# Answers to your DRIP questions

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Special to The Globe and Mail

DIVIDEND reinvestment and stock purchase plans eliminate the need to buy shares through a broker, thereby reducing the cost of investing.

If you have stayed away from these plans because you didn't understand how they worked, here are the answers to some commonly asked questions.

**Who pays the administration cost?**

The stock-issuing company pays the cost.

**What will be the price of shares issued under the plan?**

It differs from company to company, but it is usually based on an average market price of the shares on the stock exchange over a certain period before the investment date.

## Investment planning

**Who are eligible shareholders?**

To be eligible, you must own at least one share of the company registered in your own name. Some companies have higher minimum requirements. National Bank of Canada, for example, requires a participating investor to have at least 100 shares to qualify for its dividend reinvestment plan or DRIP.

**Can I participate if I have preferred shares?**

Some companies allow the owners of preferred shares or bonds to get involved in a plan. Essentially, the preferred dividends or bond interest payments are reinvested in new common shares. This combines the higher yield and safety of preferred shares and bonds with the higher gains potential of common shares.

Among the companies that allow registered preferred shareholders into their DRIPs are Bank of Montreal, Canadian Imperial Bank of Commerce, Dofasco Inc., Molson Cos. Ltd., National Bank, TransCanada PipeLines Ltd. and Westcoast Energy Inc.

The companies that also allow debenture and bond owners as well as preferred shareholders into their DRIPs include BCE Inc., Bank of Nova Scotia, BC Telecom Inc. and TransAlta Corp.

If you own preferred shares or bonds of these companies and you don't need the cash income for a while, you may want to look into this option.

**What if I already have shares with my broker?**

To participate in a DRIP, the shares must be registered in your name. If they are registered in the broker's name — or Street name — at least one share must be transferred to your name.

If you own one board lot of shares, transfer the registration of the whole lot to your name. All of the dividends will start compounding with the next dividend payment date.

Some brokers offer a service in which they disclose your name as a beneficiary shareholder to the company offering the DRIP. They hold the shares in book form, register one share to your name and enroll in the plan on your behalf. This may be handy if you do your investing inside a registered retirement savings plan.

**Can I buy shares for my RRSP without paying any commissions or fees?**

Yes. You must have a self-directed plan that allows you to hold shares. Make sure you can deposit shares into your RRSP without paying a fee or handling charge.

Then enroll in a DRIP and buy shares through the stock purchase plan or SPP, making quantities slightly higher than a lot (so you leave some in your DRIP). Ask the DRIP trustee to issue you share certificates, preferably in lots. Take the certificates to the financial institution holding your RRSP and deposit them to your account.

Once the shares are in your RRSP, they are registered under the retirement plan trustee's name. They are no longer within your DRIP. Inside your RRSP, these shares will earn cash dividends only.

A word of caution: When you deposit shares into your RRSP, they are deemed to be sold at the current value. So you may have a taxable capital gain. You can't claim a capital loss when you transfer investments into an RRSP.

**How can I sell my shares?**

You send a written request to the trustee, who will follow your instructions to sell part or all of the shares for you. There will be a nominal commission charge for selling your shares.

If you have share certificates in your possession, you can ask your broker to sell them in the open market. You must deliver the certificates to your broker within three days of placing the sell order.

**Can I terminate my participation in the plan?**

Yes, at any time. You must send a written request to the trustee. After termination, you will start to receive cash dividends for the shares you own.

**If DRIPs are so good, why aren't they promoted?**

When you enroll in a dividend reinvestment plan, no intermediary is involved. The transaction is between you and the issuing company. The trustee's expenses are paid for as part of the general expenses of the company.

With no sales charges, trailer fees or management fees, there is no direct benefit to brokers. The financial industry has absolutely no vested interest in your enterprise.

That is why DRIPs and SPPs are not promoted, except by those who have discovered the benefits.

*Cemil Otar is an independent financial adviser with W. H. Stuart & Associates in Toronto. This is an excerpt from his coming book,* Handbook of Canadian DRIPs and SPPs, *to be published this month by Uphill Publishing in Toronto.*