TFSA Investors: Should You Look for Dividend Stocks With High Growth or High Yield?

Description

A TFSA account is a valuable vehicle for storing dividend stocks and other investments, since any gains or dividend income earned within the account are tax-free. There are many quality dividend stocks on the TSX, and finding one that works for you might be a bit of a challenge.

I am going to compare two dividend stocks and evaluate whether you would be better off with a dividend that has a high yield and no growth or a dividend with strong growth but a lower yield.

Four factors to consider when looking at dividends

When you are looking at dividend stocks, there are four different things you should consider. The first is the yield, since that in the immediate term is what you will be getting back on your investment. The second is the stock's growth history and how much you can expect the dividend to grow in the future, if at all. Third is the company's payout ratio, and how well it can continue to make dividend payments.

These three items will be competing against one another, since it's extremely unlikely to find a stock with a high yield and high growth rate that also has a sustainable payout ratio. Usually, something has to give, and you'll have to decide between growth and yield.

A fourth factor you shouldn't neglect is the prospects for the company as a whole, since that will impact all the aforementioned items. You certainly wouldn't want to pick a great dividend stock, only to find yourself using the dividend income to offset the losses you are incurring from the declining share price.

Growth versus current yield: which is better?

For the sake of the argument, I will ignore payout ratios as part of this comparison.

Alaris Royalty Corp. (TSX:AD) currently pays a very attractive yield of 7.7% per year that is paid out in monthly installments. The company has not increased its payouts in over two years, and investors should not expect one in the near future given the company's high payout ratio.

Fiera Capital Corp. (TSX:FSZ) pays a dividend of about 4.8%, and the company recently hiked its payout to $0.18 a share, which is up from the $0.17 that was paid last quarter. In 2012, the company was paying just $0.08 per quarter, and in five years, the dividend has risen by 125% for a compounded annual growth rate of 17.6%.

If you are looking at an investment for the next year, then, certainly, Alaris would be your better bet. However, if you are holding on to the stock, you may be wondering if, in the long term, Fiera Capital is a better dividend. If we assume all things are equal, and Fiera Capital keeps increasing its dividend by about 17.6% per year, and you buy shares today, then it will take approximately three years for Fiera Capital's dividend to provide you with a higher yield than Alaris's, assuming Alaris continues to make no increases.

In three years, Fiera Capital's dividend, if it continued at this pace, would grow to $0.29 per quarter, or $1.17 annually. At a current share price of about $14.80, this would represent a yield of 7.9%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:FSZ (Fiera Capital Corporation)

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