Beat the Market With These 3 Top Stocks

Description

As investors, it's our goal to beat the market each and every year. There are many ways to go about trying to do this, but one of the best and least-risky ways I have found is to buy stocks that meet the following criteria:

- The company is a leader in its industry
- Its stock is undervalued on a forward price-to-earnings basis
- It has a high dividend yield or it pays a dividend and has an active streak of annual increases

I've scoured the market and selected three stocks that meet these criteria perfectly, so let's take a quick look at each to determine which would fit best in your portfolio.

1. Telus Corporation

Telus Corporation (TSX:T)(NYSE:TU) is Canada's third-largest telecommunications company and its second-largest wireless carrier.

At today's levels, its stock trades at just 15.5 times fiscal 2016's estimated earnings per share of $2.64 and only 14.6 times fiscal 2017's estimated earnings per share of $2.79, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.4 and its industry average multiple of 21.2.

In addition, Telus pays a quarterly dividend of $0.44 per share, or $1.76 per share annually, which gives its stock a yield of about 4.3%.

Investors must also make two notes.

First, the company's 4.8% dividend hike in November 2015 has it on pace for fiscal 2016 to mark the 13th consecutive year in which it has raised its annual dividend payment.

Second, Telus has a dividend-growth program in place to raise its dividend by another 10% in 2016 through increases in May and November, so investors should look for its next increase when it reports its first-quarter earnings on May 5.

2. Sun Life Financial Inc.

Sun Life Financial Inc. (TSX:SLF)(NYSE:SLF) is the third-largest insurance company in Canada with over $890 billion in assets under management.

At today's levels, its stock trades at just 11.3 times fiscal 2016's estimated earnings per share of $3.76 and only 10.4 times fiscal 2017's estimated earnings per share of $4.09, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.1 and its industry average multiple of 16.6.

In addition, Sun Life pays a quarterly dividend of $0.39 per share, or $1.56 per share annually, which gives its stock a yield of about 3.7%.

Investors must also make two notes.

First, the company's 2.6% dividend hike in November 2015 has it on pace for fiscal 2016 to mark the second consecutive year in which it has raised its annual dividend payment.

Second, Sun Life has a medium-term target dividend-payout range of 40-50% of its underlying net income, so I think its very strong growth, including its 27% year-over-year increase to $3.76 per share in fiscal 2015, and its low payout ratio, including 40.2% in fiscal 2015, which is at the low end of its target range, will allow it to raise its dividend when it reports its first-quarter earnings on May 11.

3. Ritchie Bros. Auctioneers

Ritchie Bros. Auctioneers (TSX:RBA)(NYSE:RBA) is the world's largest industrial equipment auctioneer.

At today's levels, its stock trades at just 24.2 times 2016's estimated earnings per share of US$1.18 and only 21.8 times fiscal 2017's estimated earnings per share of US$1.31, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 28.4 and its industry average multiple of 27.3.

In addition, Ritchie Bros. pays a quarterly dividend of US$0.16 per share, or US$0.64 per share annually, which gives its stock a yield of about 2.2%.

Investors must also make two notes.

First, the company's 14.3% dividend hike in August 2015 has it on pace for fiscal 2016 to mark the 13th consecutive year in which it has raised its annual dividend payment.

Second, Ritchie Bros. has a target dividend-payout range of 55-60% of its adjusted net earnings, so I think its very strong growth, including its 21.5% year-over-year increase to an adjusted US$1.13 per share in fiscal 2015, and its low payout ratio, including 53.1% in fiscal 2015, which is below its target range, will allow it to raise its dividend when it reports its first-quarter earnings in May.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RBA (Ritchie Bros. Auctioneers)
2. NYSE:TU (TELUS)
3. TSX:RBA (Ritchie Bros. Auctioneers)
4. TSX:SLF (Sun Life Financial Inc.)
5. TSX:T (TELUS)

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