Dividend Stocks: 4 Cash Cows Yielding up to 5%

Description

One proven strategy to make steady income from investing in dividend stocks is to look for companies that are in mature growth cycles.

The reason is that these companies don't require too much cash to re-invest. Consumers have no choice but to consume their products and services, and in that process, these companies generate a lot of cash. I'm talking about "cash cows."

These businesses are great for income investors for two reasons. First, they don't face huge disruptive forces, because the scale of their initial investment is too high to reach for a new entrant.

Second, they distribute most of their cash as dividends to their shareholders. Long-term investors who don't want too much risk and focus on a regular income stream love investing in cash cows.

You don't need to dig too deep to find these companies. They're usually well-known brands that you come across every day, but investing in them isn't fashionable. Some top global names, like **Proctor & Gamble Co**., **Johnson & Johnson** and **The Coca-Cola Co.**, fit nicely in this cash cow analogy.

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Here in Canada, the nation's largest energy infrastructure companies and utilities are great examples of cash cows that investors milk every month or quarter for dividends.

Canadian cash cows

Take **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) for example. Enbridge, the largest pipeline operator in North America with a current dividend yield of 4.87%, generated $5.03 billion of cash flow from operations last year and returned about 52% of that cash to investors in dividends.

Similarly, TransCanada, with a dividend yield of ~4%, cranked out $5 billion in operating cash flow and returned about 47% of that cash flow to investors through dividends.

Canadian banks also fit nicely in the cash cow category. You might hate paying monthly fees on every service they offer, but as an income investor, they're perfect for you. The country's largest lenders, such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), distribute between 40% and 50% of their income in dividends.

If you had invested $10,000 in Royal Bank of Canada's share a decade ago, for example, you would have more than $25,000 in your pocket by now in total returns.

Investor takeaway

So, when you're in the market to grow your retirement portfolio slowly and gradually, look for cashcows in sectors that are generally boring and don't get much of the financial press. Utilities, banks, and consumer non-discretionary companies are generally great dividend producers.

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2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. NYSE:TRP (Tc Energy)
5. TSX:ENB (Enbridge Inc.)
6. TSX:RY (Royal Bank of Canada)
7. TSX:TD (The Toronto-Dominion Bank)
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