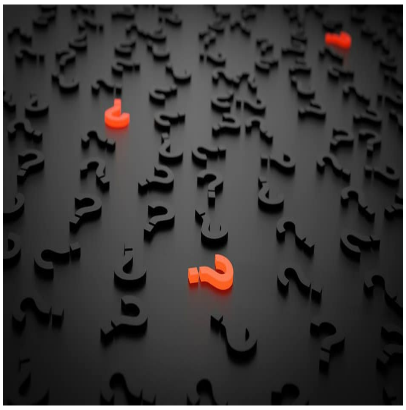

Is Your Dividend Portfolio Sufficiently Diversified?

Description

One reason for holding a diversified stock portfolio is to avoid stocks that move in tandem. Some people think their dividend portfolios are sufficiently diversified by holding a group of stocks.

Those investors are diversifying across different companies, but they should ensure the stocks aren't from the same industry or aren't affected by the same forces. Otherwise, the stocks will tend to move in a similar fashion.

Since late 2017, **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and other utility stocks have seen meaningful price declines, partly due to higher interest rates.

This trend is expected to continue and will make it costlier for these businesses to operate, because utilities have large debt loads on their balance sheets.

Many other dividend stocks, particularly ones with slower growth and often big yields, have also seen price declines, as interest-bearing investments will compete for money that's invested in these dividend stocks.

It doesn't mean you should avoid these stocks in your portfolio, though. Quality utility stocks, such as

Fortis, may still work well as stable, dividend-growth holdings, while you might need the income from slow-growth, but big-yield stocks. All I'm suggesting is that you should consider holding other stocks in your portfolio as well.

Diversify into stocks that benefit from higher interest rates

Unlike utilities, banks such as **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) benefit from higher interest rates. That's because net interest margins widen as interest rates increase. So, banks will be able to make more money from loans by getting higher interest than the interest it pays to, say, our savings accounts.

TD stock is a proven performer. The bank grows in a stable way over time and is estimated to experience high single-digit growth, which calls for long-term total returns of about 12% for the reasonably valued stock.

Diversify into faster-growing stocks

The technology sector is a vibrant area of growth. One company that has a track record of profitable growth is **Open Text Corp.** (TSX:OTEX)(NASDAQ:OTEX). The tech stock has achieved long-term double-digit returns, which should carry on well into the future.

Open Text has become a leader in the growing enterprise information management industry. The issue of information security from events, such as the **Equifax** data breach of 2017, is an opportunity for Open Text to grow.

Open Text has a proven history of acquiring complementary businesses that have been accretive to the company. Since fiscal 2012, Open Text has experienced annualized revenue growth and earnings-per-share growth of about 15% and 12%, respectively. The growth contributes nicely to its dividend-per-share growth of about 15% per year for the last few years.

Investor takeaway

Barring mass market declines, which will pull down most, if not all, stocks, investors should aim to build a diversified portfolio of stocks that have little correlation to one another.

For dividend-growth investors, ensure to sprinkle your portfolio with proven dividend stocks that have different dividend-growth rates. You'll find that the ones with small yields but that offer high dividend growth may result in greater total returns in the long haul.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. NYSE:FTS (Fortis Inc.)

3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:FTS (Fortis Inc.)
5. TSX:OTEX (Open Text Corporation)
6. TSX:TD (The Toronto-Dominion Bank)

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