

Learn how you can benefit from dividend investing in today's market

The Case for Dividend Paying Securities

Despite the recent rise in treasury yields and the continued global economic headwinds, the new Bank of Canada governor is not looking to shift from the country's current low interest rate policy, at least in the short term. And, a lower interest rate policy provides support for stronger equity markets. Therefore, investors who generate wealth from traditionally "safe" investments such as bonds and guaranteed investment certificates' will continue to see their returns lag the pace of inflation.

Hence, the case for dividend paying securities. Dividends not only receive favourable tax treatment, but the average dividend paying companies offer annual dividends in the 3% to 5% range, with the potential for capital gains as well.

As the chart below illustrates, the total return of dividend paying stocks as opposed to non-dividend paying stocks is substantial. The compound annual growth rate of dividend payers is more than triple the rate of return earned by non-dividend payers (7.8% vs 2.4% annualized return).

In addition, the dividend-payers portfolio has a substantially higher Sharpe ratio (portfolio excess returns divided by the standard deviation of returns). This indicates that investors would have earned higher risk-adjusted rewards for placing their capital with dividend paying companies.

If you are seeking higher long-term returns and lower portfolio volatility, you may consider adding exposure to core dividend paying stocks to improve your prospects for better performance. As the economy expands, prices rise, leading to increased profits and increasing the possibility of rising dividends. Bond investments paying a fixed amount do not protect against unexpected inflation, as the fixed income received is worth less in real terms if inflation accelerates.



Figure is based on the price returns of equal weighted portfolios comprised of dividend-paying, and non-dividend paying members of the S&P/TSX Composite Index, rebalanced quarterly
Source: BMO Capital Markets

Options for you

Investing in a dividend-focused mutual fund provides you exposure to a diversified portfolio of corporations for a fraction of the cost of owning these companies individually. These funds offer stable, predictable returns, and while they may lag the performance of the broader market during economic expansion, they offer much greater downside protection during recessions and financial crises, versus owning an individual stock. Dividend-focused ETFs provide the added benefit of liquidity, as they may be bought and sold throughout the day, just like a stock.

BMO Financial Group has a broad range of both dividend-focused mutual funds and dividend-focused ETFs for BMO InvestorLine investors seeking exposure to dividend-paying equities. The following chart provides a reference guide for selecting the preferred dividend-focused funds or ETFs for your portfolio.

Mutual Funds

Fund Name	Focus	Sector	Fund Codes
BMO Dividend Fund	Dividend yielding common and preferred shares of established Canadian companies, with a history of, and potential for, dividend growth; the fund's objective is to provide high after-tax return	Significant weighting in financials (mainly banks) and energy	NL: GGF70146
BMO Monthly Dividend Fund	Dividend yielding common and preferred shares (minimum 50%) of established Canadian companies; the fund's objective is to generate a high level of tax efficient income with moderate volatility	Significant weighting in financials, but split between common equity and preferred share offerings	DSC: GGF188 FE: GGF588 LO: GGF909
BMO Global Dividend Class	Dividend yielding common and preferred shares of companies from around the world; the fund's objective is to achieve a high level of total return	Diversified portfolio that changes depending on specific sector opportunities	NL: GGF70211 DSC:GGF92211 FE: GGF94211 LL: GGF93211
BMO Monthly High Income II Fund	Trust units, equity securities, and fixed income securities; the fund's objective is to generate a high level of monthly distributions with moderate volatility	Significant weighting in financials (primarily REITs and other non-bank financials) and energy (pipelines)	DSC: GGF260 FE: GGF619 LO: GGF941 NL: GGF70156 DSC: GGF3095 FE: GGF3094 LL: GGF3096
BMO Growth & Income Fund	Canadian common and preferred shares of medium and large companies, trust units, and debt obligations; the fund's objective is to generate a high level of monthly distributions with moderate volatility	Primarily financials (REITs) and energy	DSC: GGF193 FE: GGF593 FE: GGF442 DSC: GGF3092 FE: GGF3091

ETF Funds

Fund Name	Focus	Sector	Fund Codes
BMO Canadian Dividend ETF	Yield weighted portfolio of Canadian dividend paying stocks	Primarily financials and energy	ZDV
BMO US Dividend ETF	Yield weighted portfolio of U.S. dividend paying stocks	Primarily utilities, IT, and consumer discretionary	ZDY
BMO US Dividend ETF (US Dollar Units)	Yield weighted portfolio of U.S. dividend paying stocks (trades in US dollars)	Primarily utilities, IT, and consumer discretionary	ZDY-U
BMO US Dividend Hedged to CAD ETF	Yield weighted portfolio of U.S. dividend paying stocks (US dollar currency exposure is hedged back to Canadian dollars)	Primarily utilities, IT, and consumer discretionary	ZUD

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