3 Growing Dividend Stocks You Can Count On for the next 30 Years

Description

While plunging and volatile markets over the past year may have investors discouraged and confused, there is one timeless (and proven) strategy that not only reduces volatility, but also increases your returns—buy stocks with a history of steadily growing dividends that have the means to do so for decades into the future.

The research on the topic is clear. According to Ned Davis research, during periods of above-average market volatility stocks that have grown their dividends over the prior 12 months outperformed their non-dividend paying peers by 2-3% on average.

Over the long term (40 years), dividend growers not only outperformed non-dividend paying stocks, but also stocks that simply maintained their dividends. Most importantly, they did so with much less stomach-turning volatility than both groups.

The case to hold these stocks as the core of your portfolio is strong, but how do you select them? The key is to look for names where revenues are driven by long-term, essential assets or products that face limited competition. Here are some top examples.

1) TransCanada Corporation

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has had its fair share of bad press from the recent State Department rejection of its Keystone XL pipeline, but this pipeline is only a tiny part of the company's existing business and growth platform.

TransCanada is primarily a natural gas pipeline owner and operator (one of the largest in North America), a power generator (the largest in Canada), and an oil/liquids pipeline owner.

These assets all share a few things in common: they are long term, they are essential, and they have stable revenues that are either regulated or underpinned by long-term contracts. In fact, over 90% of TransCanada's earnings come from regulated assets or long-term contracts.

This is the perfect recipe for stable dividends, and TransCanada has paid and grown its dividend every year since 2000. What about going forward? TransCanada is committed to growing its dividend by 8-10% annually for the next five years, but the payment (and very likely the growth) of the dividend should continue far beyond that.

This is because TransCanada not only has extensive growth opportunities in all of its key segments, but also has the lowest cash flow payout ratio in the sector, which leaves it plenty of room to grow. TransCanada currently has a 5% yield.

2) Brookfield Infrastructure Partners

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP), with its 5.3% yield and projected 10% annual dividend growth, is one of the best and most stable dividend ideas in Canada right now.

Brookfield Infrastructure owns essential, long-life infrastructure assets that have stable long-term cash flows and very high barriers to entry. These assets include ports, railroads, airports, toll roads, utilities, and the company recently purchased a stake in Rio de Janeiro’s Metro system as part of a larger transaction.

Regardless of your outlook on the economy or even on technology, assets such as ports, airports, metro systems, and roads will be in use—and facing limited competition—for the long term.

Brookfield also has a strategy to actively grow its earnings and therefore its dividend. Not only do revenues from Brookfield’s assets grow with inflation and GDP, but it is also employing an active strategy of buying undervalued assets then selling them at higher valuations and “recycling” the capital back in to undervalued assets. This strategy has been highly successful for Brookfield.

3) Agrium Inc.

Crop nutrient producer and retailer **Agrium Inc**. (TSX:AGU)(NYSE:AGU) is different than the first two picks because it is not an owner of infrastructure. Agrium’s dividend (and its dividend-growth trajectory), however, is just as secure.

Agrium currently pays a 3.6% yield and has impressive free cash flow, of which it pays out 40-50% as a dividend. While fertilizers such as potash and nitrogen are essential to grow crops to meet the growing demand for food, the real long-term source of stability for Agrium is its retail operation.

Agrium currently operates the world’s largest agricultural retail operation, and this segment has extremely stable revenues as farmers need to purchase crop nutrients, crop protection products, and seeds annually. This will help secure and grow Agrium’s dividend over the long term.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:TRP (Tc Energy)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:TRP (TC Energy Corporation)

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