How to Get a 10% Yield Without Taking on a Lot of Risk

Description

A 10% dividend yield sounds great, but it would be risky to say the least to buy a stock that's currently paying such a high amount and expect that rate of pay to continue. However, you can earn a high yield without having to invest in risky stocks by investing in a growing dividend.

A great example of a solid, growing dividend is **Fortis** (TSX:FTS)(NYSE:FTS). The utility provider has a strong track record when it comes to increasing its payouts and with the company continuing to grow, there are many opportunities for it to continue to do so.

The one thing I would be cautious about is that sometimes it can be easy to assume a dividend will simply continue on forever. But the reality is that things can change, and a company may have to slash or eliminate its payouts entirely due to unforeseen circumstances.

In the case of Fortis, there isn't anything on the horizon that would suggest that the dividend will run into trouble, but the risk will always be there, regardless of how safe a company currently looks.

Where the yield is today

Currently, Fortis pays a dividend yield of 3.9%, which might be a bit unexciting for investors given that there are plenty of other options out there that pay north of 4% — even 5% is not uncommon.

However, many of those stocks won't grow, and where a dividend-growth stock like Fortis truly shines is over the long term; you could be earning a lot more on your initial investment than you would from other dividend stocks.

The impact of a growing dividend will take years

For investors to benefit from a growing dividend, they will have to hold on to the investment for many years, and the longer you hold it, the more of a return you could end up with.

Five years ago, Fortis was paying $0.31 per share every quarter in dividends. That has since grown to $0.45 this past quarter after a yet another hike to its payouts, which equates to an increase of 45% and a compounded annual growth rate (CAGR) of 7.7%.

While there's no promise that the CAGR will continue, it does provide a good gauge of what an investor might be able to expect the stock to grow at. For Fortis to pay a yield of 10%, its payouts would have to be about $1.15 per quarter.

Undoubtedly, it will take a long time for the stock to reach this level, as it is more than 2.5 times its current dividend payment. If we assume that the company were to increase its dividend by 7.7% every year, it would take nearly 13 years for quarterly payouts to reach $1.15.

Then your initial investment (what you invest today) would effectively grow by earning 10% per year. Obviously, there are many assumptions involved in this, and this calculation doesn't factor in the time value of money, but it puts into perspective how valuable a growing dividend is and why you'd want to hold it for a very long time.

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