Dividend Paying Stocks:

How High Dividend Stocks Can Supercharge Your Income Investing

By: Pat McKeough

Who is Pat McKeough?

While we have a staff of experienced researchers, all our recommendations are personally reviewed and analyzed by our founder and president, Pat McKeough.

A professional investment analyst for nearly three decades, Pat has developed a stock-selection technique that has proven reliable in both bull and bear markets. His proprietary ValuVesting System™ focuses on stocks that provide exceptional quality at relatively low prices. Many savvy investors consider it the most powerful stock-picking method ever created.

Pat is the editor and publisher of our four investment advisories:

The Successful Investor — An advisory for the conservative investor who wants great gains with prudent risk, mainly in Canadian stocks. Click here to learn more.

Stock Pickers Digest — An advisory that's a little more aggressive than ***The Successful Investor.*** Click here to learn more.

Wall Street Stock Forecaster — An advisory that focuses on conservative portfolio investing, mainly in U.S. stocks. Click here to learn more.

Canadian Wealth Advisor — An advisory reporting "safe money" strategies on royalty and income trusts, exchange-traded funds (ETFs), index funds, TFSAs, RRSPs, RRIFs and RESPs. *Canadian Wealth Advisor* also covers tax- and financial-planning topics. Click here to learn more.

As early as 1980, Pat was recognized as #1 in the world of published investment advice by the Washington, DC–based Newsletter Publishers Association, and he was the first multi-year winner of ***The Globe and Mail***'s stock picking contest.

Both ***CBS MarketWatch*** and ***The Hulbert Financial Digest*** recognize Pat as one of North America's top stock analysts. ***The Wall Street Journal*** calls him "one of only four investment newsletter advisors who have managed to serve their readers well over the long haul."

Pat is also a best-selling Canadian author. His 1993 book, ***Riding the Bull***, predicted the stock-market boom that happened later in the decade. Through his many television appearances, he is well known to investors for his insightful analysis and his candid, unpretentious style.

Bottom line: Pat's conservative, reduced-risk strategy is a proven approach to lower-risk investing.

What is TSI Network?

TSI Network (www.tsinetwork.ca) is the online home of Pat McKeough's highly successful family of investment publications, *The Successful Investor*, *Stock Pickers Digest*, *Wall Street Stock Forecaster* and *Canadian Wealth Advisor*.

While most media outlets only cover the popular investment theories of the day, TSI Network goes beyond the headlines to get to the heart of what really affects you – the individual investor. The site is based on Pat's rock-solid investing system and his unflinching focus on helping North American investors make the right choices for their own unique investment needs.

Through TSI Network, investors get access to all of Pat's past daily postings, as well as free reports and more helpful financial advice and information.

Plus, when you subscribe to one of Pat's newsletters or his exclusive Inner Circle service, you get even more: aside from his daily posts, free reports and other portfolio-building advice and information, you get full access to all of your paid publications online. As soon as it leaves Pat's desk, your publication is posted on TSI Network. As well, you get full access to your publication's archives, so you can see for yourself how Pat's past picks have performed over the years. You always have Pat's most current advice and information close at hand.

Through TSI Network, newsletter subscribers and Inner Circle members can also quickly and easily get in touch with Pat and manage their subscriptions and memberships online. You are always just a mouse click away from the advice and information you need to make lower-risk, long-term investment choices.

The Successful Investor Family of Publications

In addition to reports like this one, Pat offers a host of other publications to help you make the right investment choices for your own specific needs.

1. ***The Successful Investor*** includes a monthly newsletter, a weekly email/telephone hotline and a monthly portfolio supplement. The newsletter recommends high-quality, mostly Canadian stocks that will surge ahead in good markets and hold their own in the face of market declines. It focuses on low-risk stocks with strong profit and growth potential. Click here to learn more.

2. ***Stock Pickers Digest*** focuses on the aggressive segment of the Canadian and U.S. markets, where risk is high, but the potential for profit is much greater. As these stocks are faster moving and not as well-established, the service includes a weekly email/telephone hotline in addition to the monthly newsletter. Tech stocks, small caps and junior mining and oil stocks are just some of the types of investments you'll read about in *Stock Pickers Digest*. The newsletter picks aggressive stocks, but at the same time it looks for above-average value — rising sales, good balance sheets and a strong hold on a growing market. Click here to learn more.

3. ***Wall Street Stock Forecaster*** includes a monthly newsletter, a weekly telephone/email hotline and a monthly portfolio supplement. The newsletter recommends high-quality U.S. stocks that will surge ahead in good markets and yet hold their own in the face of market declines. It helps investors build a well-balanced, diversified portfolio whatever their particular risk/reward level. The newsletter also gives a clear, easy-to-read analysis of how economic changes, political decisions and the Federal Reserve affect the markets in general, and your portfolio in particular. Click here to learn more.

4. ***Canadian Wealth Advisor*** is published monthly and deals with lower-risk investments: exchange-traded funds (ETFs), income trusts, conservative large-capitalization stocks, RRSPs, RRIFs, TFSAs, GICs and tax-advantaged investments. The newsletter also looks at financial planning, investment bargains (and rip-offs, too) and many other issues related to making more money with less risk. Click here to learn more.

Special Services

Pat McKeough's Inner Circle is Pat's exclusive service for investors who want more personal attention for their portfolios, plus access to all of Pat's publications. Inner Circle membership gives you the opportunity to ask Pat your personal investment questions and includes his commentaries as he answers questions posed by other Inner Circle members. As a member, you get access to all four newsletters, our full library of special reports and much more. Click here to learn how you can become a member of Pat McKeough's Inner Circle (note: membership is strictly limited).

Successful Investor Wealth Management: If you are already familiar with Pat McKeough and his long history of profit-making advice, imagine how well your portfolio might do if Pat managed it for you! That's what you get when you become a Successful Investor Wealth Management Inc. client. For complete information, please click here or call us toll-free at **1-888-292-0296**. We'll send you a FREE information kit and answer any questions you may have.

Information about all of these comprehensive services is available at TSI Network (www.tsinetwork.ca).

FREE REPORT

DIVIDEND PAYING STOCKS: HOW HIGH DIVIDEND STOCKS CAN SUPERCHARGE YOUR INCOME INVESTING

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Dividends can contribute up to a third of your investment return

If you've been following our TSINetwork.ca Daily Updates, or subscribe to one or more of our newsletters and investment services, you're likely familiar with our three-part investment advice. A key part of that advice is to invest mainly in well-established dividend-paying stocks.

(The other two parts are to downplay stocks in the broker/media limelight and spread your money across the five main economic sectors: Manufacturing & Industry; Resources & Commodities; Consumer; Finance; and Utilities.)

With today's low interest rates, investors are paying more attention to dividend yields (a company's total annual dividends paid per share divided by the current stock price). Dividend paying stocks are responding by doing their best to maintain, or even increase, their payouts.

In fact, dividends can now contribute up to a third of your long-term investment returns, without even considering the tax-cutting effects of the dividend tax credit (more on that on the next page).

In addition, dividends are far more reliable than capital gains. A stock that pays a $1 dividend this year will probably do the same next year. It may even increase its dividend payment.

On the following pages, we'll show you simple strategies that can help you pick the best dividend paying stocks. We'll also give you full details and recommendations on four of our top buys in high-dividend stocks (two from Canada and two from the U.S.), a high-dividend pick for aggressive investors—and five dividend-paying stocks we think you should avoid.

4 ways you benefit when you invest in the top dividend-paying stocks

1. **Growth and income.** The best dividend-paying stocks offer both capital-gain growth potential and regular income from dividend payments. In fact, dividends are likely to still be paid regardless of how quickly the price of the underlying stock rises.

2. **Dividends can grow.** Stock prices rise and fall, so capital losses often follow capital gains, at least temporarily. Interest on a bond or GIC holds steady, at best. But dividend paying stocks like to ratchet their dividends upward — hold them steady in a bad year, raise them in a good one. That gives you a hedge against inflation.

3. **Dividends are a sign of investment quality.** Some good companies reinvest profit instead of paying dividends. But fraudulent and failing companies are hardly ever dividend paying stocks. So if you only buy stocks that pay dividends, you'll automatically stay out of almost all the market's worst stocks.

   For a true measure of stability, focus on those companies that have maintained or raised their dividends during the recession and stock-market downturn. That's because these firms leave themselves enough room to handle periods of earnings volatility. By continually rewarding investors, and retaining enough cash to finance their businesses, they provide an attractive mix of safety, income and growth.

4. **Dividend income gets favourable tax treatment:** Taxpayers who hold Canadian dividend-paying stocks get an additional bonus. Their dividends can be eligible for the dividend tax credit in Canada. This means that dividend

income will be taxed at a lower rate than the same amount of interest income (investors in the highest tax bracket pay tax of 23% on dividends, compared to about 46.4% on interest income). Investors in the highest tax bracket pay tax on capital gains at a rate of roughly 25%.

How to spot the highest-quality dividend-paying stocks

As we mentioned, we think investors will profit most — and with the least risk — by buying shares of well-established, dividend-paying stocks with strong business prospects.

The best firms also have rising sales and profits and sound balance sheets, as well as a strong hold on a growing market. As well, they have strong management that will make the right moves to remain competitive in a changing marketplace.

Those are the kinds of stocks we recommend in our newsletters and investment services.

Note that when looking for high dividend stocks, you should avoid the temptation of "reaching for yield." That is, choosing investments purely because they offer a high current yield. A high yield may signal danger rather than a bargain, if it reflects widespread investor skepticism that a company can keep paying its current dividend. Dividend cuts always undermine investor confidence, and can quickly push down a company's stock price.

Read on for full details on four of our top buys in dividend paying stocks, a high dividend stock for aggressive investors—and five companies with high yields that we think you should avoid.

2 of our favourite Canadian dividend-paying stocks

Telus and TransCanada Corp. (see below) are two of our favourite Canadian dividend paying stocks. Both are well-suited to income-seeking investors, or conservative investors who like to invest in income securities for the safety and security they provide. We recommend both in our Successful Investor and Canadian Wealth Advisor newsletters.

TELUS CORP., (symbols T and T.A on Toronto, Dividend yield 4.2%) is Canada's second-largest telephone company after BCE Inc. (Toronto symbol BCE).

The company has been expanding its wireless operations over the past few years. As a result, it now gets 52% of its earnings from its 7.0 million wireless subscribers across Canada.

The remaining 48% of the company's earnings come from its traditional phone business, which has 3.7 million customers in British Columbia, Alberta and eastern Quebec. Telus also has 1.2 million Internet subscribers.

Telus continues to benefit from strong demand for smartphones, which let users access email and web sites. These devices, which the company typically sells under long-term contracts, now account for 38% of Telus' wireless subscribers, up from 22% a year earlier.

Telus is also gaining from rising sales of touch-screen tablet computers, such as the Apple iPad. That's helping the company increase its revenue from wireless data.

The company plans to spend $1.7 billion on capital upgrades in 2011, which is equal to what it spent in 2010. It will put most of these funds toward improving the speed and capacity of its wireless networks. Telus feels it can double its wireless download speed by the end of this year.

The company is also upgrading its high-speed Internet networks. That's letting it launch new web-based services, like Optik TV, which delivers TV signals over phone lines to cities in B.C. and Alberta. Telus' new wireless, Internet and TV services continue to help it compete with cable companies.

The company's debt is low, so it can comfortably afford to keep investing in its networks. As well, Telus has refinanced $2 billion of its debt in the past two years. This cut its interest costs.

Telus recently raised its quarterly dividend by 4.8%, to $0.55 a share from $0.525. The new annual rate of $2.20 yields 4.2% (4.4% for the non-voting "A" shares).

Telus is a buy.

TRANSCANADA CORP. (symbol TRP on Toronto, Dividend yield: 4.0%) operates a 60,000-kilometre pipeline network that pumps natural gas from Alberta to eastern Canada and the U.S. TransCanada also owns, or has interests in, over 10,900 megawatts of power generation. That includes BrucePower LP, a nuclear facility in Ontario, and the Ravenswood facility, which serves New York City.

TransCanada continues to invest in new-growth projects. Its biggest project is the Keystone pipeline, which it is building in three phases. Keystone's first phase is now pumping crude oil from Alberta to refineries in Illinois. The second phase will extend to Oklahoma, and should be ready in 2011. The third phase, called Keystone XL, will pump oil to refineries in Texas. U.S. environmentalists and politicians have criticized this project. Even so, TransCanada aims to finish Keystone XL by the end of 2013.

The company has already signed contracts with oil shippers for 83% of Keystone's capacity. These deals have an average term of 18 years. That cuts the risk of this investment.

In addition to Keystone, TransCanada will build new gas-fired power plants in Ontario and Arizona. As well, it plans to refurbish reactors at the Bruce plant, and build new wind farms. Once these new businesses are operating, the company expects its annual cash flow to rise to $4 billion from $3.3 billion in 2010.

TransCanada recently raised its quarterly dividend to $0.42 a share from $0.40. The new annual rate of $1.68 yields 4.0%

TransCanada is a buy.

2 high dividend U.S. stocks to buy

We continue to recommend that Canadian investors hold around 25% of their portfolios in U.S. stocks. That's because many U.S. firms are unique world leaders—they simply don't exist in any other country or market. In addition, many blue-chip U.S. stocks have operations in fast-growing foreign countries. This lets them benefit from a recovering global economy, as well as a return to prosperity in the U.S.

Moreover, today's low U.S. dollar lets you buy high-quality U.S. stocks at bargain prices, and diversify your portfolio.

One way to profit from U.S. stocks with less risk is to look for companies with long histories of maintaining—or raising—their dividends. Heinz and Verizon (see below) are good examples. Both are recommendations of our Wall Street Stock Forecaster newsletter.

H.J. HEINZ CO. (symbol HNZ on New York; Dividend yield: 3.6%) makes a wide variety of processed foods, including condiments, sauces, soups, baked beans, pastas and infant food. Its flagship product, Heinz Ketchup, accounts for about 60% of U.S. ketchup sales.

The company continues to expand its main brands, including Ore-Ida (frozen potatoes), Classico (pasta sauces) and Weight Watchers (diet foods). Heinz's 15 top-selling brands each generate annual sales of over $100 million. Together, they supply over two-thirds of Heinz's total annual sales of around $10 billion.

The company's strong brands are helping it enter fast-growing markets, such as China, India and Russia. These and other emerging markets now account for 16% of Heinz's overall sales. In its latest fiscal year, the company reported particularly strong demand for baby food in China, soy sauces in Indonesia and ketchup in Russia.

The company is also using acquisitions to expand internationally. In April 2011, Heinz paid an undisclosed sum for 80% of Brazil's leading maker of tomato pastes, sauces and condiments. The purchase should add $325 million to Heinz's annual sales.

Heinz recently raised its quarterly dividend by 6.7%, to $0.48 a share from $0.45. The new annual rate of $1.92 yields 3.6%. The company has raised its dividend four times in the past five years.

Heinz is a buy.

VERIZON COMMUNICATIONS INC. (symbol VZ on New York; Dividend yield: 5.5%) owns 55% of Verizon Wireless, which is the largest wireless provider in the U.S.; U.K.-based Vodafone plc owns the other 45%. This business accounts for 60% of Verizon's revenue. The remaining 40% comes from its wireline division, which sells local and long-distance telephone service.

In the past few years, Verizon has shifted its focus toward its wireless and high-speed Internet operations. Strong growth from these businesses has helped offset slower growth at its traditional telephone operations.

In February 2011, Verizon began selling the hugely popular Apple iPhone and other devices, like the iPad tablet computer, under a new multi-year deal with Apple Inc. Adding the iPhone will help Verizon compete with AT&T, which had been the exclusive U.S. iPhone carrier.

The company has paid quarterly dividends since 1984. That's when it became an independent company following the breakup of the old AT&T (at the time, Verizon was called Bell Atlantic Corp.). In 2000, Bell Atlantic merged with GTE Corp. to form the current company.

Verizon has raised its dividend each year for the past four years. The current annual rate of $1.95 a share yields 5.5%.

Verizon is a buy.

A high dividend stock for aggressive investors

Investors generally look to aggressive stocks for capital gains and to more conservative stocks, like utilities, for income. However, there are some aggressive stocks that pay dividends that are as high — or even higher — than more established companies.

As with conservative dividend-paying stocks, aggressive picks that pay dividends offer investors a measure of security. However, you should always remember that while aggressive stocks hold the potential for greater gains than conservative selections, they expose you to the risk of bigger losses — whether or not they are dividend paying stocks.

Chemtrade Logistics Income Fund provides an example. Chemtrade is a recommendation of Stock Pickers Digest, our newsletter for aggressive investing.

CHEMTRADE LOGISTICS INCOME FUND (symbol CHE.UN on Toronto, Dividend yield: 8.3%) is one of North America's largest providers of removal services for resource firms, such as oil refineries and base-metal processors.

These companies create sulphur, acid and other by-products as part of their processing activities. Chemtrade converts these by-products into useful chemicals, like sulphuric acid. It also makes chemicals, such as sodium chlorate.

Chemtrade has agreed to buy Marsulex (Toronto symbol MLX) for $419.5 million. Marsulex provides environmental services that include controlling air quality and treating and handling industrial by-products and hazardous waste. The company also makes and sells chemicals.

Marsulex nicely complements Chemtrade, which removes by-products from resource production and processes them into useful chemicals. Moreover, Chemtrade is already very familiar with Marsulex. That lowers the risk of unpleasant surprises.

Chemtrade plans to continue operating as an income trust instead of converting to a conventional corporation, as many trusts did in response to Ottawa's income-trust tax, which came into effect January 1, 2011. That's because Chemtrade believes that it is structured in such a way that its earnings will be subject to a Canadian tax rate of no more than 10%. That will help it keep its distributions high.

The fund's exposure to cyclical and often volatile commodity-chemical prices adds risk. In addition, it needs continued economic growth to keep demand for its services high, and continue raising its cash flow. However, improving demand for sulphur and sulphuric acid is pushing prices higher. As well, increasingly strict environmental regulations should keep spurring demand for Chemtrade's removal services.

Chemtrade pays a $0.10 monthly distribution, which yields a high 8.3% on an annualized basis. The fund pays out roughly 76% of its cash flow to unitholders.

The company is a recommendation of our Stock Pickers Digest newsletter. It's a buy for good long-term appreciation. But despite its high yield, we think it is not as reliable a source of income for income-seeking investors as some of our more conservative recommendations.

Chemtrade is a buy, but for aggressive investors only.

5 high dividend stocks to avoid

As we mentioned, it's risky to buy a stock solely because it has a high dividend yield. That's because high yield can sometimes be a danger sign rather than a bargain. For example, a dividend paying stock's yield could be high simply because its share price has dropped sharply (because you use a company's share price to calculate yield).

That's why we recommend that you look beyond dividend yield when making investment decisions, and look for companies that will be able to generate enough cash flow to sustain their payouts.

Here are five stocks with high yields that don't inspire our confidence. We advise staying out of them, or selling them if you hold them.

AMERICAN CAPITAL AGENCY CORP., (symbol AGNC on Nasdaq, Dividend yield: 18.3%), is a mortgage real estate investment trust (REIT) that invests in securities issues by U.S. government agencies Fannie Mae, Freddie Mac and Ginnie Mae.

Mortgage securities generally move up with interest rates. That's because when mortgage rates go down, homeowners often refinance and prepay their old mortgages. Those prepayments cause mortgage bond owners to receive cash flow at periods with low reinvestment rates.

To enhance its returns, American Capital Agency uses leverage. But this also heightens its risk. However, no one can consistently foresee interest-rate trends. If the company guesses wrong, its use of leverage will tend to balloon its losses.

American Capital's policy of investing only in government-guaranteed mortgage securities will tend to limit the damage, but Fannie Mae, Freddie Mac and Ginnie Mae all operate in very uncertain markets.

The stock has a high 18.3% dividend yield, but it’s uncertain if that can be maintained if housing markets continue to recover very slowly.

We don’t recommend American Capital Agency Corp.

CHARTWELL SENIORS HOUSING REIT (symbol CSH.UN, Dividend yield: 6.8%), owns and manages seniors' housing communities in Canada and the U.S. The company's housing options range from independent, supported living to assisted living and long-term care.

Chartwell has 109 retirement homes and 24 long-term care facilities in Canada. In the U.S., it has 51 retirement homes and 14 long-term care operations. In all, the company manages facilities 25,709 beds.

Chartwell's cash flow is steady, and it is in a growing business. However, finding qualified employees remains a problem for the company, and the senior-care industry as a whole. Finding skilled workers will become even more difficult as the recovering economy gives potential employees more options.

Provinces regulate nursing-home fees in Canada, and provincial programs provide substantial funding. A big part of Chartwell's U.S. revenue also comes from government-funded programs, mainly Medicaid and Medicare.

All of these funding programs are subject to extensive and frequently changing laws, regulations and standards. For example, Medicaid and Medicare are now facing government funding cuts.

As well, rising interest rates would raise the interest costs on Chartwell's mortgages. Chartwell also faces rising competition from other nursing homes, and from home-care alternatives.

Chartwell's units yield 6.8%. In 2010, the trust paid out 88.5% of its cash flow as distributions.

We don't recommend Chartwell Seniors Housing REIT.

YELLOW MEDIA INC. (symbol YLO on Toronto, Dividend yield: 17.7%) is the largest telephone-directory publisher in Canada, where it owns the Yellow Pages and Pages Jaunes trademarks. It also operates web sites devoted to classified advertising.

Aside from phone directories, it also printed free, advertising-based publications, including *Auto Trader*, *Buy & Sell* and *Renters News*, through 98%-owned Trader Corp. However, it has recently sold Trader Corp. for $745 million in cash. Yellow Media needed to sell Trader to cut its debt to avoid potentially losing its investment-grade debt rating, which might have led to a dividend cut.

Even with a reduction in its high $2.2-billion debt, Yellow Media's assets mainly consist of intangibles and goodwill. These only have full value if the company can maintain its market share, public recognition and loyalty as the leading brand. This leaves its earnings vulnerable to possible future writedowns of these assets.

Yellow Media gives its products away and relies on a steady stream of advertising renewals from professionals, such as lawyers and dentists, and from small businesses, like movers. More people are moving to the Internet to search out these types of services, and this hurts Yellow Pages' publications.

The company is working on getting more revenue from online ads, but it's uncertain whether this will be enough to offset the drop at its publications. Moreover, competition for Internet advertising dollars is strong, and includes large newspapers and magazines, not to mention rival classified sellers and directories.

Yellow Media pays a high 17.7% dividend yield. The company believes it can maintain its dividend rate, but that's far from certain.

Yellow Media is one stock we've long advised staying out of. We don't recommend Yellow Media.

EAGLE ENERGY TRUST (symbol EGL.UN on Toronto, Dividend yield: 9.2%), is a recent new issue. The trust first sold units at $10 each in November 2010. The initial unit sale raised $149.5 million.

Eagle used some of this cash to buy a 73% stake in the Salt Flat field, a light-oil property in south-central Texas, for $127.1 million. The trust now plans to continue developing the Salt Flat field, and acquire further properties in the U.S. Eagle believes it can buy properties cheaper in the U.S. than in Canada.

The company believes that it has, with the help of its legal advisors, created a "mutual fund trust." This business structure makes it exempt from Ottawa's tax on income trusts, which came into effect on January 1, 2011.

The trust is now paying a monthly distribution of $0.0875 per unit, for a 9.2% yield. Under its "mutual fund trust" structure, 40% to 50% of its 2011 distributions will be paid to its unitholders as ordinary income. The rest will be classified as a return of capital, and will lower the adjusted cost base of the units (what unitholders paid for the units, plus brokerage commissions). This way, you'll realize a larger capital gain when you sell.

So far, there is little financial information available on Eagle Energy Trust. That makes it hard to evaluate the company's financial outlook. Right now, it is only producing 756 barrels of oil per day, so it will need to quickly raise its production to maintain its high distribution yield.

We don't recommend Eagle Energy Trust.

DIVIDEND 15 SPLIT CORP. (symbol DFN on Toronto, Dividend yield: 9.2%), is a split-share investment corporation that holds shares of 15 companies: Canadian Imperial Bank of Commerce, BCE Inc., TD Bank, TMX Group Inc., Royal Bank of Canada, Manulife Financial, CI Financial Corporation, Enbridge Inc., Telus Corporation, Thomson Reuters, Sun Life Financial, Bank of Nova Scotia, Bank of Montreal, TransCanada Corporation, and TransAlta Corporation.

The company can also invest up to 15% of its portfolio in other stocks.

Dividend 15 Split Corp. has two share classes: Dividend 15 Split Corp. capital shares (Toronto symbol DFN), and Dividend 15 Split Corp. preferred shares (Toronto symbol DFN.PR.A).

A split-share company issues two classes of shares. Usually, the capital shares get all or most of the capital gains and losses, and the preferred shares get most of the dividend income. In the case of Dividend 15 Split Corp., the preferred shares get a fixed monthly dividend of $0.04375 a share ($0.525 a year). That gives them a 5.1% yield.

Holders of the capital shares get a monthly dividend of $0.10 per share, for a 9.2% yield.

The company's portfolio does not pay enough dividend income to pay preferred dividends, management expenses and fees, and a dividend for the capital shares. To make up the difference, the company has to make capital gains by trading the portfolio's securities. It also aims to raise its returns by writing call options on the portfolio's securities.

Selling call options generates an income stream for Dividend 15 Split. However, selling calls also tends to diminish any capital gains that its portfolio might generate. When the stocks Dividend 15 Split owns go up, holders of the call options the company has sold will exercise those options and buy the stock from the company at the price fixed by the option’s terms. Meanwhile, Dividend 15 Split will want to hold on to its losers — stocks it owns that are going down — to offset its obligations under the call options that it has sold.

Options trading tends to generate a lot of brokerage commissions that eat away at the investors’ capital. Management fees and performance bonuses also erode capital.

The managers of Dividend 15 Split Corp.’s portfolio aim to keep most of their individual stock holdings in the range of 4% to 8% of the fund’s overall value. That means they will need to rebalance their portfolio’s holdings from time to time. This selling and buying also generates commission expenses.

The split shares will wind up on December 1, 2014. That’s a drawback to split shares in general, and Dividend 15 Split shares in particular — you’ll be forced to cash in your investment and deal with the tax consequences at that time, and you’ll face additional brokerage costs to reinvest the proceeds after you redeem your shares.

Although we like many of the stocks it holds, we advise against investing in either class of Dividend 15 Split Corp. shares.

Maximize your dividends with DRIPs

Dividend reinvestment plans, or DRIPs, are plans some companies offer to allow shareholders to receive additional shares in lieu of cash dividends. DRIPs bypass brokers, so shareholders save on commissions.

DRIPs also eliminate the nuisance effect of receiving small cash dividend payments. Second, some DRIPs let you reinvest your dividends in additional shares at a 5% discount to current prices. Third, many DRIPs also allow optional commission-free share purchases on a monthly or quarterly basis.

Generally, investors must first own and register at least one share before they can participate in a DRIP. Registration will generally cost $40-$50 per company. The investor must then notify the company that they wish to participate in the company's DRIP.

You can register for dividend reinvestment plans at no cost through most discount brokers (these are called "synthetic DRIPs"). However, the broker may or may not pass along any reinvestment discount to you.

As well, you can only buy whole shares through these DRIPs, so dividends paid must be greater than the share price. For example, say you receive a $35 dividend, and the stock is trading at $30. Assuming the company does not offer a reinvestment discount, you would receive one share and $5 in cash. Moreover, broker DRIPs do not allow for additional commission-free share purchases.

Overall, we think DRIPs are okay to participate in. But here are a few things to keep in mind:

- Many investors pick stocks solely on the basis of the existence of the DRIP option. We think the availability of a DRIP is only a bonus, rather than a reason to invest by itself. Investing only in stocks that offer DRIPs limits both investment choice and opportunity.

- The advent of the low-cost discount brokerage and online investing has reduced the commission cost of investment trades. Thus, the commission-free investing that DRIP investing allows is less of an advantage today than it was in the past.

- Taxes are still payable on dividends that are reinvested.

Most companies that offer DRIPs provide details on their web sites. Another place to look for information is the inside back cover of most companies' annual reports. You can also contact the investor relations department of companies you wish to invest in.

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