WEALTH DAILY

Warren Buffett's Dividend Stock Strategy

Special Report

How Warren Buffett Survives on $1,923.09 a Week

Here is something that you may not realize about Warren Buffett: counting only his take-home pay, the Oracle of Omaha is a pauper compared to his peers.

With a yearly salary of just $100K from Berkshire-Hathaway, the grandfatherly Buffett just barely finds himself among the top 30% of earners — a mere pittance for one of the world's richest individuals.

But as we all know, there is more to this story than meets the eye. After all, Warren is not exactly wondering where his next meal is coming from...

The difference, in this case, is in the dividends.

Dividend Stock Strategies

You see, aside from the paycheck he received from his "day job," Warren earned an estimated $31,281,250 in income last year from the dividends spun off from his own personal holdings.

Those dividend money machines accounted for 99.76% of his estimated 2012 income, keeping him flush with cheeseburgers and business jets.

And with the yields on the benchmark 10-year Treasury note hovering in the 2% range and the economy struggling to rebound, Buffett's dividend portfolio will likely outperform in 2013, adding to his massive fortune.

True to form, he buys them, holds them, and watches them grow.

Simple, but effective.

And that's not the only advantage to be had by building a portfolio like Uncle Warren's...

The other benefits of a divided-based portfolio include:

- **Safety** — If preserving your money is as important to you as it is to Buffett, dividend investments are preferable because of their low risk.
- **Diversification** — If the balance of your portfolio tilts towards growth, dividend investments can help you diversify acting as buffer against unpredictable market swings.
- **Access** — Dividend-paying stocks offer investors ready access to their income streams, unlike similar investments in 401(k)s and IRAs, which are retirement based and carry penalties for early withdraws.

So don't believe for a second that income investments are boring and are only suited for the gray-haired crowd. The larger truth is that dividend-paying stocks should be a part of every well-balanced portfolio — young, old, or somewhere in between.

Here's why: Even in bear markets, dividend-paying stocks typically do well, especially if those companies have a strong history of increasing the dividend payout.

That's because investors win two ways when a company increases its dividend. First, the yield on your initial investment goes up with the dividend; second, and even better, the dividend increase often propels the share price higher.

That's an unbeatable combination in today's tough markets. And it's the reason that investors are so eager right now to gobble up companies with solid dividend yields.

So, What is Dividend Yield?

In short, a dividend yield is a cash payout that you receive for simply being a shareholder, sort of like receiving a bonus based on a company's earnings.

Moreover, these "bonuses" also offer lower tax rates than similar investments in savings, CDs, or money market accounts. Thanks to a change in the tax law, dividends are now taxed at only 15% for individuals who earn less than $400,000. That's considerably better than the 20%-35%+ taxation levied against ordinary income. (Even though these tax changes may eventually be eliminated.)

Dividend yield is simply your rate of return from the dividend payouts, exclusive of any stock price appreciation. It's calculated by dividing the dividends you receive over a year's time by the price you paid for the stock.

I'll give you an example: Your dividend yield is 5% if you paid $20 per share, and you receive $1 per share in dividends ($1/$20) over the 12 months following your purchase.

Dividend yield, however, is not a fixed number. It changes along with the share price. For instance, say someone else buys the same stock a week later when the share price had moved up to $25. Instead of 5%, their dividend yield would only be 4% ($1/$25).

However, as Warren Buffett would surely tell you, picking successful dividend-paying stocks is not as simple as buying the stocks with the highest yields. In fact, the stocks with the highest yields often trip up investors the most.

So if you really want to invest like Warren Buffett, you can spend your time pouring over his annual letter to shareholders, or you can create a dividend money machine of your own by following the famed investor's own personal holdings.

Warren Buffett's Personal Portfolio

The latest filings from his personal portfolio showed that he had multi-million-dollar stakes in 10 companies as of the end of last year.

Per the SEC, they included investments in:

- **Wells Fargo (NYSE: WFC).............................. 14, 812,857 shares**
- **Johnson & Johnson (NYSE: JNJ)...................... 4,973,200 shares**
- **Procter & Gamble (NYSE: PG).......................... 4,375,000 shares**
- **Kraft Foods (NYSE: KFT)................................. 8,000,000 shares**
- **Wal-Mart (NYSE: WMT)................................... 4,200,000 shares**
- **U.S. Bancorp (NYSE: USB).................................. 8,365,000 shares**
- **General Electric (NYSE: GE).............................. 7,777,900 shares**
- **United Parcel Service (NYSE: UPS)..................... 1,429,200 shares**
- **Ingersoll-Rand (NYSE: IR) .... 636,000 shares**
- **Exxon Mobil (NYSE: XOM).................................. 421,800 shares**

Among them, they pay an average dividend yield of 2.3%, with Buffett concentrating 77% of his investments in the top five stocks. That plan allows Buffett to "get by" on the $1,923.08 found in his weekly paycheck.

That, my friends, is how the other half lives.

The good news is that by building a five stock dividend portfolio of your own, you can jump on the road to wealth right there with 'em.

You can view the HTML version here: Warren Buffett's Dividend Stock Strategy

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