How to Give Yourself a Raise Every Year—Guaranteed!

Description

We work hard to provide food for the family and to prepare for retirement. Now, your day job might not be able to give you a raise every year; even if there were a raise, it might barely keep pace with inflation.

In essence, you wouldn't be able to improve your lifestyle if you wanted to. And you wouldn't be able to save more for your retirement if you wanted to.

Saving is just the beginning. In the low interest-rate environment, putting money in a savings account just doesn't cut it anymore. It is essential to increase your income by investing.

Some people choose to buy residential properties and rent it out. The rent should at least keep pace with inflation. However, I like to invest in high-quality dividend-growth stocks.

What makes high quality?

My definition of high quality includes industry leaders that grow earnings and are expected to do so in the future. These companies become more valuable over time. As well, these leaders are willing to share their profits with shareholders via growing dividends.

The general rule is that these dividend payers should have solid balance sheets, should not be overburdened with debt, and should preferably have investable credit ratings that are BBB+ or better.

The company list

Here's a list of market leaders that I believe are high quality with decent yields, above average growth, and a record of raising dividends (or at least not cutting them).

I prefer dividends around 3% and dividend raises to be above 7% per year, but investors shouldn't expect that kind of income or growth from every industry. For instance, utilities usually pay a relatively high dividend while growing around the pace of inflation, while the railroad leaders pay a low yield, but might raise it at a double-digit rate.

The companies are **Royal Bank of Canada** (TSX:RY)(NYSE:RY), **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), **Canadian Utilities Limited** (TSX:CU), **Metro, Inc.** (TSX:MRU), **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI), **Canadian REIT** (TSX:REF.UN), and **Telus Corporation** (TSX:T)(NYSE:TU).

Ticker	Price	Yield	Industry	* 5Yr DGR	* Raise Record	S&P Credit Rating	Debt to Capital
RY	$80.2	3.8%	Diversified Banks	7.3%	4	AA-	0%
ENB	$62	3%	Oil & Gas Midstream	13.6%	19	A-	60%
CU	$36.7	3.2%	Diversified Utilities	8.7%	32	A	55%
MRU	$35.1	1.3%	Grocery Stores	17.4%	20	BBB	26%
CNR	$74.5	1.7%	Railroads	14.6%	19	A	35%
REF.UN	$43.7	4%	Diversified REIT	5%	13	–	34%
T	$42.2	4%	Telecom Services	9.9%	11	BBB+	56%

** 5Yr DGR: five-year dividend-growth rate*

** Raise Record: Number of consecutive years of dividend increases*

Caution: don't overpay

In my opinion, as much as I like the above companies, not all of them should be bought at today's prices.

For example, Metro is trading two years ahead of its earnings, but according to its price-to-cash-flow ratio, it's trading at fair value. So, it depends on which metrics you choose to evaluate companies on.

But aren't dividends not guaranteed?

Dividend stocks aren't guaranteed to increase the dividend. There's no contract between you and the company saying so. That's why I look for companies that have a history of growing dividends.

Further, I hold a portfolio of these companies, so that even if one freezes, or worse, cuts the dividend, my other holdings will continue to grow theirs. As a result, my portfolio as a whole will still give me a raise every year.

In summary

Build a portfolio of high-quality industry leaders, buy on the dip, and enjoy your growing income stream that is guaranteed to give you a raise every year.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:TU (TELUS)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:CU (Canadian Utilities Limited)
7. TSX:ENB (Enbridge Inc.)
8. TSX:MRU (Metro Inc.)
9. TSX:RY (Royal Bank of Canada)
10. TSX:T (TELUS)

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