



3 Core Stocks Yielding Up to 5.3%

Description

OK, I admit it! I own a few speculative stocks.

It's a guilty pleasure. Some have a new gee whiz technology. Others an exotic mining project. All make for great conversation around the office water cooler.

However, I would be the first to confess that these stocks are only a little decorative décor. Just like a house, a good portfolio needs to be built on a sturdy foundation — a collection of proven businesses chosen for their industry dominance. That's why it's smart to devote a sizable portion of your portfolio — if not the whole thing — to solid, long-term holdings.

Earn a 5.3% dividend yield from North America's energy boom

If I had one word to describe **Enbridge Income Fund** (TSX:ENF) it would be 'boring'. But I mean that in a good way.

Pipelines and electricity generation tends to be a steady-eddy, slow-moving business. Investment decisions are made over decades and cash flows are highly predictable. Less than 5% of the company's earnings is exposed to changes of commodity price, interest rates or currency fluctuations.

That doesn't mean this stock hasn't been good for shareholders, however. Over the past decade, Enbridge Income Fund has been able to crank out a steady 5% dividend growth. That's more than enough to keep up with inflation.

Of course, when we're discussing core holdings for a portfolio, the question is the sustainability of the business. Pipelines and power plants tend to be very capital-intensive due to their expensive right-of-way acquisition costs. In addition, new projects tend to have a huge NIMBY (Not In My Backyard) factor. That tends to keep competitors away.

This company hasn't missed a dividend payment in 143 years

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) has done the impossible. For 143 years the company has never

failed to send out a dividend cheque to shareholders.

Think of everything that has happened since that time... wars... recessions... bubbles... crises. Yet for Royal Bank it hardly mattered. Thanks to its sheer size and conservative business practices, the company sailed through every economic downturn Canada without skipping a single distribution.

Of course, just because a company has paid out a consecutive dividends for over 100 years is no assurance that it will continue to do so over the next century. As the old finance cliché goes, past performance is no guarantee of future results.

But when you buy one of the country's most dominant companies — firms with a sustainable competitive advantage and show commitment to rewarding shareholders — you can count on that dividend to survive almost anything.

Pocket 3.7% from this wide-moat champion

With smartphones becoming the hub for people to interact and shop, the gatekeepers to that wireless superhighway like **Telus** ([TSX:T](#))(TSX:TU) will see a growing demand for their services. Today, investors can pocket a 3.7% annual dividend.

However, more important than a tall yield is the sustainability of this distribution. The sheer cost of building a new wireless network is enough to keep most competitors at bay. This means Telus should be able to earn healthy returns for shareholders year after year after year.

And the strength of this competitive moat was tested last summer when **Verizon**, one of the best capitalized companies in the world, dropped its plans to expand into the Canadian market. When an American behemoth like Verizon can't make the numbers work, you know you have a wide-moat stock.

Today, the company's juicy 3.7% dividend comes from just over 30% of its profits — which is a very comfortable payout ratio. When you combine a sustainable payout ratio along with the stable business, Telus looks like a solid addition to any portfolio.

Foolish bottom line

Speculative stocks are fun and exciting. However, a good portfolio needs to be built around a solid core. As a foundation, you need a collection of businesses that are strong, resilient, and durable.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TU (TELUS)
3. TSX:RY (Royal Bank of Canada)
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