New Investors: Why You Should Start With Dividend-Growth Investing

Description

It can be challenging for new investors to choose their first stocks. I don't blame them. There are thousands of companies to choose from on the American stock exchanges and the Toronto Stock Exchange.

Dividend-growth companies are good companies to start with. Here's why.

Established companies

Only established companies that are sustainably profitable can pay growing dividends. For example, **Telus Corporation** (TSX:T)(NYSE:TU) is one of the Big Three Canadian telecoms and Canada's fastest-growing telecom. It generated annual revenue of $12.6 billion in the 12 months that ended on March 31.

This year is the 12th consecutive year that Telus has increased its dividend. In the last five years the telecom has increased its dividend by 64.3%, an annualized rate of 10.4%. Do you get a 10% raise from your job every year?

Dividend-growth investing is good for learning

Through dividend-growth investing, investors may explore questions such as "Where do dividends come from?" and "What makes a company's dividend safe?"

In the case of Telus, dividends come from earnings. The first thing to look at to determine if Telus's dividend is safe is its payout ratio.

From 2010 to 2015, Telus's earnings per share (EPS) increased by 9.6% per year and its payout ratio expanded from 61% to 65%. This year Telus's payout ratio is expected to be about 70%.

This means that Telus is paying out 70% of its earnings as dividends and retaining 30% to grow the business. Generally, the lower the payout ratio, the safer the dividend.

It's best to compare Telus's payout ratio with its peers because they're in the same industry. **BCE Inc.** (TSX:BCE)(NYSE:BCE) is Canada's largest telecom by market cap, and its payout ratio is expected to be about 78% this year.

Compared with BCE, Telus's dividend has more room to grow, while their EPS growth is expected to be about 6% per year in the next three to five years.

Stability

Dividend stocks are generally less volatile than companies that don't pay dividends. Dividend-growth stocks such as Telus are even better because they tend to grow their EPS over the long term. As a result, they're able to grow their dividends as well. Receiving dividends reduces the anxiety of holding stocks whose prices go up and down.

Conclusion

Because dividend-growth companies are established companies that are stable (and good learning material for new investors), investors should start by investing in them.

At about $45.50 per share, Telus yields 4.4%. Investing $1,000 in it generates an initial annual income of $44 that the telecom aims to grow 7-10% per year through 2019.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)
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