Dividend Investing: 5 Important Things to Consider

Description

Contemplating a foray into dividend investing? Consider the following before dipping your toes into the dividend pool.

1. Dividends are *one* tool for accumulating wealth

Yes, dividends are an excellent income growth tool. However, so is stock price appreciation. I sold my **Starbucks** (NASDAQ: SBUX) shares years ago when the stock price was $24. As of this writing, Starbucks shares are $75.01.

At the time I sold, Starbucks was not paying a dividend and I decided to focus on dividend-paying companies. I should have been more patient. If I had held on and sold now, I would have made significant income, as the company now pays a dividend. Recently, Starbucks declared a quarterly dividend of $0.26 per share, or $1.04 annualized. Its yield is 1.4%.

Your stock return is dividend yield *plus* share price growth. The Starbucks example above is a good current example of stock return.

2. Look at dividend history

Canadian Utilities' (TSX: CU) annual dividend per share has increased for 42 consecutive years. The company recently declared a Q2 2014 dividend of $0.2675 per Class A non-voting share and Class B common share. This is a 10% increase over the $0.2425 cents paid in each of the four quarters of 2013. Its current dividend yield is 2.70%, with a five-year average dividend yield of the same. Its dividend rate is $1.07.

3. Understand that dividends are a safety net against share price fluctuation

If you own shares in a quality dividend-paying company with excellent growth potential, dividends should continue to flow into your trading account despite share price volatility. The key is patience and not getting spooked when share prices drop. The reward is watching the money roll in monthly or quarterly.

4. It's not always about monster yields

John Heinzl, a dividend investor for Globe Investor's Strategy Lab said last week, "Many investors make the mistake of looking at the high yield alone, which can set them up for disappointment if the company hits a pothole and has to cut its dividend." He further said, "I play it safe by sticking with modest yields in the range of 2% to 5%. But I'm not averse to owning higher-yielding stocks in my personal portfolio — if I'm confident the payouts can be sustained."

Royal Bank of Canada (TSX: RY)(NYSE: RY) has a dividend yield of 3.8%. I'm quite certain it will continue to offer steady dividend payments and regular dividend increases for years to come. I'm happy with its modest yield and what it brings into my trading account.

5. Be a dividend diversifier

This is simple enough, as many like to diversify their portfolios in general. Make sure your dividend stocks are spread across a variety of sectors. If one sector languishes and dividends are cut, you have the other sectors as insurance.

Consider the above points and do your research before making investments in dividend-paying companies. I'm a dividend investor myself and seek to stay consistently updated on important dividend news.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:RY (Royal Bank of Canada)

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