



## 5 Dividend Stocks to Own for the Next 5 Years

### Description

I saw a headline recently that caught my attention; it wasn't so much because of the words themselves, but the content that followed.

The headline: "This 5-Stock Portfolio Crushes the S&P 500."

I'm a big fan of easy-to-assemble portfolios, so I eagerly read the entire article from start to finish; I came away with several points dividend investors need to keep in mind when selecting dividend stocks for their portfolios.

### Forget about dividend yield

Don't fixate on an arbitrary number such as the average dividend yield of the S&P/TSX Composite Index, or, if you're investing in U.S. stocks, the S&P 500. If you do, you'll potentially miss out on some significant capital appreciation.

Take **Visa Inc.** ([NYSE:V](#)) for example. Its current dividend yield is 0.74%; that's not good enough for income investors who are relying on this cash flow to pay the bills.

However, over the past five years, while Visa's dividend yield has stayed in a tight range between 0.63% and 0.78%, its dividend has actually grown by 200%, providing Visa shareholders who'd held the entire period a total return of 215%. In addition, the yield on their original investment would now be 2.3% — not the original 0.69%.

So, forget about dividend yield. Total return is what counts.

### What to look for

Three things are critical to successful dividend investing.

1. **Earnings growth:** Without growing earnings, it's virtually impossible (except by borrowing) for companies to meet the next two points.

2. **Payout ratio:** Generally, you want to invest in companies that aren't paying out more than 50% of their dividends because that leaves room for my third point.
3. **Dividend growth:** Two things drive share prices higher — earnings growth and dividend growth. While the former is the more important of the two, the latter is essential to dividend investors.

### Easy criteria for finding good dividend stocks

I went ahead and did a stock screen that looked for Canadian stocks with market caps of \$500 million or more, five-year earnings growth of 10%, a payout ratio of less than 50%, and dividend growth of 10% or more.

While I'm not a mathematician, I came up with the following formula to weed out the imposters:

Five-year earnings growth rate + dividend-growth rate ÷ payout ratio

My stock screen came up with 22 stocks that met the three criteria from above. Only those stocks with a quotient of two or more make the list.

Here are my five dividend stocks to own for the next five years.

### Open Text

While the Waterloo company has only paid a dividend since June 2013, it's grown steadily since then. **Open Text Corp.** (TSX:OTC)([NASDAQ:OTEX](#)) helps companies share content both in the cloud and in the office. Fool.ca contributor Joey Frenette [wrote](#) about the tech company in January, calling it a "rare" technology gem.

### Dollarama

Yes, I know its dividend yield is only 0.4%, but **Dollarama Inc.** ([TSX:DOL](#)) is, hands down, the best discounter in this country that's actually based in Canada. Some wonder about its ability to continue to grow, but should earnings and revenues slow, its 11.1% payout ratio leaves it with lots of room to grow dividend.

### Stella-Jones

The maker of railway ties and hydro poles has seen a slowdown in revenue after five years of steady growth; it's to be expected that business would experience a hiccup or two along the way. **Stella-Jones Inc.** ([TSX:SJ](#)) is a well-run company; in January, I [recommended](#) that investors look to buy its stock after hitting a 52-week low.

### Winpak

The steady-as-she-goes Winnipeg packaging company is benefiting from a surge in Canadian [exports](#) — January 2017 was third straight month with trade surplus — and as the Canadian dollar continues to weaken, **Winpak Ltd.** ([TSX:WPK](#)) is only going to get stronger.

### CCL Industries

If there's a better stock to have owned the last five-years — with a total return of 52.8% — I'd sure like

to know about it. **CCL Industries Inc.** ([TSX:CCL.B](#)) continues to make all the right moves when it comes to acquisitions and expanding into new markets. It's one of my favourite Canadian stocks and a [proven](#) money maker.

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1. Investing

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1. NASDAQ:OTEX (Open Text Corporation)
2. NYSE:V (Visa)
3. TSX:CCL.B (CCL Industries)
4. TSX:DOL (Dollarama Inc.)
5. TSX:OTEX (Open Text Corporation)
6. TSX:SJ (Stella-Jones Inc. )

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