



What My Granny Taught Me About Successful Investing

QWVA
QUARTERLY WEALTH ADVISORY

What My Granny Taught Me About Successful Investing

An International Living Quarterly Wealth Advisory report

Author: Jeff Opdyke

Graphic Designer: Rob McGrath

© Copyright 2018. International Living Publishing Ltd., Woodlock House, Carrick Road, Portlaw, Co. Waterford, Ireland. All rights reserved. No part of this report may be reproduced by any means without the express written consent of the publisher. The information contained herein is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. Registered in Ireland No. 285214.

Introduction

I walked into the house to find my grandmother standing near the door, reading a letter, the scowl clear on her face. I was probably 12, maybe 13 at the time. Was I in trouble—again?

“What’s wrong,” I asked, not at all certain I wanted the answer.

“Every time you make a nickel,” she hissed, “someone comes along to take a dime.”

She looked like she wanted to scream. Or cry.

For her and my grandfather, money wasn’t necessarily an important part of life. My granny was an orphan, living in an orphanage, and never had much at any point in her life. And for my grandfather, a retired car mechanic/tire salesman, so long as he had a little gas in his truck to get him up to the lake to fish for a few days, and a couple of dollars to buy some milk and cornbread, life honestly was as dandy as it could ever get.

They’d both grown up poor in Depression-era Mississippi. And in married life, they lived their version of today’s “it is what it is” and they got on with the business of living.

But here was my grandmother, seemingly on the verge of tears. Weeks earlier, her car had bumped—literally *bumped*—the car in front of her at a stop sign. No injuries. No damage. Not even a scuff on the bumper. The police had stopped by, but issued no tickets, and everyone had gone merrily on their way.

And yet the woman driving the other car had decided that, well just maybe there were damages—to her back, her neck, her unborn child. Her emotional state.

She filed a million-dollar lawsuit. Granny’s insurance company had settled the case for dramatically less...and then promptly raised my grandmother’s auto-insurance rates sharply—the letter in her hand. It was a burden hard to shoulder for an elderly couple living on a fixed income and raising a teenage boy.

That was the first of many times my granny decided to open up her financial life to me, sharing the details of living on my grandfather’s meager Social Security check and her paltry paycheck as a chemical-plant secretary.

During one of the lessons, she dropped a manila file folder on the kitchen table. Inside were quarterly account statements going back several years—all the money she had invested in her company’s employee stock-purchase plan.

Mind you, despite all the statements, the sum wasn’t very much. At most a dozen shares or so.

Of course, she'd only been putting in about \$20 a month—or maybe it was per quarter. I can't remember. Just whatever she felt she could afford.

But what I do remember is her pointing to a small number on one of the statements: "We Hold," was printed above a small number.

"That's dividends," she told me, explaining that every quarter, her company paid a dividend and instead of taking that dividend as a check, she was reinvesting it back in additional shares that the company held on its books in her name.

"Money at work is better than man at work," she said. It was possibly the most-confident financial statement my grandmother ever uttered.

And it stuck with me.

I began investing on my own in 1984, at 18 years old. From a single Charles Schwab account opened at a branch in New Orleans, Louisiana, I was, at one point, investing across more than a dozen brokerage accounts around the world. I was trading shares from London to Auckland, Sydney to Singapore to Central Europe.

No matter where I put my money to work, I was always looking for dividend stocks.

2

And for one primary reason: They are the leading cause of wealth creation in the stock market.

Turns out my granny—a secretary with limited education—had been following the wisest path to stock-market wealth: Investing in dividend stocks.

That's why I've put together this report for you: To show you why dividend stocks should be the largest portion of your stock-market portfolio, no matter your age...and why it is that to be a truly successful dividend investor, you need to look beyond the U.S. stock market.

Here's to profitable investing,

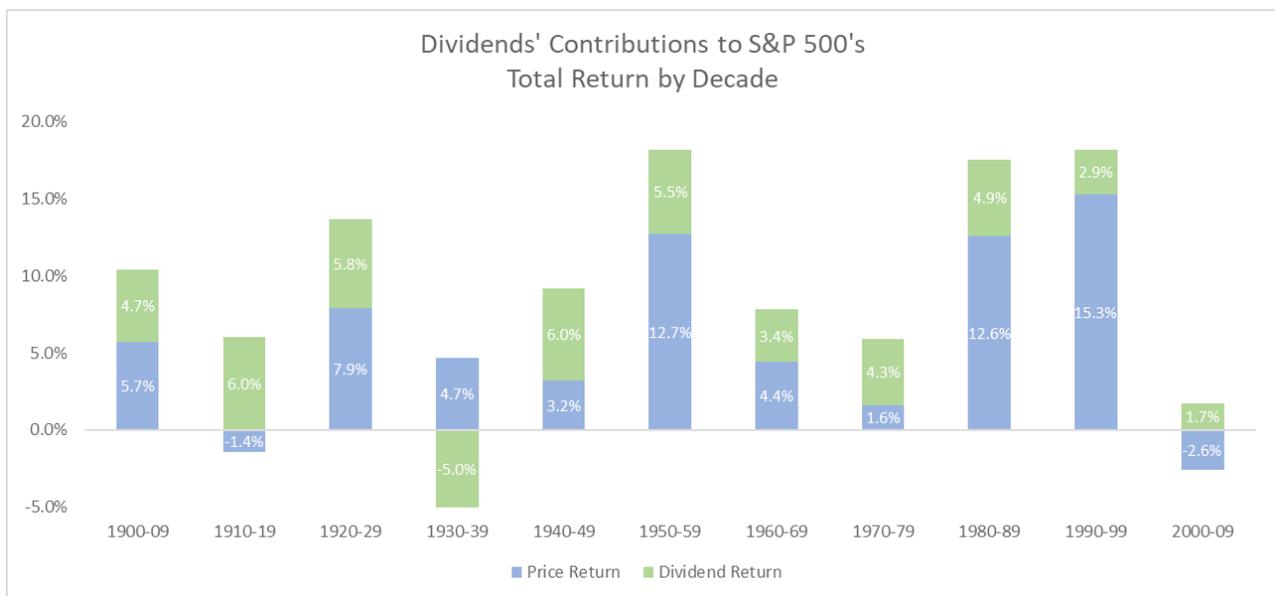
Jeff Opdyke

About the Author: Jeff Opdyke has spent almost 40 years traveling the world, and more than 30 years investing globally across five continents. He spent seven years traveling globally to write his monthly *Sovereign Investor* newsletter, and before that collected 17 years as a financial writer for *The Wall Street Journal*. Jeff has written 10 books on investing and personal finance. He currently lives in Prague and is a regular contributor to *International Living* magazine.

What My Granny Taught Me About Successful Investing

The Power of a Dividend Check...

If a picture really is worth a thousand words, then this one picture pretty much negates the need for the rest of this report:



	1900-09	1910-19	1920-29	1930-39	1940-49	1950-59	1960-69	1970-79	1980-89	1990-99	2000-09
Total Return	10.4%	4.6%	13.7%	-0.3%	9.2%	18.2%	7.8%	5.9%	17.5%	18.2%	-0.9%
Dividend Contribution to Total Return	45.2%	130.4%	42.3%	N/A	65.2%	30.2%	43.6%	72.9%	28.0%	15.9%	N/A

It's pretty clear that throughout the long history of the S&P 500, dividends have played a critical role in the creation of wealth on Wall Street.

Dividends are the only reason investing in stocks made any sense in the 1910s. They pretty much saved the Depression-era 1930s from being a disaster. And in most decades up until the 1980s, they accounted for essentially half of Wall Street's total return. (Post-80s, things were different...and I'll explain why in a moment.)

The big take-away I want you to consider here is that without dividends, investing in stocks was basically no better than owning bonds or maybe a certificate of deposit. The average annual return since January 1900 is but 4.8%.

Add in dividend income, however, and suddenly annual returns are near 9.5%.

In short: Dividends matter.

They matter a lot.

But let's back up for a moment and define what a dividend is and why they do matter.

Sure, every investor knows the basic description of a dividend: A payment shareholders receive (monthly, quarterly, semiannually or annually) based on their ownership stake in some company. Simple.

But why do companies pay a dividend?

Well, through the course of their business operations, companies, of course, generate a heap of money from whatever they sell or the services they provide. After paying their employees and suppliers, after paying their taxes, and after repaying whatever debt or lease payments they might have, companies (at least the good ones you want to own) are left with excess cash.

Only a few things can a company do with that cash:

- Stick it in the bank or in highly liquid short-term investments such as government bonds.
- Reinvest for the future by building new plants and manufacturing facilities.
- Buy a competitor.
- Pay down any existing debt.
- Buyback company shares.
- Pay a dividend.

That's pretty much it.

Modern investors, those starting in about the 1980s and certainly in the 1990s, were trained to focus on growth. They wanted companies that were using their cash to build new plants or buy competitors. Paying down debt was stupid during an environment where interest rates were continually falling; just refinance at ever-lower rates.

Sticking the money in a bank account? Well, that was just a worrisome sign management had no clue what to do and saw no opportunity to grow the business.

And paying dividends? Why do I, the shareholder, want that money when management can use it for smarter purposes—i.e. growing the business through new plants and acquisitions? I'll just waste it on things that will rot my teeth and my mind.

Thus it is that dividends fell out of favor as investors focused on "growth companies" that were using their excess cash to expand operations and snap up competitors...and buy back their shares. That last item, buying back shares, explains why dividends after the 1980s had such a historically anomalous impact on total returns (but, again, I'm getting ahead of myself).

But history doesn't lie.

Dividends are important. Period. And they're important for these reasons:

1. Dividend payers provide a stable, ongoing source of income.

Companies that pay dividends do so on a regular, consistent basis. That means if you own good, solid, stable, dividend-paying stocks, you can plot the income you can expect to receive during a given period (and usually be pleasantly surprised when a company's dividend payment increases, resulting in added income for you).

2. Dividend-paying stocks consistently outperform...

When compared to companies that don't pay a dividend. Uncountable numbers of ways exist to cherry-pick the numbers, and no matter what timeframe anyone uses, it is cherry-picking. So I will just tell you that in the roughly 20-year period between 1999 and the middle of 2018 (which seems a reasonable time period for today's investors), the Dow Jones U.S. Select Dividend Index was up roughly 9% a year on average...while the S&P 500 Index, which actually includes some dividend payers, was up roughly 6% a year.

That doesn't seem like much, but over a two-decade span it's the difference between turning \$100,000 into \$320,000...or \$560,000.

Obviously, dividends are meaningful.

3. Dividend stocks perform better in down markets.

Again, lots of ways exist to cherry-pick these numbers, but some of the best research I've seen on this shows that in years when the broader market is down, dividend-paying stocks are down less than 10% on average, while stocks that don't pay dividends are down more than 20% on average.

The reason is the stability of the dividend payment for good companies. It acts like a support mechanism.

When a stock price falls, the dividend rises. It's just a function of the math. A \$20 stock paying \$1 per share in dividends yields 5% (\$1 divided by \$20)...and if it falls to \$10 while still paying the same \$1 dividend, well, then the yield is now 10%.

During a bear market, investors will allow shares of a solid, dividend-paying company to fall only so far. They recognize that a good, solid, stable company that continues to generate the profits necessary to pay its dividend is a worthy investment at some level of yield. So, investors step in and start snapping up the shares at some point—providing demand for the stock that acts as a base of support keeping the shares from falling farther.

It's a built-in arrestor mechanism that typically keeps good dividend-paying companies from plunging, providing some measure of stability to a portfolio. Plus, the ongoing dividend income lessens the pain of a bear market.

From 1926 through 2017, research from Federated Investors shows that in down markets, stocks have fallen about 14% on average...yet dividends have kicked in 4.4%, meaning they've helped significantly reduce losses.

The most recent bear market between 2007 and 2009 provides a few good examples.

While the S&P 500 lost basically half its value over the 17-month bear market, a few exceptional companies performed markedly better.

McDonald's fell less than 3%.

Wal-Mart Stores was *up* more than 7%.

Healthcare companies such as Johnson & Johnson, Universal Health Realty Income Trust, and Baxter International were down between 6% and 29%.

Aqua America, a water utility, was down 21%.

And companies that sell consumer-product staples, such as tobacco giant Altria and breakfast-table staple General Mills, fell between 12% and 21%.

Yes, most of those were down...but they were down far less than the overall market. Plus, their declines do not include the 17 months of dividends received along the way, which lessened the pain.

6

4. Dividend stocks are a hedge against volatility.

Academic research from finance professors at the University of Wisconsin concluded that "Dividend-paying stocks, on average, are financially stronger than non-dividend paying firms, and have lower market risk exposures."

What this ultimately means is that dividend-paying stocks are typically less volatile than other shares, so they are not bouncing around as greatly when the stock market is going nuts.

5. Dividends are a sign of quality.

Certainly, there are caveats to every rule and belief on Wall Street. And plenty examples exist of dividend-paying companies that cut or eliminate their dividends and ultimately go belly up. But in broad strokes, companies that have a long history of paying dividends—especially a long history of paying ever-increasing dividends—tend to be solid, stable companies.

The dividend is literal proof that profits are real.

These days, it's all too easy for a company to futz with its financial results to paint a picture of corporate health that may or may not be so accurate. But dividends are real. They represent real dollars that land in your brokerage account.

Simply put: A company can't fake a dividend check.

Which means that regardless of how a company might monkey with its

numbers, some portion of the earnings are real if that company consistently pays a dividend.

6. Dividends are a sign of a healthy future.

Corporate boards only approve dividend payments because they are confident about the business.

If a company knows hard times are on the way, it's likely to cut or eliminate its dividend.

But a company that consistently pays a dividend—or, better yet, raises its dividend—is sending a clear message that “All is A-OK here at the ranch!” It's a sign that those in charge of the company see a bright, stable future ahead...which provides us, the dividend investor, some peace of mind.

Getting Started Investing for Income

Investing in dividend stocks is all about the yield...only it's not.

I know: Sounds like verbal gobbledygook. It's not.

Being a dividend investor means we want to own companies that, obviously, pay a dividend. But a wide, wide range of dividend-paying companies exist, offering an equally wide range of yields. Scroll through any compilation of dividend stocks and you'll find yields starting at 0.1% and going to more than 20%.

To overeager and uninitiated dividend investors, bigger is obviously better.

Yet that's not usually the case.

Nothing is free on Wall Street. And in the case of dividend stocks, the price you pay for excessively high yields is taking on excessively high risk.

As I noted earlier, yield rises as a stock price falls. So when you find an outsized, eye-popping yield, chances are very good that the stock price has recently collapsed...though the dividend payment has not.

Your risk is that the dividend is soon to collapse, too.

See, a declining share price happens when a company's prospects have markedly dimmed. But it can take a quarter or two before that company's board of directors decides to bite the bullet and slash—or totally eliminate—the dividend. Boards loathe to reduce their dividend payments because it is a tacit admission that life's not looking too bright...but when the business is in trouble, the dividend is in trouble.

For that reason, savvy dividend investors know to steer clear of exceedingly high yields.

They simply do not want to take the risk that the company will slash the dividend...because when a dividend is cut or eliminated, the stock price usually

falls even more. It's the worst of both worlds: Your income is cut or terminated... and the value of the shares you own declines.

The question, of course, is: What defines an excessively high yield?

Well, that depends on the company and the industry in which it operates.

Consumer-staple stocks generally yield in the 3% to 5% range.

A tobacco company might be up near 6% or 7%.

Real estate investment trusts can yield between 4% and maybe 8%, sometimes more.

Master limited partnerships (MLP's), most of which operate in the energy sector, can yield into the low-teens.

Again, don't just chase yield. Don't rush to own MLPs just because they yield more. They have their own set of risks: energy prices could tumble, for instance, and impact their revenues.

Getting started in income investing means understanding the company you are buying. Understand the company's yield in terms of norms for that company and its industry...and understand the risks the company faces, and be okay owning those risks.

8

Personally, I'm fine with energy-price risk inherent in many MLPs, for example, because despite the move toward a greener energy future, I truly believe petroleum products will see continued demand for decades to come. Petro byproducts go into everything from paint to cosmetics to plastics to electronics... they pretty much touch every part of our lives every day, and green energy has no way to replace all of that. Thus, for me, a 10% or 12% yield in an MLP running a pipeline that transports petroleum products is solid investment. But not everyone believes as I do.

What to look for in a dividend-paying company

There are four factors I care about when I'm looking to potentially invest in a dividend-paying company.

- 1.** It has a demonstrable history of paying dividends.
- 2.** It consistently pays dividends, meaning it's not cutting or eliminating the dividend one quarter, and then raising it or reinstating it a few quarters later. That's a sure sign of an unstable operation.
- 3.** It has a history of raising the dividend over time—an indication of a growing business, and, based on what I shared earlier, a sign that management sees a bright future for the company.
- 4.** Perhaps most important, we want to know our dividend is safe—that is, we don't face a risk the company we've invested in will soon have to cut or eliminate the dividend.

I will use drug giant Merck to exemplify what I'm talking about...

The pharma firm has paid an unbroken string of dividends since at least 1980. That, I would argue, is a demonstrable history of paying dividends...and a consistent history of neither cutting nor eliminating its dividend. So, we can tick the first two boxes.

And since 1980, Merck has raised its dividend more than 20 times. I could find no examples of when the company cut the dividend. So, we tick box number three.

As for box four, that's a bit more in-depth...so indulge me for a moment.

Every quarter, public companies release their latest financial results.

For dividend-paying companies there are two numbers, in particular, to watch...and both require a bit of rooting around to find them, and some basic math. Like I said, nothing is free on Wall Street, and if you aim to be a successful dividend investor, you need to work at it a bit.

Those two data points are the "payout ratio," and "free cash flow per share."

The **payout ratio** is the dividend payment relative to a company's net profits.

See, dividends are paid out of a company's stream of profits. So, it only makes sense that profits are large enough to support the dividend payment. Or so you'd think.

In reality, many companies pay dividends that exceed what they actually earn in a given quarter. To accomplish this, they're dipping into something called "retained earnings"—essentially, the accumulated cash a company has piled up over the years that wasn't used for other corporate purposes.

In the short-term, dipping into retained earnings to maintain a dividend payment during an unusually (and temporarily) slow period is fine. But if a company constantly and continually does this, it's spending itself into a world of hurt—for you!

At some point, a company will no longer have enough retained earnings to maintain the dividend, and it will be forced to cut or eliminate the payment. And, as I noted earlier, that's bad news on two fronts: You lose your income...and your shares collapse in price.

So that's why we pay attention to the payout ratio. We want a company where the payout ratio is below 100%, meaning that the dividend payment is less than the net profits the company reports.

To calculate this is quite simple. Just go to the company's quarterly statement (or annual, if you want to consider the yearly number) and grab two line-items: "earnings per share" and "dividends per share."

Let's return to Merck...

The company (currently yielding a somewhat respectable 2.8%) paid a dividend of \$0.48 per share in the second quarter of 2018. In that quarter, it earned \$0.63 per share. The payout ratio (0.48 divided by 0.63) is 76%. It's far enough below 100% that Merck has some wiggle room to maintain its current dividend rate even if earnings decline a bit, as happens from time to time.

Now, onto the **free cash flow ratio...**

Free cash flow is all the cash a company generates in a quarter after paying for all of its operations (salaries, raw materials, etc.) and after investing for the future in new plants and whatnot.

The money left over is available to the company to use however it wishes: paying dividends, buying back company stock, making an acquisition, and so forth.

For me, high-quality dividends come from companies whose free cash flow sufficiently covers the cost of the dividend payments.

Alas, free cash flow is a bit more challenging to calculate because you have to hunt around for the raw data necessary for the math. Worse, there are multiple ways to calculate free cash flow. But we'll stick to the most common way...

Again, I'll use Merck as a handy example.

We start with Merck's "Cash Flow Statement," which every company produces every quarter.

1. Look for "Cash Flows From Operations," almost always the first set of numbers on the statement. In Merck's case, "Net Cash Provided by Operating Activities" was \$4.537 billion in the second quarter of 2018.

2. Stay with the Cash Flow Statement and look in the section titled "Cash Flows From Investing Activities." And search for the line item "Capital Expenditures." This is the money a company spends in preparing for the future. It's always a negative number, book-ended by parenthesis, since it is an expense.

Merck spent \$1.033 billion in so-called "cap-ex" in the second quarter.

3. Subtract the \$1.033 from the \$4.537 and we're left with free cash flow of \$3.054 billion for the quarter.

4. Go to the Balance Sheet and look for "Dividends Payable" under the broad heading "Liabilities and Equity." For the second quarter, Merck's "Dividends Payable" were \$1.309 billion, the cumulate amount of money sent to shareholders.

5. Divide \$1.309 by \$3.054...and Merck's free cash flow ratio is a very healthy 37%. The company is generating plenty of real cash to pay its dividends. (Honestly, you don't have to do this step. You can eyeball the two numbers and immediately see that Merck's free cash flow more than adequately covers the dividend demand.)

What these exercises tell us is that Merck's dividend is secure. There's not a great likelihood the company will cut its dividend any time soon.

Where to find dividend income

You can find dividend-paying stocks all over Wall Street. But some industries are synonymous with dividend payments, and that's where I tend to focus my efforts as a dividend investor.

I mentioned a few earlier, particularly MLPs, but let's take a moment to look at where we're most likely to find the best dividend opportunities.

Master Limited Partnerships, or MLPs: These companies are structured as partnerships, instead of traditional corporations, for tax purposes. The income they generate flows through to partners (as MLP shareholders are known) without first being taxed.

That's why MLP yields are so large. (I won't get into the tax issues involved. You can Google that, if you're curious.)

The vast majority of MLPs own energy assets. Many operate pipelines that ferry crude oil, natural gas or various petroleum liquids from ports to production facilities, or from petroleum fields to ports. Others own coal mines, or oil and gas fields. Some produce specialty chemical products.

Whatever their business, MLPs are a great place to look for substantial yield.

Consumer staples: There are two types of consumer purchases: staple items (food, basic clothing, pharmaceuticals, cigarettes) and discretionary items (cars, jewelry, that iced latte on the way to work).

As a dividend investor, I gravitate toward the staples. And for a simple reason: No matter what happens in the economy, people have to live...they have to eat, they have to replace worn out clothes, they have to take medications.

So, that's where I gain the greatest sense of income security as a dividend investor. I might find a great jewelry company, for instance, paying a hefty dividend. But when the economy turns and people are losing jobs, are they going to spend their precious savings on a pretty diamond...or feeding the family?

That's why during the 2007-2009 bear market McDonald's and Wal-Mart fared so well. People out of work stretched their savings farther by eating low-priced fast-food meals, and by shopping for low-priced consumer goods and groceries at Wal-Mart.

To me, consumer staples is a great place to look for dividend opportunities.

Real estate investment trusts, or REITs: These are similar to MLPs in that most of their income flows through directly to shareholders...which, again, explains the generally outsized yields typically found in this industry. The key difference is that all of these companies own property of some sort or another.

Some own apartments around the country, others in just one region or even one state.

Some own strip malls, some own restaurants. The ones I like own doctors' offices, hospitals or nursing homes.

People get sick. People die. Not to be too morbid, but there's good money in the racket.

The risk to be aware of is that as interest rates rise, so too does the cost-of-capital for real estate operations. So pay attention to how rising rates flow through any REITs you come across that you like.

Utilities: This is one of my favorite places to look for yield.

No matter what's going on in the world or in the local, regional, national, or global economies, we all consume electricity, water, and sewage services...every single day.

Better still, many utilities are essentially monopolies or duopolies. They have a wide, wide moat around whatever region they serve. And they typically have long-term contracts with local governments that guarantee them a set return for years or decades—giving investors a sense of assurance that their dividends are secure.

Telecom: Much like utilities, telecom has long been a favorite for dividend investors. For good reason: People need to communicate.

As a species, we are infatuated and consumed by our connected electronic gadgets—smartphones, tablet computers, laptops...and now even our cars, our refrigerators, and washing machines, among other consumer and industrial gadgets.

All of the data flooding the world flows through all the various telecom networks. Those networks are like tolls guarding the roads: You gotta pay'em before you can get on the road.

All those tolls add up to a lot of money for telecom companies, and, in turn, large dividend payments to investors who hold telecom stocks.

Financials: Bank stocks have long been ripe grounds for investors hunting dividends. For decades, bankers operated using a simple strategy: Borrow at 3% and lend at 6%.

That's no longer so accurate (assuming it ever was), but it underscores the strength of banks: they generate great profits in the "spread" between a bank's cost-of-capital and what it earns from lending money. Those profits, in turn, historically have funded nice yields.

For the last decade or so, banks have been in a tight spot because the Federal Reserve has kept interest rates so low. That has greatly narrowed the spread banks have been able to earn. But now that interest rates are rising, spreads are widening, and banks are coming back into their salad days.

As rates go up, profits will rise, and we will likely see any number of banks routinely raising their dividends.

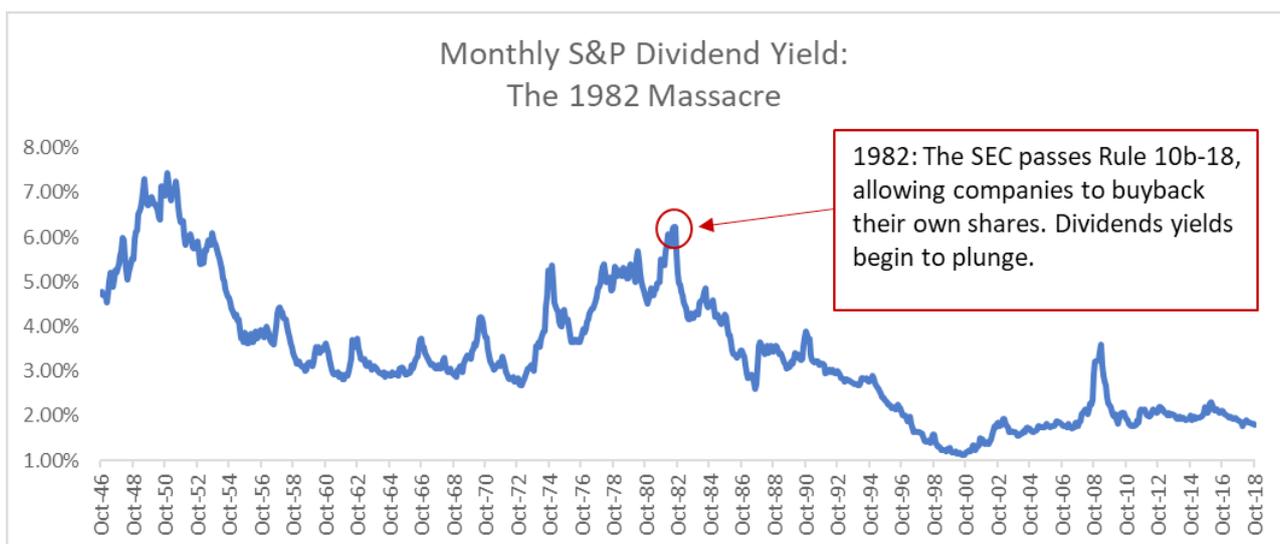
Materials: Think: Chemicals, forest and paper products, building materials, metals...the “material” used to construct our world.

Many of them operate in their own niche, selling concrete or bricks or timber. Similar to utilities, that gives them wide moats to protect their profits...and, thus, their dividend payments.

These are often dull companies operating in dull industries. But when it comes to earning a safe, stable dividend, there’s nothing lovelier than dull. It attracts few competitors to erode profits. Of course, many are susceptible to the ebbs and flows of commodity prices, but these companies have been in business so long, they’ve learned how to deftly navigate those shoals operationally and financially.

Why dividend yields have fallen in America...and how to earn greater returns

Until 1982, dividends were how Corporate America rewarded shareholders. After 1982, that changed. Dividends increasingly went away. Take a look...



The chart shows how the yield on S&P 500 stocks has collapsed. Some of that is stock-price appreciation (since yields decline as prices rise). But a large part of it is that companies over the last four decades have simply de-emphasized dividend payments.

Instead, companies have been spending money on something called a “stock buyback”—a strategy in which corporate boards spend company money buying the company’s shares on the open market.

The modern theory (questionable as it is) is that buybacks, better than dividends, enhance shareholder value because by taking stock out of circulation, the board is effectively spreading the company’s future profits across fewer and fewer shares. And since stocks are valued on their earnings by means of the price/

earnings ratio (the P/E ratio), more earnings per share generally means a higher stock price.

That does work...to a degree.

But as soon as a stock price starts falling, all those paper gains in the market evaporate, and everything the company did to jack up the stock price can go away—plus more.

Yet none of the dividends you've already received go away.

As such, to me, buybacks pale in comparison to dividends, which, as we already know, historically represented a large portion of a stock's total return.

The focus shifted away from dividends in 1982 because of an SEC rule known as 10b-18. I won't go into too much detail here because it would take up too much space. But I will say this: Prior to 1982, stock buybacks were essentially illegal because they were rightly seen as a form of stock-market manipulation.

Today, they are legal, and yet they remain a form of stock-market manipulation.

They allow corporate boards to manipulate share prices higher. Not necessarily for you...but for corporate executives, who are often paid large bonuses, and are awarded large stock-option grants, based on a company's per-share earnings.

14

I'm not the only one complaining about this. A group of 20 U.S. senators has sent a letter to SEC Chairman Jay Clayton, challenging Rule 10b-18. They worry about the impact the rule is having on employees and communities...and are "disturbed" by the way corporate insiders are using the rule to fatten their own wallets while "ignoring the needs of their companies' workers."

Honestly, I don't expect the letter to change anything.

Instead, it's up to us, individual investors, to look out for ourselves.

And one way I do that is to expand my investible universe.

Go where the dividends are bigger...

While U.S. companies have generally scaled back their dividend payments, foreign companies have not.

I have been an investor in overseas stocks since the early 90s, so I have nearly three decades of experience with foreign dividends. And I can assure you from that experience—in more than a score of countries across Asia, Africa, the Middle East, and Europe—that foreign companies are much more likely to A) pay dividends and B) pay larger dividends.

Best I can tell, it's cultural. Every time I've asked my contacts overseas, I hear some version of the same answer: "We just expect to get a dividend."

What my contacts and acquaintances in local markets are saying is that they believe in, and hold companies accountable to, the purest definition of

“shareholder”—that is, a person who shares in the profits of a company.

And, for them, sharing in those profits means receiving a regular dividend check based on those profits.

So it is, then, that I regularly look overseas for substantial dividends.

This doesn't mean sending your money overseas. Many foreign-company shares trade right here in the U.S. And at a number of brokerage firms, including Fidelity, Charles Schwab, and Interactive Brokers, you can trade foreign-listed stocks in their home market right from your U.S. account.

In short, gaining access to a world of high-quality, dividend-paying foreign companies is exceedingly easy today without ever leaving home.

The best places to seek those higher dividends abroad: London, Hong Kong, Singapore, Ireland, Australia, New Zealand, Spain, and France.

What you'll find by looking abroad are big, stable, mainline blue-chip companies like Telefónica Brasil, with a yield in the 10% range as I write this. National Bank of Australia, with a yield north of 8%. And New Zealand's Sky Network TV, paying out more than 7%.

All are large, stable companies, offering products or services—telecom, banking, and entertainment—that have huge demand and are necessities in a modern life.

Indeed, I keep an updated list of about 125 companies in select, blue-chip markets that I continually watch, looking for opportunities to grab the shares at great prices...and lock-in high-quality yield. One of the first such companies I bought, several years ago in New Zealand, was in a deathly dull industry—making washing machines and dishwashers. And yet the company was a dividend machine.

Through semiannual payouts, and one-off special dividends it paid, I earned back in dividend income over the years more than the amount of my original investment.

That's my kind of income stock!

And the thing is, those kinds of dividend payers are all over the place—from New York to London to Auckland.

DRiP DRiP DRiP... The painless way to build wealth

When I landed one of my first jobs, I set out to mimic what my grandmother had done when she began investing in her company's shares with little bits of money from every paycheck.

My company was not publicly traded and, thus, had no stock-purchase and dividend-reinvestment plan in which I could participate. But hundreds of other companies do...and you can invest in them, even if you don't work for the company.

It's called a Dividend Reinvestment Plan, or DRiP.

You invest a small sum of money initially—often no more than \$25 or \$50—and then you can either allow that little sum to grow in time as each dividend payment adds more shares to the account...or, as I did, you can arrange your account so that additional funds flow in every month to buy added shares directly from the company, often with no fees.

I did my research and I picked Wisconsin Energy, because I like owning companies that have a wide moat around them and a captive consumer base.

It's such an easy, painless way to be a dividend investor.

I mention this option not necessarily for you, since DRiPs aren't about earning income to supplement your lifestyle. They're more about putting your dollars to work accumulating wealth over time while you go about your daily life. So, I tell you about them because they are a great way to set up your kids or grandchildren for a brighter future.

If you have \$1,000, or maybe even \$10,000, you can invest in five or 10, even 20 DRiPs for your kids or grandkids.

Better still, engage their sense of wonder and capture their interest by investing in names that resonate with them: the Walt Disney Co.; Dunkin' Donuts; breakfast cereal makers General Mills or Kellogg; soft drinks giants Coca-Cola and PepsiCo; restaurant chains Yum! Brands (the owners of Pizza Hut, Taco Bell, and KFC), McDonald's and Wendy's; chocolatier, the Hershey Co.; toymaker Hasbro; even tech names such as Microsoft or an airline such as Southwest Airlines—names kids know because they consume the products or services.

My granny was right

What I've come to learn over my years as an investor is that making money in the stock market does not require a great deal of financial knowledge.

You don't need "inside tips." You don't need a broker feeding you dubious advice that lines his pocket more than yours. And you don't need to be an expert in anything.

My grandmother was an orphan with a high-school education, and who spent her life as a secretary. And yet she reflexively grasped that the best way to make money on Wall Street is to let your money work for you by owning companies that pay you to own their stock.

That is...companies that pay stable, consistent, above-average dividends.

They aren't likely to grow as fast as whatever the next hot tech stock is. But they're also not as likely to get destroyed in a market downdraft. They're much more likely to grow steadily, and along the way consistently increase their dividend payments to you, allowing you to prepare better for retirement or, once in retirement, to fund your lifestyle or even consistently improve your quality of life.

Our goal as investors should never be to “shoot the lights out” aiming for the biggest returns possible. Our game isn’t to beat the S&P every year. That’s a risky way to handle your money.

Our definition of winning should always be the simple accumulation of wealth that collects continually over time, often in the background, while we’re busy with our lives and paying little attention to the daily drama that is Wall Street.

Winning is one dividend check after another, landing in your account every month. That is the truest example of my granny’s maxim: Money at work is better than man at work.

Editor’s Note: Jeff Opdyke currently lives in Prague and is a regular contributor to *International Living* magazine.