3 Inflation-Proof Dividend Stocks Yielding Up to 6.2%

Description

You, the regular investor, are already the government's number one tax target. It's an endless list… income taxes… dividend taxes… capital gains taxes. Every time you open the mailbox there's another tax form demanding your attention and your money.

But there's a hidden tax no one wants to talk about — inflation. Every day the bureaucrats at the Bank of Canada print millions of dollars and with every dollar printed, the value of your hard-earned wealth is eroded away — unless you know the secret "the big guys" use to fight back.

How do smart investors protect their wealth from this hidden tax? They avoid dollar-denominated assets and buy "inflation-proof" stocks. Some of these companies occupy such powerful positions in the marketplace they can easily pass on higher costs to their customers. Others own hard assets that maintain their value no matter how many dollars are printed.

Regardless of their specific method, some companies are better protected from inflation than others. With this theme in mind, here are three ideas to get you started.

Keyera

Keyera (TSX: KEY) is vital to our daily lives, though I doubt you have even heard of this company. It owns pipelines, terminals, and storage facilities throughout Western Canada. This is the infrastructure that ships and stores oil, natural gas, and other energy products which power our modern society.

In return for shipping and storing these commodities, Keyera earns steady fees that it then passes on to shareholders. Since going public in 2003, the company hasn't missed a dividend payment and has doubled the size of its payout. Today, the stock yields 3.3%, though future distribution hikes could push that figure higher.

More importantly, Keyera can easily pass on higher costs to customers and earn a satisfactory return for shareholders. While owning a pipeline is incredibly lucrative, splitting the business between two competing lines is not an attractive proposition. Not to mention that buying the right-of-ways from landowners and getting regulatory approval can be expensive. That gives Keyera a natural monopoly on these assets.

Tim Hortons

No other company in Canada has a customer base quite as loyal as **Tim Hortons** (TSX: THI)(NYSE: THI). Firms with this trait can generate superior profit margins and strong free cash flows, putting them in a better position to return money to shareholders through dividends and buybacks. That’s the trademark of a wonderful business.

Consider the coffee-drinking habits of the average Tim Hortons customers. Maybe they enjoy a cup of joe just before arriving at the office or an afternoon break on the construction site. Perhaps it’s a group of friends that gather every Tuesday morning to discuss sports and local politics. Regardless, do you really think these routines will change if Tim Hortons increases the price of a cup of coffee by a nickel or two? I doubt it.

This has been a profitable formula for shareholders. Since the company went public in 2006, it has more than tripled the size of its dividend and repurchased 42% of its outstanding shares. You can expect that trend to continue for decades to come.

Crescent Point Energy

Scott Saxberg is building a titan in the Canadian oil patch. Over the past decade, he has grown **Crescent Point** (TSX: CPG)(NYSE: CPG) from a small startup into a power player with properties in Saskatchewan, North Dakota, and Nevada. Today, the stock yields a hefty 6.2%. And thanks to promising new technologies like waterflooding — industry slang for pumping water into declining wells to boost production — the company is poised to deliver exceptional growth for years to come.

But here’s why I really like Crescent Point: It’s a remarkable inflation hedge. Today, the company is sitting on 716 million barrels in proved plus probable reserves. The real value of that oil will remain constant no matter how many dollars the Bank of Canada might print.

Don’t let your wealth get cut in half

There’s no need for any Zimbabwe styled hyperinflation to destroy your wealth. Even if prices rise at a modest 3% clip, the real value of a dollar will be cut in half in just 20 years. The best way to protect yourself from the ravages of inflation is by avoiding fixed income investments and to own inflation-proof stocks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:KEY (Keyera Corp.)
3. TSX:VRN (Veren Inc.)

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