How to Increase Your Income by 37%

Description

Some investors avoid high-yielding companies that pay out 8-10% yields. However, if those companies have a history of maintaining their dividends or distributions, then they are behind that high yield.

You can use those high yields to your advantage. The following two scenarios illustrate how it can be done.

Case 1: Invest in companies with 3-4% yields

Let's say you have $12,000 to invest. You decide to buy $4,000 in each **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), and **Fortis Inc.** (TSX:FTS), creating a solid foundation for a diversified portfolio. They provide you an average yield of 3.7%, and you expect them to grow dividends at a rate of 7% per year.

Then in your first year of investing, you earn $444 of income from dividends. This table illustrates the income you would receive in three full years.

Year	Income (assuming 7% growth)
Year 1	$444
Year 2	$475
Year 3	$508
Total	**$1,427**

Case 2: Invest $3,000 in 8-10% yielders instead

Instead of investing $4,000 in each of the companies above, say you invest $3,000. Then you'd have $3,000 left. You could invest $1,000 each into 8-10% yielders, such as **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Dream Global REIT** (TSX:DRG.UN) and **Northwest Healthcare Properties REIT** (TSX:NWH.UN). They pump out an average yield of 9.8%.

Then in your first year of investing, you earn $333 of income from dividends from your foundation portfolio of Enbridge, Bank of Nova Scotia, and Fortis, and earn $294 of income from your high yielders.

This table illustrates the income you'd receive in three full years.

Year	3-4% Yield Income (assuming 7% growth)	9.8% income (unchanged)
Year 1	$333	$294
Year 2	$356	$294
Year 3	$381	$294
	$1,070	**$882**
	Total	**$1952**

The result

By using 25% of your money to buy high yielders, you'd earn 37% more income! So, if you received $10,000 of income from the first scenario, you'd receive $13,700 from the second. That is huge if you need more income now!

Of course, the bigger your portfolio becomes, the more you should think about diversification because you don't want too many eggs in one basket in case some of them don't work out.

Note

It's important to note that I ignored transaction fees and taxes in both scenarios. Also, the results are based on forecasts of 7% income growth in the foundation portfolio and no income cuts or growth from the high-yield companies.

Additionally, REITs such as Dream Global and Northwest Healthcare Properties don't pay qualified dividends. To avoid any headaches, hold them in a TFSA or RRSP.

In Conclusion

You don't want your entire portfolio to be high-yielding, dividend-paying companies because they generally lack growth, unless you bought them at a cheap valuation. That's why I think it's beneficial to a portfolio to add these high yielders to spike up the income, but only after you have a foundation portfolio in place.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:VRN (Veren)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:ENB (Enbridge Inc.)

6. TSX:FTS (Fortis Inc.)
7. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
8. TSX:VRN (Veren Inc.)

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