Looking to Maximize Your Returns? Why Growth Stocks Are Superior to Dividend Stocks

Description

Dividend stocks can provide investors with a steady stream of cash flow. For TFSA investors, eligible dividends also have the added benefit of providing investors with tax-free income.

However, when investing in a dividend stock, an investor should choose to do so because it is a good investment — not strictly for its payouts. There is no guarantee that a dividend will continue forever, and when times are tough, investors should not be surprised to see a company cut its dividend to free up cash.

You need to look no further than **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) as an example of this. The company recently slashed its dividend amid poor uranium prices and disappointing results year to date.

Meanwhile, **Aurora Cannabis Inc.** (TSX:ACB) has doubled in price this year, and so too has **MedReleaf Corp.** (TSX:LEAF). Both stocks are living off hype and revenue growth. Neither of these stocks offer investors any payouts, and you shouldn't expect that to change any time soon.

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) has grown over 120% year to date, and the share price could have a lot of upside left. Its investors are not concerned that the company does not pay any dividends.

Comparing the returns

I'm not saying that dividend stocks can't produce significant returns for investors, but it just isn't as likely. If we look at dividend stocks that yield more than 3% and have market caps north of $500 million, then there are only two stocks that have seen returns north of 30% this year.

The first stock, **Chorus Aviation Inc.** (TSX:CHR), has a yield of 5%, and in 2017 it has seen its share price rise 34%. Perhaps its unsurprising to see such growth for the aviation stock, especially in a year that has been very strong for Canadian airline stocks.

Western Forest Products Inc. (TSX:WEF), the other stock meeting this criteria, pays investors 3%

annually, and year-to-date returns for the softwood forest products company have been 33%.

This is not to say that 30% returns aren't strong, because I'm sure many investors would be more than pleased with these results. However, once we look at companies that have no dividend payments, the number of stocks that have seen 30% returns this year rises to 31.

Some of those names include Aurora Cannabis, Shopify, **Canopy Growth Corp.**, **Canfor Corporation**, and **Valeant Pharmaceuticals Intl Inc.**, to name just a few.

Why do growth stocks offer better returns?

The biggest reason that non-dividend stocks typically outperform dividend stocks is that any profits are reinvested in the company, and that can help fund future growth. If pot producer Aurora Cannabis paid its investors a regular dividend, then that would limit the cash it has available to invest in facilities or acquire other companies.

However, just because a company reinvests in its operations doesn't guarantee that it will be high growth; the opportunity needs to exist as well.

For example, a bank stock such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) can afford to pay a big dividend, because it doesn't need all of its funds to grow its operations, and by not paying dividends, it would simply be stockpiling cash.

Bottom line

While dividends can potentially offer a steady stream of income, investors looking to maximize their returns will be better off investing in growth stocks.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

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2. NYSE:SHOP (Shopify Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:ACB (Aurora Cannabis)
5. TSX:CCO (Cameco Corporation)
6. TSX:CHR (Chorus Aviation Inc.)
7. TSX:SHOP (Shopify Inc.)
8. TSX:TD (The Toronto-Dominion Bank)
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