

Canadian Financial Planner

Spring 2008

Investors that purchase the shares of individual companies, as opposed to investing in mutual funds or exchange traded funds should consider a number of financial vehicles to compliment their holdings. In this edition of the Canadian Financial Planner, we shall review the following strategies to supplement an individual's equity investments:

- dividend reinvestment plans
- stock purchase plans
- depositary receipts

Dividend Reinvestment Plans

Companies that pay dividends to their shareholders may offer a dividend reinvestment plan. If a shareholder is enrolled in such a plan, they would receive their quarterly dividend in shares of the company, rather than cash. Such a plan may not be advantageous for individuals that require dividend income to fund their lifestyle, such as retired individuals. We shall review the following aspects of these plans:

- enrolling in a dividend reinvestment plan
- advantages and disadvantages of such plans
- tax implications of receiving a dividend in shares, rather than cash

Enrolment – Before enrolling in a dividend reinvestment plan, it is necessary to be a registered shareholder of the company. Therefore, the first step is to purchase shares in the company and have your broker register the share certificates in your name. Once an investor obtains the certificate, he or she must contact the company and obtain a dividend reinvestment

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enrolment form. Once the form is completed and returned to the company, all future dividend payments will be in shares, rather than cash.

If there is more than one registered holder of the shares, they must all sign the enrolment form. If the company allows additional cash options, which we shall discuss later in the article, the company is required to obtain additional information in order to comply with money laundering legislation.

Advantages of Reinvestment Plans

Although there are several advantages of joining a dividend reinvestment plan, most are quite modest. Potential advantages of these plans include:

Saving on Broker's Fees – The additional shares that are received as a dividend are acquired without the payment of brokerage fees. These savings are often not material, but many of the companies that offer a dividend reinvestment plan allow members to purchase additional shares directly from the company without the involvement of a broker and the related fees. The companies that offer the cash investment option, normally place a limit on the amount of shares that can be purchased. Using Canadian banks as an example, the following amounts of shares can be purchased directly from these companies:

Bank	Maximum Annual Purchase
Bank of Montreal	\$40,000
Bank of Nova Scotia	\$20,000
CIBC	\$50,000
Royal	not available
TD Bank	not available

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