CHAPTER 1

Give Yourself a Raise

"*The two most powerful warriors are patience and time.*"

– Leo Tolstoy

There are few feelings as satisfying as getting a raise. It's great to know that you're going to make more money this year than you did last year.

My first job out of college, I was paid the princely figure of \$22,500 a year. I performed well in my position and when I met with my boss for my review, I was given a 5% raise to \$23,625. The maximum I could have received was 6%, but I was told nobody ever gets that. (I never understood that line of thinking, but that's another issue.)

I was living in Manhattan with two roommates and barely getting by. I had a girlfriend who had expensive tastes and little income. Now, that extra \$21.62 (before taxes) per week wasn't going to keep her in the lifestyle she expected to become accustomed to, but it was a little more breathing room. Not much, but a little more.

Importantly, it gave me a feeling of pride in not just knowing that my company felt I was valuable (although apparently not 6% more valuable), but that I was progressing financially.

Now that I'm older and wiser, I have set up my portfolio so that I get a big fat raise every year – bigger than the 6% that eluded me when I was just starting out.

The way I do that is with Perpetual Dividend Raisers. This is my favorite strategy for income and wealth creation whether you're in retirement already or are still working.

I not only want to see the portfolio balance moving higher, but the amount of income that is generated each year should climb too.

In retirement, that's not just a matter of convenience or pride. It may be the difference between going to a restaurant once or twice a week and eating ramen noodles.

As I outlined in the introduction, Social Security may not be there, so income from your investments will be a critical part of keeping you afloat. Even if you receive Social Security, the average monthly Social Security check of $1,341[1] doesn't exactly enable you to take the grandkids to Disney or play too many rounds of golf.

And don't think just because you have a nest egg, you're all set. One medical emergency can drain that pretty quickly.

Medical emergencies are just that, sudden, unexpected and frequently ill-timed. Shortly after he retired, my friend's father came down with a serious but treatable illness. However, his medication costs $52,260 per year out of pocket.

As I mentioned in the introduction, if you're 65 or under, you'll likely spend somewhere between a quarter of a million and half a million dollars on healthcare in the next several decades.

And those costs rise sharply every year. Until the Great Recession in 2008, healthcare costs consistently increased at least 6% per year. Since 2008, those numbers have slowed a bit, though they are still well above the inflation rate.

In 2014, healthcare costs climbed 3.4% while the consumer price index inched up 0.8%. But, by the time you read this book. the growth in cost is expected to get back to the historical 6% average.[2]

That means whatever you have stashed away in the bank or in an annuity is going to be worth less five years from now than it is today. Ten years from now you'll hardly recognize the buying power of your retirement accounts.

If healthcare returns to its 6% inflation rate, your nest egg will be worth one-third less in five years than it is today in healthcare dollars. In other words, what costs $100,000 today will cost $133,822 five years from now.

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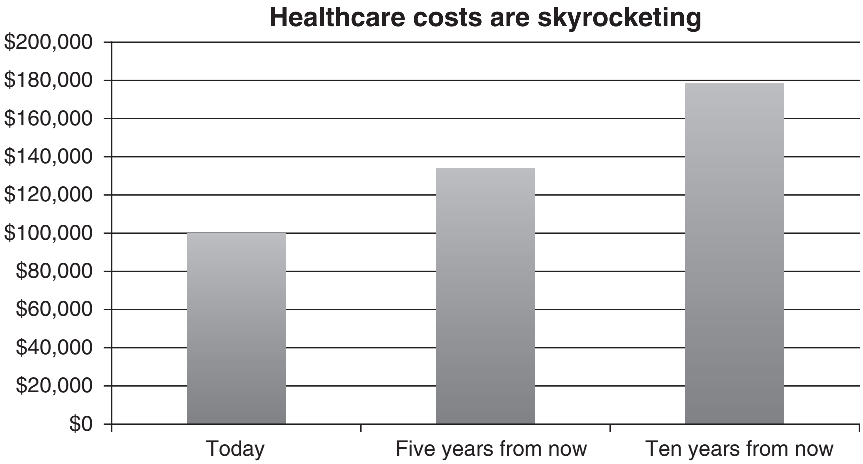
[1] https://faq.ssa.gov/link/portal/34011/34019/Article/3736/What-is-the-average-monthly-benefit-for-a-retired-worker.

[2] https://www.hvsfinancial.com/PublicFiles/Data_Release.pdf; http://www.pwc.com/us/en/health-industries/health-research-institute/behind-the-numbers.html.

In ten years, you'll need nearly double what you have today to buy the same healthcare goods and services. What costs $100,000 today will run you $179,084 a decade from now.



And that's just healthcare costs. That doesn't include fun things like nursing homes. It is expected that at least 40% of seniors will require nursing home care. And many others will have live-in help. Those things aren't cheap.

So it's not enough to just have a nice stash of cash. That money or, better yet, the income it spins off need to grow each year so you're dipping as little as possible into the nest egg.

Keep in mind, the less money you have, the less income it will likely generate.

It's critically important that you not only have a solid base, but that the money generates income that goes up every year. If your income grows enough, you'll actually increase your buying power, rather than just making sure you can keep up with the rising doctors' bills.

There are many ways of creating a growing and diverse income stream. We'll talk about quite a few of them in this book.

Perpetual Dividend Raisers

The easiest way that you can grow your annual income is by investing in Perpetual Dividend Raisers.

These are stocks that raise their dividends every year. I wrote extensively about this subject in my last book *Get Rich with Dividends*.

In *Get Rich with Dividends*, I outlined a strategy for investing in stocks that would generate 11% yields within 10 years or 12% average annual total returns over 10 years.

I'll go over some of the highlights here, but it's important to understand that if you need the money that you're planning on investing in stocks within three years – whether you're using this strategy or any other – you should not put it in the stock market.

Short term, too many bad things can occur. Wars start, idiots get elected (a little too frequently), recessions happen, markets crash, and a whole host of other unpleasant events take place.

You don't want to get caught in the middle of a bear market when you need the money to pay the rent. So don't invest short-term money in the market. It's too unpredictable.

Long term is another story. Long term, the market goes up. It has for over a century. You might get extended periods where not much happens like in the "lost decade" after the Great Recession – where stocks failed to go up at all when you look back at the prices from ten years earlier. It wasn't until about 2012 that investors who had been in the market for 10 years and who endured the financial crisis in 2008 were in the black again.

That's based on stock price only. It doesn't take dividends into account nor does it consider that an investor may have bought more stock when prices were falling. And if they were reinvesting dividends during the bear markets, they did even better because they were able to buy more stock, which generated more dividends, which bought more stock, which generated more dividends . . .

A stock market investor should be comfortable putting his or her money to work for five years (preferably more). That way, you'll likely ride out any short-term volatility or market aberrations. The longer you can stay invested the better, as your dividends will grow and so should your capital.

So let's tackle exactly how you can extract more income from the stock market.

As mentioned earlier, Perpetual Dividend Raisers are stocks that raise their dividends every year – preferably, by a meaningful amount. They've done so for many years.

The reason a long track record is important is because it sets the bar high for management. The company has trained investors to expect a dividend raise every year. If suddenly, after 30 or 40 years of annual dividend increases, the company does not raise the dividend, management, as Ricky Ricardo might say, "has some 'splainin' to do."

If a CEO is considering not raising his company's dividend after several decades of yearly growth, he might want to make sure his LinkedIn profile and resume are up to date.

There would likely be a shareholder revolt. Not only that, the stock market would take the static dividend as a very bad sign.

A company without a track record of raising its dividend that simply maintains it will not be punished by Wall Street. But if a company that has been boosting the dividend since *Miami Vice* was popular suddenly stops increasing the dividend, the stock will likely fall – and fall hard.

The amazing thing is that, as of this writing, there are 18 companies that have raised their dividends every year for at least 50 years and six have lifted their dividends annually for 60 years.

The longest running annual dividend raising streak is American States Water (NYSE: AWR), a water utility based in San Dimas, California. The company has raised its dividend annually for an incredible 62 years. The streak started in 1955.

To put in perspective how long ago that was, 1955 was the year Marlon Brando won the Best Actor Oscar for *On the Waterfront*; "Rock Around the Clock" by Bill Haley and the Comets screamed up the Billboard charts; and more significantly, Rosa Parks refused to give up her seat on a Montgomery, Alabama, bus.

Now, don't confuse a long streak of dividend increases with a high yield. Just because a company has lifted its dividend every year doesn't mean the current yield is high (though I bet investors who bought the stock years ago are enjoying a very strong yield on their original investment).

For example, American States Water, with the longest annual dividend increase streak, only yields 2.1% as I write this. Shareholders who bought the stock ten years earlier are earning 6.1%.Twenty years prior and the yield is an astonishing 22.7% on the original investment.

If that investor had been reinvesting the dividends the whole time, the yields increase to 40.9% after 10 years and 157% after 20. By reinvesting the dividends, an investor gets one-and-a-half times his original cost paid back each year, without selling a share. That's a hell of an investment.

That's the power of compounding and reinvesting dividends, particularly with Perpetual Dividend Raisers.

You may be wondering, what does it mean to reinvest dividends?

It's quite simple. Instead of receiving a dividend check or having it deposited in your account each quarter, you use the funds from the dividend to buy more stock.

The process is done automatically. You don't have to take any action, and it doesn't cost you anything. You just have to tell your broker you want the dividends reinvested. You can choose to reinvest dividends only on specific stocks or all of the stocks in your portfolio. Just let your broker know what you prefer.

Reinvesting your dividends has many benefits.

First of all, the dividend doesn't even have to be big enough to buy a full share to be reinvested. Let's say you own 100 shares of Pfizer, which is trading at $34. It pays a quarterly dividend of $0.30 per share. So each quarter you'll receive $30.

If you called your broker or went online you wouldn't be able buy a fraction of a share with $30. Your broker won't allow it. Plus, you'd have to pay at least $7 to place the order, leaving you with just $23 to invest. But if you are automatically reinvesting dividends, you can put the entire $30 to work for you.

Your $30 dividend will buy 0.88 shares of Pfizer (30/34 = 0.88). Now, you own 100.88 shares. Next quarter your dividend payment will increase from $30 to $30.26, because of the extra 0.88 shares that you own.

If the stock was still trading at $34, you would then automatically buy 0.89 shares (30.26/34 = 0.89), bringing your total to 101.77 shares.

If the stock price stayed flat, at the end of one year you'd have 103.58 shares. After five years, you'd own 119.21 shares and your original $3,400 investment would be worth $4,053 – an increase of 19%, despite the stock price not moving a penny.

Once a decade has passed, you have 142.11 shares worth $4,831. After twenty years, you own 200 shares and have doubled your money. Again, that's assuming the stock price never budged and the dividend did not vary.

Had you simply cashed that dividend check each quarter you would have collected $2,400 in dividends. Combine that with the $3,400 value of the stock and your investment would have been worth $5,800 in total.

However, by reinvesting the dividends, the 200 shares are now worth $6,800 – a thousand dollars more.

Of course, stocks don't stay at the same price over 20 years. Heck, they usually don't stay the same over 20 seconds.

When the stock price goes up, your dividends will buy fewer shares.

Back to our original Pfizer example where that first dividend check bought 0.88 shares: What happens if the stock price goes up two points and you're reinvesting the dividend at $36 per share?

You'd buy 0.83 shares. Even though that's fewer than when the stock stayed the same, the good news is the stock price is higher, so your total investment is worth more.

But stocks don't always go up. Sometimes, they go down.

If Pfizer dipped to $32 per share, that first dividend payment would purchase 0.94 shares. That means that you're going to get a slightly higher dividend the next quarter because you have more shares – 0.94 compared to 0.88 in the original example.

Those fractions of shares can add up and put the compounding machine into overdrive.

It's why I say a bear market is a dividend reinvestor's best friend.

You might think, *how can the price of my stock going down be a good thing?*

First of all, who cares where a stock is trading unless you're planning to sell it? If you bought Pfizer because you believed it was a good value with strong fundamentals and you planned on holding it to help achieve a financial goal in ten years, would it matter where the stock is trading tomorrow? Six months from now? Or in five years?

As long as you still believed Pfizer was healthy, there would be no reason to sell its stock just because the price is lower. You don't need the money for another five years.

Again, when stocks decline, the dividend reinvestor buys more shares, which generate more dividends, which buys more shares, which generates more dividends, which buys more shares . . .

Let's look at an example using Pfizer once again.

Assume we hit a rough patch in the markets for the next five years, and Pfizer drops 10% per year. Ten percent per year may not sound like a catastrophe, but if the stock lost that much each year, you'd be down about 40% on your investment. Considering Pfizer is a blue chip stock, that would be a disaster.

If an investor bought 100 shares at $34 and reinvested the dividend for five years while the stock was dropping 10% per year, at the end of those five years, the original investment would only be down 5.9%. Not bad considering the stock fell 41%.

But here's the beautiful thing – those 100 shares turned into 125.2 shares because they were reinvested at a lower price.

If instead of dropping 10% per year for five years, Pfizer had climbed by the same amount as the historical market average, the investor would have ten less shares.

Of course, their stock would be worth more after five years, because the stock price would have risen over 7% per year instead of dropping 10%.

But the income generated by the stock would be higher if the stock declined because of the larger share count.

Then, when the market or stock returns to normal price behavior, the investor has more shares that rise in price and generate income.

Adding a dividend that's growing each year with a lower stock price is the best thing that can happen to you (as long as you don't need to sell). That increasing dividend will buy even more shares than it did before, allowing the investor to accumulate a larger number of shares.

Later on, you'll have more shares to sell once you need to dip into your capital. Or, if you're in the position to not have to sell any investments but can live off the income, the dividends generated will be even larger.

The Power of Compounding

Albert Einstein famously said, "Compound interest is the most powerful force in the universe." He also declared, "Compound interest is the eighth wonder of the world. He who understands it, earns it . . . he who doesn't . . . pays it."[3]

The compounding of reinvested dividends is what will help get you to where you want to be in retirement – if you have enough time to let the dividends compound.

If you're too close to retirement to let reinvested dividends compound for years but can still afford to invest in Perpetual Dividend

[3]http://www.quotesonfinance.com/quote/79/Albert-Einstein-Compound-interest.

Raisers, you should absolutely do so as long as you don't need the investment capital within three years.

Having those dividends increase every year will be a godsend. You'll increase your buying power as your dividends grow by more than the rate of inflation.

So if you receive $100 in dividends this year, it pays for $100 worth of goods. Next year if inflation rises to 3%, the same goods cost $103. However, because you've invested in Perpetual Dividend Raisers that raised their dividends by 8%, you receive $108, beating the pants off inflation.

The following year, inflation rises another 3%. Now the price of those original goods are $106.09. However, your dividends grew by 8% again, so your income is $116.64.

Here's a chart showing how effective compounding works in this scenario.

	Cost of goods with inflation rate: 3%	Income received with dividend growth rate: 8%
Year 0	$100	$100
Year 1	$103	$108
Year 2	$106.09	$116.64
Year 3	$109.27	$125.97
Year 4	$112.54	$136.04
Year 5	$115.91	$146.92
Year 6	$119.39	$158.67
Year 7	$122.97	$171.36
Year 8	$126.66	$185.06
Year 9	$130.45	$199.86
Year 10	$134.36	$215.84

You can see that after five years of moderate inflation, prices are more than 15% higher. However, with the 8% dividend increase each year, you're receiving 47% more income. And you have an extra $31 of buying power.

The difference gets more dramatic each year. After year 10, prices have climbed over 34%. Meanwhile your income has more than doubled. You are receiving 60% more income than needed to cover rising costs.

So even if an investor is not reinvesting the dividend, by owning stocks that raise the dividend each year by more than a few percentage points, he or she is ensuring that the income received from the investments will not only retain its buying power but will increase it.

Most retirees are hoping to simply hang on to what they have in retirement. But by investing in Perpetual Dividend Raisers, one can increase their buying power and living standards in retirement each year. For a free list of Perpetual Dividend Raisers, visit www.dripinvesting.org and click on Info/Tools/Forms. Then click on Excel Spreadsheet. There is a lot of information in the spreadsheet including the stocks' yields, the number of years they've continuously raised the dividend, financial information, and more.

If you prefer getting suggestions on which stocks to buy, check out my *Oxford Income Letter* at www.uberretirementbook.com. You'll automatically receive a $10 discount for being a reader of *You Don't Have to Drive an Uber in Retirement.*

Actions to Take

- Buy Perpetual Dividend Raisers.
- If you don't need the income right away, reinvest the dividends.
- Don't panic if the stock or the market goes down. Keep reinvesting dividends.
- Don't hold out for a 6% raise when you're entry level. You won't get it. No one does.