How to Earn 17.5 Times Your Initial Investment Income

Description

Some people think picking stocks is gambling, but it doesn't have to be. Instead, you can invest in businesses that generate stable cash flows and pay out dividends.

Pick a diversified basket of quality businesses

Let's say you pick five businesses from the major industries in Canada: banks, telecoms, utilities, real estate investment trusts (REITs), and energy infrastructure companies. These businesses generate stable cash flows and have track records of paying out a portion of cash flow as dividends.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the leading bank in Canada, and it also has a sizeable business in the U.S. and operates internationally. It just hiked its quarterly dividend by 2.5% to $0.81 per share, totaling an annual payout of $3.24 per share. It yields 4.8% with a sustainable payout ratio of about 50%.

Telus Corporation (TSX:T)(NYSE:TU) is the third-largest telecom in Canada. It's also the fastest-growing telecom, and it focuses on two major business segments: wireless and wireline. It has paid a growing dividend for 12 years and yields 4.4% with a sustainable payout ratio of about 71%.

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP) is a diversified utility that owns quality, long-life assets. For instance, it owns rail operations in Australia and Brazil and port terminals in the U.S, Europe, and the U.K. It targets a payout ratio of 60-70%, which supports its growing distribution. It pays out a quarterly distribution of US$0.57 per unit, totaling US$2.28 per unit.

Plaza Retail REIT (TSX:PLZ.UN) is a retail REIT that generates rental income every month. It's a growing REIT that has increased its distribution for 13 consecutive years, and it now yields 5.8%. Its adjusted funds-from-operations payout ratio is about 82%, which is sustainable for a REIT.

Just because a business generates stable cash flows doesn't mean its share price will remain steady. After all, stocks are inherently volatile. For example, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) generates stable cash flows and has been increasing its dividend for 20 years, but in the past year it has declined 30% due to low oil prices. It now yields a historically high yield of 4.9%.

Buy periodically

After you've selected a diversified set of quality dividend stocks, simply buy the same amount periodically. For example, every January you can buy $1,000 worth of shares in each.

The portfolio above gives an average yield of more than 5%. If you buy $1,000 worth of shares in each, you'll receive $250 of annual dividends. Assuming the portfolio dividend grows by 5% per year, that's an estimated total return of 10%.

If you reinvest the dividends you receive, in 10 years you'll amass a portfolio of $87,655. If the portfolio still yields 5% at that time, you'll earn an annual income of $4,382, which is 17.5 times the income in your first year of investment!

Conclusion

The math above leads to 17.5 times your initial income for any invested amount given the growth rate is 10% and dividends are reinvested. All you have to do is consistently invest in quality businesses and let time and your investments do the rest of the work to generate a stable income for you. Of course, you should monitor the businesses behind your investments periodically and make changes to your portfolio if necessary.

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:ENB (Enbridge Inc.)
3. NYSE:RY (Royal Bank of Canada)
4. NYSE:TU (TELUS)
5. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
6. TSX:ENB (Enbridge Inc.)
7. TSX:PLZ.UN (Plaza Retail REIT)
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