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Five New Year's resolutions for dividend investors

By JOHN HEINZL

Learning to think like a business owner instead of a trader is the first step to building a successful long-term investing plan

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For dividend growth investors, finding stocks that raise their payments regularly is only half the battle.

The other half is adopting the right mindset. Learning to control your emotions – instead of letting them control you – is essential if you want to succeed as an investor. That's true whether you're buying dividend stocks, index funds or any other security.

With that in mind, today I'm presenting five New Year's resolutions that will make you a better investor in 2016. These are things that have worked for me and people I know, but a word of warning: They won't magically happen overnight; you have to work at them.

Because some of these resolutions are at odds with our biological wiring, they can be difficult to put into practice – particularly when markets are coming unglued. But if you can master the psychological and behavioural aspects of investing – starting with these five resolutions – you'll have a huge advantage in the quest to build lasting wealth.

Be an owner, not a trader

Imagine you own a small business. You have good years and bad years – just like any business does – but sales and profit are generally rising and you're drawing a growing salary. Would you wake up every day wondering what the market price of your business is? Would you constantly think about selling your business and buying a different one? Probably not, but that's how many investors treat the stocks in their portfolio. Instead of behaving like part owners of a business – which is what their shares represent – they see stocks as pieces of paper to be flipped. A trading mentality leads to higher transaction costs and taxes and causes people to sell perfectly good businesses at the first whiff of trouble (usually after the stocks have already fallen in price) when hanging on would often be a more prudent strategy. If the company's long-term outlook remains solid – if sales, profit and dividends are growing – short-term corporate setbacks should be no cause for alarm. In fact, they can often be good buying opportunities.

Accept market volatility

Fearless prediction: The stock market will have some ugly days this year – the sort of days that make you wish you'd put all of your money in GICs earning 2 per cent. I don't know when these days will occur, mind you, but they

will – I guarantee it. There will also be times when, over the course of a few weeks or months, the market plunges 10 or 20 per cent. It might not happen this year, but it will at some point in the future. Accept it. It's normal. If you own good companies (see next resolution), market conniptions need not not faze you.

Own high-quality companies

If you're thinking about investing in a stock, ask yourself the following questions: Are the company's sales, profit and dividends growing? Is the price-to-earnings multiple reasonable? Does the company sell a product or service that you are virtually certain will be in demand for many decades to come? Does the company have a competitive advantage that you are highly confident will endure? If the answer to all of these questions is yes, then you have a candidate for your portfolio. If not, you should probably look elsewhere. There are exceptions, but companies with a long track record of profitable growth – utilities, banks, telecommunications providers and consumer stocks, among others – often continue generating attractive returns. (For specific examples, see my Strategy Lab model dividend portfolio[4]; this is not meant to be an exhaustive list or a recommendation to buy these companies at their current prices.) If you are uncomfortable picking individual stocks, buying low-cost mutual funds or exchange-traded funds is also a great strategy. In my own portfolio, I own a mix of stocks, funds and GICs.

Be patient

Time and compounding – not frequent trading – are your biggest allies as an investor. The longer your time horizon, the greater the benefits of compounding. Consider a portfolio that starts with $100,000 and grows at 8 per cent annually through a combination of dividends and capital gains. In the first year, the portfolio's value would increase by $8,000. In the second year, it would grow by $8,640. By the 20th year, the annual increase would be approaching $35,000 and the portfolio would be worth nearly half a million dollars – that's without adding any new funds. Nothing goes straight up, of course, but it's important to stay focused on the long term, because that's when you will really begin to see the magic of compounding at work.

Reinvest dividends

By reinvesting your dividends – assuming you do not need the cash – you will harness the full power of compounding. You can accomplish this a few different ways: by enrolling in a dividend reinvestment plan (DRIP) with the company's transfer agent (for non-registered accounts only); by opening a "synthetic" DRIP with your broker; by buying mutual funds that automatically reinvest distributions; or by accumulating cash and then deciding where and when to reinvest it yourself. Each of these methods has its own advantages and disadvantages, but the important thing is to make sure all of your money is working for you. If you behave like an owner, accept market volatility and reinvest dividends from high-quality companies, you will be amazed by how much wealth you can build over the long run.

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