Young Investors: Why You Should Not Ignore Dividends

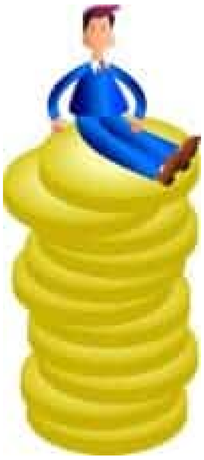
Description

Some young investors ignore dividends because they search for aggressive growth ideas that could potentially double, triple, or even quadruple their money in a short time. If it were that easy to get rich, everyone would be rich.

I'm not saying you shouldn't keep looking for those multi-bagger ideas, but don't disregard dividends outright. The U.S. stock market delivers long-term annualized returns of about 10%, while the Canadian stock market returns are even lower.

If you can consistently get returns of about 12% or higher in safe stock investment ideas, you're doing well. Dividend income can be much more predictable than price returns and indeed accounts for a third of total returns from the stock market.

If you want to make consistent returns over the long run, you want to include safe, growing dividends as a part of your returns strategy.



An undervalued bank with about 28% near-term total returns potential

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) has had a correction and has underperformed the big Canadian banks in the last year because of its exposure to emerging markets, which are negatively impacted by low pricing cycles in commodity prices. History indicates that when Scotiabank underperforms, it's the time to buy.

In fact, after the bank came out with its fiscal Q4 results and the quality bank showed that it was doing fine, as quickly as the next day, the bank stock popped 2.8%.

Yes, I know. The pop isn't much compared to the (potential) multi-baggers. However, Scotiabank is a much lower-risk investment and still offers very good near-term price appreciation potential of more than 20% from the low $70 range.

Most important, Scotiabank will keep paying out safe dividends. At about $72 per share as of writing, the bank offers a very competitive yield of 4.7%. Based on management's medium-term objective to increase its earnings per share at a rate of about 7%, shareholders can expect its dividend to grow at a rate of about 7% as well.

Based on these estimates, we're looking at annualized returns of about 12% without accounting for the undervalued shares.

An undervalued dividend stock with about 40% upside potential

TransCanada (TSX:TRP)(NYSE:TRP) is another blue chip dividend stock that has had a correction — specifically, it's down about 16% in the last year.

At about $53.40 per share as of writing, TransCanada trades at a blended price-to-earnings multiple (P/E) of about 14.6, which it hasn't traded at since the last recession in 2009! So, now is a great long-term entry point to lock in a yield of about 5.2%.

If TransCanada trades at its long-term normal P/E, we're looking at a target price of $75, which represents about 40% upside potential. There's no crystal ball telling us when TransCanada's stock will head higher. However, in the meantime, you can get a growing dividend with a starting yield of about 5%.

In the first nine months of the year, TransCanada was paying out roughly 45% of its distributable cash flow as dividends. The energy infrastructure company had $36 billion of commercially-secured projects that will contribute to growth and more than $20 billion of projects that are under development.

Therefore, management sees the ability to increase TransCanada's dividend per share by 8-10% per year through 2021. Based on these estimates alone, we're looking at annualized returns of about 13-15% without accounting for the undervalued shares.

Investor takeaway

Do yourself a favour and don't disregard dividends. While you're hunting for multi-baggers, leave a good portion of your portfolio for safe dividend-growth stocks.

Buy these dividend-growth stocks when they're undervalued and aim for total returns of 12% or higher, and they should beat the market over the long run. Besides, you can use the dividends that you receive to invest in potential multi-baggers instead of having to use money from your pocket. It's a win-win!

CATEGORY

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

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TRP (Tc Energy)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

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

Date
2025/09/03
Date Created
2018/11/30
Author
kayng