3 Dividends Over 6% You Can Actually Count On

Description

Every retiree faces the same conundrum. They want dependable dividends, but they also want yields higher than 2% or 3%.

Frankly, it's a pretty bad idea to stick the majority of your portfolio's assets into high yielding stocks. Most of those stocks have some pretty serious warts, and there aren't even that many to begin with in Canada anyway. Instead, investors should blend a little high yield in with their solid selections.

Let's say you owned four equal-weighted stocks, a very simple model portfolio. Each stock has a yield of 2.5%, 3%, 3.5%, and then 6%. By adding that one high yielder, the average yield of the whole portfolio jumps from 3% all the way to 3.75%. It doesn't seem like much, but the yield on that mini portfolio is now pretty close to spinning off dividends of 4% annually, which is widely considered a safe level for retirees.

Choosing high yielding stocks is a little more tricky than choosing other dividend investments. Anything yielding more than 6% likely has some pretty serious warts and must be scrutinized very carefully. That's just the nature of the investment. You have to take some risks in order to get the yield.

Here are three stocks that currently yield more than 6% that I consider to be good long-term income vehicles.

TransAlta

TransAlta Corporation (TSX:TA)(NYSE:TAC) is beaten up, mostly because the company is in one of today's least popular industries—coal-fired power generation.

Additionally, the company faced some major headwinds in 2013, including weakness in Alberta (its main market), as well as some unplanned and costly maintenance issues. That led to the company's dividend getting slashed in early 2014, falling from $0.29 per share quarterly to $0.18.

But the company has taken steps to right the ship. Alberta's market is slowly improving, and better exchange rates are boosting the results of its U.S. operations. Coal has become such a taboo fuel that the price of it is sitting at multi-year lows, which is good for input costs. Management has also outsourced virtually all plant repairs and maintenance. This will cost more per "normal" year, but will eliminate nasty surprises.

This all translates into a dividend that now looks to be sustainable. The company's free cash flow was $275 million in 2014, while it paid out just $181 million in dividends. That's a solid payout ratio for a company yielding 6.2%.

Rogers Sugar

There is nothing more boring than the sugar business, which is exactly how investors in **Rogers Sugar Inc**

(TSX:RSI) like it.

I've held this stock since 2005, purchasing it back when it was an income trust for $3.75 per share. It's delivered some capital gains, but the dividend record is where the company really shines. As of the end of 2014, I've collected $4.50 per share in dividends, all while watching the stock go up to $4.79 per share. I'll gladly take that kind of boring.

A similar opportunity could be presenting itself over the next decade. The company currently yields 7.5%, and has a history of topping that up with special dividends every few years. It's protected by tariffs on imported sugar, and only has one real competitor. Plus, opportunities to export to Europe should present themselves in 2016.

H&R REIT

After **RioCan**, **H&R Real Estate Investment Trust** (TSX:HR.UN) is Canada's second largest REIT. The company owns more than 260 locations in Canada, which include office, industrial, and retail properties. It also has a 33% interest in a U.S. company that owns 186 additional properties south of the border.

2014 was a good year for the company. It made a handful of acquisitions, all while bringing down its debt-to-assets ratio from 49% to 46%. Additionally, these acquisitions were immediately accretive, which improved its payout ratio from 73% to 70%. That's a solid payout ratio for a company yielding 6%.

One of the reasons why I like this REIT so much is because the founding families own more than 17 million shares of it. That's only 6% of the company, but that's still a big percentage in the REIT world. Besides, that's still $374 million worth of stock, which is a big commitment.

Although it's unlikely that any of these three stocks will be huge gainers, they all pay succulent dividends that look to be sustainable. For yield-starved investors, they look to be solid choices.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:HR.UN (H&R Real Estate Investment Trust)
3. TSX:RSI (Rogers Sugar Inc.)
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