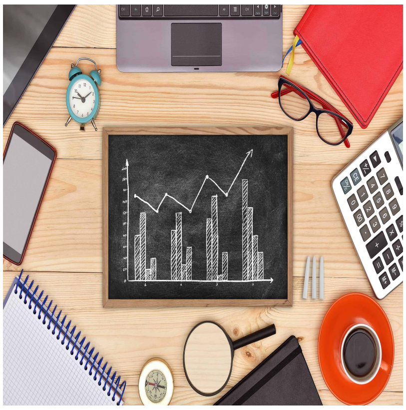

A Reasonable Way to Invest and Profit in the Stock Market

Description

Investors should buy dividend-paying businesses with leading positions when they're experiencing setbacks.

Buy businesses with leading positions

Top companies in their industries are at the top for a reason. For example, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is the largest Canadian bank by market cap. It has had returns on equity of at least 12% every year in the last decade

Yes, this includes the period before, during, and after the Financial Crisis. The top Canadian banks are the kinds of businesses that should make up a part of a long-term investor's core portfolio.

Get a dividend while you're at it

Since investors are risking their hard-earned money by investing in a company, they might as well get paid while they wait. Who doesn't love getting dividend paycheques in their accounts?

Dividend-paying stocks allow investors to get some returns from dividends, while they're holding the stock — no matter if the share price goes up or down.

From the recent quotation of under $100 per share, Royal Bank offers a safe yield of 3.6% with a payout ratio of roughly 50%.

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Buy at a value

Unfortunately, Royal Bank is not exactly a great buy right now from a valuation standpoint. In 2016, investors had the opportunity to buy the bank leader at a discounted multiple, but the stock is more than fully valued today.

I'm not saying that the stock will decline from here. However, there are better opportunities for income and total returns out there.

I think **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), the North American energy infrastructure leader, is a better value today. I bought some shares when it yielded 4.4%. Now that it yields 5.5%, it must be a great buy, right?

I knew Enbridge has downside risk from my initial buy point. That's why I only bought a small position then with the intention of buying more when the stock pulled back. I think now is a good time to revisit the stock.

Because of the dilution from acquiring Spectra Energy Corp., Enbridge's profitability on a per-share basis is expected to decline this year. Also, some investors worry that Enbridge won't be able to achieve its previously stated guidance of growing its dividend per share by 10-12% per year through 2024.

However, for a company that has paid a dividend for +60 years and increased its dividend for 21 consecutive years, there's reason to believe that it is ingrained in the company's culture to grow its dividend. With a payout ratio expected to be about 62-68% of cash flow this year, the company can still grow its dividend, even if that means at a lower rate.

Investor takeaway

Because Enbridge and Royal Bank have different risk profiles, there's room in a core dividend portfolio for both stocks. Right now, I believe Enbridge is a better value, which offers an attractive starting yield of 5.5%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
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