

High Yield or Strong and Steady: What's the Best Dividend Investment Strategy

Description

If you're looking to generate some income from your investments, there are two approaches you can take.

One is to buy the highest-yielding dividend stocks you can find. These dividends typically come from energy companies, or some other company with a shaky business model. But as long as the dividend is never cut, you can receive a big payout.

Alternatively, you can opt for stocks with a lower, but more sustainable, payout. With this strategy you'll certainly get less income, but at least you won't have to worry about a cut.

So which is the right strategy? Below we take a look.

The highest yielders

Back in May 2014, a Motley Fool article highlighted the top dividend yields in the **S&P/TSX 60**. The top four yields, in order, came from **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Canadian Oil Sands Ltd.** (TSX:COS), **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), and **TransAlta Corporation** (TSX:TA)(NYSE:TAC).

If you had bought these four stocks at that time, with an equal weight in each, your portfolio would be down by 47%. Making matters worse, both Canadian Oil Sands and Penn West have slashed their dividends, and more cuts could be on the way. Adding insult to injury, Penn West is no longer part of the TSX 60. That's how much its shares have declined.

To be fair, hindsight is 20/20, and no one could have foreseen this kind of pain in the energy sector. But there's still an important lesson to be learned. If you go after the highest-yielding stocks, you will end up with some very risky names. And if you're the type who just wants some regular income (a retiree, for example), are these really the risks you want to be taking?

If the answer is still yes, then Canadian Oil Sands, Crescent Point, and TransAlta still have the highest yields in the TSX 60. But be very careful.

A better way

In Canada, there aren't a lot of truly stable dividend payers. But if you look hard enough, and are willing to sacrifice some yield, then you can find some rock-solid dividends. Two companies in particular are worth highlighting.

One is **Telus Corporation** (TSX:T)(NYSE:TU), Canada's best-in-class telecommunications provider. The company has done a better job than its rivals of adding customers, keeping those customers happy, and growing revenue. As a result, its dividend has quadrupled in the last 10 years, and is in no danger of being cut. And with a yield of 3.7%, you're still making a lot more than you would make with

bonds.

Another company worth highlighting is **Fortis Inc.** ([TSX:FTS](#)), whose dividend yields 3.4%. Again, this is not one of the highest yielding names you can find. But Fortis has raised its dividend every year for over four decades!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)
2. TSX:T (TELUS)
3. TSX:TA (TransAlta Corporation)
4. TSX:VRN (Veren Inc.)

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