Grand Transfer
Dividends are beautiful… and tax-advantaged.

It's a big machine.

Twenty-eight years ago, my very first boss at RBC was at the tail end of a long career working for a benevolent employer enjoying a largely prosperous 5 decades since World War 2. In 1990, the bank bragged of never having laid off a single employee since the Great Depression.

The highlight of his career was a 3-year stint in the 70's to open a new branch in the Cayman Islands. But before he reported to the tropics, he was sent to Toronto, along with his young family, to await the appropriate work visa from the host country. They checked in to a modest, but comfortable hotel in Mississauga, and he rode the train to a downtown Toronto RBC office the following Monday morning.

His reporting manager met briefly with him, and escorted him to his temporary office, such as it was, and hurried off to something busy. The room was adorned with just a chair. No desk. No typewriter. No phone. No artwork. Just a chair. He had, after all, no official duties to perform other than to wait, but policy required him to show up at an RBC office in order to get paid to wait. Not much thought had gone in to just what to do with him, nor his temporary placement digs. There were bigger international issues at play, and the finer details of the transfer just hadn't ever come up before.

Used to the frenetic pace of urban branch management, he could barely stand to sit still. Within a few minutes he mustered up the gumption to seek out some hardware. His manager brushed him off to an HR staffer two stories up, third door on the left - a thoroughly disinterested bureaucratic man, who gave him the appropriate form to complete: Requisition for Office Furniture for non-client Facing Managerial Staff: Form HR2604a. "Press hard, and print clearly," the man droned, "you are making three copies."

"Where do I send the completed form?"

"Ask your manager." He didn't even glance up at him.

"He's away." He lied.

"Then bring it to me." Still looking down

"Okay."

A few days later he arrived at the office to find that a telephone had been installed overnight. There it was, sitting on the floor. Still no desk or anything else, but now a chair and a phone. Things were looking up.

On complaining to his manager about his predicament, by the end of that same day, a dusty old oak desk was delivered from the mail room by two grumpy basement-dwelling employees. Now he had a desk, a telephone, and a chair, but absolutely nothing to do. So he studied what he could about his destination, and pretty much tried to stay awake for three months before his paperwork was finally completed, and he was ready to head for the Caymans.

My manager was a small cog in a great big machine, and although he experienced this weird little gap in his career, the machine, viewed at large, was and is a beautiful one. Some of the old pictures adorning my walls over the years have been pure Canadiana, showing gritty bankers settling wilderness towns, financing this and that, and doing it all at a profit. Love us or hate us, we, and other banks like us, are the blue chip stocks of this nation. We are among Canada's most valuable brands.

When, occasionally, clients complain about a bank making such consistent profits, my old boss would ask: "Would you prefer losses?" And if the complaints persisted, he simply said: "Buy shares."

Dividends Pay:
Aside from their tax advantage, dividends are a very democratic way of sharing in the success of a business most of us couldn't afford to own as a family or individual. This bank alone has increased its annual dividend from 54 cents per share per year in early 2000, to the current rate of $3.48, which is still less than half of what it earns per share. During that same period, the share price has grown by over five fold. And, during that same period, other blue chip companies in Canada have also rewarded shareholders with tax-advantaged dividend paydays galore.

But at a less technical, less numeric level, dividends reflect consistently good management, a signal that owning the corporation might be a good idea, an announcement to the world that "we did it." We started this business and made it profitable, and you can share in it if you trust us with your hard-earned money. To be clear though, in most cases, dividends are not guaranteed, if a company runs on to hard times, the dividends could be reduced or entirely cancelled without any breach of contract whatsoever. So invest with care.

As with many large cap corporations, nearly all bankers are shareholders of their employer's stock, making it matter to each of us what goes on around here. In order to jealously protect those dividend streams, we started laying off some of the less productive employees a few years after I was hired, and I suspect that if a middle manager today took a transfer to some exotic foreign post, he would have a relatively smooth transition compared to the old guys.

Look for large cap, solid earnings, and dividends. Know the industry. Buy them on sale and hold them.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund). This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.