The Method That’s Helping Dividend Investors Pick Winning Stocks

Description

If you will give me just two minutes of your time, I will show you a simple method that you can use to create a quality portfolio of dividend stocks.

And not just any run of the mill dividend stocks mind you, but dividend *growth* stocks. By focusing only on consistent growers you can not only score bigger cheques every year, but a number of studies have shown that dividend growth stocks have historically beaten the broader stock market. Best of all the system is so simple, it can be managed in your spare time.

The 10-10 formula

The 10-10 test was developed by Tom Comeron who used it to manage a mutual fund aptly named the Rising Dividend Growth Fund. Before his firm Dividend Growth Advisors was acquired by **Goldman Sachs** in 2011, the fund delivered a 4.6% average annual return between 2006 and 2011, outperforming 98% percent of its peers.

Rather than focus on yield, the 10-10 formula focuses on dividend growth. This is an ideal place to begin looking for potential investment candidates. Because companies are forced to dole out a portion of earnings each year as dividends, management teams have to be more deliberate in choosing value-creating projects and they’re less likely to go on empire building adventures at the shareholders’ expense.

The 10-10 test is simple. Screen for companies that have…

- Raised their dividends for a minimum for 10 consecutive years, and
- Increased their payouts by at least 10% annually over the previous decade

As you can probably guess, this screen is very strict. If a company chooses to just maintain its dividend payout rather than increase it at any time, the stock is removed from consideration for the next decade. As a result of this approach, you’re left with only the best companies in the market.

Putting everything into practice

So with this in mind, I wanted to screen for Canadian companies that passed the 10-10 test. It wasn't easy. Not a single Canadian bank made the list, knocking out a huge number of traditional dividend favourites. Here are the top results.

Company	10-Year Div CAGR	Yield
Shaw Communications	31.6%	4.05%
Richie Brothers Auctioneers	26.4%	2.32%
SNC-Lavalin Group	19.9%	1.85%
Canadian Natural Resources	18.7%	1.55%
Canadian National Railway	17.8%	2.03%

Source: Capital IQ and Yahoo! Finance

This is not a formal list of buy recommendations. However, the screen does reveal an interesting list of dividend candidates.

Richie Brothers Auctioneers (TSX: RBA) may not register as a dividend stock to many investors given the company's meagre 2.3% yield. However, the firm is riding the commodity boom in Western Canada. Given that the company's payout is growing at a 26% annualized chip, it will take less than three years for the firm to double the size of its dividend.

Canadian National Resources (TSX: CNQ)(NYSE: CNQ) and **Canadian Natural Railway** (TSX: CNR)(NYSE: CNI) are also interesting names. Both companies are profiting from booming oil sands production in Alberta. Given that this growth story is expected to play out over decades, investors can expect a steady stream of dividend hikes from these two firms for many years to come.

Stocks that pass the 10-10 test show a true commitment to shareholders making this a powerful formula to consider. But given that the formula screens out some wonderful business such as the Canadian banks, I wouldn't recommend it has a binding mechanical strategy. However, it is a good starting point when looking for new investment ideas.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:RBA (Ritchie Bros. Auctioneers)

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