DividendGrowth CopyPortfolio™

An eToro Investment Strategy

Dividend investing is a powerful investment strategy that can potentially provide you with two sources of return: regular cash dividends and capital gains.

However, not all dividend stocks are created equal. When investing for dividends, it can pay to invest in high-quality companies that can consistently increase their dividend payouts, as studies have shown that these companies tend to generate the strongest total returns over time.

In this guide, we will look at the basics of dividend investing and explain how investors can gain exposure to a diversified portfolio of elite dividend growth stocks through **eToro's DividendGrowth CopyPortfolio.**

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Your capital is at risk

What are Dividends?

Dividends are payments that are made by companies to their shareholders on a regular basis, usually out of profits. A reward for being a part owner of the business, they are usually paid in cash on a semiannual or quarterly basis.

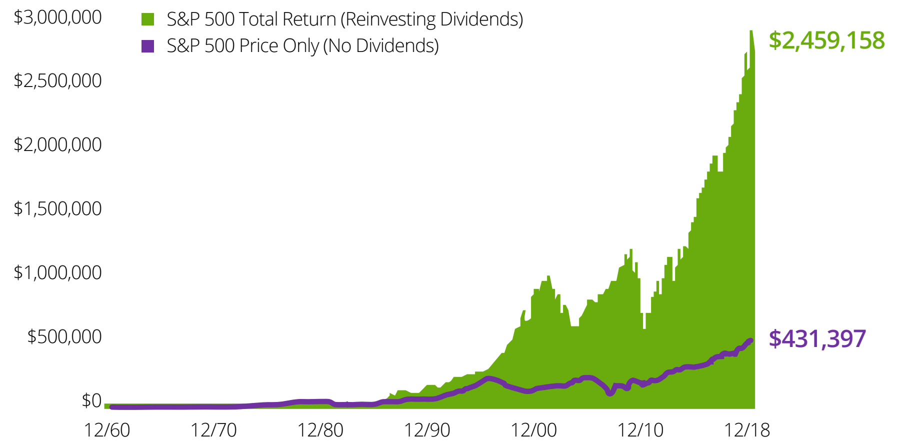
Not all companies pay dividends. Generally speaking, those that pay dividends are well-established companies with dependable profits. Start-ups and other high-growth companies, such as technology companies, often prefer to reinvest their profits instead of paying dividends to investors, in order to generate further growth.

You can compare the dividends offered by different stocks by looking at dividend yield. This is calculated by dividing a stock's dividend payout per share by its share price.

Why Dividends are Important?

Dividends are often overlooked by investors, particularly in bull markets when share prices are rising. However, they should not be ignored as research shows that in the long run, dividends tend to make up a substantial proportion of total stock market returns.

For example, a recent study by Ned Davis Research concluded that between 1930 and 2018, 42% of the total return from the S&P 500 index was actually derived from the payment and reinvestment of dividends. Meanwhile, a study by Hartford Funds showed that between 1960 and 2018, reinvested dividends actually accounted for 82% of total returns from the S&P 500. Clearly, dividends are an important contributor to overall stock market returns.



Data Sources: Morningstar and Hartford Funds, 1/19.

The Benefits of Investing in Dividend-Paying Companies

There are a number of advantages of investing in dividend-paying companies. These include:

Two sources of return

When you invest in dividend stocks, you can potentially profit in two ways – from capital gains and from dividends received. For example, if a stock rises from $100 to $110 over the course of the year and also pays a $3 dividend, the total gain is $13. This is particularly advantageous during bear markets when stock prices are falling.

Compounding power

Dividends also enable you to take advantage of one of the most powerful forces in investing – compounding. If reinvested rather than taken as income, dividends can be used to buy more shares, which means more dividends in the future.

Passive income

Investing in dividend stocks is also one of the easiest ways to generate passive income. When you invest in a dividend-paying company, you get paid on a regular basis simply for being a shareholder.

Downside protection

Because dividend-paying companies are generally well-established companies that have strong balance sheets and reliable cash flows and profits, they can offer protection during periods of stock market turbulence as their share prices tend to be less volatile than those of growth companies.

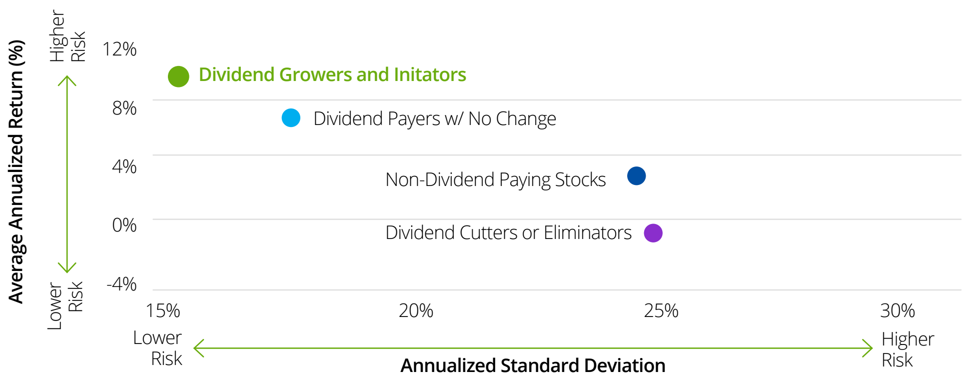
Dividend Growers Tend to Outperform

While there are many advantages to investing in dividend-paying companies, it is important to realise that not all dividend payers turn out to be good long-term investments. When investing for dividends, one of the most important things to look for is a solid track record of dividend growth as studies have shown that companies that have increased their dividends over time have tended to outperform those that have not.

Indeed, analysts at Ned Davis Research found that between 31 January, 1972 and 31 December, 2018, companies in the S&P 500 index that increased or initiated dividends, generated annualised returns of 9.62% with a standard deviation (a key measure of risk) of 15.62%. In contrast, all other dividend-paying companies delivered annualised returns of 8.78% with a standard deviation of 16.37%, while those companies that reduced their payouts or eliminated their dividends completely delivered annualised returns of -0.79% with a standard deviation of 24.68%.

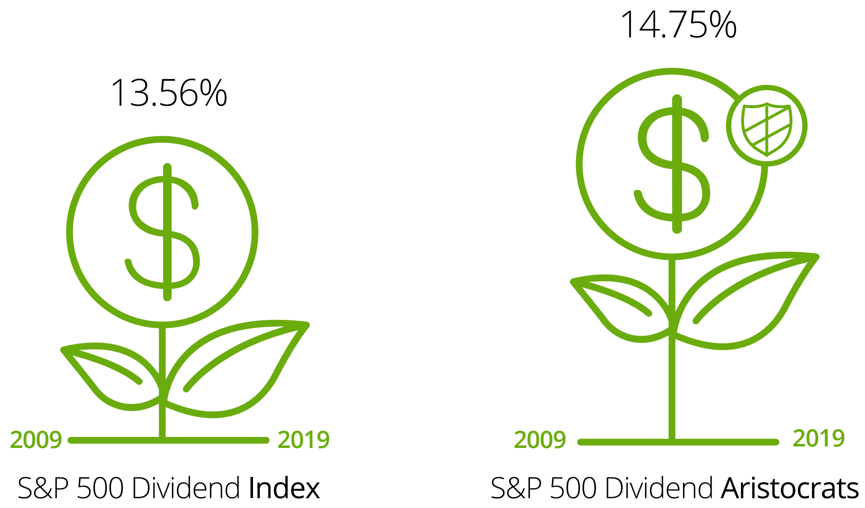
Risk vs. Return

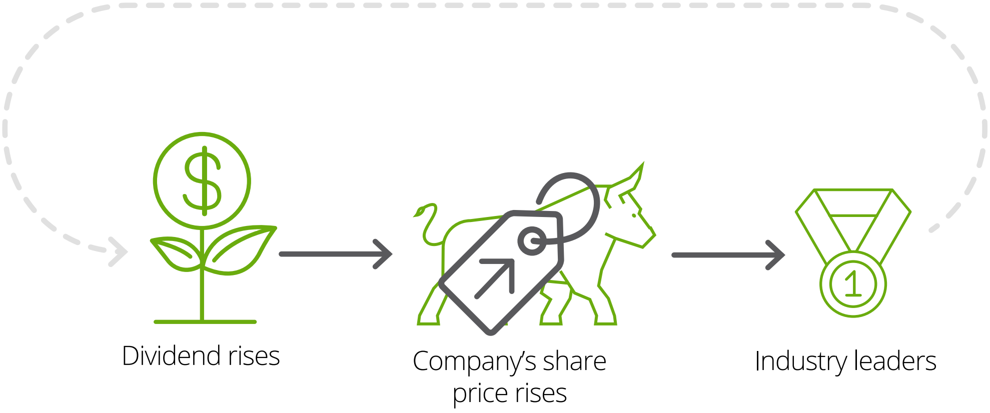
(January 31,1972 - December 31, 2018)



Data Sources: Ned Davis Research, Inc. from 1/31/72-12/31/18. **Past performance is no guarantee of future results.** The performance shown represents the historical risk-return performance of S&P 500 stocks, grouped as shown according to their dividend policies.

An analysis of the long-term returns generated by the S&P 500's 'Dividend Aristocrats' – companies that have increased their dividend payouts every year for at least 25 consecutive years – also suggests that "dividend growers" tend to outperform. For example, over the 10-year period until the end of 2019, S&P 500 Dividend Aristocrats delivered an annualised return of 14.75% versus 13.56% for the S&P 500 index. Impressively, they generated this outperformance with a lower level of risk than the market.





Why do dividend growers tend to outperform? Well, one reason is that a rising dividend tends to place upwards pressure on a company's share price over time. As the dividend is increased, the stock becomes more valuable to investors. A dividend increase also sends a clear message to the market that the company is in good financial health and that management is confident about the future. In addition, companies that consistently increase their dividends tend to be leaders in their industries with durable competitive advantages, strong and reliable cash flows, and highly talented management teams. Over the long run, these kinds of companies tend to be good investments.

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Investing in Dividend Growth Stocks

If you are looking for exposure to dividend growth stocks, there is nothing to stop you investing in a range of individual companies yourself. The challenge with this approach, however, is determining in which dividend payers to invest. Realistically, not all dividend growth stocks are likely to be good long-term investments going forward. Looking at the S&P 500 Dividend Aristocrats, for example, there is no doubt that some have better future prospects than others.

A more sensible approach, therefore, is to invest in a diversified portfolio of dividend growth stocks. The main advantage of this approach is that it reduces your stock-specific risk. By spreading your capital over many different dividend-paying companies from different sectors and countries, you can eliminate the risk of an underperforming company negatively impacting your investment returns.

To help investors gain exposure to high-quality dividend growth stocks, eToro has created a **DividendGrowth CopyPortfolio** – a fully allocated thematic investment portfolio focused specifically on dividend-paying companies around the world that have increased their dividend payouts for at least 20 consecutive years.

Designed to help long-term investors capitalise on the power of dividends while minimising stock-specific risk, this investment strategy offers exposure to a broad range of dividend-paying companies, all of which have exceptional dividend growth track records.

For those looking to own a selection of high-quality dividend payers, **eToro's DividendGrowth CopyPortfolio** offers an innovative and cost-effective way to invest.

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For more information regarding CopyPortfolios,
contact: **copyportfolios@etoro.com**

www.etoro.com

Resources:

https://documents.nuveen.com/Documents/Nuveen/Default.aspx?fileId=44877

https://www.hartfordfunds.com/market-perspectives/the-power-of-dividends.html

https://us.spindices.com/indices/strategy/sp-500-dividend-aristocrats

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