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ME AND MY MONEY

A value investing approach with a dividend tilt

LARRY MACDONALD

The Globe and Mail

Published Friday, Nov. 30 2012, 7:44 PM EST

Last updated Friday, Nov. 30 2012, 7:44 PM EST

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Kanwal Sarai, 40

Occupation

Software product delivery co-ordinator

The portfolio

Includes AT&T Inc., BCE Inc., Bank of Montreal, CN Railway Co., Exxon Mobil Corp., Johnson & Johnson, Power Corp., TransCanada Corp. and Wal-Mart Stores Inc.

The investor

Kanwal Sarai began investing in 1988, starting with mutual funds. After a few years, he decided to manage his own investments. His search for role models led to Warren Buffett, Benjamin Graham and other value investors who focus on buying value-priced shares in quality companies for the long term. Influenced by dividend investors such as Tom Connolly, editor of the Connolly Report, a tilt toward dividends was added.

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Undervalued companies

"To me a stock is undervalued when its current dividend yield is higher than its 10-year average yield. I also look for a price-earnings ratio under 20. But lower – around 12 – is even better."

Market leaders

"Generally I look for companies that have been around for a very long time, are household names and virtual monopolies in their market." Examples include Coca-Cola Co. in the U.S., and the big banks in Canada.

Being financially healthy is important, too. "The long-term debt-to-equity ratio should be under 70 per cent, preferably even less than 50 per cent." Good credit ratings count, as well.

Non-cyclical growth

Companies should be recession-proof and have grown earnings per share and dividends more than 8 per cent annually over the past 10 years. The dividend payout ratio should be less than 75 per cent of net income.

Recent buys

He purchased shares in Bank of Nova Scotia in early November, when the dividend yield was close to 4.25 per cent compared to the 10-year average of 3.47 per cent. Dividends have been paid since 1833 and grown at a 14-per-cent annualized clip over the past 12 years. About 45 per cent of net income is used to finance dividend payments.

He bought Chevron Corp. in the summer. Its 3.6-per-cent dividend yield is above its 10-year average, and the P/E ratio is under 12.

Best move

He bought TransCanada in 2000; if he sold now, his total return would be over 340 per cent.

Worst move

"Buying Nortel shares based on a 'hot' stock tip from friends."

Advice

"Do not make investment decisions based on stock tips," Mr. Sarai offers more advice at simplyinvesting.com.

Special to The Globe and Mail.

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SECURITY

BNS-T

Bank of Nova Scotia

58.95

0

+

TRP-T

TransCanada Corp.

48.75

-0.57

-1.166%

+

JNJ-N

Johnson & Johnson

74.41

0.73

1.073%

+

XOM-N

Exxon Mobil

91.76

0.65

0.713%

+

BMO-T

Bank of Montreal

64.45

-0.03

-0.124%

+

BCE-T

BCE Inc.

44.86

0.23

0.651%

+

T-N

AT&T Inc.

34.68

0.55

1.611%

+

CNR-T

Canadian National Railway

95.9

0.40

0.419%

+

WMT-N

Wal-Mart

69.89

0.54

0.779%

+

CVX-N

Chevron Corp.

117.21

1.17

1.008%

+

BNS-T

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