What a Yield of Almost 6% Can Do for You

Description

Dividends make up about 30% of market returns. Additionally, dividends are generally more reliable than stock-price appreciation. Some investors target an average return of 6% per year, which allows them to double their money about every 12 years. If you're targeting an annual return of 6% on average, it makes sense if most of that comes from dividends.

In the market selloff we're experiencing, it's not difficult to find blue-chip dividend stocks yielding 5%. Think about it. You get 5% from solid dividends, so you only need to rely on price appreciation for the remaining 1%.

RioCan Real Estate Investment Trust (TSX:REI.UN) and **National Bank of Canada** (TSX:NA) are blue-chip dividend stocks yielding almost 6% today.

RioCan REIT

RioCan is the leading retail real estate investment trust (REIT) in Canada. RioCan owns, manages, and operates about 350 properties spanning 78 million square feet in North America.

The REIT is strategically selling its U.S. portfolio of 49 properties for roughly $1.2 billion for a gain of about $930 million thanks partly to the strong U.S. dollar against the loonie.

The transaction is expected to complete by April 30. The proceeds will be used to lower its debt, improve its balance sheet, and enhance its liquidity to fund its Canadian growth strategy and development pipeline.

As of now, 18% of its rental revenue is from the United States, 56% is from Ontario, 16% is from western Canada, 8% is from Quebec, and 2% is from eastern Canada. Specifically, about 10.8% of its rental revenue is from Calgary and Edmonton and 53.2% is from Toronto and Ottawa.

RioCan had been a superb manager and operator. From 1996 to the third quarter of 2015, it maintained occupancy rates of 94% or higher. It hasn't cut its distribution since 1996 and has even increased it occasionally. Its annual payout of $1.41 per unit equates to a payout ratio of 85%. So, its dividend should remain safe.

At $24 per unit with a 5.8% yield, investors only need 0.2% of price appreciation per year to achieve a 6% rate of return.

National Bank of Canada

National Bank is Canada’s sixth-largest bank. It is a formidable business because it has still managed to grow in a slowing Canadian economy. In the fiscal year 2015 that ended in October, the bank’s net income totaled $1.6 billion, which was a growth of 5% from the previous year. In the same period its earnings per share also grew 5%.

National Bank’s quarterly dividend increased by 8% from 50 cents a year ago to 54 cents per share. At under $37, its shares have fallen 30% from its 2014 high and yields 5.9%. Investors only need 0.1% of price appreciation per year to achieve a 6% rate of return. National Bank’s payout ratio is about 45%, which keeps its yield safe with ample wiggle room.

Conclusion

By relying on dividends to generate most of the returns, investors can rely less on price appreciation, which is dictated by the sentiments of the market in the short term. In the long term, stock performances are dictated by business performances.

By buying stocks such as RioCan and National Bank of Canada, which pay out solid dividends of close to 6%, investors can more easily ignore price volatility and perhaps sleep better at night.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NA (National Bank of Canada)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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