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# Why dividend growth investing makes sense in today's world

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*It goes beyond quarterly cash*

The case for dividend growth investing goes far beyond the feel-good story of receiving ever more quarterly cash as the years go by.

In an advisory note titled The Never Ending Story of Dividend Growth, the money management firm Bristol Gate Capital Partners offers a list of reasons why this strategy makes sense in today's investing world. Here's the rundown:

1.) Demographics: Aging populations in North America, Europe, Japan, Australia and parts of Eurasia will all be seeking investment income. Bristol Gate quotes figures indicating that almost half of investors today are seeking yield, compared with 20 per cent in 2010.

2.) Historic low interest rates: 60 per cent of S&P 500 stocks offer dividend yields higher than five-year U.S. Treasury Bonds.

3.) Interest rate correlation: Dividend growth is positively correlated to interest rates, which means it can protect you from some of the damage of rising rates.

4.) Payout ratios: Dividend growth stocks have earnings growth of more than 10 per cent, which help make dividend payments sustainable; by contrast, there's a pattern of falling earnings growth in many of the sectors in which you'll find high-yielding dividend stocks that don't regular increase their payouts.

5.) Cash reserves: Payouts by dividend growth companies are near a record low as a proportion of profit; cash reserves are higher than ever.

6.) The dividend growth story, Part One: If a company increases its dividend by 15 per cent annually over five years, your original dividend doubles; even a five-per-cent growth rate has a big impact on your income flow.

7.) Dividend growth, Part Two: A low-yielding stock with strong dividend growth is a better long-term place for your money than a high-yielding stock with minimal dividend growth; $100,000 invested in a stock with a 2 per cent yield and an annual dividend growth rate of 10 per cent would give you $2,000 in dividends immediately and $13,455 in 20 years; $100,000 invested in a stock with a 5 per cent yield and a 2 per cent dividend growth rate would give you $5,000 in dividends immediately and $7,430 in 20 years.

8.) Valuations: High dividend growth stocks are trading at a discount to stocks with high yields.

Bristol Gate produced the list as a way of highlighting its U.S. Equity Strategy, which has outperformed the S&P 500 total return index in U.S. dollars over the past five years. The fund's annual dividend growth rate has been 15.4 per cent since September 2009, compared to 9.5 per cent for the S&P 500.