New Investors: Should You Focus on Income or Growth?

Description

There's an ongoing debate in the investment community as to whether it's better to invest for income or growth. The good thing is that income and growth are not mutually exclusive.

There are stocks that fit both ends of the spectrum. At one end, there are growth-oriented stocks that offer small yields or no yield at all. At the other end, there are stocks that offer big yields with little growth. Then, there are stocks in the middle that offer safe yields of 3-5% with long-term growth that beats inflation.

Before deciding whether it's better for you to focus on income or price appreciation, here are some examples to illustrate the three groups of stocks.

Get big income cheques from big-yield stocks

You can earn a nice income from big-yield stocks. This kind of return is more predictable than capital gains. However, big yielders typically offer less growth than lower-yielding companies.

Dream Industrial Real Estate Invest Trst (TSX:DIR.UN) is an example of a big-yield stock. It offers a generous 8.5% yield which is supported by an adjusted payout ratio of 89%. It is the largest pure-play industrial REIT in Canada and maintains 217 properties that are leased across more than 1,300 tenants.

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Get some income and some growth

You can earn a nice 3-5% yield from mature companies that grow their earnings typically at a rate of 5-7% per year and are committed to growing their dividends.

For example, **Telus Corporation** (TSX:T)(NYSE:TU) yields 4.4%, and it aims to grow its dividend by 7-10% per year through 2019. As its yield grows, its share price will follow over the long run.

Get price appreciation from growth-oriented investing

With growth-oriented investing, you get a bigger percentage of your returns from price appreciation than dividends — if there is a dividend. However, it doesn't always work out, as we'll see with this example.

Stella-Jones Inc. (TSX:SJ) has been a nice growth-oriented dividend stock. An investment 10 years ago has delivered returns of 17% per year. It also increased its dividend by 450% in that period. Compare that to Telus, which returned 6.6% per year and increased its dividend by 155% in the same period.

Stella-Jones experienced double-digit earnings-per-share growth from 2011 to 2015. However, growth slowed down in 2016 and is expected to worsen this year. As a result, its share price has declined about 17% in the last year.

That said, a good management team leads the company, and its core business makes railway ties and utility poles that will replace old ones for safety reasons.

When growth-oriented stocks stumble, shareholders need to have more patience and higher confidence — more so than when they hold stocks that offer big dividends.

Investor takeaway

In my humble opinion, relatively new investors are better off focusing on generating a safe income from stocks first (i.e., consider the first two categories).

Dividends are more predictable than price appreciation. As well, they give you a return no matter what the share price does.

Moreover, you can use the dividends you receive as you see fit — reinvest into more stocks, go out for a nice meal, or even go on an extra vacation for the year.

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1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:DIR.UN (Dream Industrial REIT)
3. TSX:SJ (Stella-Jones Inc.)
4. TSX:T (TELUS)

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