The First 3 Stocks I'd Buy For a Dividend Growth Fund

Description

It is common advice that you should not compare yourself to others; rather, you should compare yourself to how you were before. And if you're moving in the right direction, that should be enough to make you happy. The same is true for dividend stocks – you don't want to just find the highest yields. Instead, you should find the dividends that are moving in the right direction.

On that note, below are the first three stocks I would buy if I ran a dividend growth fund in Canada.

1. Fortis

If you're looking for dividend growth, why not start with a company that's raised its payout every year for the last 40 years? Not many companies have done this, but distribution utility **Fortis** (TSX: FTS) is one of them.

How does the company do it? Quite simply, it offers a product (electricity) that we all need, even when the economy is slumping. After all, no matter how bad things get, we're not going to turn the lights out.

Remarkably, Fortis has a solid dividend yield of 3.8%, not bad for such a consistently growing payout.

2. CIBC

Of all the big five Canadian banks, **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) is the most focused on the Canadian market. In fact over 90% of the bank's income came from the domestic market last year.

This presents CIBC with a problem: growth is difficult to come by. So one would think that CIBC would devote the bulk of its earnings to dividends, and less to expansion. But that's not the case at all; CIBC still pays out less than half of its earnings to shareholders.

Unless the bank changes its strategy dramatically, its payout ratio should eventually increase. And when it does, the bank's dividend could take off in a hurry.

3. Telus

Canada's big three telecommunications providers are some of Canada's best dividend payers, and this should surprise no one. With steady revenue, limited competition, and high barriers to entry, earnings are stable enough to support a big payout.

And of the big three, the one really firing on all cylinders is **Telus** (TSX: T)(NYSE: TU). The company has been adding wireless subscribers faster than its competitors, and keeping them happier too. This has allowed Telus to really start rewarding shareholders, which it has done in two ways.

First, the company has been buying back shares. As a result, the share count decreased 5% year-over-year in the first quarter of 2014. Second, the dividend has been raised twice in the past 12 months, and now yields 4.0%. If this kind of performance continues, then Telus will remain a strong contributor to any dividend growth fund that holds the shares.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TU (TELUS)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:FTS (Fortis Inc.)
5. TSX:T (TELUS)

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