4 Reasons to Choose Dividends Over Investment Properties

Description

Many investors wrestle with whether it's better to invest in stocks or purchase an investment property, and despite what many real estate gurus will tell you, investing in dividend-paying stocks possesses many advantages for investors.

Let's take a closer look at four reasons why investing in dividend-paying stocks beats investment properties hands-down.

1. You can make a meaningful investment with significantly less money

A key advantage to investing in dividend stocks compared to purchasing an investment property is that you can invest as little as $10,000 to get started.

In contrast, with Canadian housing prices continuing to spiral skyward and the median house price now well over $400,000 — a 7% gain compared to 2013 — investors typically need to borrow large sums of money to purchase an investment property. This can cause considerable financial strain for investors, which will only increase as mortgage rates continue to grow. With the prime rate now at 3%, this has the potential to diminish rental returns.

When investing in dividend stocks, investors can choose to invest in household names that are among the largest and most financially stable companies in Canada, such as those in the **S&P TSX 60 Index**. These companies not only have dominant market share and financially stable operations, but also, like **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) and **Canadian Oil Sands** (TSX: COS), offer dividend yields of up to 6%.

There are many others, including **BCE** (TSX: BCE)(NYSE: BCE), **Rogers Communications** (TSX: RCI.B)(NYSE: RCI), and **PotashCorp** (NYSE: POT)(NYSE: POT), offering sustainable dividend yields in excess of 4%. All of these companies have a solid history of growing their dividends at a rate that is well above the rate of inflation, making them a core holding in any income portfolio.

2. It's less hassle

Let’s face it: Purchasing an investment property is a time-consuming hassle. Once you have been approved for a mortgage and found the ideal property, there are costly inspections required, as well as contracts to be prepared and signed. Then renting the property is almost a full-time job, with the need to screen tenants, collect security deposits, maintain the property, and chase down rent cheques.

In contrast, once you have purchased your dividend stocks, you can just sit back, let the monthly or quarterly dividend cheques roll in, and watch your companies hike their dividends as their earnings grow over time.

3. You’ve got more liquidity

Another distinct advantage of investing in dividend stocks is their liquidity. They are traded daily on the Toronto Stock Exchange, and with the market setting their price, you can sell at the click of a button.

In contrast, selling an investment property is a time-consuming and costly process as you need to engage realtors, obtain a valuation, and negotiate deals. It can take months to sell investment properties, leaving you between a rock and hard place if you need to raise cash quickly.

4. You’ve got greater diversification

The tremendous cost of acquiring real estate in Canada is a significant hurdle towards diversifying an investment property portfolio. Typically, investors can only afford to amass two or three investment properties, which means big risk if you choose the wrong location.

In contrast, with dividend stocks, investors can easily and quickly build a portfolio of five to 10 household names that deliver an average yield of well over 3% and are diversified across industries and sectors. This mitigates much of the risk associated with investing in one specific industry or sector.

Furthermore, the elephant in the room for many investors in real estate is looming fears of a Canadian housing market correction, which could wipe millions off the value of investment properties — particularly those located in less desirable areas.

All of these factors make investing in dividend stocks a smart idea. Just from looking at the S&P TSX 60 it is easy to invest in a portfolio of industry-leading companies with solid economic moats and sustainable dividend yields of over 3%.

Company	Industry	Market Cap	Dividend Yield
Crescent Point Energy (TSX: CPG)(NYSE: CPG)	Oil & Gas	$17.5B	6.25%
Canadian Oil Sands (TSX: COS)	Oil & Gas	$11.5B	5.89%
BCE (TSX: BCE)(NYSE: BCE)	Telco	$37.8B	5.06%
Rogers Communications (TSX: RCI.B)(NYSE: RCI)	Telco	$21,6B	4.27%
PotashCorp (TSX: POT)(NYSE: POT)	Ag Chem	$32.5B	4.13%

Canadian Imperial Bank of Commerce (TSX: CM)(NYSE: CM)	Banking	$39.2B	3.99%
Fortis (TSX: FTS)	Electrics Utils	$7.1B	3.89%
Bank of Montreal (TSX: BMO)(NYSE: BMO)	Banking	$52.8B	3.81%
Sun Life Financial (TSX: SLF)(NYSE: SLF)	Insurance	$25B	3.51%
Husky Energy (TSX: HSE)	Integrated Oil & Gas	$33.5B	3.52%
Average Dividend Yield	4.4%		

The average yield of these stocks is 4.4%, which is almost as high as the average rental yield for a rental property in Toronto. The companies listed also possess strong growth characteristics, holding solid market share in their respective industries and wide economic moats.

All of these reasons highlight why dividend stocks are a superior and hassle-free means of investing, particularly for income and growth, compared to investment properties.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)
3. TSX:VRN (Veren Inc.)

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