SOUNDBITE

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Top Five Reasons to Invest in a Canadian Dividend Strategy

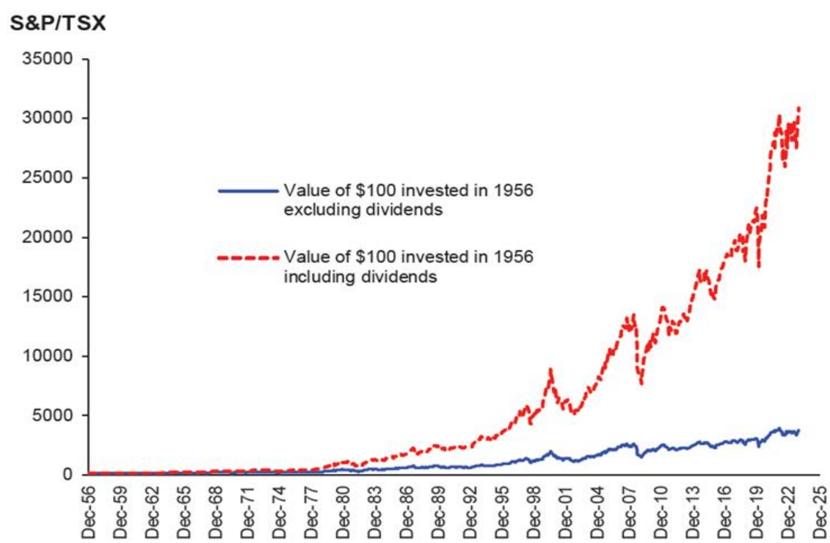
With the recent strength in equity markets, led by the low dividend yielding technology sector, the importance of investing in dividend strategies hasn't been top of mind for most investors. But that's a mistake. Dividend strategies should be a core investment strategy and below are Sionna's top five reasons why.

1) Over the long term, dividends make up a substantial portion of total returns. As you can see in the following table, over multiple periods from one-year to 30-years, dividends account for about 40% of total return.

	S&P/TSX Comp. Total Return Breakdown			
CAGRs	Price Return	Dividend Return	Total Return	% Div Rtrn Return
30 Year	5.4%	2.6%	8.0%	32.8%
20 Year	4.6%	3.0%	7.6%	39.6%
10 Year	4.1%	3.2%	7.3%	44.2%
5 Year	5.7%	3.4%	9.1%	37.0%
2 Year	0.6%	3.4%	4.0%	84.2%
1 Year	4.8%	3.6%	8.4%	42.5%

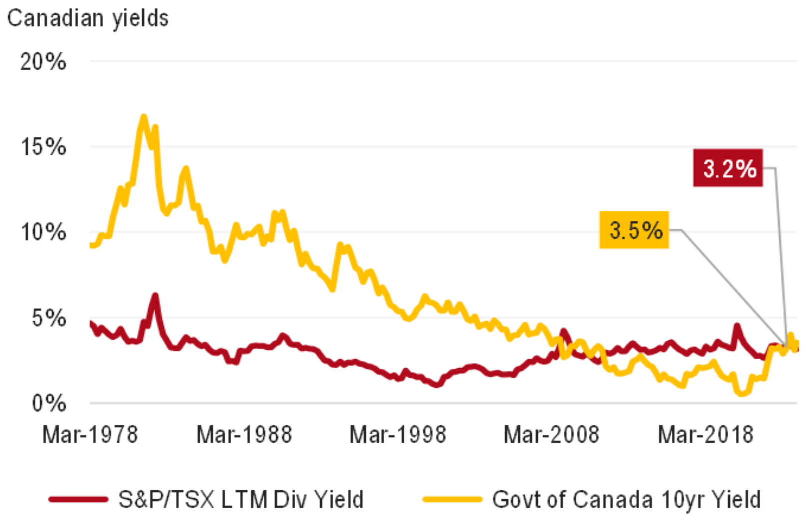
Source: CIBC Capital Markets As at Feb 21, 2024

It would be a mistake to ignore the importance of dividends when it comes to compounding returns over the long run. The power of dividends really comes alive when you see the difference in return over time:



Source: Scotiabank. February 2024

2) The TSX's dividend yield is in-line with the Government of Canada's 10-year yield. In addition, companies' dividends grow in aggregate over time as their earnings power increase. When you invest in fixed income, the yield is set. When you invest in a company, or an aggregate of companies, that grow along with the economy, earnings increase, and dividends follow. In our opinion, a company's ability to grow the bottom line and offer distributions to investors more than offset the current slim advantage of investing in a government bond. What's more, Sionna's Focused Canadian Dividend Strategy currently yields almost 1.5 times higher than the TSX.



Source: CIBC Capital Markets. As at Feb 21, 2024

3) For Canadian investors, it is also important to keep in mind the tax advantages of dividend income as compared to interest income. For high-income Canadians with higher marginal tax rates, the after-tax yield from the TSX can be higher than Government of Canada bond despite the latter's yield looking slightly higher from a before-tax perspective.

4) The Canadian market's dividend yield is 2.2 times higher than the U.S. market's yield. This is the highest relative ratio in at least half a century. We already discussed how important dividends are when it comes to total returns over long periods of time, so we believe this current spread suggests Canadian dividends are an attractive opportunity for investors.

Source: CIBC Capital Markets. As at Feb 21, 2024

5) There is no free lunch, so the saying goes. However, dividend-paying stocks have shown to be less volatile over time. This is because consistently paying dividends requires a company and management to be disciplined. Furthermore, companies that pay out a relatively high portion of earnings as dividends tend to be more stable companies in the staples and utility-like sectors. In a downturn, people cut discretionary spending like vacations before they cut their phone bills. Because of the nature of essential services that these companies provide, they tend to have pricing power as well. In today's inflationary environment, this is very attractive. So yes, there's no free lunch in general, but earning solid returns with lower volatility seems as close to a free lunch as there is.

An example of a stock in our portfolio that pays an attractive dividend is Canadian Tire. The company has a long track record of growing its sales and earnings over time. The current dividend yield is about 5%, which is very attractive compared to its historical yield. With an uncertain economy and a potentially weaker consumer ahead, the stock has fallen out of favour with investors overall. We believe that the underlying business is strong, and management will be able to navigate any weakness in demand ahead. With the fullness of time, we believe this attractively valued stock will provide solid returns, backed by its attractive dividend yield.

Dividends don't light up headlines in the news. However, dividends steadily power total returns over time and they simply cannot be ignored. Given the momentum and excitement in equity markets recently, this tends to be forgotten. At Sionna, we are long-term investors and as such, pay close attention to dividends and their role in compounding returns over the long run. On top our assessment of dividends and yields, we layer on rigorous research in business models and management quality, along with valuation of course, and we're very excited with the potential the companies in our portfolio offer. The importance of dividends won't go away. If anything, they may become more important with time. If we start from this baseline, and add Sionna's disciplined investment approach on top, we stack the odds of compounding and outperforming the overall market over the long run.

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