

The Dividend Paycheck Playbook

How to build a portfolio that pays your bills, one bill at a time

Companion guide to the Dividend Paycheck Planner spreadsheet.

This guide is general education, not personalized investment, tax or legal advice. Tickers are examples, not recommendations. Yields, dividends and tax rules change; verify current figures with your broker and consult a qualified professional for your situation. Past dividends do not guarantee future dividends.

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1. The paycheck mindset

Most portfolio trackers answer the question “*how much is my portfolio worth today?*” That number jumps around every day and tells you very little about your life. A dividend investor gets to ask a calmer, more useful question: “**how much does my portfolio pay me each month, and which of my bills does that cover?**”

Dividends are cash that companies pay out of their profits. Healthy dividend payers tend to keep paying, and many raise their payment every year, even when share prices fall. That makes dividend income something you can plan around, the way you plan around a salary.

This playbook and the Planner are built around one idea: **treat your dividends as a paycheck and point that paycheck at specific bills.** First your phone bill. Then internet. Then utilities. Eventually, maybe, the mortgage. Each bill you cover is a milestone you can see, and seeing progress is what keeps people investing through boring and scary markets alike.

What this is not: a get-rich-quick plan. Building a meaningful dividend paycheck usually takes years of steady contributions. The good news is that the process is simple, and the Planner does the math for you.

2. Find your number

Your number is the monthly amount you want dividends to cover. Start with a list of fixed bills, smallest first, because small wins come quickly and build the habit.

Bill	Monthly	Portfolio needed at 3.5% yield*	at 5% yield*
Phone	\$80	\$27,400	\$19,200
Internet	\$70	\$24,000	\$16,800
Utilities	\$250	\$85,700	\$60,000
Mortgage	\$1,800	\$617,100	\$432,000

*Pre-tax. Formula: monthly bill × 12 ÷ yield. Shown for illustration only.

Two things jump out. First, the first bill is reachable much sooner than people think. Second, a higher yield shrinks the portfolio you need, which is exactly why investors get tempted to chase yield. Chapter 5 shows you how to do that without walking into a dividend cut.

In the Planner: type your bills into *Settings*, smallest first. The *Dashboard* shows which bills your dividends already cover and how far along you are on the next one.

3. Pick your lane: growth, yield or blend

Approach	What you get	Typical yield	Best for
Dividend growth	Companies that raise payouts every year. Lower income today, faster-growing income and usually better total return.	~1.5–3%	Long horizon, still adding money
High yield	More income now, slower growth, more risk of cuts.	~4–8%	Need cash flow soon, or retired
Blend	A dividend-growth core with a high-yield sleeve.	~2.5–4%	Most people starting out

A useful rule of thumb: the further you are from needing the income, the more you should favour growth. A stock yielding 2% that raises its dividend 10% a year will out-pay a flat 5% yielder on your original investment in roughly ten years, and is often a healthier business along the way.

Use the *Snowball* tab to test this yourself: change the dividend growth assumption in *Settings* and watch how much the 20-year paycheck moves.

4. ETFs, stocks, or both

Start with a dividend ETF if you are investing less than roughly \$25,000–\$50,000, or you don't want to research companies. One fund gives you dozens or hundreds of payers and removes single-company risk.

Well-known examples to research (not recommendations): SCHD (quality and yield blend), VIG and DGRO (dividend growth), VYM (broad higher yield), and VYMI or VIGI (international).

Add individual stocks once your core is in place, if you enjoy it. 10–20 companies you understand is plenty. Keep any single stock under about 5% of the portfolio so one cut can't sink your paycheck.

A simple example structure: 60–70% core dividend ETF, 10–15% international dividend ETF, 20–25% across 8–12 individual dividend growers.

5. The 7-point dividend safety check

A dividend cut hurts twice: your income drops and the share price usually falls with it. Run every individual stock through these seven checks before you buy, and again once a year.

#	Check	Healthy range	Why it matters
1	Payout ratio (of earnings)	Under 60%. Utilities under 75%. REITs: use AFFO, under 85%.	Room to keep paying through a bad year.
2	Free-cash-flow payout	Under 70%	Dividends are paid in cash, not accounting earnings.
3	Growth streak	10+ years of raises	Proves the habit survived at least one downturn.
4	5-year dividend growth	Above 5% a year	Your paycheck should beat inflation.
5	Debt load	Net debt / EBITDA under ~3x (sector-dependent)	Debt is what forces cuts in recessions.
6	Yield vs its own history	Near or a bit above its 5-yr average	Far above average often means the market expects a cut.
7	Earnings trend	Flat or growing over 5 years	Shrinking businesses eventually shrink dividends.

Where to find these numbers: most broker research pages (Fidelity, Schwab, Vanguard and others) show dividend yield, payout ratio and dividend history. Company investor-relations pages list dividend declarations. Free sites such as the company's annual report give free cash flow and debt.

In the Planner: enter payout ratio, growth streak and 5-year growth in *Holdings*. The Safety Score (0–100) rates each position Strong, OK or Review, and the *Dashboard* shows what share of your income sits in each group. If more than about 20% of your income is rated Review, that's your homework list.

6. Build a 12-month pay calendar

Most US stocks pay quarterly, but on different schedules. Some pay in January, April, July and October; others in February, May, August and November; others in March, June, September and December. Most dividend ETFs pay in the March cycle, which makes those months lumpy.

If you want an even monthly paycheck, deliberately mix the three cycles, and add a monthly payer or two (many REITs and some funds pay monthly). The *Pay Calendar* tab shows your expected income for each month, so thin months stand out immediately; your next purchase can target them.

7. Put each holding in the right account

Where you hold a dividend investment can matter as much as what you hold. US rules in brief (check with a tax professional for your situation):

- **Qualified dividends** (most US companies held long enough) are taxed at 0%, 15% or 20% in a taxable account, depending on income. Dividend growth stocks fit well in taxable accounts.
- **Non-qualified dividends**, including most REIT and BDC income and bond fund interest, are taxed as ordinary income. They are usually better held in an IRA, Roth IRA or 401(k).
- **Roth IRA**: dividends grow and come out tax-free in retirement. A great home for your highest-yielding holdings.
- **MLPs** issue a K-1 tax form and can create tax complications inside IRAs. Many investors hold them only in taxable accounts.
- **Foreign stocks** may have tax withheld at source. In a taxable account you can often claim a foreign tax credit.

In the Planner, set the Account for each holding; the Dashboard splits value and income by account. Set the *Settings* tax rate to your blended rate (0% if everything is in a Roth).

8. The snowball: reinvesting and time

Reinvesting dividends buys more shares, which pay more dividends, which buy more shares. Add regular contributions and annual dividend raises, and income compounds from three directions at once.

The *Snowball* tab projects 30 years using your current portfolio, monthly contribution, expected dividend growth, price growth and reinvestment rate, and tells you the year your monthly paycheck reaches your goal. Try three experiments:

- Raise your monthly contribution by \$100 and see how many years it saves.
- Drop dividend growth from 6% to 3% to see why growth matters.
- Set reinvestment to 0% to see the cost of spending dividends too early.

Projections are estimates, not promises. Markets have bad decades, and companies cut dividends. Use the projection to compare choices, not to plan to the dollar.

9. The 9 traps that cost dividend investors money

- 1. Chasing yield.** A 9–12% yield usually means the market expects a cut. Check the safety score first.
- 2. Ignoring total return.** A stock that pays 6% but falls 8% a year is losing you money.
- 3. Buying for the ex-dividend date.** The share price drops by roughly the dividend on the ex-date. There's no free money.
- 4. Concentration.** Three stocks providing half your income is a fragile paycheck. Watch the % of income column.
- 5. Sector piling.** Utilities, REITs and telecoms all yield well and all struggle when rates rise. Spread out.
- 6. Holding high-yield assets in taxable accounts.** You can lose a third of the income to tax for no reason.
- 7. Spending dividends too early.** Every dollar reinvested in your first decade can be worth several dollars of income later.
- 8. Selling after a dividend cut in panic.** Re-run the safety check. Sometimes a reset makes a company healthier; sometimes it's a warning.
- 9. Not tracking.** If you can't see your paycheck growing, you're likely to quit. That's what the Planner is for.

10. Your first 30 days with the Planner

- **Day 1:** enter your bills in Settings and your current holdings in Holdings (10 minutes).
- **Day 2:** look at the Dashboard. Note your current monthly paycheck and which bill is next.
- **Day 3:** fill in payout ratio, streak and growth for individual stocks. Note any Review ratings.
- **Week 1:** open the Pay Calendar and write down your two thinnest months.
- **Week 2:** set your monthly contribution and test the Snowball.
- **Ongoing:** log every dividend as it arrives (it takes 20 seconds) and update prices monthly. Watch Income History grow year over year.

11. Quick reference

Formula	What it tells you
$\text{Yield} = \text{annual dividend} \div \text{price}$	Income per dollar invested today
$\text{Yield on cost} = \text{annual dividend} \div \text{your cost}$	Income per dollar you actually paid
$\text{Payout ratio} = \text{dividend} \div \text{earnings per share}$	How stretched the dividend is
$\text{Portfolio needed} = \text{monthly bill} \times 12 \div \text{yield}$	Size needed to cover a bill
$\text{Rule of 72: } 72 \div \text{growth \%} = \text{years to double}$	At 7% growth, income doubles in ~10 years

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