New Investors: Dividend Stocks for High Income

Description

It's smart for new investors to start investing in dividend stocks because one-third of market returns come from dividends. Typically, dividends are paid out of earnings. So, if a company has a history of paying growing dividends, that makes the dividend even safer.

The following dividend stocks are known for their consistent history of paying dividends.

Solid Canadian bank

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) pays out the highest yield of the Big Five banks in Canada due to its price retreat. The share price fell from a 52-week high of $71 to $60 for a 15.5% dip.

Thanks to the dip, it now yields almost 4.7%. You can count on the quality bank's dividends because this year is the 183rd year that it has paid dividends. It certainly doesn't want to break that kind of record.

The safety of the dividend is supported by a payout ratio of 50%, which is in line with the other big banks. Further, the bank has been awarded an A+ S&P credit rating, which implies that it is financially solid.

Valuation wise, Bank of Nova Scotia has traded at a normal multiple of 12.4 in the past decade, while it's currently trading at a multiple of 10.6. So, the bank is moderately undervalued with a discount of about 15%.

Stable energy infrastructure business

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has fallen 27% from a 52-week high of $59 to $43. Pretty much anything related to energy has performed poorly this year.

It’s a valid dividend-growth investment though. At under $43, TransCanada pays a yield of close to 4.9%. This is the second time in the past decade that TransCanada has hit a high yield of over 4.8%. So, now may be a good time to buy some TransCanada shares.

The question is, Is its dividend safe? Its payout ratio of about 85% covers the annual payout of $2.08 per share. The company is also financial solid with an S&P credit rating of A-.

The energy infrastructure business has paid growing dividends for 14 years in a row. TransCanada would be reluctant to break that record if it wants to continue attracting long-term investors.

Most notably, in a November 17 presentation TransCanada indicated that it plans to grow dividends by 8-10% on average every year through to 2020. So if you buy the shares at a yield of 4.8% today, it would score a yield on cost of over 7% by 2020.

If you bought 100 shares of TransCanada today, an investment of $4,300, you’d receive an annual income of $206. And in 2020, you’d receive an annual income of $303. In other words, your income would increase 47% in five years, according to the company’s dividend-growth guidance.

In conclusion

Quality dividend stocks are great long-term investments. Their dividends can help you hold on to their shares in the face of volatility and potential downturns. Dividends can also help pay for food and other essentials.

CATEGORY

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

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TRP (Tc Energy)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:TRP (TC Energy Corporation)

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Date
2025/08/25
Date Created
2015/11/27
Author

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