



Warren Buffett's Top 3 Income Stocks

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The best part of today's hedge fund regulations is that managers are required by law to disclose their long positions every quarter. This provides us regular investors with a glimpse into the minds of some of the world's greatest investors.

The SEC filings of the world's best money managers have become one of my favourite places to look for new investment ideas. And what better place to look for quality dividend stocks than the portfolio of the Oracle of Omaha himself, Warren Buffett?

Verizon

Buffett has often said that it's better to buy a wonderful company at a fair price than a fair company at a wonderful price.

His recent purchase of **Verizon** ([NYSE: VZ](#)) fits that bill perfectly. With a market capitalization totaling more than \$200 billion, Verizon's size and scale are almost impossible to match. The cost to reproduce the company's telecom network would be hundreds of billions of dollars.

Even if a new competitor could secure those funds, Verizon owns a large swath of wireless spectrum, without which no competitors can arise. All of this means the company will be able to crank out ample cash flow year after year.

Verizon will return most of this cash back to shareholders in the form of dividends. At 4.3%, the telecommunications company is the 24th-highest dividend payer in the S&P 500. The company has been increasing that payout every year over the past decade.

Suncor

Suncor's ([TSX: SU](#))([NYSE: SU](#)) new Chief Executive Steve Williams has only one goal in mind: to return as much cash to shareholders as he can.

Since taking over as head of the oil giant in 2011, the conservative Mr. Williams has backed off of the company's original growth strategy. No longer is the company trying to expand just for the sake of expansion. Rather, every dollar that is reinvested back into the business must meet a high return threshold or be returned to investors.

This new strategy has freed up an enormous amount of capital for investors. Last quarter, Williams reset Suncor's buyback program to up to \$1 billion and increased the company's dividend by 15%. Since late 2011, the firm has doubled the size of its quarterly distribution and bought back over 10% of outstanding shares.

Procter & Gamble

Good old **Procter & Gamble** ([NYSE: PG](#)) is a long-time favourite of dividend investors.

The company's competitive advantage comes from its powerful brand names. Procter & Gamble's portfolio includes more than 250 products, including 22 "megabrands" that generate more than \$1 billion in sales each like Tide, Crest, Pampers, Duracell, Pantene, and Iams. Because these are brands that people trust, the company can command unusually high prices in the marketplace.

Procter & Gamble offers a dividend trifecta for investors: decent yield, growing payouts, and safety. Today, the stock yields a respectable 3.2%. Procter & Gamble has the longest history of conservative dividend increases in the **Dow Jones Industrial Average** at 58 years. The company's record of uninterrupted dividend payments goes back even further — 124 consecutive years.

The bottom line is that peeking into the portfolios of the world's great investors can be a great source of investment ideas. When you invest alongside a legendary investor like Warren Buffett, you know you're buying a wonderful business. That means you can count on a growing stream of dividend income for years to come.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PG (The Procter & Gamble Company)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VZ (Verizon Communications Inc.)
4. TSX:SU (Suncor Energy Inc.)

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