It’s Time to Sell These 3 Dividend Aristocrats

Description

Here’s a question.

What do **Canadian Utilities** (TSX:CU), **Fortis** (TSX:FTS)(NYSE:FTS), and **Canadian Western Bank** (TSX:CWB) have in common?

They’re three of the 78 TSX stocks that make up the current list of Canadian Dividend Aristocrats. To make it on to this list, a company must increase its annual dividend for at least five consecutive years.

Canadian Utilities, Fortis, and Canadian Western Bank are at the top of this list. They’ve increased dividends for 46, 44, and 26 consecutive years, respectively.

If you’re a dividend investor, I know it’s hard to give up these three juicy payouts yielding 3% or more, but do it anyways. Here’s why.

Canadian Dividend Aristocrats are a joke

I’m not a big fan of dividend stocks.

My reasons have nothing to do with the rightness or wrongness of dividend investing in general, but because I only care about the quality of the company’s business model and financials.

I think **Berkshire Hathaway** is a great stock and probably always will be, but you will never see Warren Buffett pay one. Investors who narrow themselves to dividend-paying stocks exclusively miss out on gems like these.

However, if it works for you, by all means, continue to do what you’re doing. It’s better to have a system that you understand and can execute over a number of years than one that you can’t.

Anyway, I happened to be researching the U.S. Dividend Aristocrats and decided to compare it with Canada's special dividend payers. Not being focused on dividend stocks, I hadn't realized the abyss that exists regarding qualifying for the two lists.

Down in the U.S., to make the list, a company must be a part of the S&P 500 and have increased its annual dividend for a minimum of 25 consecutive years. There are currently 53 stocks that make the cut.

Here in Canada, the bar is much lower. To qualify, a company must be listed on the TSX, belong to the S&P Canada Broad Market Index, and have a market cap of at least $300 million.

The worst part of the Canadian qualifications?

You can pause your dividend increase for one year and still qualify. That means you only need four years of increases to make the cut — one-sixth the requirement in the U.S.

If the 25-year rule were applied to the Canadian list, we'd have just three stocks: the ones I mentioned in the beginning.

It's pitiful, if you ask me.

Why should I sell these three stocks?

In a rising interest rate environment, dividend-paying stocks like CU, FTS, and CWB aren't nearly as attractive.

"As interest rates began to rise from their secular lows in summer 2016, bonds and the dividend aristocrats started losing their luster, while growth stocks continued to attract capital and re-rate even higher. I think this disconnect made sense when rates were still very low," stated **Morgan Stanley** equity strategist Michael Wilson recently. "Growth stocks remain immune until rates cross a certain threshold. Was that level breached last week? We think the answer is yes, because growth stocks now are less attractive while many discarded value stocks, like financials, become more appealing."

So, while the three longest-tenured Canadian Dividend Aristocrats might be attractive to investors because of their consistency of payment, Wilson is wisely arguing that it's time to consider value stocks in the financials sector as investors abandon growth stocks.

And I wouldn't start with Canadian Western Bank, but rather a bank like **Canadian Imperial Bank of Commerce** with a 4.6% yield — 140 basis points higher.

Oh, and if you are going to invest in Dividend Aristocrats, you might look south of the border where qualifying is a little more difficult.

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3. TSX:CWB (Canadian Western Bank)
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