3 Tips to Improve the Safety of Your Dividend Income

Description

It takes time to build a solid portfolio to generate a safe and growing dividend income stream. In *The Intelligent Investor*, Benjamin Graham argues that a group of 10-30 stocks provides enough diversification. Here are some tips and stocks to help you build a secure income stream from dividends.

Look for dividends in sectors with stable earnings or cash flows

Utilities, banks, telecoms, and real estate are all traditional businesses that earn recurring revenues. The big Canadian utilities, banks, telecoms, and real estate investment trusts (REITs) earn stable earnings or cash flows and offer safe dividends.

They include **Fortis Inc.**, **Royal Bank of Canada**, **BCE Inc.**, and **H&R Real Estate Investment Trust** (TSX:HR.UN), which offer yields of 3-7%. These companies have been stable and profitable over the last decade, and their dividends are supported by their stable earnings or cash flows in a healthy way.

REITs are relatively new compared to the other sectors. The first Canadian REIT initially traded on the Toronto Stock Exchange in 1993, and it allowed retail investors easy access to lucrative commercial real estate.

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real estate building

Look for dividends in industries with less uncertainty

Within sectors, some industries are more stable than others. For example, in the REIT world, residential REITs are one of the most solid asset classes. They have little uncertainty because everyone needs a place to live.

If people don't own a place, they must rent one. For lower risk within the residential REIT space, look for REITs with little to no exposure to resource regions.

For instance, **Canadian Apartment Properties REIT** (TSX:CAR.UN) has about 50% of its portfolio in Ontario and only 7% in Alberta and Saskatchewan. Additionally, the REIT's portfolio occupancy is about 98%. So, Canadian Apartment Properties REIT's cash flow remains stable. Along with a payout ratio of 76%, its 4% yield is safe.

On the contrary, **Northview Apartment REIT** (TSX:NVU.UN) has about 22% of its portfolio exposed to resource regions. As a result, the market commands a higher yield from it. Currently, the REIT offers a yield of 8% which is sustained by a payout ratio of about 71%.

Here's another example. Diversified REITs, such as H&R REIT, which consist of retail, industrial, and office properties, typically earn more stable cash flows than office REITs. So, diversified REITs, in general, offer safer yields than office REITs.

Bonus tip

The companies mentioned in this article are quality companies. However, most of the time, quality comes at a cost. Many of these companies are fairly to fully valued today. They offer safe dividends, but they would be better buys on dips.

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1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
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