4 Strong Reasons to Consider These Dividend Stocks for 2019

Description

There's an academic argument over whether dividends really matter in an investment portfolio, with some thesis proposing that, in an efficient stock market, investors would be indifferent between dividend-paying and non-dividend-paying stocks, as they can easily "create" the dividend themselves through partial stock sales. However, evidence on the ground has actually proved that dividend investing is quite a brilliant age-old investing strategy.

While I won't go any deeper into the argument, I'm really impressed at what some dividend-paying stocks have delivered to investors so far this year. Here are some five strong reasons why dividend investing remains one of the best wealth-creation strategies today.

Dividends can rescue a portfolio from declaring a loss to generating positive returns

Emera (TSX:EMA) is a typical example of how dividend-paying stocks can potentially rescue a portfolio from declaring negative returns for the year to actually recording some positive gain. Emera's common share price is down 4.3% for the year so far, but the $0.588-a-share quarterly dividend has rescued the stock to record a positive 1.01% total return on investment so far in the year. Positive returns are always necessary for growth, while negative returns may sometimes reflect badly on a portfolio manager.

Dividends can compound portfolio returns to magnify positive performance

The $0.125 quarterly dividend on **Just Energy Group** (TSX:JE)(NYSE:JE) was the differentiator between a mere 3.33% stock price return and a double-digit 11.71% total return on the investment per share so far this year. Take note though: Just Energy's dividend yields 8.96% annually, and such ahigh yield reflects the elevated risk of a dividend cut, but the potential return prospects on thisinvestment seem very good, as oil prices recover from a sharp decline in October and November 2018.

The same can be said for **Pattern Energy Group** common shares, which have returned 4.14% in capital gains so far this year, yet if we include the US$0.422 per share, the annual total return jumps into double digits, around 12%.

Dividends can mean the difference between mediocre and phenomenal returns

Investors in **Fortis** (TSX:FTS)(NYSE:FTS) may quickly agree to the above assertion. The electric and gas utility holding company's common shares have returned a mere 0.93% in price returns so far this year, with just three weeks to go before the close of the year, but the ever-growing monthly dividend this utility pays has boosted the total investment return to a more respectable 5.10% for the period.

Dividends may provide critically needed liquidity in a down market

During depressed market periods, when an investor may wish they had some cash to double down on a most-loved stock, but have no positive cash balance in the investment account, how much would they appreciate a stock that cuts their "timely" dividend cheque from a utility like Fortis?

Most noteworthy, dividend-paying stocks have shown a characteristic of not falling as much as their counterparts during down markets, thus providing some form of hedge to a portfolio. Part of the reason could be the dividend yield effect, but the other qualitative issue is the psychological comfort of investing in a "safe" Dividend Aristocrat, and there is value in doing that during times of trouble.

Foolish bottom line

It's not just any dividend stock that can deliver the above mentioned qualities, as some payouts are of a higher quality than others, and their reliability differs during trying economic times.

In a stable and rising market, dividends may not matter much, as investors can sell a portion of holdings and create cash, but in an increasingly volatile stock market, the relative certainty, or at least some little promise of cash flow from high-quality dividend-paying stocks, could provide some portfolio insurance and valuable liquidity during a declining market.

As you re-balance your portfolio weights for 2019, remember to allow for some dividend-paying stocks. You may need the precious regular paycheque at some point.

Companies with strong management, a good business strategy, and strong earnings generating power are the ones that usually sustain a dividend, so investing in seemingly stable dividend-paying stocks with long histories of uninterrupted payouts could be an intelligent yet simple investing strategy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:EMA (Emera Incorporated)
3. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/07/28
Date Created
2018/12/10
Author
brianparadza