3 Dividend Stocks You Can Hold Forever

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Do you make this dividend investing mistake?

Many investors believe income investing is just a matter of picking the highest-yielding stocks out of the market. All too often, this simple approach leads to disappointing returns at best. At worst, high yields could be the prelude to disaster.

Instead, it's important to remember that it's growth in the dividend, rather than yield alone, that creates the reliable income stream necessary for a comfortable retirement. Thanks to the magic of compounding, even a dividend trickle can become a roaring river if given enough time.

That said, here are three dividend stocks that have a proven ability to increase their payouts in good times and bad. Because these firms boast such strong competitive advantages, you can count on them to deliver gains for decades to come.

1. Canadian National Railway

There's one reason to buy **Canadian Natural Railway** (TSX: CNR)(NYSE: CNI): 20,000 route miles of track that crosses North America from coast to coast.

Much of this track was laid over a century ago when land was much cheaper. Today, it would be enormously expensive to reproduce this asset. After buying the right-of-ways and getting government approval, the business case to enter the railroad industry just doesn't make much sense.

This means existing players can earn excess returns year after year for shareholders without the worry of competitors driving down margins. It conceivable that this business will be around 100 or 200 years from now.

This has translated into a growing stream of dividends for shareholders. Since the company went public in 1995, Canadian National Railway has boosted its payout 15-fold, and more dividend hikes are almost certainly on the way as sales and profits climb.

2. Tim Hortons

Tim Hortons' (TSX: THI)(NYSE: THI) 2.2% yield might not turn many heads, but the dividend has been growing at an impressive 25% compounded annual rate over the past five years. Unless Canucks stop sipping down their favourite coffee, investors can count on more dividend hikes to come.

While many are worried that the company has saturated the market, there still seem to be plenty of growth opportunities ahead of it. Management is eager to exploit captive audiences such as office buildings, sports venues, and hospitals. The company is on track to open another 500 more restaurants in Canada by the end of 2018.

This figure doesn't even consider its international potential. Management plans to open 300 stores in the U.S. over the next four years and roll out dozens of locations throughout the Middle East. If the Tim Hortons concept catches on internationally, we could still be in the early innings of the company's growth story.

3. Imperial Oil

Without exception, **Imperial Oil** (TSX: IMO)(NYSEMKT: IMO) has proven itself to be the best steward of shareholders' wealth in the Canadian oil patch.

I don't make that claim willy-nilly. In the energy sector there's a useful metric to determine how well a company is managing capital: return on capital employed. This metric measures the profits a business generates while accounting for the amount of capital needed to earn those returns. Over the past five years, Imperial has generated an average 25% return on capital employed annually — more than double its nearest oil sands rival.

This policy has resulted in an enormous amount of capital being returned to shareholders. Between 2003 and 2012, Imperial paid out nearly $14 billion to investors in dividends and buybacks — more than **Suncor**, **Canadian National Resources**, and **Cenovus** combined. In addition, over the past 20 years, Imperial has repurchased over half of its outstanding shares.

CATEGORY

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