

New Investors: The Rationale to Focus on Income

Description

Dividends improve the stability of stock investment returns, which can consist of dividends and price appreciation. The share price of a stock is volatile and can go up or down on news that is company specific, industry specific, or from market-wide corrections.

However, if you choose your investments right, you will get a stable income from your stock portfolio without having to worry about what the share price of each holding might do.

The rationale to invest for dividends

Dividend companies, which generate stable earnings or cash flows on a per-share basis and have sustainable payout ratios, offer stable dividends. So, you can quickly eliminate most miners, oil and gas producers, other commodity-related stocks, and high-growth stocks.

I'm not saying that you should never invest in these stocks — they might make up a small part of your portfolio or have primarily capital gains purposes given the opportunity — however, you should consider these after you've built a strong foundation for your portfolio in stable dividend stocks. This way you have better peace of mind.



Northview Apartment REIT (TSX:NVU.UN) is a reasonable investment for stable income, but it might surprise you with some upside as well.

The real estate investment trust (REIT) generates 90% of its net operating income (NOI) from residential properties and 10% from commercial properties.

Northview's NOI geographical diversification is primarily from northern Canada (31%), Ontario (27%), and western Canada (24%).

Notably, its northern Canada portfolio has the highest average monthly rent (of more than \$2,000) compared to other regions. It also has a high occupancy of ~94% in northern Canada.

It's not surprising that the REIT has the lowest occupancy (of ~84%) in western Canada. However, it's good to see that management has pretty much maintained the average monthly rent of nearly \$1,000 in that region.

Northview stock has outperformed its peers and the Canadian REIT sector since 2016 primarily because its share price was overly depressed. In early 2016, it traded at a multiple of ~7.5. After the price appreciation and delivering a total return of ~40%, of which, 39% of it came from its dividends, the stock now trades at a multiple of 10.4.

Investor takeaway

Northview is a reasonable investment for income. Its dividend is sustainable as its funds from operations payout ratio is less than 80%. At \$21.90 per unit, the stock offers a high yield of 7.4%.

Using a diversified group of stable dividend stocks as the foundation of your portfolio, you can get stable income which can help you branch out into other types of stock investing. Other than REITs, places you can look for stable dividends are banks, utilities, and telecoms.

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Date

2025/08/10

Date Created

2017/09/18

Author

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