

Dividend Investors: Ensure Your Passive Income Flows Forever

Description

Dividend investors place the highest priority on the safety of their dividends. How can dividend investors ensure their passive income from dividends flows forever?

To achieve this goal, we manage risk carefully by spreading it across quality stocks. When a dividend stock's price falls a lot, there's a high chance that it has cut or will cut its dividend. So, with capital preservation in mind, we can attempt to avoid companies that might perform badly in terms of generating low earnings or cash flows due to the nature of the business.

Own companies with stable earnings

Companies in our model dividend portfolio must earn stable earnings because stable earnings are the first ingredient for a stable dividend. On top of that, these companies should also have a long history of paying dividends, which shows these companies are committed to paying their dividends.

So we can already exclude most mining and energy companies because in 2015, many of them, including **Barrick Gold Corp.** and **Cenovus Energy Inc.**, cut their dividends due to falling commodity prices. However, energy infrastructure leaders that increased their dividends, such as **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)), would make the list. Canadian banks, utilities, and grocery stores are also businesses that make the list.

The model dividend portfolio

For this dividend portfolio, we'll pick the leaders from each stable industry that have a relatively long history of paying or growing dividends. We end up with these quality dividend stocks: **Fortis Inc.** ([TSX:FTS](#)), **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)), **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), **Metro, Inc.** ([TSX:MRU](#)), **Enbridge**, **Canadian REIT** ([TSX:REF.UN](#)), **Boardwalk REIT** ([TSX:BEI.UN](#)), **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)), **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), and **Canadian Western Bank** ([TSX:CWB](#)).

Company	Industry	Price*	Yield	Payout Ratio	Years*	S&P Credit Rating	Debt/Cap
Fortis	Utility	\$37.4	4%	46%	42	A-	50%
Brookfield Infrastructure*	Utility	\$50.4	5.8%	50%	8	BBB+	49%
CN	Railway	\$73.5	1.7%	27%	20	A	36%
Metro	Grocery Stores	\$38.7	1.2%	20%	21	BBB	28%
Enbridge	Midstream Energy	\$44.6	4.8%	85%	20	BBB+	62%
Canadian REIT	Diversified REIT	\$41.5	4.3%	59%	14	—	35%

Boardwalk REIT	Residential REIT	\$45.9	4.4%	58%	—	—	34%
Telus	Telecommunication Services	\$37.7	4.7%	64%	12	BBB+	53%
Royal Bank	Bank	\$71.6	4.4%	46%	5	AA-	0%
Canadian Western Bank	Bank	\$22.2	4.1%	34%	24	—	0%
Average Yield:			3.3%				

**Prices and yields as of the close of January 6.*

**Years: the consecutive years of dividend growth.*

**Brookfield Infrastructure pays out U.S. distributions, and its yield is based on US\$1 to C\$1.38.*

This demonstrative portfolio is heavy in financials as four of 10 companies are in the financial sector. Assuming this is an equal-weight portfolio of \$10,000, we'd buy \$1,000 in each company, and financials would make up 40% of the portfolio; 20% is in banks and 20% is in real estate investment trusts. I believe these companies earn stable earnings or cash flows that support healthy dividends.

Enbridge, Boardwalk REIT, and Canadian Western Bank have exposure to Alberta and to low oil prices, so their prices will be under pressure until the energy sector turns over a new leaf.

Conclusion

By building a diversified portfolio of quality dividend stocks that earn stable earnings or cash flows, investors can be reassured that their passive income from dividends will flow forever.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:ENB (Enbridge Inc.)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TU (TELUS)
6. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
7. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
8. TSX:CNR (Canadian National Railway Company)
9. TSX:CWB (Canadian Western Bank)

10. TSX:ENB (Enbridge Inc.)
11. TSX:FTS (Fortis Inc.)
12. TSX:MRU (Metro Inc.)
13. TSX:RY (Royal Bank of Canada)
14. TSX:T (TELUS)

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Author

kayng

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