

## NUMBER CRUNCHER: BLUE CHIPS AND DIVIDENDS

# Try to beat the TSX with this investing strategy



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### THE BACKGROUND

When David Stanley retired from the University of Guelph, where he taught food science, he wasn't sure what to do with his retirement package.

"I thought, 'Oh boy, now I can buy a Ferrari.' Then it suddenly hit me that this would probably be the last time in my life someone was going to put a big basket full of money in front of me and I'd better figure out what to do with it. So I invested," he said.

### THE METHODOLOGY

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Inspired by Michael O'Higgins' 1991 book, *Beating the Dow*, which advocated buying the 10 highest-yielding stocks on the Dow Jones industrial average, Mr. Stanley set about applying the concept to Canada.

He's been chronicling his progress as a contributor to the personal finance magazine *Canadian MoneySaver*.

The idea was to see how a basket of the 10 highest-yielding stocks, updated once a year, would perform relative to a benchmark Canadian index from which the stocks were selected. For the period 1987 to 2002, he used data for the TSE 35 index. When that index was discontinued, he started using the Dow Jones Canada Titans 40 index.

## WHAT HE FOUND

Over the 20-year period examined, the basket of blue-chip, high-yielding stocks generated an average annual return of 14.6 per cent, including dividends. That's assuming an equal amount invested in each stock at the start of every year.

The index, by comparison, returned an average of 11.5 per cent a year.

That may not seem like a big difference, but it is: Someone who invested \$10,000 using Mr. Stanley's "Beating the TSX" strategy would have wound up with \$141,344 after 20 years. The same amount invested in the index would have grown to \$88,205.

## WHY IT WORKS

"The whole idea is that over a period of time you build up a really good portfolio of high dividend-paying blue-chip Canadian stocks that you've acquired at a reasonable price," he said.

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## 2007 PORTFOLIO

Company name	Symbol	Aug. 29 price	Yield	52-week high	52-week low	One-year change	PE ratio	Price-to-book value per share
Bank of Montreal	BMO-T*	\$65.40	4.3%	\$72.75	\$59.03	- 1.5%	12.7	2.3
Bank of Nova Scotia	BNS-T*	\$51.38	3.5%	\$54.73	\$45.86	+7.9%	13.2	2.7
BCE Inc.	BCE-T*	\$40.16	3.6%	\$41.80	\$26.79	+45.5%	15.2	2.6
CIBC	CM-T*	\$93.97	3.3%	\$107.45	\$79.48	+14.8%	10.9	2.9
Enbridge Inc.	ENB-T*	\$35.36	3.5%	\$41.48	\$33.62	- 3.6%	19.2	2.6
Great-West Lifeco	GWO-T	\$35.82	3.1%	\$37.70	\$28.76	+20.3%	15.8	3.3
National Bank of Canada	NA-T*	\$56.69	4.2%	\$66.80	\$53.10	- 8.1%	10.3	2
Royal Bank of Canada	RY-T	\$54.34	3.7%	\$61.08	\$47.90	+10.4%	13	3.1

TD Bank	TD-T	\$72.05	3.2%	\$74.89	\$62.80	+13.3%	14.2	2.5
TransCanada Corp.	TRP-T*	\$36.68	3.7%	\$41.35	\$33.87	+3.0%	17.1	2.1

\* These stocks have both dividend reinvestment plans and share purchase plans; TD Bank has a DRIP but no SPP.

SOURCES: CANADIAN MONEYSAVER AND GLOBE INVESTOR

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