



Where Investors Will Find the Most Dividend Growth During the Next Recession

Description

As investors have learned over the past decade, dividend increases are easy to come by when corporations are flush with cash and buying back shares. In fact, during bull markets, dividends (which are so important) are taken for granted, as share prices are steadily increasing and corporate profits are rising. What is essentially a 3% yield and increases by 33% (to a hypothetical 4%) actually doesn't change at all (for the investor), as the share price increased substantially along the way.

In many cases, however, investors will return to the basic investing principles after a recession hits, as they'll want to avoid the large losses in the future. Most of the time, however, it is too little, and too late to avoid the major losses that have already occurred!

For those who are ahead of the curve and willing to shift money out of the higher growth areas of the market, the rewards could be significant. Major losses can be avoided and dividend increases (which become more scarce) are very well rewarded. Case in point: **Canadian National Railway** ([TSX:CNR](#)) ([NYSE:CNI](#)), which is one of Canada most essential businesses and will be extremely busy for a long time to come.

In spite of many believing that fewer goods will be moved via rail during the upcoming recession, the reality is that investors are failing to consider the higher prices of oil. As the cost of moving goods on a truck is beginning to increase, the railways have been picking up the slack as they are less impacted by the price of oil. In the case of Canadian National Railway, the dividend yield is a healthy 1.6%, which could be drastically [increased](#) should management make that decision.

Over the past few years, the average dividend payout ratio was approximately 25%, with a much greater amount of capital being returned to shareholders through share buybacks. In fact, the average share buyback is no less than \$2 billion over the past few years.

For investors who are prepared to "go back to the basics" right away, Canadian National Railway is not only an essential company, but is also one that checks almost all the boxes on Michael Porter's list. What this means is that it will be possible to make large excess profits over a long period, as there are very few factors that can have a significant impact on the company's [profitability](#). The only exception is

a work stoppage by the labour force.

As corporate profit begin to hit a ceiling and unemployment reaches a new low, the next recession is getting closer and closer. In spite of many not believing that a low probability event is possible, a one out of one hundred chance means that an event will occur three or more times a year. It may be improbable, but it will still happen. Why not be ready for it?

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:CNR (Canadian National Railway Company)

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