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INVESTING

What is dividend-growth investing?

Dividend-growth investing is one of the most popular investing techniques. And for a good reason. Here's why in 4 easy points.

By Fabien 04/10/2020

Dividend-growth investing is one of the most popular investing techniques. And for a good reason. It can be the *safest*. What it sounds like a fancy Wall Street hotshot term (you've probably heard of it), it is actually quite simple. In some ways, it can be compared to the *Marshmallow test*. In it, two marshmallows are presented to a kid and is told "if you don't eat them now, and wait, you'll get a third one. To fuzzy for you? Ok, let's get started.

Table of Contents

What is a dividend?

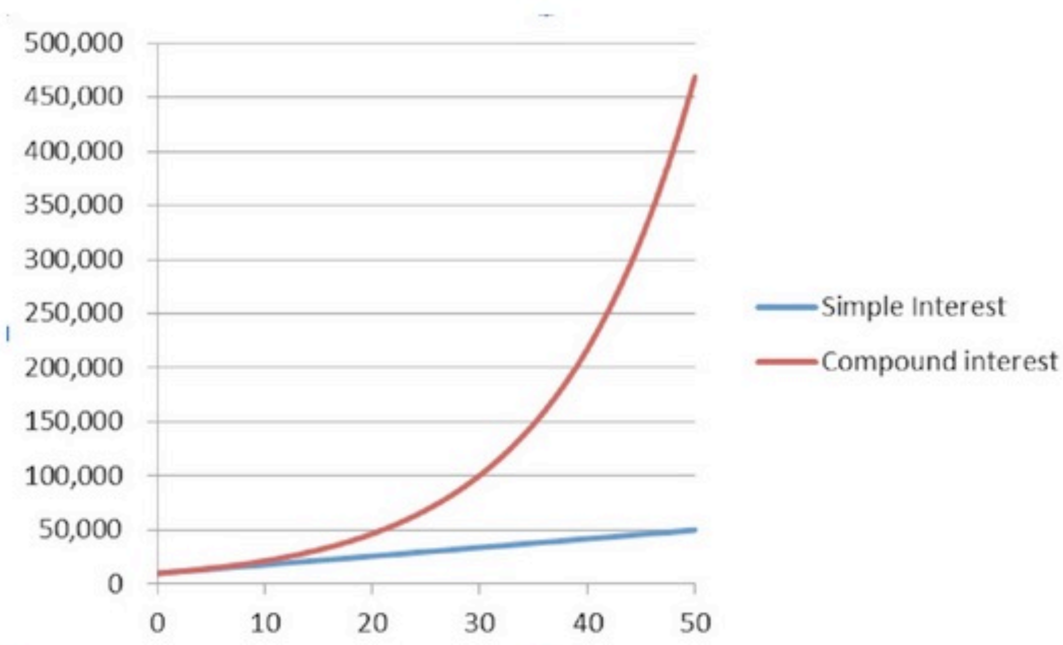
A dividend is the distribution of a portion of the company's earnings to its shareholders as a reward for putting their money (and trust) in the company.

Dividends are **not** an obligation. Companies do not have to give it. It is a way for companies to attract shareholders. Which is why x or y company can, in situations of financial stress, cut these. Not all companies give dividend. This is why you have dividend stocks and growth stocks (no dividend given, all money reinvested in the company so more growth over time and therefore stock valuation).

While it gives a nice feeling to tell ourselves we are getting paid money by companies like Apple, Chevron, or Ford, the essential here is that it allows the shareholder to invest with free money.

What is compound interest

Compound interest differs from simple interest. Since you are not cashing in, that dividend can be compared to "interest on the interest". Some online brokerages like Robinhood offers a DRIP feature that automatically reinvest the dividend in the same stock as soon as you get it. This, of course, means dividend-growth strategy is a "HODL", buy and hold on the long-term strategy.



From The Motley Fool

Let's take the example of many new high yield savings accounts that use compound interest. Let's say you invest $10,000 at 2%. At the end of the year, you will get $20. But the year after you get 2% on $10020 = $20.04 and so on. While this seems little, compound interest grows exponentially over time. Now take this idea and apply it to a stock that gives a monthly dividend...

How does dividend-growth investing work?

Photo by Stanislav Kondratiev

In a perfect scenario, a dividend-paying company that experiences growth year after year has more cash flow than the previous year are great candidates for dividend growth investing.

These companies usually slowly increase the dividends payout due to their continuous growth. In dividend-growth strategy, instead of cashing out that dividend, you reinvest it in the same stock. Since you've done your homework and you know the said-company will increase their dividend over time, not only will you get a bigger share. But you will also get a more significant dividend without having to put extra money. This is how **compound interest** is triggered.

Different dividend-growth strategy

Now that you understand how dividend-growth investing works, here are a few strategies you can apply to dividend-growth.

- Investing in several shares in great companies that have a proven track record of growth that increase their dividend payout every year to match or exceed inflation rate;
- Diversifying through the 11 sectors. If one sector goes down, your portfolio is supported by the exposure it has in the others;
- Holding on positions for a long time, making more of that money work for you by deferring taxes;
- Checking that dividend growth is indeed coming from the real growth of the company, not debt;
- Applying the above to international stocks. Don't only buy American. If the US economy tanks, you want to support the portfolio with foreign assets, and it is also a way not to be tied to only one government and currency.

Dividend-growth, by definition, the strategy of the long-term investor. Doing this is pretty much recession-proof, given that you don't need to liquidity your stock during a recession. Looking at the S&P500 (index tracking the performance of 500 large companies), every time the stock market recovers from a recession, its value goes higher than the pre-recession period.

During recession times, dollar-cost averaging and using dividend-growth reinvesting is a way to invest safely while holding on for the long term. Ready to roast some marshmallows?

EBOOK

MILLENNIAL META

THE COMPLETE GUIDE TO FINANCIAL FREEDOM

Start building your future wealth **today**

BY FABIEN HAMELINE

TABLE OF CONTENT

INTRODUCTION

There is a misconception about financial freedom: everyone thinks it's about getting rich. And even talking about getting rich, a lot of people search for ways of getting rich easily. Truth is, it's not. While you can become rich, there are only two ***easy*** ways: winning the lottery, and marrying money. But this should not be what you go for.

With what we see on social media today, it is easy to get impressed and inspired by the easy lifestyle of influencers, making you want to say "I want to be rich!". The finality of becoming rich should not be the purpose. Because what you want is not to become rich. It is what you ***can buy*** with that money. And more often than not, it is not so much a specific object nor experience but the feeling that you ***can*** if you ***want***. And that is indeed to some extent freedom.

We all know that feeling when we are looking for a job but still need to pay next month's rent. How are we going to do it? In a stretch, we take small gigs just to be able to pay the bills to the detriment of our most precious asset: ***our time***. But we also might have been on the opposite side, where you were able to invite your best friends for dinner, or book that music festival ticket just because you wanted to. That's what financial freedom feels like.

WHAT IS FINANCIAL FREEDOM?

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Financial freedom is the point you get in your life when you are no longer dependent on a day-job in order to survive. It is the moment when the investments you have made over time are self-sufficient and are now generating enough cash flow for you to take a part of it, live on it, while leaving the rest to generate more for the next year… and the year after that and so on.

It is basically leaving on free money and actually working on what you really want to do. Sounds nice, doesn't it? There is no easy way, except if you are already coming from money. But most likely, if you are reading this then you are not. There is no quick and easy scheme for building wealth and becoming financially free. It's not only about smart investing, but first and foremost: it is about being financially responsible.

Here are 8 steps to get you on the path to financial freedom.

DEFINE *YOUR* FINANCIAL FREEDOM

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First thing you need to do is to define what it is for ***you***. If you could have all the money in the world, and your current day job would not matter, what would you do? What is it that you would pursue if money was not an issue? It could be:

- Change your career path for something you always wanted to do, but might not pay as well;
- Travel around the world;
- Giving it away to help those in need;
- Retiring at 45;
- Become an entrepreneur and start something;
- Be that that guy that goes to restaurant and leaves insane tips compared to what he ordered, because he knows waiters don't earn much.

Retirement is not an age, it is a number. Financial freedom is different for everyone. By realistically setting out your own goal, you are able to measure how much you need to work on your end to reach it.

You can use this simple retirement calculator to calculate how much you need to save in order to "retire".

MANAGE YOUR MONEY

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An entrepreneur does not start a business without a plan. Same goes with your personal finance. By managing your money you will:

- Decrease your spending by cutting the fat out of your monthly expenses;
- Set a monthly budget, and determine how much you can keep investing;
- Reimburse your debts on time, without incurring late fees, which will end up to be more money in your pocket to invest.

For most of us, it's not the fun part. But now there are plenty of digital tools and free apps that can keep track of all the credit cards, loans and your assets), while at the same time optimizing your investments if you have any.

With apps like Mint or Personal Capital (reviews here), you can track all your cash accounts, credit cards, investments, and set a budget while seeing where your money is really going and where you really are compared to your goal.

BECOMING DEBT-FREE

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When first discovering all the ways we can now invest without being a financial expert, it is easy to get pumped and start downloading apps like WeBull, M1 Finance or Robinhood. But what if I would tell you **you will make more money by reimbursing your debts first**.

That's because there is a basic important idea behind. The interest rate you have on your credit card, or loan (the interest you owe the bank), will always be greater than the annual stock return (8-10%), supposing there is no recession. So the fastest you reimburse your credit card or loan, the more you are making dollars work for you. This is a true step one.

That means in the long term, you will have more money in your pocket to invest. That, and also this will up your credit score quite a bit, which can be interesting should you be interested in getting a loan to buy a house (best interest rates are given to people having credit score 750 and above).

When I first came to the US, it was the first time I had been exposed to the "credit card" system and FICO score. In France, where I grew up, only debit cards were available. You could only take a credit or a loan for a serious purchase like a house, a car, or a business. It was made so **people could not spend money they did not**

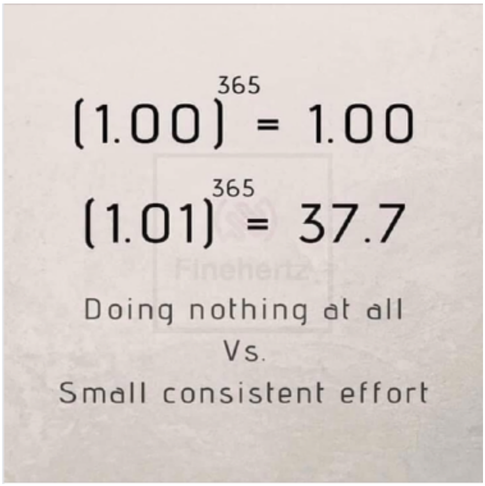
have. If you don’t spend money you don’t have, then you don’t have any debts – Simple as that. American capitalist culture is based on credit, and credit score. So there is no way around it.

Reimbursing your debts is the first step to financial freedom. Here are 10 easy ideas to become debt-free, which means more money in your pocket at the end of the day to invest and build your wealth.

Use the snowball effect to pay off your debts.

List all your debts from the lowest to biggest. Focus on paying out the lowest one first and pay the minimum required for the other ones not to incur extra fees. Once the first one is paid off. Move on to the next one. Then when the next one is paid off, rinse and repeat, until you're debt-free. This allows to slowly eradicate any debts. Taking care of the lowest ones first allows you to cross them off your list, and make you feel good about reimbursing them.

This can take some time. For some people. It’s a few months, for some others, it’s a few years. The key is consistency. So here are a few ways to speed things up. The main takeaway: make or keep more money to get out of debts faster.



Live more frugally

By setting up a monthly budget for all your expenses, and tracking all these with apps like Personal Capital or Mint (budget apps reviewed here), it will be much easier to see the big picture. Doing so will allow you to see where you can trim your expenses. You will also see all the small fees you are paying for brick and mortar banks (sign up for an online bank to reduce these) and other buried small costs. In the end, it is the accumulation of these small things that makes your debt. Stop eating out, and cook at home. It's healthier anyway.

Here are a few examples of where you can cut the fat and make more money to reimburse faster. By getting rid of your debts, you are one step closer to financial freedom.

competition, and would hate to go. Can you do anything to lower my bill/plan?" = ball in their court.

Here is an extreme personal exemple: I had to leave the country for a few months, and did not want to pay AT&T $80/month for my plan for nothing. I poured my number over to US Mobile — an online-only phone service provider — and opted-in for their text message only plan. I was able to reduce my phone bill from **$80 to $2.95 a month**! This is a little extreme and might not work for every situation, but you get the point. Like my mother-in-law says: "*when there's a will, there's a way*".

"WHEN THERE'S A WILL, THERE'S A WAY".

My mother in-law

Cancel your gym membership

They are too expensive anyway. Plan around differently and play with these three ideas:

- Instead of running on the treadmill, go for a run around your local park. You get to breathe the fresh air in nature instead of your neighbour's BO.

- Outdoor gyms: in some areas, there are free outdoor gyms provided by the municipalities. Granted, these are not state of the art, nor connected ones.


INVEST
IN YOURSELF

INVEST IN YOURSELF

Nothing beats the return on investing in yourself. Learning a new skill, improving one, buying a book etc... All these choices can make you better at your job, help you secure a better one, have a better understanding of our surrounding world, and leave you with more money in your pocket to invest and build your wealth.

Sometimes, the best long-term investment you can make is in yourself. Whether it is a book to learn a new skill or give you a different perspective, or a course. Your own personal growth can beat any potential investment.

In fact, by reading this ebook, you just picked up some valuable information, whether you decide to use these ideas or not! Though I recently took the Yale Science of Well-Being class, and one of the main ideas is cognitive biases illustrated through the GI Joe fallacy. The short version is that **knowing is not half the battle. Knowing is not enough to change our behaviour**. We have to put into practice what we've learned in order to truly achieve this change.

It is not because you decide to embark on this investing lifestyle, and living frugally that you need to be considered stingy. Anything that can make you grow personally is also an investment. With a better view of the world you are living in, you end up being a better investor, and a better person.

So ready to claim your financial freedom?