DivGro

GENERATING A RELIABLE AND GROWING DIVIDEND INCOME STREAM

Tuesday, October 25, 2016

DIY Investing With Simply Investing

A few weeks ago I started corresponding with Kanwal Sarai of Simply Investing. With more than 17 years of dividend investing experience, Kanwal has a wealth of knowledge to share. He does so through regular blog posts, a self-paced online investing course, live seminars, and a monthly subscription-based report, called the *Simply Investing Report*.

In this article, I'll be reviewing the *Simply Investing Report*. Kanwal provided two monthly issues for me to review. I'll briefly describe the report contents and how Kanwal suggests using the report. As part of the subscription, subscribers get access to a spreadsheet containing data of stocks covered in the report. I used this data to compare Kanwal's valuations with my own. I find the comparison fascinating!

Kanwal has graciously offered a one-year subscription to one reader of this review! If you're interested in a free subscription, be sure to read the review for details on how to qualify!

Before presenting my review, I thought it would be great to introduce readers to Kanwal.

Meet Kanwal Sarai

Kanwal, tell us a little about yourself, where you live, what hobbies you have, and where you like to go on vacation?

I'm a dividend value investor, educator, entrepreneur, and dad. I live in Ottawa (Canada) the nation's capital. I enjoy running, reading, yoga, movies, cooking, playing with my kids, and reading annual reports in my free time. I am also an aviation and automotive enthusiast. I love traveling and exploring new places, in the winter it's great to get away

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About FerdiS of DivGro

I'm an effects artist at a well-known animation studio in the Bay Area. My hobby is investing in stocks and options. On this blog, I write about my portfolio of dividend growth stocks, DivGro, created in January 2013. My goal is to generate a reliable and growing dividend income stream. I use options to boost dividend income.

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to somewhere warm, like the Caribbean. I've visited over 16 countries and can speak three languages.

What is your investing background? What motivates you as an investor? Who inspires you most?

I first started investing at the age of 16 by buying a term deposit, I then moved on to mutual funds, index funds, ETFs, and finally to individual stocks. I started my dividend approach in 1999 and slowly transitioned out of mutual funds and into individual stocks over a period of three years.

As an investor, I'm motivated to see how much I can grow my investments with the least amount of risk. When it comes to investing I'm conservative – I don't like putting my hard earned money at risk. I'm also motivated by the fact that I can create a passive stream of growing income just from dividends alone.

Benjamin Graham was my biggest inspiration. Today I have four incredible investors that I look up to, Warren Buffett, Geraldine Weiss, Tom Connolly, and Kelley Wright. These investors have a long-term perspective and are calm and patient regardless of market conditions.

The markets are trading at all-time highs, and the bull market seems to be getting long in the tooth. Do you have advice for dividend investors, especially newer investors?

Timing the market is difficult and time-consuming and predicting accurately where the market will go is impossible. My advice for dividend investors and newer investors is to buy quality stocks when they are undervalued. You can find undervalued, quality stocks even in a bull market. Be patient and disciplined and only buy quality stocks when they are undervalued.

It is important to learn how to identify *quality* stocks and to determine whether these stocks are *undervalued* or *overvalued*. I define a quality stock as one that meets my 12 Rules of Simply Investing. A stock is undervalued when it's current dividend yield is higher than it's average (10-yr) dividend yield. For new investors, I'd say start small, invest a little bit, and watch your investment grow. As you collect dividends and your passive income stream grows, your confidence will grow as well.

With Simply Investing, you seem to promote investing in individual stocks. What do you think of mutual funds, exchange traded funds, and closed-end funds, especially ones that pay dividends? Is the increased diversification worth considering these investment vehicles?

The various funds you mention might be suitable for people who don't have the time, confidence, or desire to select individual dividend stocks. But I would argue that it's easier (and more lucrative!) to pick individual dividend stocks than it is to pick from a wide array of available funds.

Funds have several problems that you can avoid by picking your own stocks. Funds charge fees based on a percentage of your portfolio, and those fees are charged annually, whether the funds perform well or not. Over time, those fees will add up! Also, funds inadvertently buy overvalued stocks (along with undervalued

Labels

- Annual Review (3)
- Blog Admin (7)
- Blogger's Portfolio (4)
- Bonus Deposit (6)
- Dividend Increases (103)

stocks) and mediocre stocks (along with quality stocks). As an individual dividend stock investor, you can choose to buy only undervalued and quality stocks.

While conventional wisdom suggests that you get better diversification with funds, you're not guaranteed to get better results. I've written about diversification and risk before.

In addition to your Simply Investing Report, you offer a premium investment course. Please tell us a bit about the course and why you created it?

My *Simply Investing Course* consists of five video modules and includes a PDF workbook and an Excel Worksheet. In my view, the course is the fastest and easiest way to learn how to become a successful dividend investor. The course is available online and includes free lifetime updates.

I have a natural talent to take complex ideas and explain them in simple, easy-to-understand terms. My Son took my investing course when he was nine years old and has already started to build his own stock portfolio.

Teaching this course allows me to combine my passion for teaching with my enthusiasm for investing. I love to see my students succeed – if they apply what they've learned and reap the rewards, I'm rewarded as well!

Overview of the *Simply Investing Report*

Available monthly on a subscription basis, the *Simply Investing Report* tracks 110 stocks and classifies them as *undervalued* or *overvalued*. The report covers 60 US dividend stocks and 50 Canadian dividend stocks.

The report is available in a PDF format and subscribers can download an Excel spreadsheet also.

The PDF report is 12 pages long and starts with a selection of undervalued and high-quality stocks called ***The Five***. These stocks are considered to have the highest potential for capital appreciation and dividend growth. Below is a snapshot of September's first page, with the five US stocks highlighted. There is a similar selection of the five best Canadian stocks.

Subscribers are encouraged first to consider the five US and five Canadian stocks on the first page. If they already own these stocks, then they can look for suitable undervalued stocks in the rest of the report. Pages 2-5 contain tables of undervalued and overvalued US stocks, while pages 6-9 cover the undervalued and overvalued Canadian stocks.

Simply Investing tracks 25 different metrics (see sidebar). To present all this information, the tables in the PDF report are split across several pages. This is not ideal, but subscribers can download an Excel spreadsheet that presents the information in two worksheets, one for US stocks and one for Canadian stocks.

The spreadsheet is much more useful for other reasons. Subscribers can sort each sheet by any of the metrics and look for candidate stocks that way. For example, if you're interested in stocks yielding at least 3%, you

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Monthly Review (47)
Musings (9)
Options (10)
Quarterly Review (15)
Recent Buy (89)
Recent Sell (22)
Recent Transfer (27)
Review (1)
Seeking Alpha (100)
Stock Analysis (18)
Strategy (19)
The DIV-Net (7)
Top-10 Stocks (31)
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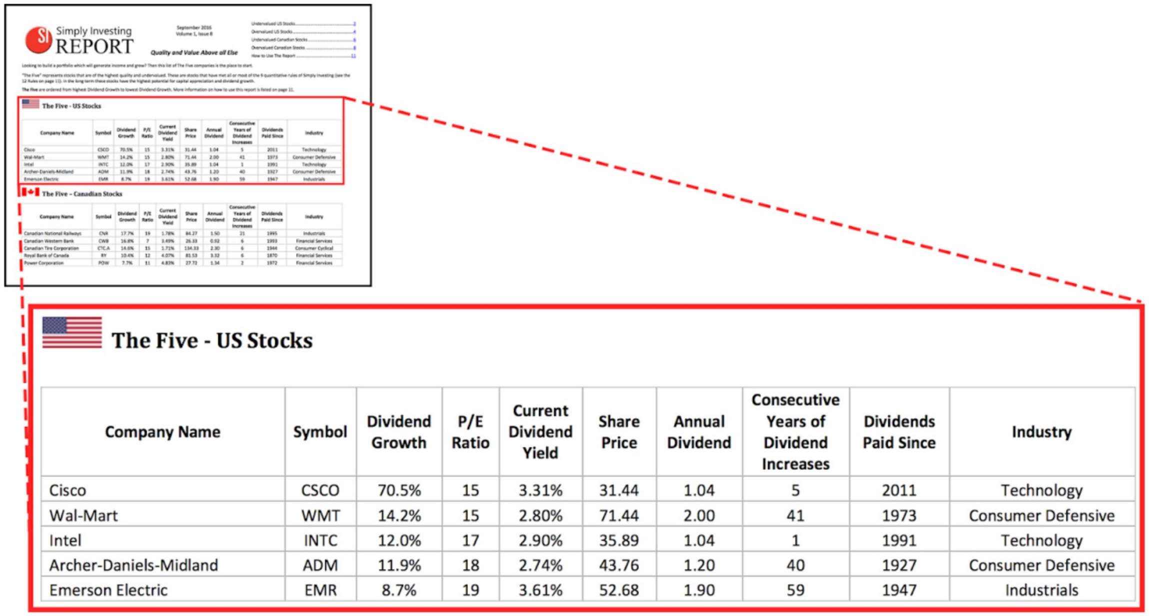

The Five - US Stocks

Company Name	Symbol	Dividend Growth	P/E Ratio	Current Dividend Yield	Share Price	Annual Dividend	Consecutive Years of Dividend Increases	Dividends Paid Since	Industry
Cisco	CSCO	70.5%	15	3.31%	31.44	1.04	5	2011	Technology
Wal-Mart	WMT	14.2%	15	2.80%	71.44	2.00	41	1973	Consumer Defensive
Intel	INTC	12.0%	17	2.90%	35.89	1.04	1	1991	Technology
Archer-Daniels-Midland	ADM	11.9%	18	2.74%	43.76	1.20	40	1927	Consumer Defensive
Emerson Electric	EMR	8.7%	19	3.61%	52.68	1.90	59	1947	Industrials

can sort by metric #8. Also, you can add new columns of data that reference or combine the other metrics in different ways.

1. EPS Growth
2. Dividend Growth
3. Payout Ratio
4. Long-term Debt/Equity Ratio
5. S&P Credit Rating
6. Share Buyback
7. P/E Ratio
8. Current Dividend Yield
9. 10-year **Average Dividend Yield**
10. 10-year **Average High Dividend Yield**
11. 10-year **Average Low Dividend Yield**
12. High Stock Price
13. Low Stock Price
14. P/B Ratio
15. Book Value per Share
16. SI Criteria
17. Share Price
18. Annual Dividend
19. Graham Price
20. % Difference Graham Price vs Current Price
21. Consecutive Dividend Increases
22. Dividends Paid Since
23. Industry
24. Undervalued/Overvalued
25. EPS

Kanwal mentioned the *12 Rules of Simply Investing*, which he uses to find quality stocks. Nine of the rules are quantitative. Stocks that meet most of the quantitative rules are high-quality stocks. Metric #16 captures the number of rules that each stock meets.

December 5-9, 2016
7 Dividend Increases: November 21-25, 2016
DivGro Pulse: November 2016
Monthly Review: November 2016

1. Do you understand the product or service offered by the company?
2. Will people still be using this product or service in 20 years?
3. Does the company have a low-cost durable (lasting) competitive advantage?
4. Is the company recession proof?
5. Has the company had consistent earnings growth?
Generally the EPS growth must be at least 8%
6. Has the company had consistent dividend growth?
Generally the dividend growth must be at least 8%
7. Does the company have a low payout ratio?
Payout ratio must be 75% or less.
8. Does the company have low debt?
Debt must be 70% or less.
9. Does the company have a good credit rating?
Company must have a minimum S&P Credit Rating of "BBB+".
10. Does the company actively buy back its shares? (optional)
11. Is the stock undervalued?
a. The P/E Ratio must be 25 or below.
b. Is the current dividend yield higher than the average dividend yield?
c. The P/B Ratio should be 3 or less.
12. Keep emotion out of investing.

One way to distinguish between undervalued and overvalued stocks is to compare the current dividend yield to the 10-year average dividend yield. A stock is deemed undervalued if the current yield is greater than the 10-year average yield. Furthermore, if the current yield is close to the 10-year average high yield, then the stock is significantly undervalued.

It is also worth knowing which stocks are overvalued. You certainly don't want to buy overvalued stocks, but if you already own them, you may want to consider closing or trimming your positions. When deciding to sell overvalued stocks, Kanwal suggests looking for low-quality stocks (as measured by metric #16) first. Swopping overvalued stocks for undervalued stocks is essentially *buying low and selling high*.

According to Kanwal, the Simply Investing strategy has served him well over the past 17 years. His portfolio has easily outperformed the stock market over this time frame. More importantly, though, his portfolio has generated an increasing stream of dividend income for 17 consecutive years.

The *Simply Investing Report* concludes with a several short and informative sections:

- *The Simply Investing Perspective* – a short essay on current market conditions/strategies to pursue
- *Building Your Portfolio* – steps to building and diversifying your portfolio
- *How to Use the Report* – guidelines and additional resources

Blog Archive

- *The 12 Rules of Investing* – handy reference to Kanwal's 12 Rules of Investing
- *Table Headings* – descriptions of the metrics used for stock valuation
- *Subscription Rates* – monthly and annual subscription rates, and contact information

Review of the *Simply Investing Report*

In my view, the main benefit of the *Simply Investing Report* and its underlying philosophy is the simplicity of approach – in essence, it is to ***buy only high quality, undervalued stocks***. Follow this strategy faithfully and you'll have every chance of becoming a successful investor.

For *Simply Investing*, ***high quality*** equates to meeting the *12 Rules of Simply Investing*. While I may disagree on some of the details, I do agree on the principles of the 12 rules. For example, I think a P/E Ratio threshold of 25 is too liberal for some sectors and too conservative for others. Nevertheless, stating succinctly and clearly exactly *what* constitutes a high-quality stock and *only buying* high-quality stocks is a great approach to investing.

To distinguish between ***undervalued*** and ***overvalued*** stocks, *Simply Investing*'s approach of comparing the current dividend yield to the 10-year average dividend yield is sound. It is unclear which of the other metrics are used in determining the undervalued/overvalued status. I'm assuming the Graham price (metric #19) and a few other metrics are used. I'm aware of at least one other dividend investor that uses average dividend yield and the Graham Price to find undervalued stocks.

My approach to stock valuation is based on a multi-stage dividend discount model (DDM). It is certainly more complex than comparing current and average dividend yields. While I arrive at an estimate of fair value and, consequently, a percentage discount (or premium) to fair value, it is a time-consuming process. If *Simply Investing*'s simpler approach can deliver similar results, it would be an attractive alternative!

One objection do-it-yourself investors may have about the *Simply Investing Report* is the "limited" number of stocks being tracked. I use "limited" advisedly because 60 US stocks and 50 Canadian stocks surely would provide ample investment opportunities. In fact, it seems quite attractive to me to track "only" 110 stocks. (If only we knew which 110 stocks were the **best** ones to track...)

About half of the stocks in my DivGro portfolio are not tracked by *Simply Investing*. I'll mention a few here that have been exceptional performers:

- General Dynamics Corporation (GD)
- Main Street Capital (MAIN)
- Altria Group, Inc (MO)
- Northrup Grumman Corporation (NOC)
- Reynolds American, Inc (RAI)

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I occasionally write for The DIV-Net and I republish those articles one week later here at DivGro.

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In listing these stocks, I'm not trying to suggest that *Simply Investing* is tracking the wrong stocks. In fact, I'm quite certain there are many exceptional performers among the stocks that *Simply Investing* tracks, that I do not own.

The reason I bring up the number-of-stocks issue is to challenge my first gut reaction seeing "only" 60 US stocks (and 50 Canadian stocks). Tracking a limited number of stocks allows you to focus on those stocks and to get to know them really well. That's a significant advantage!

One thing I would want to ask Kanwal is if he periodically updates the stocks being tracked. That would certainly address another potential concern – that the list of stocks would become stale over time.

I thought it would be interesting to do a quick comparison of *Simply Investing*'s valuations and my own. Unfortunately, the dates of these valuations don't agree, but it is a fascinating comparison nevertheless!

Company	Symbol	Simply Investing (1 Oct'16)	DivGro (24 Oct'16)	Agree?
Apple Inc	AAPL	Undervalued	Undervalued	Yes
Aflac Incorporated	AFL	Undervalued	Undervalued	Yes
Caterpillar Inc	CAT	Overvalued	Overvalued	Yes
Cisco Systems, Inc	CSCO	Undervalued	Undervalued	Yes
International Business Machines	IBM	Undervalued	Undervalued	Yes
Intel Corporation	INTC	Overvalued	Overvalued	Yes
Johnson & Johnson	JNJ	Overvalued	Overvalued	Yes
Kimberly-Clark Corporation	KMB	Overvalued	Overvalued	Yes
Coca-Cola	KO	Undervalued	Overvalued	No
McDonald's Corporation	MCD	Undervalued	Overvalued	No
3M Company	MMM	Overvalued	Overvalued	Yes
Microsoft Corporation	MSFT	Undervalued	Overvalued	No
Nike Inc	NKE	Overvalued	Overvalued	Yes
Pfizer Inc	PFE	Overvalued	Undervalued	No
The Procter & Gamble Company	PG	Undervalued	Overvalued	No
AT&T	T	Overvalued	Undervalued	No
Target Corporation	TGT	Undervalued	Undervalued	Yes
The Travelers Companies, Inc	TRW	Overvalued	Overvalued	Yes
Union Pacific Corporation	UNP	Undervalued	Undervalued	Yes
Walgreens Boots Alliance, Inc	WBA	Undervalued	Undervalued	Yes
Wells Fargo & Co	WFC	Undervalued	Undervalued	Yes
Wal-Mart Stores, Inc	WMT	Undervalued	Undervalued	Yes
Exxon Mobil Corporation	XOM	Undervalued	Overvalued	No

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Using completely different valuation methods will, of course, produce different results. *Simply Investing*'s method uses historical and, therefore, verifiable data. The DDM approach estimates and discounts future dividends, which may or may not materialize. It is very interesting that the two valuation methods agree on 70% of the valuations!

In conclusion, I think the *Simply Investing Report* offers a valuable service to DIY investors who do not have the time or inclination to do their own stock analyses and valuations. By selecting and tracking a limited number of stocks, and sticking to clearly stated selection criteria and valuation methods, the *Simply Investing Report* will help subscribers to ***buy only quality, undervalued stocks***. Follow this strategy faithfully and you'll have every chance of becoming a successful investor!

Full Disclosure: *I have not received monetary compensation for this review. Simply Investing will promote the review and publish an interview with me at a future date.*

Thanks for reading my review of Kanwal Sarai's *Simple Investing Report.*

Kanwal has offered a one-year subscription to one lucky reader of my review!

If you're interested in a free subscription, then enter a comment below and say why you think the *Simply Investing Report* would help you in your investment journey.

The best† answer entered by noon on Sunday, October 30, 2016 (Pacific time) will be declared the winner!

†as adjudicated by me, FerdiS of DivGro

Posted by FerdiS DivGro at 2:14 AM

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4 comments :

bwatsky October 25, 2016 at 6:00 PM

I subscribe to the view that a quality stock must have a fundamental basis to own and then enhanced

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with technical analysis for acquiring. The fundamental analysis should be easy to understand and apply. I need help in this area.

Reply

Replies

FerdiS DivGro November 3, 2016 at 12:40 AM

Congratulations, bwatsky! You're the winner of the one-year subscription!

Please contact me (click on the Contact tab above and send me an e-mail so I can relay your information to Kanwal.

Thanks!
FerdiS

Reply

Divi Cents October 26, 2016 at 10:07 AM

I like using many of the same metric when picking a stock. Nice work

Reply

Replies

FerdiS DivGro October 30, 2016 at 9:15 AM

I like Simply Investing's approach, too. Thanks for visiting and commenting!

Reply

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