF/CEF stocks
CEF Connect (cefconnect.com)
- Stocks
Yahoo Finance (finance.yahoo.com)
Dividend.com (dividend.com)

My Buying Criteria

- General Rules
 - 12+ years old
 - Yield 8-10%
 - Price below 52-week average
 - History of infrequent dividend cuts or, better yet, dividend growth.
- ETF/CEF stocks
 - Leverage < 10%
- Company stocks
 - Low P/E ratio
 - Current Ratio > 2.0
 - Consider Dividend Aristocrats

FINAL COMMENTS

- **Cultivating additional sources of income is the smart thing to do.**
- **When 100% dependent on a single source of income, you ARE vulnerable.**
There is no job security, so plan accordingly. Go beyond an emergency savings account by having multiple sources of income (passive or not).
- **Overcome wage stagnation with non-job sources of income.**
Non-job income sources are not capped or limited to 2-3% annual growth.
- **Having additional sources of income gives you more options in life.**

“Options – the ability to choose – is real power.”



Timothy Ferriss,
The 4-Hour Workweek

ADDENDUM: LINKS OF INTEREST

Blogs of Interest

- mrtakoescapes.com
- themoneycommando.com
- millennial-revolution.com
- jllcollinsh.com
- retirebeforedad.com
- retireby40.org
- dividenddriven.com

Podcasts of Interest

Note: Sites in **bold** I listen to regularly

- affordanything.com
- [**choosefi.com**](http://choosefi.com)
- madfientist.com
- [**sidehustlenation.com**](http://sidehustlenation.com)
- [**smartpassiveincome.com**](http://smartpassiveincome.com)
- [**tropicalmba.com**](http://tropicalmba.com)