Discussing Dividends with DivGro, A Dividend Growth Investor

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[00:00:00] **Dave:** All right, folks. Welcome to Investing for Beginner's podcast. Today. We have a very special guest with us today. We have Ferdi from the DivGro. He's joining us to talk about, I know, shock dividends and other great stuff.

Ferdi has been writing for Seeking Alpha and his blog, and also new outfit portfolio insights. And we're gonna be talking about all those great things, as well as dividends. I know, big shock again, and this is gonna be Andrew's favorite episode ever cuz he loves dividends as well. So Ferdi, thank you very much for joining us today.

We know it's very, very early where you are. You're in the bay area. So it's what seven o'clock in the morning. So we appreciate you getting up this early to come to talk to us.

[00:00:37] **Ferdi:** You're welcome, and I'm happy to be with you guys. Awesome.

[00:00:43] **Dave:** Well, I guess, could you kind of, maybe we could just start off like, explaining how you got into dividends.

How did you get into investing in dividends? I'd really like to know that story

[00:00:52] **Ferdi:** Well, in 2002, I came to the United States from South Africa to join Pixar, where I'm currently working as an effects artist. And we basically started over, you know, I just turned 40 at that point. And you know, we, we realized we have to start thinking about saving for retirement.

And so we took a financial course, and in the beginning, I didn't know anything, you know I. Do you know what a mutual fund is? Well, then I, I, I would just Google that and, and learn that way over time, just terms that came up, that I just didn't understand or know about. I just did research. And then I started, you know, just following some newsletters, investing actually more.

Trading. And then, I discovered the idea, the concept of dividend investing about 2012. And that just made total sense to me, and I stopped trading, and I started thinking more about long-term investments, quality stocks, and so forth. I followed some other dividend growth bloggers.

And then thought it would be a good idea for me to track my own progress and write my own blog; never written a blog before. And so, I started DivGro in 2013, and you know, I've been almost ten years now.

[00:02:21] **Andrew:** Wow, so you're a designer, a writer, and an investor. You have many talents.

[00:02:26] **Ferdi:** Yeah.

And, you know, and a computer scientist and a, and a visualization expert and things like that, you know, but it's you know, it's, it's a fun hobby. It's, you know, it, it's an interesting way of thinking. It's a way to sleep well at night and not worry about what the stock market is. And things like that.

So that's why you know, I love dividend growth investing.

[00:02:50] **Andrew:** Oh, I mean, I love it too. I think people will love this episode with just the, I, the fact that you're a hobbyist, you're doing it on the side. You've been there. You've been doing it for a long time. There are obviously lots of different reasons to get excited about dividend growth investing.

If you had to laser focus on one or two, that just makes you the most excited. This kind of investing style. How would you describe that?

[00:03:18] **Ferdi:** Well, for me, it's really about growing an income stream. There, there are two components to dividend growth investing. Obviously, one is dividends, you know, you get paid for owning a little share of a company, which is so cool.

You know, if you, if you own ten stocks, you own pieces of 10 companies, which is, which is. So I own a little bit more than 10, but, nevertheless, it's, it's fun to drive by, say, McDonald's or Home Depot and know that you own a piece of that company. But the second component is the growth component, and you know, IVA, dividend growth companies, meaning these companies pay dividends, but they also raise their dividends every And so you have this built-in income growth, which is, which is super awesome. And it just means that you are almost guaranteed to raise every year, and you can make money. You can increase your income. You can invest more using that dividend. And sort of do compounding in two, you know, in two ways. You get the growth from the dividend growth stocks, but you can also get growth by just reinvesting that income flow into more, more stocks.

And it's sort of a double-compounding EF effect, which is fantastic.

[00:04:45] **Dave:** Yeah, you're, you're speaking to Andrew's love language, cuz that that's, that's what we've been talking about for almost five plus years. So it's, it's nice to hear it. It's nice to hear it from another voice, that's sure.

[00:04:58] **Andrew:** Do you find that there are misconceptions around dividend growth and investing things that investors should think about?

Use it to maybe pay more attention and not write off dividend growth and investing as some stereotype.

[00:05:22] **Ferdi:** Well, I, I think one of the, one of the things to really understand is that there, you know, as I mentioned earlier, there are two components, and as a, as a beginner, I made the mistake of chasing yield.

And I think a lot of dividend beginners and dividend growth investors make that mistake. And it turns out that you know, about you know, a very large percentage of very high yielding stocks are actually not very good stocks, you know, very high, you know, high-quality stocks still. So it's really important to see the quality.

In in, in, in dividend growth, because the idea is to try and invest in something for the very long term, you know, years, decades, you know, if you, if you have that long. And so it's important to choose the best, the highest quality stocks. And I think the other component to this is that you want to try and stay with a company and stay with the stock because that gives you the best opportunity to, you know, to grow your income stream.

And you know, I think if you come to dividend growth, investing with a, with a trader's mentality, then, you know, there are things that are at odds. A trader wants to, you know, buy low and sell high. A dividend growth investor wants to buy low and collect income, you know, from a sort of a value standpoint that gives you the best opportunity to grow.

But for me, I would rather buy a high-quality company even at a small premium than buy a substandard or mediocre company at a discount. For this reason, is that you know, you're gonna be in the stock for a very, very long time.

And with high, you know, with, with high-quality dividend growth stocks, the so-called blue-chip dividend growth stocks, they rarely trade at a, you know, at a, at a huge discount, just precisely because they're, they're really good stocks. And as soon as their yield climbs, people get into it and drives and drives the yield down And so, therefore, you know I have a, I have a system where I, where I look at the quality, you know, through a, through some metrics do a quality assessment and for the highest quality stocks, I'm willing to pay up to 10% above fair value. Because I realized that to get into those very high-quality stocks, you have to pay a bit of a premium.

[00:08:00] **Andrew:** Can you give us an example of your mentioned metrics to determine quality. Can you give us one example of that?

[00:08:09] **Ferdi:** Yeah. There, you know, there are different metrics. I use a system developed by a Seeking Alpha author called David Vanette. And he had this snapshot quality, quality assessment.

Uses five metrics. And over the past three years or so, I've really grown to trust this system as a way to filter really good quality stocks things like the S and P credit rating Morningstars, moat rating line has, has. Quality metrics that contribute to this, to this score.

And then one that I've also grown to trust a lot is Simply Safe Dividends dividend safety score. So there are five of these, you know, five of these elements that contribute to making up a score that I then utilize to, to fit, too, too, to pick candidates for investing in.

[00:09:07] **Andrew:** So you're leveraging other people's ideas, and research sounds like it would save a lot of time.

[00:09:13] **Ferdi:** Oh yeah. You know, as a hobbyist, this is not my full-time job. Right. So I think it's important to look at resources, you know, that, that, that are available and use them as, as smartly as you can.

Even, even for. Assessing a company's fair value. You know, I've in the past, I've done, you know, the dividend discount model and so on ways, but I've, I've realized, and I've found that for the type of research that I want to do, I want to look at hundreds of companies and to do that kind of analysis on a hundred plus companies is, you know, beyond.

My ability and time. But there are great resources out there that publish their assessment of fair value. And if I can access those trusted third-party sources and their fair values, I can create sort of a survey approach to fair value assessment. And that's what I do.

[00:10:18] **Dave:** Yeah, that's interesting.

So, I like the way that you're using those resources to help you get to where you need to go. So I guess if, if we're, if somebody was to come to you and say, I wanna start building, you know, a dividend growth portfolio, how would I start? How would somebody start, you know, deciding what companies to look at and then, you know, kind of going from there?

[00:10:45] **Ferdi:** My first inclination would be to, you know, to just read a lot, you know, Seeking Alphas, a fantastic resource. There are other similar resources just read about, you know, dividend growth, investing, follow a few bloggers as I did in the beginning. And See what they do, see how they do it and what their approach is.

One of the exercises that I did along the way that I wrote articles about is to survey other dividend growth bloggers. A lot of them actually publish their portfolio. Mm-hmm right. Like I do, I have a public portfolio. People can go and look at what I own and what other different growth bloggers do.

And you know, people that have been long, you know, for in this, in this sort of dividend growth investing for a long time have established portfolios. And so what I did is I just surveyed all of them, made a giant spreadsheet, looked at which stocks are more, most popular, and those become great candidates for, you know, for further research.

That's how I would start. And then, you know, start small, you know, buy one stock and you know, when you have, when you have money next month, you know, buy another stock and so on slowly build up your portfolio over time. You're not gonna get to 24 or 40 or, or a hundred stocks immediately. But that's what's great about investing; you can just bide your time.

You know, and add slowly and learn as you go. I've never been a proponent of making a watch list. I like to dive in and, and, and, and get hurt when I make a mistake, cuz that's how I learn best.

[00:12:34] **Andrew:** Yeah, don't we all, don't we all. So, you mentioned the portfolio. Can you give us an example of one of the names in there that really excited you or really excites you when you think about it today and why?

[00:12:50] **Ferdi:** Well, my favorite stock right now, for various reasons, is Texas instruments. TXN.

Preach great company and great management. They are, you know, they've been around since the thirties, 1930 they've changed the business model significantly over that time period. And then and now they are really focused on, you know, on increasing free cash, which, which is the most important component for, for dividend growth.

And for the state, you know, for shareholder-friendly operations, they've bought back shares for a long time. And you know, they're a really good company

[00:13:33] **Andrew:** For somebody who's newer into investing. Why is free cash flow so important?

[00:13:41] **Ferdi:** well, free, free cash flow is really, the money that the company has available to either grow their own business or to, you know, or to return to, to to, to, to shareholders.

And. The ability to generate and increase over time, slowly increase the free cash flow is, is, is one of the best measures that, that you could look at when, when you're considering a candidate company, you know, I think earnings growth is important. Revenue increasing revenue is important, but in the end, it is.

What the company retains once they, once they have disposed of all the responsibilities that, that, that that determines how much they can pay in a dividend or how fast they can grow that dividend.

[00:14:38] **Andrew:** It's really not reinventing the wheel. I mean, you mentioned some of the resources; I'm familiar with all of them. Those are some good resources. You're mentioning metrics yield. Free cash flow growth. These are all pretty fundamental stuff. And it sounds like it just kind of works, right?

[00:15:00] **Ferdi:** Yeah. You know, there, there are obviously other metrics that I, that I look at, you know, for a company, for example, the sustainability of their dividend depends on how much of you know money, they assign to the dividend.

So if you take the dividend and divide it by the earnings, you get the payout ratio or dividend divided by free cash flow. You get a payout ratio that payout ratio cannot, cannot be too high, because if they, if the company, for some reason, internal or external, run into a problem.

And they don't generate enough earnings or enough free cash flow. For a few years, then their dividend would become, would come under pressure. So free cash flow is one of the metrics that I look at, but like I like to look at consistency. You know, consistency is, for me, the most important thing that I look at.

You know, if I look at a ten-year graph of earnings, I want to see it, you know, consistent growth in that, in the earnings, the same for revenue free cash flow doesn't need to grow, but it needs to be you know, it needs to be positive for most of the, of the ten years. And then things like, I really mentioned the dividend safety score, somebody else from have.

You know, I have a system and a service that you can subscribe to and get safety scores. I trust that source is a good third-party source for assessing safety. And so I look at that, you know, then things like yield and the dividend growth has proven dividend growth over the past five years.

Those are important components. And one of the metrics that I then use is and, and this is an old Seeking Alpha trick, is to add the dividend yield and the five-year dividend growth rate together, to come up with a so-called chowder number. And the chowder number tells me.

What I can expect from a dividend growth stock over the next few years is a high chowder number means, in all likelihood, this stock is gonna, is gonna do well. And then there's something like the called five-year yield on cost calculation, which is basically just a metric that says how high can my yield on cost grows.

If I invest in the stock now in five years, that number is important for me because I want my portfolio too, you know, to generate income, but that income needs to be high enough. And so I look for at least a 4% five-year yield on cost. In other words, all the stocks that I invest in. In five years, I want at least 4%, hopefully more but yield on cost of at least 4% in five years' time.

[00:18:08] **Andrew:** So how do you approach it? You mentioned the dividend consistency, raising it every year. How do you approach a company in your portfolio? And if you have a specific example, that would be awesome. Who either cuts the dividend completely or. Pauses their growth. How do you deal with that kind of situation?

[00:18:28] **Ferdi:** I'm fairly brutal when there's a cut, you know, company that cuts. I feel, I, you know, I got I feel in that case I'm, I might have made a mistake in terms of figuring out or trying to determine if this is a company that really believes in dividend growth. And paying shareholders a continually growing dividend.

A company that's that pauses or even, you know, just don't, don't grow their dividend for a year or two. I look at the reason for that. And so for example, one of the first companies that I invested in was Intel. And as soon as I invested it, they decided not to increase their dividend.

And I thought, man, did I make a mistake here, or what's going on? And there was a very good reason and, while published, a reason for them not to increase their dividend for a few quarters, but then they resumed, and Intel is one of my best investments because I stuck with it. Another example is CVS.

They made some large acquisitions, stopped increasing their dividend for two or three years, and then resumed. And my re and I stuck with CVS and my returns are now over a hundred percent. My so-called home run, home run stock. One of my home run stocks is one. Returns all of my money, a hundred percent, you know?

So CVS is one of them. And then, you know, in the, in the COVID inspired their market, a lot of companies paused, and you know, and even suspended their dividends. Disney is one of them. They decided not to pay dividends anymore, but a company like TJX. They cut. They suspended their dividend, and I stuck with him.

And when the COVID, you know, when the concerns around the COVID pandemic started to ease, ease up a bit, they went back to their old pattern of, you know, paying, paying a dividend. If you look at their chart, it's really interesting. It's a beautiful, you know, upward. Curve, and then there's this, you know, this one year that there's just nothing, but I'm, I'm pretty positive that they're just gonna continue with that.

And, and, you know, if we, if we kind of put our finger over that one year, then it looks like a nice. You know, rising chart

[00:21:01] **Dave:** So if you had owned a Disney, I guess during that period, I'm not sure if you did, or I didn't, but if you had, would, would what happened? Cause you to say, okay, we're done here, or would you have given them a, a pass because of what was going on with the business and, and then, the world at the time?

[00:21:21] **Ferdi:** So I had maybe a handful, like five. Yeah, five or so stocks in my portfolio that suspended their dividend, including, by the way, I also owned Disney at that point. And so I decided, you know, this, the big market drop happened in late February and March. Oh, wait. I decided to wait till December and see how things turned out.

One company that I did own that I never went back to was Ross Ross stores. Because it didn't, it didn't appear to me like they were going to resume their dividend growth history, which is so sad because they, at that point, that 49 years. Wow, of dividend growth. It's like, why didn't you stop one more?

Just one more, and you would've been a dividend king. And you know so I, so I decided to wait a year, and with Disney, I also waited until the end of the year. And then it would; it became apparent that Disney was not gonna pay dividends anymore. And so I, I sold my shares. And TJX indicated that they would resume their dividends.

And so I stuck with that. So of the five, five or so stocks that suspended or yeah, that suspended their dividends. I, I still own a couple.

[00:22:43] **Dave:** So, can you, I guess you mentioned dividend Kings, can you kind of talk through like dividend aristocrats and dividend Kings for those listeners who are not familiar with those terms?

[00:22:59] **Ferdi:** Yeah, so dividend growth investing in, in dividend growth investing, we have a lot of sort of model portfolios. And the two that you've mentioned are, are, are St you know, are examples of, of stellar companies. Dividend Kings just broadly is 50 years of cons, you know, 50 years streak of dividend increases.

Mm-hmm, that's amazing, you know, 50 years takes you back to, you know, the seventies and, and some of these stocks. Now I think there's one that's now 68 years. , that's older than I am, which is, you know, my whole life, this company has been increasing their dividends. That's amazing. The dividend aristocrats is a, a more sort of a more select which, which sounds interesting because it's only 25 years, but it's, it's a little bit more select because there are.

Criteria for becoming a dividend aristocrat membership of the S and P 500 are a certain market cap and trading volume. And then they also look at sector balance and things like that. So sometimes you can have a dividend king or stop being a dividend king, but not a dividend aristocrat.

People get confused about that, but there are other criteria for becoming a dividend aristocrat. And then you know, the list that you know, Seeking Alpha use users and readers would know very well is the so-called CCC list, which is dividend champions, contenders, and challengers created by the late David fish.

He tracked these dividend growth companies. The dividend champions are 25 years or more. The dividend contenders are 10 to 24 years of dividend consecutive dividend increases. And then the dividend challengers are five to nine years. And we've been, you know, we've been tracking a similar list ourselves on portfolio inside site called dividend radar that is automatically generated from, from data that we get from S and P

[00:25:24] **Andrew:** yeah, speaking of portfolio insight, can you let us know what, what is that? And what's your role in helping with that?

[00:25:33] **Ferdi:** So, a few years ago, I was approached by the founders of Portfolio Insight. And we collaborated on creating a dividend radar. They were interested in, in my, you know, by that time, my expertise in dividend growth stocks.

And so we, you know, I helped him to create dividend radar. Because the one thing with the CCC list is, you know, it's a manual love of labor, but there is, you know because it's such a, you know, such a large number of stocks we're talking about over 700 stocks, it's really hard to do that manually.

And so the founders of Portfolio Insight had a very good engine that they could utilize to create something that's automated. And so now we produce dividend radar on a weekly basis, and it's updated every Friday. And it's automatic, you know, which is great. And there are rules for membership of dividend radar and, you know, we have a very little manual in input or in, in, you know, in insight into how that is generated. It's just based on these rules, which makes it easier to some extent to track, you know, dividend growth stocks, and that's published, and it's freely, freely available to anybody who wants to download it.

[00:27:00] **Andrew:** So what's the URL for that for people interested?

[00:27:03] **Ferdi:** The Portfolio Insight is portfolio-insight.com. And then, you can just look at one of the tabs at the top. Dividend, you know, dividend radar.

[00:27:18] **Dave:** That sounds like a great tool. That sounds like that would be very helpful, especially for people that don't have a lot of time to sift through 700 companies to decide, decide which one's gonna be a good fit to yeah.

To do some research on.

[00:27:35] **Ferdi:** Yeah. And yeah, the spreadsheet that you download has, you know, a lot of metrics that, that, that is useful too, to, to do a. You know, a sifting of, you know, of companies that match certain criteria. So we, you know, we have a lot of people that actually use that data. And then, you know, portfolio inside kind of you know and they, they continued, you know, we can continue our collaboration, and I advised them on creating.

These are the kind of tools that I, as a dividend growth investor, would like. I'm a very visually oriented person, so I concentrated and helped them to create some really good charting, charting tools, and things like the dividend yield channel, about which I wrote an article on Seeking Alpha a few years.

The idea with dividend channels is it gives you a sort of a channel of overvalued and undervalued regions. And as long as the stock, you know, is inside of that channel, you know, it's, it's a, you know, it tells you that you can either, you know, holds the stock or, or don't buy. But when it goes outside to the, to the lower side, it means now it's an opportunity to buy the stock.

So, you know, because I'm a visual person, I look at charts a lot just to see, you know, consistency, momentum, and so on. And with a dividend yield channel, for example, it tells you, Hey, this is a great opportunity to buy this stock. Reversion to the mean this whole idea that with a dividend growth stock, if the yield goes too high, people are gonna start buying the stock, and it's gonna force the yield back down.

Reversion to that means is, is a, is a, you know, is a so-called dividend yield theory principle that a lot of people have built investment services around.

[00:29:37] **Dave:** Yeah. That's cool.

[00:29:43] **Andrew:** I like how it, you know, you mentioned it's on the chart, and it's, I I'm trying to visualize, I'm basically visualizing almost like a channel. And so it kind of implies that these values are changing over time as the financials inside the company change. So it's not like some static thing when it comes to.

Evaluating stocks. It's, it's something that's dynamic, and it changes. And it's good to have those updates when things do change.

[00:30:15] **Ferdi:** Absolutely. You know, there's a similar chart built around earnings, right? And every quarter, a company comes out with new earnings and also earnings estimates, you know, for the, you know, for the next one or two financial years.

And as we get those earnings with portfolio insight, it updates the chart, and it tells you whether, you know, with the new earnings, it is still a good company to be in, or maybe a good company to invest in? Again, visuals for me is, is really important because I can look at a lot of stocks, you know, 10, 20 stocks quickly and, and just kind of browse.

You know, load a ticker and keep it on the same chart and then just load new tickers and, and see the same, you know, see the same chart for, for a selection of, of candidates that I'm interested in. And, and that's, you know, that's really helpful to me. Numbers, you know, numbers talk, but you know, there are ways of visualizing those numbers that, that make it easier for us humans to, to understand what's up, you know?

[00:31:23] **Andrew:** Yeah, totally. Do you have any parting wisdom for somebody? Maybe they've, you know, you have a long experience doing this, so I'm sure there's gotta be ebbs and flows when it comes to. Doing this as a hobbyist. Do you have any parting words of advice for somebody who's maybe further along the path and they're frustrated or discouraged for whatever reason? Have you ever been there, and what would you say to them?

[00:31:52] **Ferdi:** Well, I, you know, I think there's maybe two, two components to that answer. One is if something is not working, change, change the change, your approach. If something is working, but then there are external forces that are, you know, that are attacking your strategy, stick with it. You know, if it, if it's working and you're confident in that strategy, just stick with it.

Be patient, you know it's you know, it's like the old joke is how do you eat the elephant? Not that I, not that I eat an elephant, even though I'm from Africa, but how do you eat an elephant? Well, you know, one bite at a time. So with dividend growth investing, it's, it's a really long-term game, you know, just one step at a time, one bite at a time, and just be patient, you know, but if your strategy is not working.

Then investigate other approaches, determine if your approach is maybe fall falling short a little bit, and make an adjustment. And then, you know, once you've made an adjustment, give it, give it some time, right? You bid some time to play out and be patient because that, you know, dividend growth investing is a, is a very patient and a very long term.

And don't worry about, you know, the traders that are making, you know, hundreds of percent on a, on, on a, on a trade in a, in a, in stock, they are also losing, you know, hundreds of percent sometimes. So you know, it's interesting to hear, you know, somebody made seven, six, 700% on a stock. That's not a sustainable thing, at least in my experience.

So I'm much rather be sleeping well at night. And not look at what the stock market is doing every single minute of every single day. Because quite frankly, if the stock market takes a dive of 10, 15%, that's a good time for a dividend growth investor because you can buy more shares for the same money.

Then you did yesterday when everything was more expensive. So from that point of view, I think dividend growth investing is, is, is great. It, it, it, you know, you, you just don't have to look at the stock market every day. And you can, you know, you can be, you can feel safe with dividend growth

[00:34:28] **Dave:** and yeah, that, that's, that's some amazing advice.

[00:34:35] **Andrew:** I agree; well, Ferdi, we wanna thank you for being generous with your time and all of your insights. It was really a great conversation with a lot of great advice, and I know people will get value from it. So you mentioned portfolio insight, portfolio, insight.com. Where else can people learn more about you and the things you have going on?

[00:34:56] **Ferdi:** My blog is at, at divgro.blogspot.com, and you know, people can look at what I, what I do. I publish articles every week on my blog. Some of them obviously are links to Seeking Alpha articles, but I have a monthly review of my portfolio. I just wrote one for July. It has a lot of charts.

So for us visual people, it's, it's fun to look at.

[00:35:23] **Dave:** That's awesome. Well, Ferdi, again, thank you very much for your time today. We really do appreciate it. And thanks for all the knowledge that you share, not only with us but all the people that read your blogs. And I know they're getting a lot of great value from all your insights.

So we appreciate all that you do, and we appreciate your time today. So thanks again for joining us. And I guess without any further, I'll go ahead and sign us off. You guys. Go out there and invest with the margin of safety emphasis on the safety. Have a great week. We'll talk to y'all next week.

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