



Set Yourself up for Early Retirement With This Dividend-Growth King

Description

Every investor has their own strategy of stock selection. Income investors, like retirees, prefer having monthly income and choose to invest in high-yield dividend stocks, while younger investors who don't rely on dividends may be more attracted to growth stocks with little or no dividend.

Personally, I'm a fan of the dividend-growth strategy, which provides a high yield to go with a considerable amount of capital appreciation.

Dividend-growth stocks are usually stable businesses that have the ability to grow earnings and free cash flow over the long term. Consider **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), one of my favourite dividend-growth stocks. The 1.54% dividend yield may seem underwhelming, but that's because the stock has appreciated by such a large amount in sync with the company's consistent annual dividend raises.

If you're an extremely long-term investor with a time horizon of a decade or more, then dividend-growth stocks are a terrific way to give yourself a huge amount of capital appreciation with the promise of a fat yield a few years down the road.

CN Rail is known to increase its dividend by double digits for a given year. Even if a recession were to happen, CN Rail would still be able to increase its dividend by a modest amount, while other companies slash their dividend payments to repair a stressed balance sheet.

The dividend raises really add up over the years, so a 1.5% yield today may grow to be north of 5% from your original investment if you hold onto shares for over a decade.

Of course, if you continued to buy shares during this period, the yield would average down, but if you're a young investor who plans to hold for many decades, you'll be putting yourself in a very good position when you approach your retirement age.

What are some of the qualities of a fantastic dividend-growth stock?

A wonderful business with a durable competitive advantage, a wide moat, and the ability to grow

earnings over the long term are the traits of a dividend-growth stock that you could buy and hold forever — your typical “Warren Buffett” stocks with simple, predictable business models that are unlikely to face high amounts of uncertainty in the coming years.

We live in an age where technology is becoming an industry disruptor. Such technologies could erode the moat of any business, so it has become a lot more difficult than it was in the past to find a true dividend-growth stock that you can hold forever.

If a management team thinks ahead of the game and has the proven ability to adapt to a changing industry, then you may have a real long-term winner that you can hold for decades.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

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2. TSX:CNR (Canadian National Railway Company)

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