

Balance, Dividends, and Value

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Overview

- ✓ Before starting out
- ✓ Picking the right path
 - ✓ Balance
 - ✓ Dividends
 - ✓ Value
- ✓ An extended guide

Before starting out

- ✓ Spend less than you earn

“Annual income 20 pounds, annual expenditure 19 pounds 19 and 6, result happiness. Annual income 20 pounds, annual expenditure 20 pounds ought and 6, result misery.” - Charles Dickens

- ✓ Be debt free

“I've seen more people fail because of liquor and leverage - leverage being borrowed money.” - Warren Buffett

- ✓ Have a rainy day fund

T-Bills ~1% Savings ~1.3%

- ✓ Plan for large ticket items

- ✓ Insurance

Investment Road Map

Portfolio Size

Expertise

Start with Balance

Any

Any

Dividend Investing

\$50,000+

Moderate

Value Investing

\$50,000+

Above Average

The Balanced Way

Buy a balanced portfolio of stocks and bonds

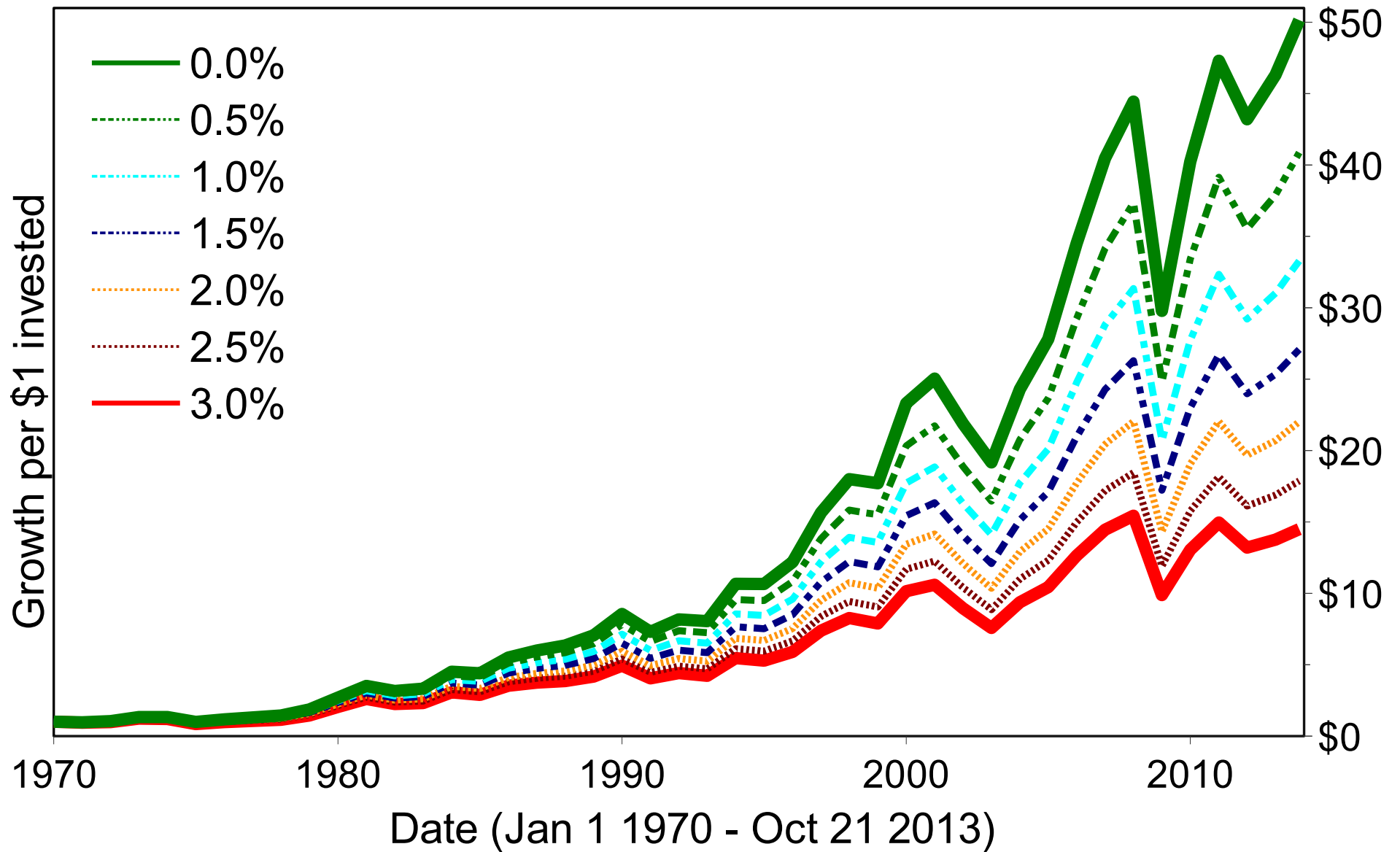
Advantages

- ✓ Easy to implement
- ✓ The ride is smoother
- ✓ Likely to outperform

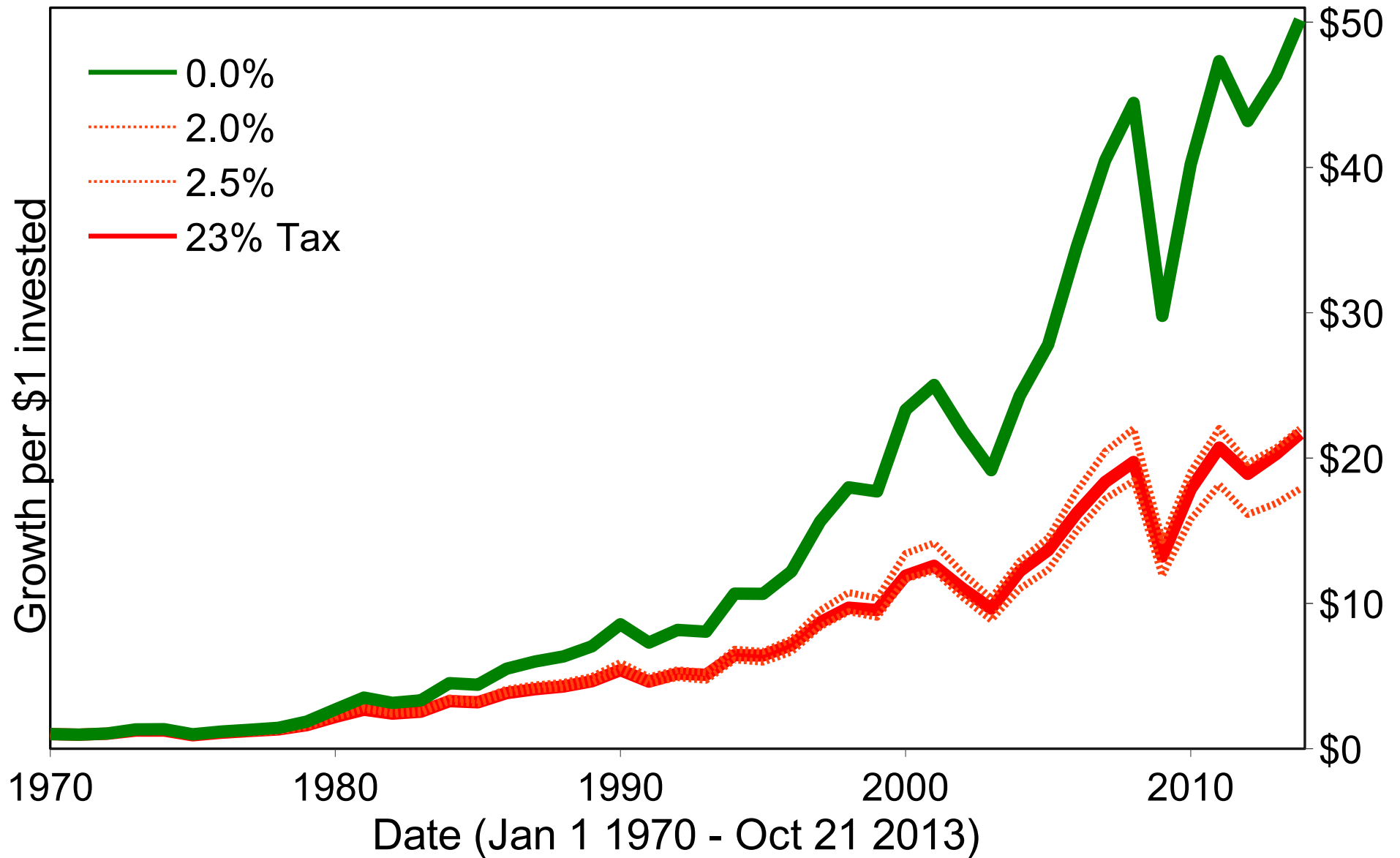
Things to be wary of

- ✓ High-fee funds
- ✓ Taxes
- ✓ Complicated offerings

Fee Drag



Taxing Gains

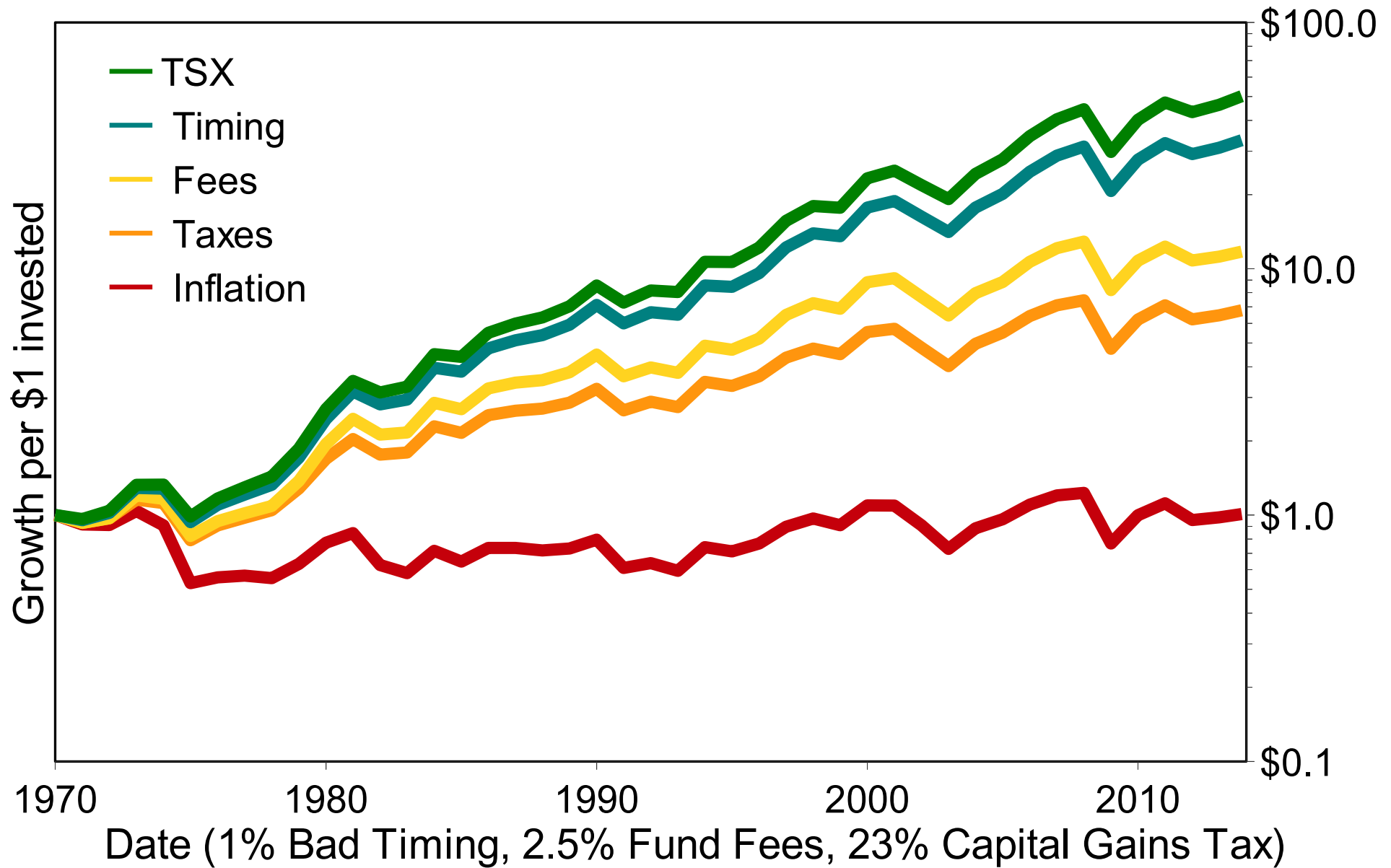


Terrible Timing

Fund Category	10 Year Average Annual Returns		
	Fund	Investors	Difference
US Equity	1.59%	0.22%	-1.37%
International Equity	3.15%	2.64%	-0.51%
All Funds	3.18%	1.68%	-1.50%
Balanced Funds	2.74%	3.36%	0.62%

(Source: Morningstar.com, 12/31/2009)

Yikes!



Minimizing Regret

	Performance Each Year (%)									
Mawer	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12
Bond	6.0	6.1	5.3	2.9	3.1	5.9	4.1	6.2	8.9	3.5
Equity	19.3	15.7	20.6	13.9	11.5	-29.7	29.5	13.7	1.9	12.7
New Cda	26.1	29.5	18.0	15.3	16.6	-38.4	51.2	23.9	1.1	16.4
U.S.	2.3	4.3	-3.3	14.7	-8.1	-14.3	2.4	5.8	4.4	12.0
Int'l	9.7	13.1	13.7	32.0	-2.4	-32.2	24.9	8.4	-7.5	19.5
Global S						-30.0	39.7	16.3	0.3	29.5
Balanced	11.0	10.7	10.3	13.9	2.9	-16.1	16.4	9.8	2.9	11.4

Balanced Funds

Low-cost easy-to-hold portfolios

Fund Name	Fee	Bonds/Stocks	Style
Mawer Canadian Balanced	0.98%	40%/60%	Active
Mawer Canadian TE Balanced	0.99%	40%/60%	Active
PH&N Balanced D	0.90%	40%/60%	Active
Steadyhand Founders	0.69%-1.34%	40%/60%	Active
TD Balanced Index	0.89%	50%/50%	Index

Dividend Investing

Grow your income via dividends

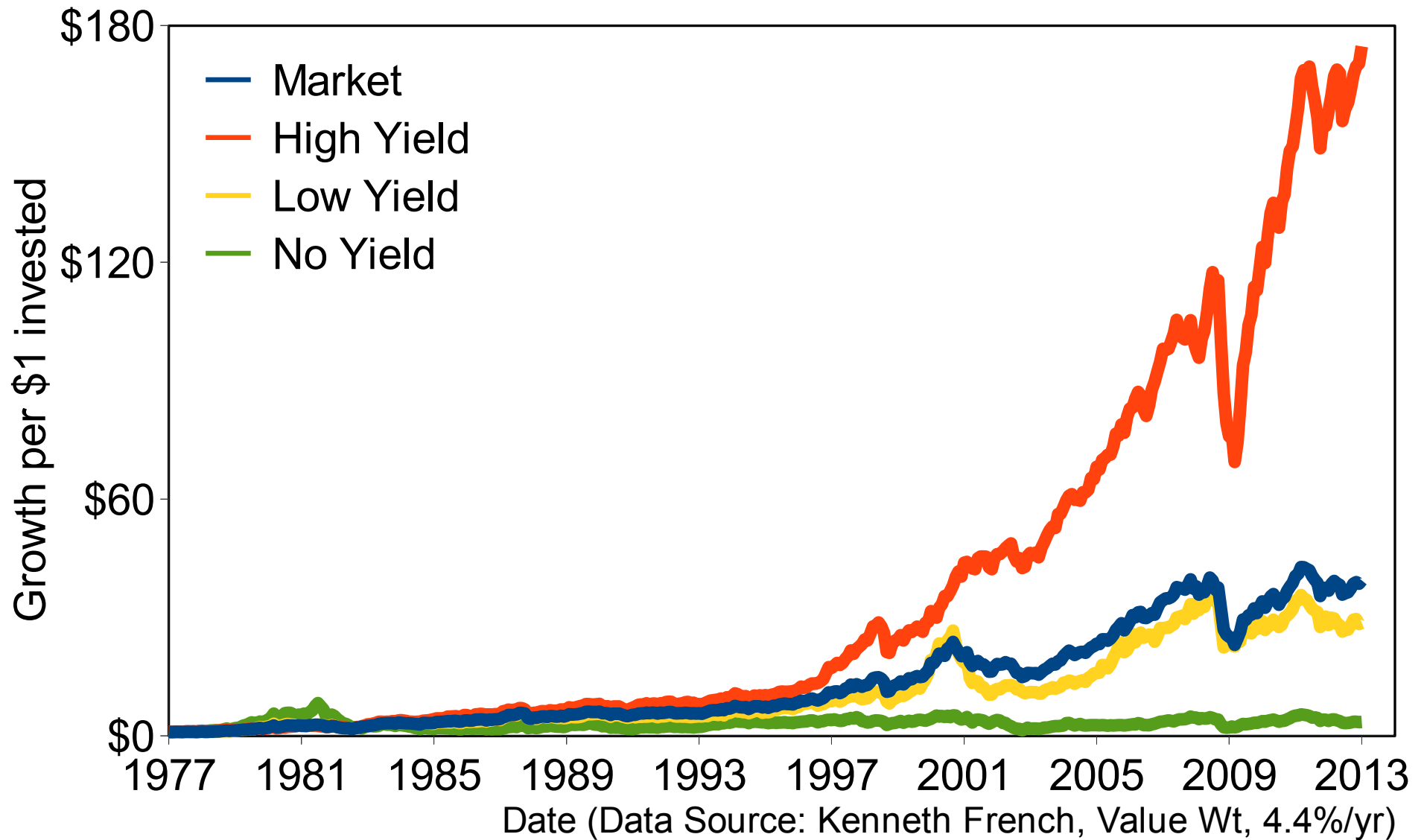
Advantages

- ✓ Steady income
- ✓ Likely return boost
- ✓ Potential tax advantage
- ✓ Withdrawal discipline

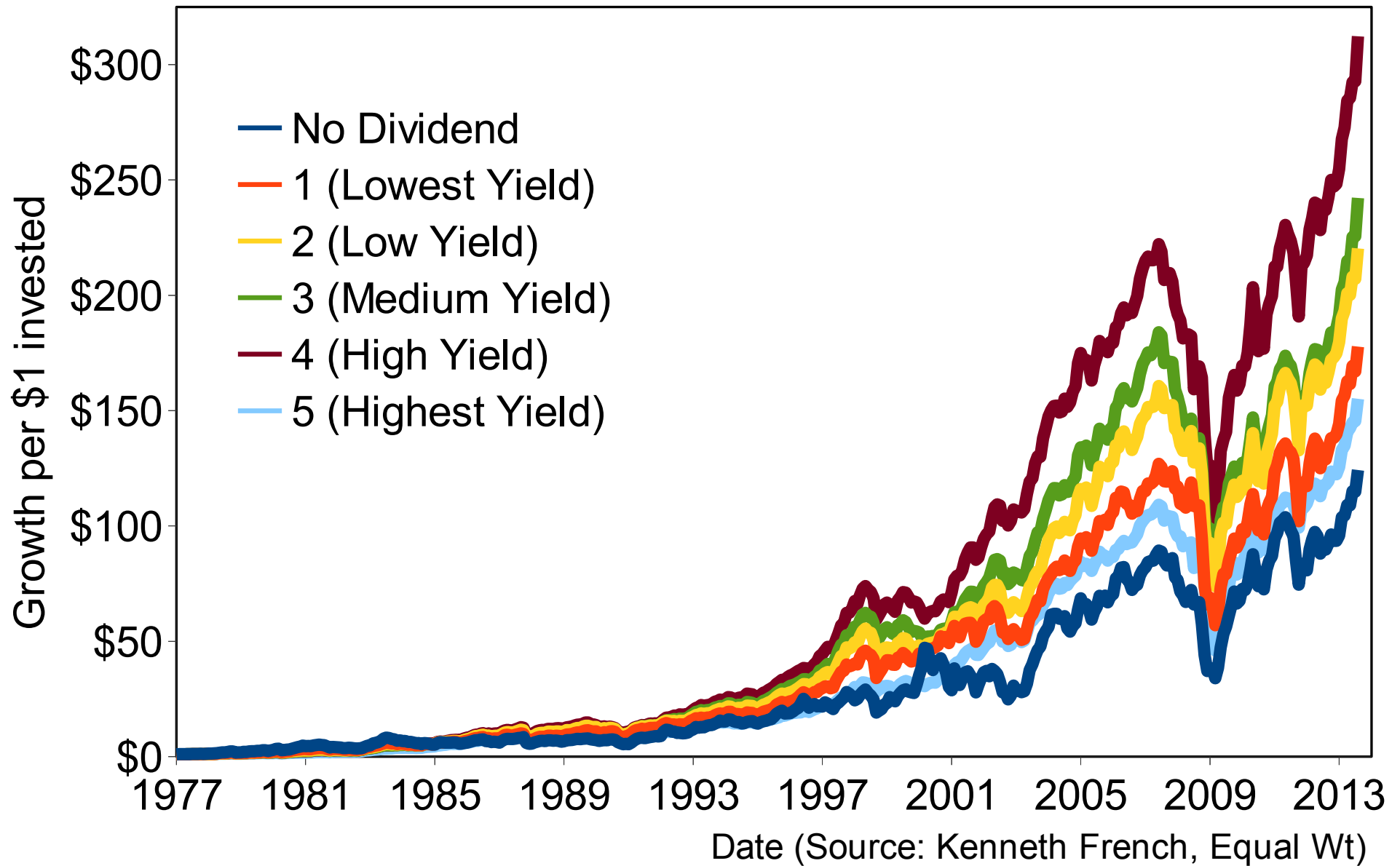
Things to watch for

- ✓ Very high yield stocks
- ✓ Foreign dividend taxes
- ✓ High-fee funds
- ✓ Dividend cuts

Canadian Dividend Advantage



U.S. Dividend Advantage



Easy Dividend Portfolios

Exchange Traded Funds

Canada

iShares Canadian Aristocrats ETF (CDZ, 0.66%)

Vanguard Canadian High Yield ETF (VDY, 0.35%)

~~iShares Canadian Dividend ETF (XDV, 0.55%)~~

US

Vanguard High Dividend Yield ETF (VYM, 0.10%)

Vanguard Dividend Appreciation ETF (VIG, 0.10%)*

*Canadian versions: VGH (hedged) & VGG, ~0.32%

Simple Dividend Stock Selection

Dogs of the TSX

- ✓ Start with the 60 large stocks in the S&P/TSX60
- ✓ Buy the 10 top yielding stocks
- ✓ Rebalance each year

Look to David Stanley, Canadian MoneySaver
1987-2012: 12.56%/yr vs 9.52%/yr index

We publish a weekly list of the Dogs of the TSX in our
free Stingy News Weekly email letter. Sign up at
www.stingyinvestor.com

Individual Dividend Stock Tips

Positive attributes

- ✓ Above average yields
- ✓ Dividend growth
- ✓ Financial strength
- ✓ Earnings > Dividends

Negative factors

- ✓ Extraordinarily high yields
- ✓ Derivatives/products
- ✓ Negative momentum

Value Investing

Buy stocks with a margin of safety

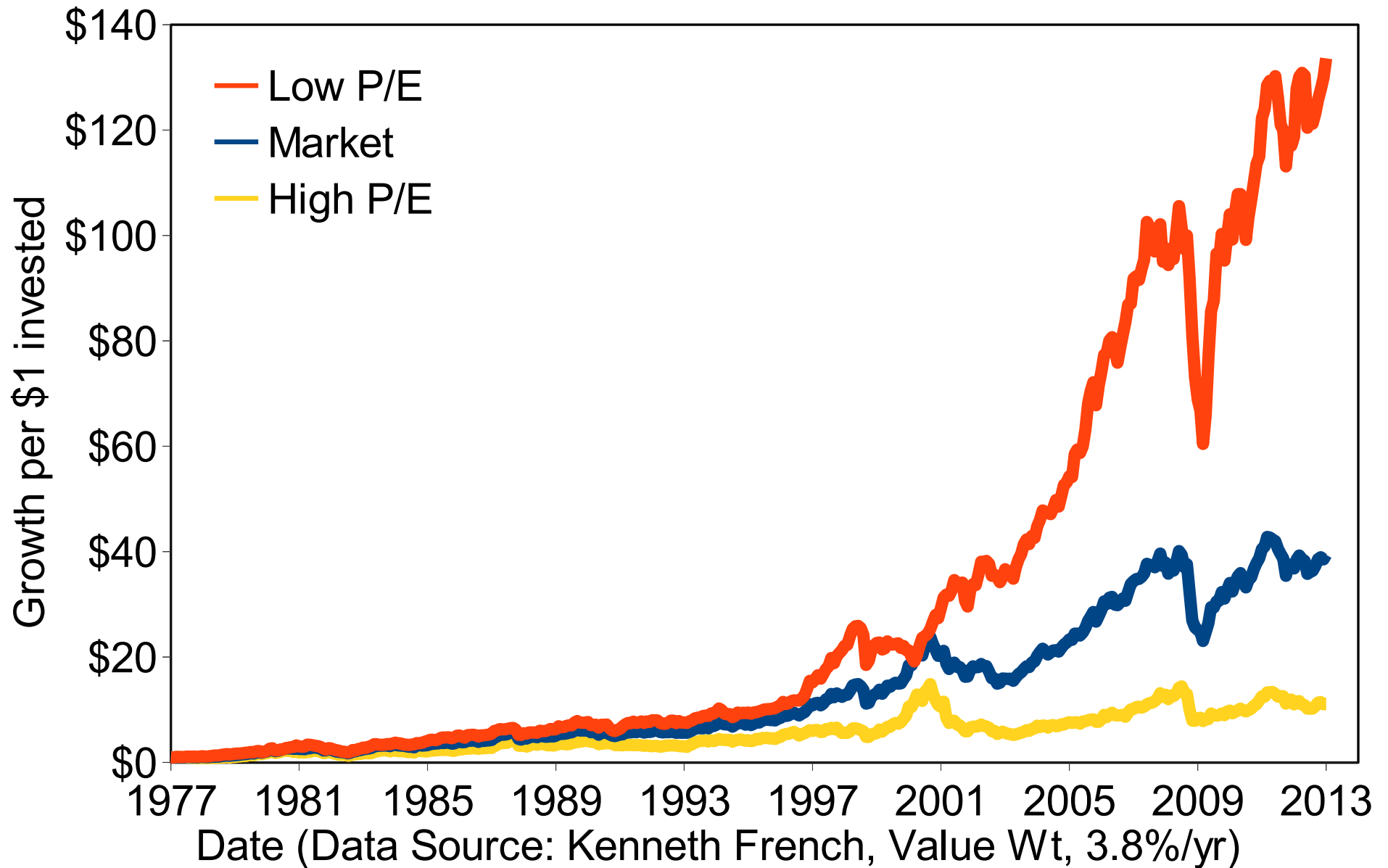
Advantages

- ✓ High return potential
- ✓ Often less volatile
- ✓ Simple valuation measures

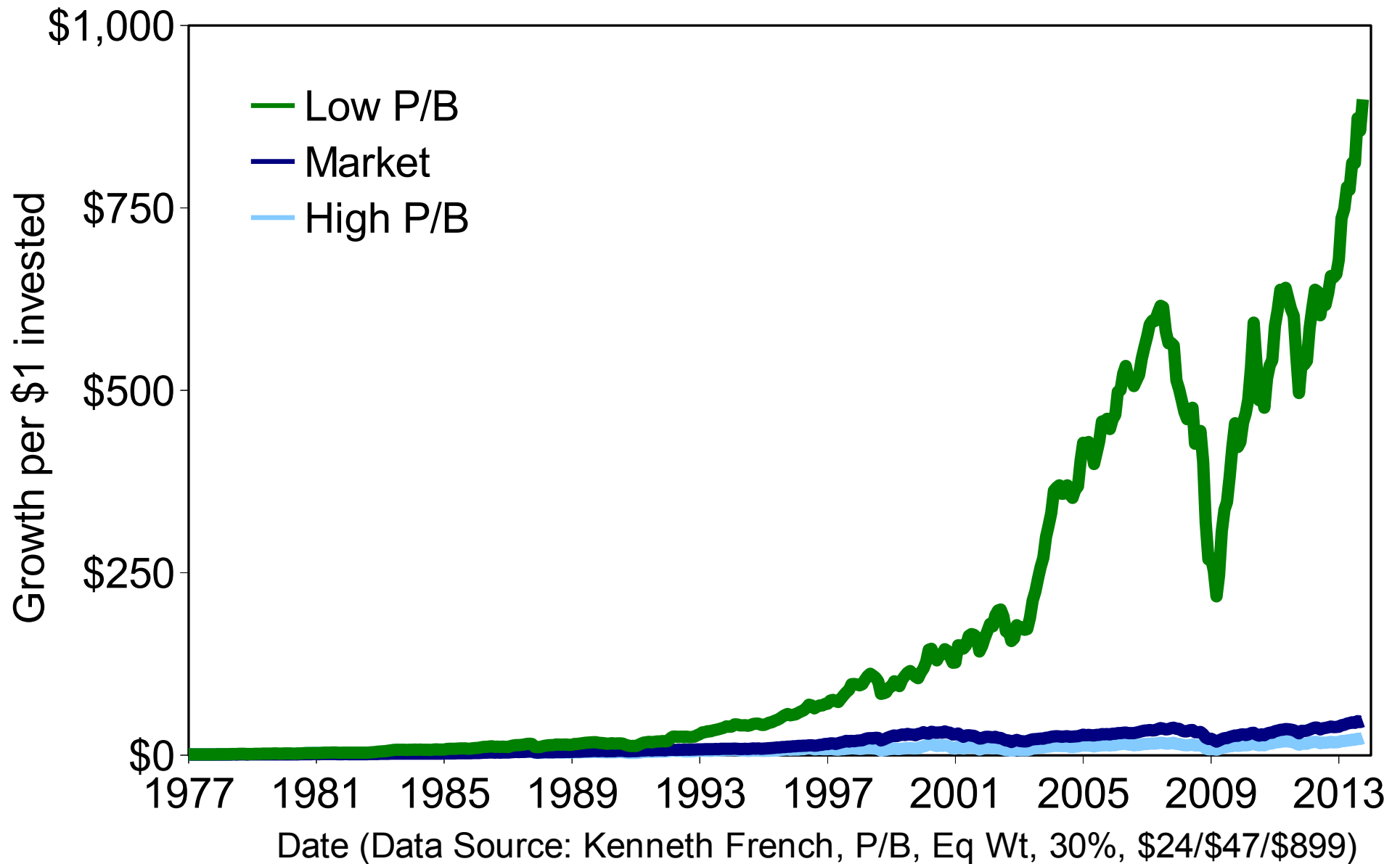
Things to watch for

- ✓ Can be hard to follow
- ✓ Forced selling

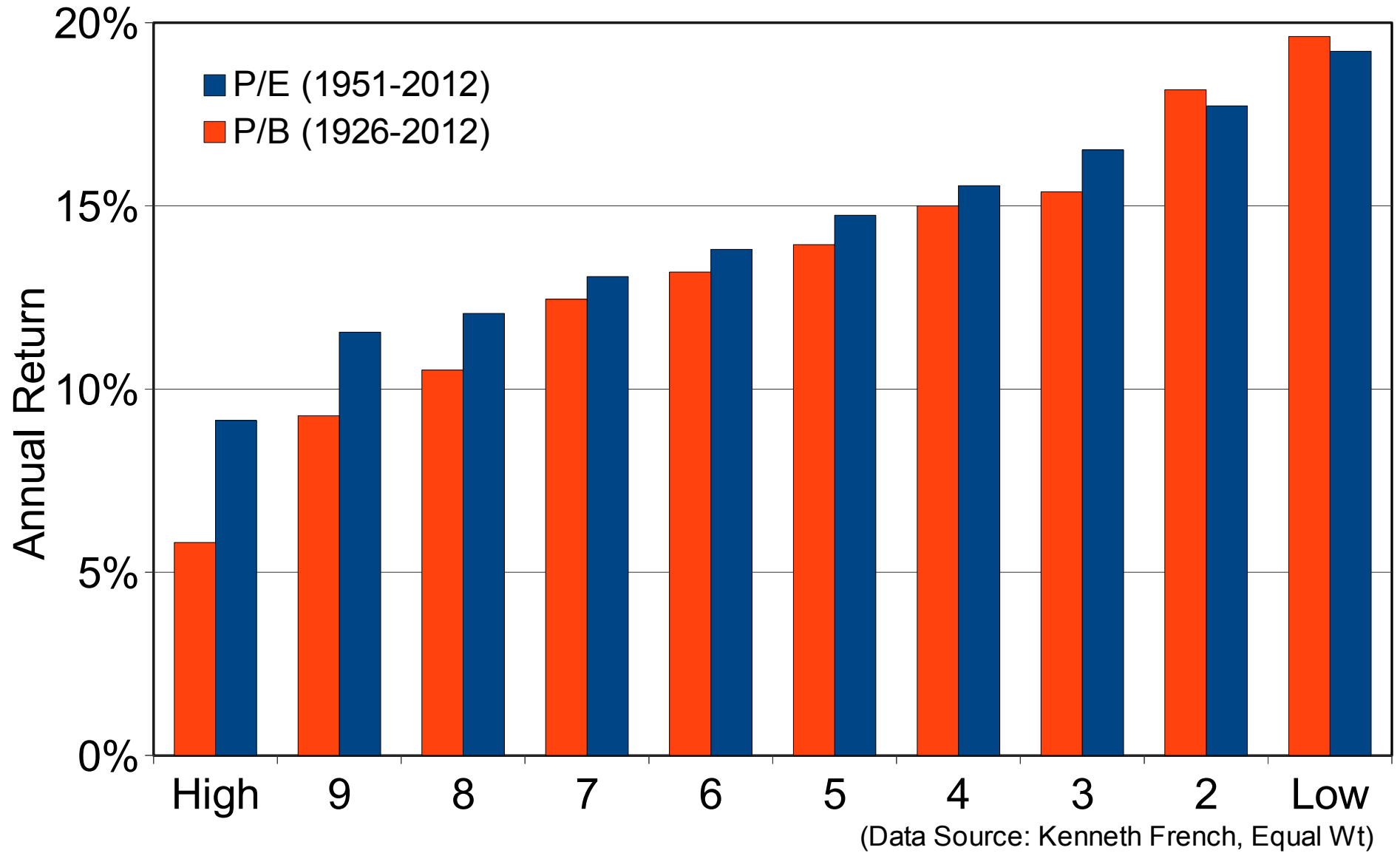
Canadian Value vs. Glamour



U.S. Value vs Glamour



U.S. Value by Decile



Value Stock Tips

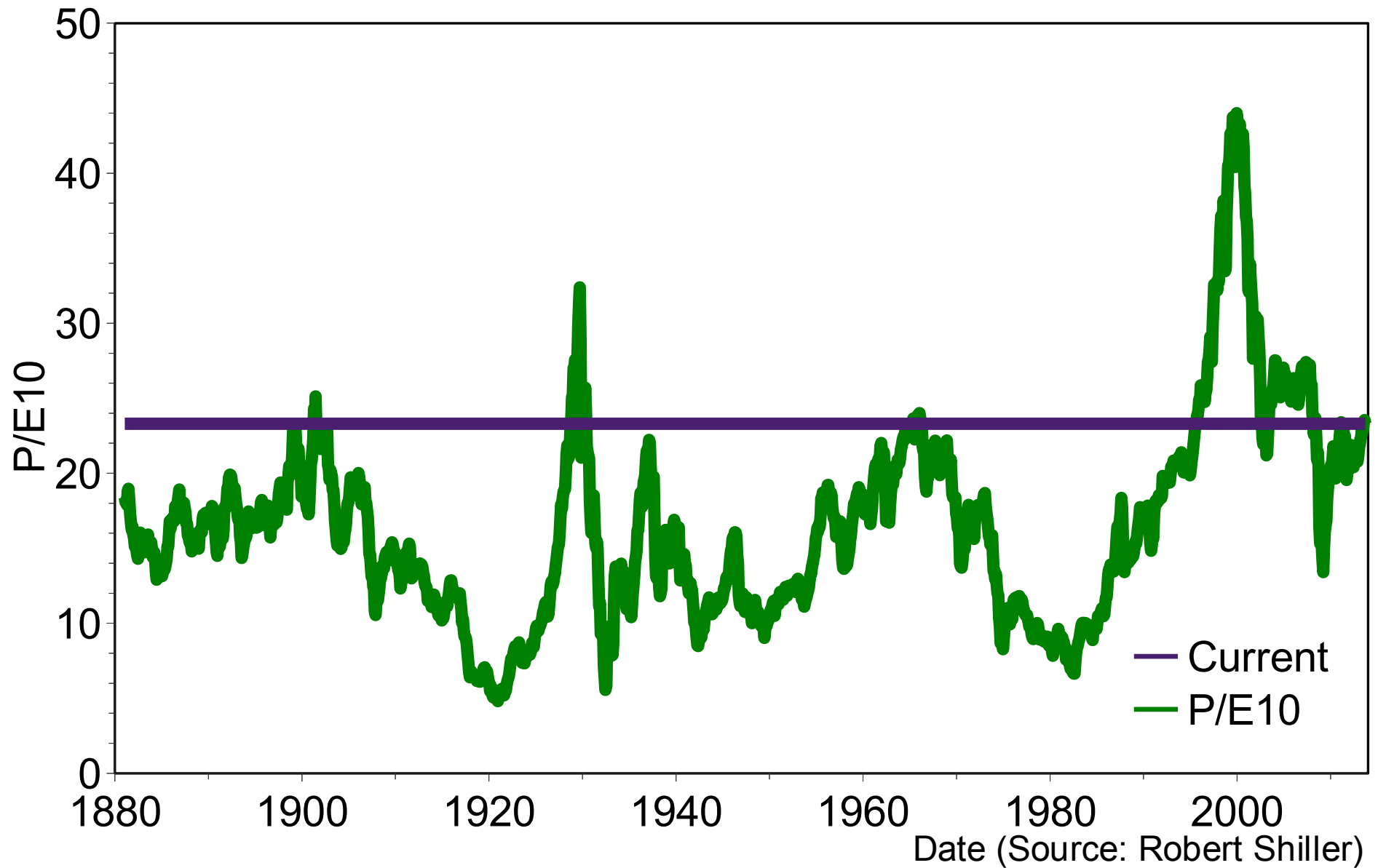
Positive Attributes

- ✓ Low ratio stocks / margin of safety
 - ✓ P/E, P/B, P/S, P/CF, P/D
- ✓ Financial strength
- ✓ Dividends and dividend growth
- ✓ Low liquidity / small / neglected stocks

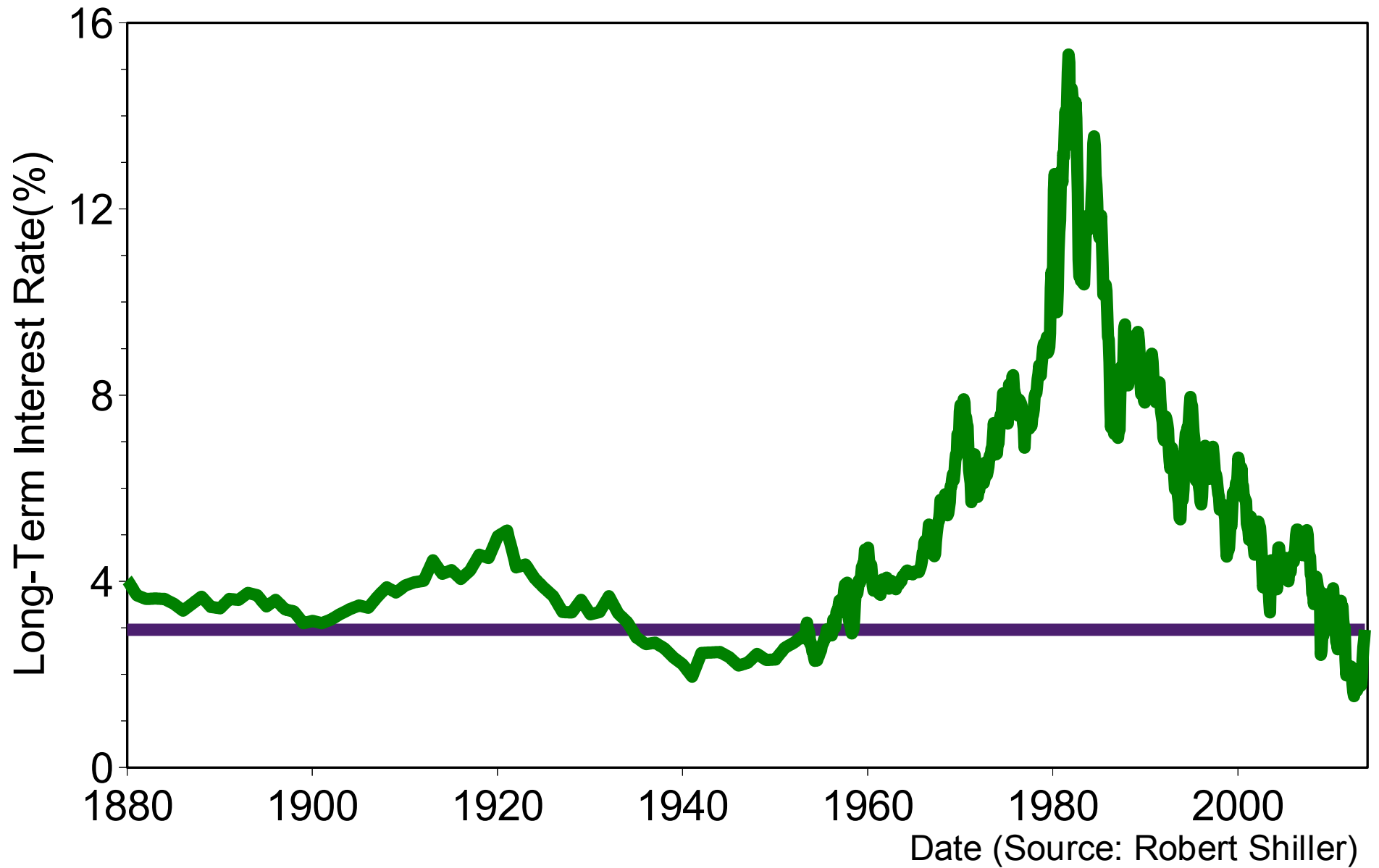
Warning Signs

- ✓ Negative momentum
- ✓ Buggy whips / “value traps”
- ✓ Vampire squid management

U.S. Stock Market Valuation



U.S. Bond Market



Balance, Dividends, and Value by Norm Rothery

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Useful Books

A Random Walk Down Wall Street	by Burton G. Malkiel
The Intelligent Investor	by Benjamin Graham
Contrarian Investment Strategies	by David Dreman
What Works on Wall Street	by James P. O'Schaugnessy

Advanced Topics

Security Analysis	by Benjamin Graham
Value Investing	by James Montier