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No excuses with DRIPs, SPPs

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FOR the past 20 years, I have dabbled in investments ranging from commodities to real estate development. Finally, I stopped chasing rainbows, high fliers, penny stocks and hot tips. I found a low-cost investment system.

With this investment method, there are no management fees, no brokerage fees, no panic and no excuses. All of your money goes directly to the companies you select.

I'm talking about dividend reinvestment plans, commonly known as DRIPs, and stock purchase plans, or SPPs.

Investment planning

About 35 blue-chip companies in Canada offer both DRIPs and SPPs as a way for registered shareholders to increase their stakes. These programs allow you to reinvest your cash dividends in additional shares, and make optional cash payments to buy even more shares from the company without fees or commissions.

In the next few days in this space, I will name the companies that offer these plans in Canada and describe how they work. Meanwhile, here are seven benefits to investors:

- Low startup cost. For as little as $300 you can set up a five-stock portfolio and build on it. By contrast, most mutual funds require a minimum investment of $1,000 to $2,000.

The low startup cost makes this an attractive and educational gift for nieces, nephews, godchildren, grandchildren and friends.

- No participation cost. All dividends and optional cash payments are used to purchase additional shares. The money is fully invested and the shares owned are calculated to three or four decimal places. Fractional shares are standard. There are no fees or commissions.

- Discounts. Some companies offer a discount of up to 5 per cent on the purchase of new shares when the dividends are reinvested. This means the participating investor will get about 5 per cent more shares.

The companies offering discounts include Bank of Nova Scotia, IPL Energy Inc., National Bank of Canada, Telus Corp. and TransCanada PipeLines Ltd.

- Disciplined approach to investing. This is probably the most important reason why you as a prudent investor should consider DRIPs and SPPs as part of your portfolio.

Compare investing to fitness. If you want a healthy life, you must exercise regularly. You don't always have to do the same exercise, but you must do something. It's no good to exercise vigorously for three months, stop for six months, then start again for a few weeks and stop again. It just won't work.

It's the same with investing. You must invest regularly, no matter how small the amounts, in order to achieve maximum benefits. DRIPs and SPPs are ideal tools to train you to focus regularly on your investments.

The disciplined approach that DRIPs and SPPs induce can turn an average investor into a winning investor.

- Compound growth. If you get a dividend cheque in the mail, you will find good reasons to spend it. On the other hand, dividends that are automatically reinvested compound over time.

- Quality of shares. Companies that offer these plans make a commitment to shareholders and incur administrative expenses. So it's safe to conclude that such companies have a more stable outlook and a more generous attitude toward investors.

- Predictable long-term outcome. In the short term, stock prices are driven by the fear and greed of investors. But in the long term, prices are driven by the performance of the economy, the sector and the individual company.

By participating in DRIPs and SPPs, you declare to yourself that you're in it for the long haul. Once you follow this philosophy, you start viewing any drop in price as a buying opportunity, instead of panicking and selling. Thus, you minimize your exposure to the fear-and-greed psychology.

Tomorrow: I'll answer some common questions about how DRIPs and SPPs work.

Cemil Otar is an engineer who has been investing in equities since 1974. This is an excerpt from his coming book, Handbook of Canadian DRIPs and SPPs, *to be published this month by Uphill Publishing in Toronto.*