Seeking Alpha α

Dividend Strategy

Dividend Harvesting: Building The Portfolio Brick By Brick On $100 A Week

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Summary

- I am building a new portfolio by investing $100 a week into dividend-producing equities and ETFs.
- This article is for anyone who is interested in generating passive income, dividend harvesting, or creating an investment plan to offset the loss of income in retirement.
- Some of the goals will be to generate monthly & weekly dividend income as I add more investments with an annual dividend yield between 4% and 5%.
- My first three investments were Altria Group, Starwood, and AT&T.

This article series is dedicated to everyone who has asked me questions about dividend harvesting and anyone who is interested in building a dividend portfolio. In today's stock market growth has overshadowed dividend investing. While there should be a place for both categories in your investment mix the headlines seem to revolve around Tesla (TSLA), Ark Investments, Zoom (ZM) and others generating large returns. Compounding interest and investing with a 10, 20 or even 30-year time horizon isn't exciting in a culture where instant gratification has become normalized to an extent. I opened a new brokerage account specifically for this article series. My goal is to illustrate every investment I make and show dividend investing can become a powerful asset over time.

Dividend investing has been part of my investment strategy for some time. I love stocks that pay a dividend for several reasons. At the end of the day a company's ability to pay regular dividends or distributions is a statement to their fundamental and fiscal strength. Investing in a company that pays a dividend allows me to have an equity position in the company while getting paid a portion of their profits. By reinvesting the dividends the power of compounding allows my equity stake in the company and the dividend payment to increase with each and every dividend paid by the company. If you were to purchase 100 shares of company XRZ with a 4% dividend yield there is a possibility that over a period of time your shares and annual dividend payment could increase by more than 100%. Another wonderful aspect of dividend investing is annual dividend increases. If you look at The Coca-Cola Company (KO) they have provided shareholders with 58 consecutive years of dividend increases with a 5-year growth rate of 4.25%. Companies that provide annual dividend increases increase the rate of compounding on an annual basis.

(Source: Sividendvalue.com)

The guidelines for my new dividend portfolio

Many people are under the assumption that you need to invest large amounts of capital to make your money work for you. I just created a new brokerage account and funded it with $100. My goal is to add $100 per week to this account until I retire and build the portfolio from the ground up so everyone can see how I make my decisions and what my positions are. I am going to share all of the details from how much I purchase the shares for to the amount of dividend income the portfolio is generating and if it is profitable. $100 may not seem like a lot of money but over time the power of compounding will allow this portfolio to generate more in annual dividends then I am contributing over the year. The rules for this portfolio are:

- I will contribute $100 per week to this account
- None of the investments will be high risk or speculative (in my opinion)
- I can invest in anything that provides a dividend or distribution
  - Equities
  - ETFs
  - Mutual Funds
- All dividends and distributions must be reinvested
- In every article I show the investments I have made and provide a synapsis as to why it made the portfolio
- Look for quality companies with long track records of paying dividends or distributions
- I can't invest in MLP's since this is a taxable account and I don't want the accounting headache
- Try to get an average annual yield of 4-5% for the portfolio
- Generate monthly dividend income
- Generate weekly dividend income

Below is an illustration of how reinvesting the dividends can become a powerful asset to the investor. In Portfolio A (on the left) the dividends aren't reinvested and in Portfolio B (on the right) the dividends are reinvested. These portfolios indicate investing $5,200 on an annual basis and earning a 4% annual dividend income. Over the 30-year time period portfolio A would grow to $156,000 and generate $6,240 in annual dividend income in year 30. Portfolio B which is reinvesting the dividends would grow an additional $135,641.68 to $291,641.68 and generate $11,665.67 in dividend income at the end of year 30. Just by reinvesting the dividends your overall investment and annual dividend income would be 86.95% more at the end of year 30. This example doesn't take into account price appreciation or depreciation market factors, dividend increases, quarterly compounding of dividends or any other factors. This is simply to show how powerful reinvesting the dividends at a 4% yield can be to any investor.

Portfolio A					Portfolio B			
Without Reinvesting Dividends					With Reinvesting Dividends			
Period	Investment	Dividend Yield	Annual Dividends		Period	Investment	Dividend Yield	Annual Dividends
Year 1	$5,200.00	4%	$208.00		Year 1	$5,200.00	4%	$208.00
Year 2	$10,400.00	4%	$416.00		Year 2	$10,608.00	4%	$424.32
Year 3	$15,600.00	4%	$624.00		Year 3	$16,232.32	4%	$649.29
Year 4	$20,800.00	4%	$832.00		Year 4	$22,081.61	4%	$883.26
Year 5	$26,000.00	4%	$1,040.00		Year 5	$28,164.88	4%	$1,126.60
Year 6	$31,200.00	4%	$1,248.00		Year 6	$34,491.47	4%	$1,379.66
Year 7	$36,400.00	4%	$1,456.00		Year 7	$41,071.13	4%	$1,642.85
Year 8	$41,600.00	4%	$1,664.00		Year 8	$47,913.98	4%	$1,916.56
Year 9	$46,800.00	4%	$1,872.00		Year 9	$55,030.54	4%	$2,201.22
Year 10	$52,000.00	4%	$2,080.00		Year 10	$62,431.76	4%	$2,497.27
Year 11	$57,200.00	4%	$2,288.00		Year 11	$70,129.03	4%	$2,805.16
Year 12	$62,400.00	4%	$2,496.00		Year 12	$78,134.19	4%	$3,125.37
Year 13	$67,600.00	4%	$2,704.00		Year 13	$86,459.56	4%	$3,458.38
Year 14	$72,800.00	4%	$2,912.00		Year 14	$95,117.94	4%	$3,804.72
Year 15	$78,000.00	4%	$3,120.00		Year 15	$104,122.66	4%	$4,164.91
Year 16	$83,200.00	4%	$3,328.00		Year 16	$113,487.56	4%	$4,539.50
Year 17	$88,400.00	4%	$3,536.00		Year 17	$123,227.06	4%	$4,929.08
Year 18	$93,600.00	4%	$3,744.00		Year 18	$133,356.15	4%	$5,334.25
Year 19	$98,800.00	4%	$3,952.00		Year 19	$143,890.39	4%	$5,755.62
Year 20	$104,000.00	4%	$4,160.00		Year 20	$154,846.01	4%	$6,193.84
Year 21	$109,200.00	4%	$4,368.00		Year 21	$166,239.85	4%	$6,649.59
Year 22	$114,400.00	4%	$4,576.00		Year 22	$178,089.44	4%	$7,123.58
Year 23	$119,600.00	4%	$4,784.00		Year 23	$190,413.02	4%	$7,616.52
Year 24	$124,800.00	4%	$4,992.00		Year 24	$203,229.54	4%	$8,129.18
Year 25	$130,000.00	4%	$5,200.00		Year 25	$216,558.72	4%	$8,662.35
Year 26	$135,200.00	4%	$5,408.00		Year 26	$230,421.07	4%	$9,216.84
Year 27	$140,400.00	4%	$5,616.00		Year 27	$244,837.91	4%	$9,793.52
Year 28	$145,600.00	4%	$5,824.00		Year 28	$259,831.43	4%	$10,393.26
Year 29	$150,800.00	4%	$6,032.00		Year 29	$275,424.69	4%	$11,016.99
Year 30	$156,000.00	4%	$6,240.00		Year 30	$291,641.68	4%	$11,665.67

(Source: Steven Fiorillo)

My dividend watchlist and my first three purchases

My current watchlist of possible additions to this dividend portfolio has 42 positions, 38 are single stock equities and 4 are ETF's. The dividend yield ranges from 1.87% to 10.58% with the average being 4.9%. Overall I look for quality companies that I believe will continue to do will in the future which have a long history of paying dividends with annual increases. There are some exceptions as not every company checks off every box but all of the companies on this list I would in invest in. Overtime I will add companies to this list and if anyone has any suggestions please let me know in the comment section. I marked Altria Group (MO), Starwood Property Trust (STWD) and AT&T (T) in green as they were my first purchases this week to start the portfolio off.

Dividend Harvesting Watchlist				
Symbol	Last	Div yield	Div amount	Price
ABBV	106.7	4.87%	5.2	106.7
AGNC	15.9	9.06%	1.44	15.9
AMLP	31.68	9.12%	2.89	31.68
BMY	60.43	3.24%	1.96	60.43
BP	26.77	4.84%	1.26	26.77
C	70.23	2.90%	2.04	70.23
CAT	220.16	1.87%	4.12	220.16
CSCO	46.25	3.20%	1.48	46.25
CVX	109	4.73%	5.16	109
D	69.86	3.61%	2.52	69.86
DEO	164.22	1.90%	3.07	164.22
DUK	88.53	4.36%	3.86	88.53
ED	68.3	4.54%	3.1	68.3
ENB	35.44	7.44%	2.64	35.44
GSK	34.91	7.33%	2.51	34.91
IBM	122.83	5.31%	6.52	122.83
INTC	60.74	2.29%	1.39	60.74
IRM	35.79	6.91%	2.47	35.79
JNJ	156.1	2.59%	4.04	156.1
KMB	131.59	3.47%	4.56	131.59
KMI	15.87	6.62%	1.05	15.87
KO	50.79	3.31%	1.68	50.79
MMM	180.8	3.27%	5.92	180.8
MO	45.12	7.62%	3.44	45.12
NEE	70.7	2.18%	1.54	70.7
NLY	8.32	10.58%	0.88	8.32
OHI	37.52	7.14%	2.68	37.52
PFE	34.39	4.54%	1.56	34.39
PG	125.98	2.51%	3.16	125.98
RIO	83.64	7.55%	6.18	83.64
SCHD	70.17	2.89%	2.03	70.17
SLG	72.54	5.02%	3.64	72.54
SO	58.35	4.39%	2.56	58.35
SPYD	38.42	4.25%	1.63	38.42

STAG	32.14	4.51%	1.45	32.14
STOR	32.2	4.47%	1.44	32.2
STWD	22.95	8.37%	1.92	22.95
T	29.62	7.02%	2.08	29.62
VICI	29.22	4.52%	1.32	29.22
VYM	98.12	2.96%	2.91	98.12
VZ	56	4.48%	2.51	56
XOM	60.93	5.71%	3.48	60.93

(Source: Steven Fiorillo)

In week 1 of this journey I invested $97.58 across MO, STWD and T. I purchased 1 share of each company and the combined annual dividends will total $7.44 prior to compounding or dividend increases. This will provided a current yield of 7.62% for my portfolio. If you have followed my articles it really should come as no surprise that T would become one of my first investments. This combination offers diversity, solid dividends through volatile times and some dividend growth.

I recently wrote an article focused on MO. As the share price continued to decrease it became an attractive opportunity to me. When you take the optics out of the business segments MO operates in from a financial aspect MO is a very interesting investment. Mo's gross profit margin in 2020 exceeded 60% while their net income conversion exceeded 20% indicating that they possess a competitive advantage within their sector. Mo has increased its revenue and gross profit sequentially YoY since 2011 as their revenue has grown by $4.22 billion and gross profit by $4.55 billion. MO has a 10.2% ownership stake in Anheuser-Busch InBev (BUD), a 35% stake in JUUL and a 45% stake Cronos Group (CRON).

I am envisioning MO as one of the cornerstones of this portfolio and I will be adding to my position from time to time. Currently MO is a dividend king with 51 consecutive years of dividend increases and a yield 7.62%. Management has also came out and said that dividends will remain a priority as it will remain a priority to return cash to shareholders. MO will maintain its dividend target of roughly 80% of adjusted diluted EPS. From 2016 - 2020 MO has paid $27 billion in dividends to shareholders. MO is a strong dividend pickup for this portfolio because its yield exceeds my overall target, it's increased the dividend for decades and management is committed to paying roughly 80% of EPS to shareholders in dividends.

(Source: Altria)

(Source: Seeking Alpha)

I originally purchased STWD at the end of 2016 as I am a fan of the company and Barry Sternlicht their CEO. If you have the time listen check out this interview at the Knowledge at Wharton Real Estate Forum or a more recent one where A-Rod and Big Cat from The Corp interview him. STWD's core business focuses on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments. STWD has over $70 billion worth of assets under management including 190,000 multifamily units, 310,000 hotel rooms, 46 million sq. feet of industrial space, 58 million sq. feet of retail space and 89 million sq. feet of office space.

STWD started paying a dividend of $0.32 per quarter in 2010, then in 2011 increased it to $0.35 then shareholders received an increase to $0.37 in 2013 then another raise to $0.48 in 2014. Since 2014 STWD has paid a dividend of $1.92 per share or $0.48 on a quarterly basis. Even through the pandemic in 2020 STWD maintained its $1.92 dividend to their shareholders and was one of the few REITs that didn't reduce or suspend their dividend. Today STWD has a yield of 8.37% and shareholders have seen multiple increases over the last decade. With shares still recovering from the pandemic and the dividend intact STWD is a great pick up for my new dividend portfolio. I expect share to increase in value overtime and provide me with a large dividend I can compound for years to come.

(Source: Starwood)

My third purchase should come as no surprise to anyone who reads my dividend articles as I added T. Recently I wrote an article discussing the DirecTV deal, the 5G Spectrum Auction, T's dividend and why I believed their debt load is manageable. It's perplexing that T has become a battleground stock and dismiss T as an investment based off of its debt load. T generated $171.8 billion in revenue for fiscal year 2020 which produced $43.1 billion in cash from operations and $27.5 billion in free cash flow. T generates huge amounts of cash which is more than enough to service its debt, invest in its business while paying a large dividend to shareholders.

T has a dividend yield that exceeds 7% with a payout ratio in 2020 of 55%. T recently made a decision to suspend its 36 consecutive years of dividend growth and reallocate the capital earmarked for dividend increase to reducing its debt. This was discussed prior to the DirecTV deal where T will be getting $7.8 billion in proceeds of which $7.6 billion will be cash while retaining 70% of their U.S video business assets. I would be shocked if T doesn't provide a very small dividend increase to retain its dividend aristocrat status and continue its journey to becoming a dividend king. Either way T's dividend is stable and if they choose to suspend the increases for the foreseeable future with a yield of 7% compounding the dividends will work its magic over time.

(Source: Steven Fiorillo)

Tracking my investments and generating monthly & weekly dividend income

I created a spreadsheet which tracks my initial investment, how many shares I purchased of a company, how many shares I have collected from dividends, the profit and loss of each investment by taking dividends into account, the annual dividend per share and how much in total annual dividends each investment will generate. I have the fields auto populating into 3 graphs which indicate my total annual dividends per investment, how many shares I have accumulated through dividends and my profit or loss in each investment.

(Source: Steven Fiorillo)

Two of the goals are generating monthly and weekly dividend income from my investments. I am looking to utilize dividend producing stocks to offset the loose of income during my retirement. To do so I will need to build an income stream from dividends on a monthly and weekly basis. Currently the combination of MO, STWD and T have covered 8/12 months so next week I will be looking for a company that pays its dividend in March, June, September and December. Overall by investing in quality companies I will be building this portfolio to not only pay monthly dividends but they will get larger as they compound QoQ and as companies provide increases.

(Source: TD Ameritrade)

The next goal of generating weekly dividends is much more of a challenge. This actually takes a lot of planning and research. I previously wrote an article where I demonstrated at the time if you were to invest in 20 companies the average portfolio yield would be 5.69% and it would generate 50 weeks of dividends based on historical payout dates. I constructed a table below outlining the 4 quarters and all 52 weeks out of the year. MO, STWD, and T generate dividends in 8/52 weeks. As I add more companies to this portfolio the goal of weekly dividends will become easier to obtain.

(Source: Steven Fiorillo) (Data Source: Seeking Alpha)

My future investment strategy

Building a portfolio takes a lot of research and commitment. I want this portfolio to be diversified and not overweight in a particular sector. I am not chasing yield and I am looking for quality companies at good prices. The dividend history and annual dividend increases will play a role in my decision-making process. I am looking to have at least 50-60% of the portfolio invested in companies that have a track record of annual increases. The power of compounding is truly amazing and it can be turbocharged as companies increase their dividends.

I am also planning on having roughly 30% of the portfolio in dividend producing ETF's or mutual funds. I will probably lean toward ETF's as there is no minimum investment, most of them offer quarterly dividends and I can buy & sell just like a traditional stock. Buying dividend funds will help diversify my portfolio and expand my holdings.

Conclusion

I am excited about building this portfolio and I hope all of the Seeking Alpha readers who have messaged me and commented on my dividend articles enjoy this series. My personal goal is to continue investing $100 a week into this portfolio until I retire, documenting the journey and providing investment ideas for the Seeking Alpha community. I hope that some of the younger readers in their teens and 20's are inspired by this and start saving for their future sooner than later. $100 a week may not seem like a lot of money to invest but over time it can grow into a nice portfolio churning out monthly and even weekly dividends. I am planning on doing frequent updates on this portfolio which will probably be bi-weekly or monthly. If you have any questions, suggestions or thoughts please leave a comment.

This article was written by

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I am focused on growth and dividend income. My personal strategy revolves around setting myself up for an e...
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Disclosure: I am/we are long T, STWD, MO. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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