



How to Get Big Dividends of +10% Forever

Description

Here's a simple approach on how to [get big dividends](#) of more than 10% forever.

Choose a safe dividend-growth stock

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is a great example of a safe and proven dividend stock that increases its dividend over time. In most years, its earnings are either stable or growing. Consistently growing earnings is a key ingredient for a safe dividend.

The fact that TD maintains a payout ratio of 40% also helps keep the dividend safe in a once-in-a-blue-moon event, such as the financial crisis of 2007-2008.

In fiscal 2008, TD's adjusted earnings per share fell 15%, but its payout ratio was only pushed to 49%.



From fiscal 2005-2018, TD stock more than tripled its dividend. An investment at the start of the period began with an initial yield of 3.2% but steadily worked its way up to a yield on cost of 10.7% at the end of the period.

Guess what? That yield on cost will only continue to climb higher, and long-term investors will only get bigger dividends on their original investments as TD continues to increase its safe dividend over time.

Buy the dividend stock at a good price

Currently, TD stock seems like it's trading at near its all-time high. Simply look at its price chart below. However, the stock is not expensive and is actually priced at a good valuation.

At \$75.40 per share as of writing, the dividend stock trades at a price-to-earnings ratio of about 11.4, while it's estimated to increase earnings per share at a stable rate of about 6.9% per year. Moreover, TD's long-term normal multiple is about 12.3. So, the quality dividend stock is trading at a discount.



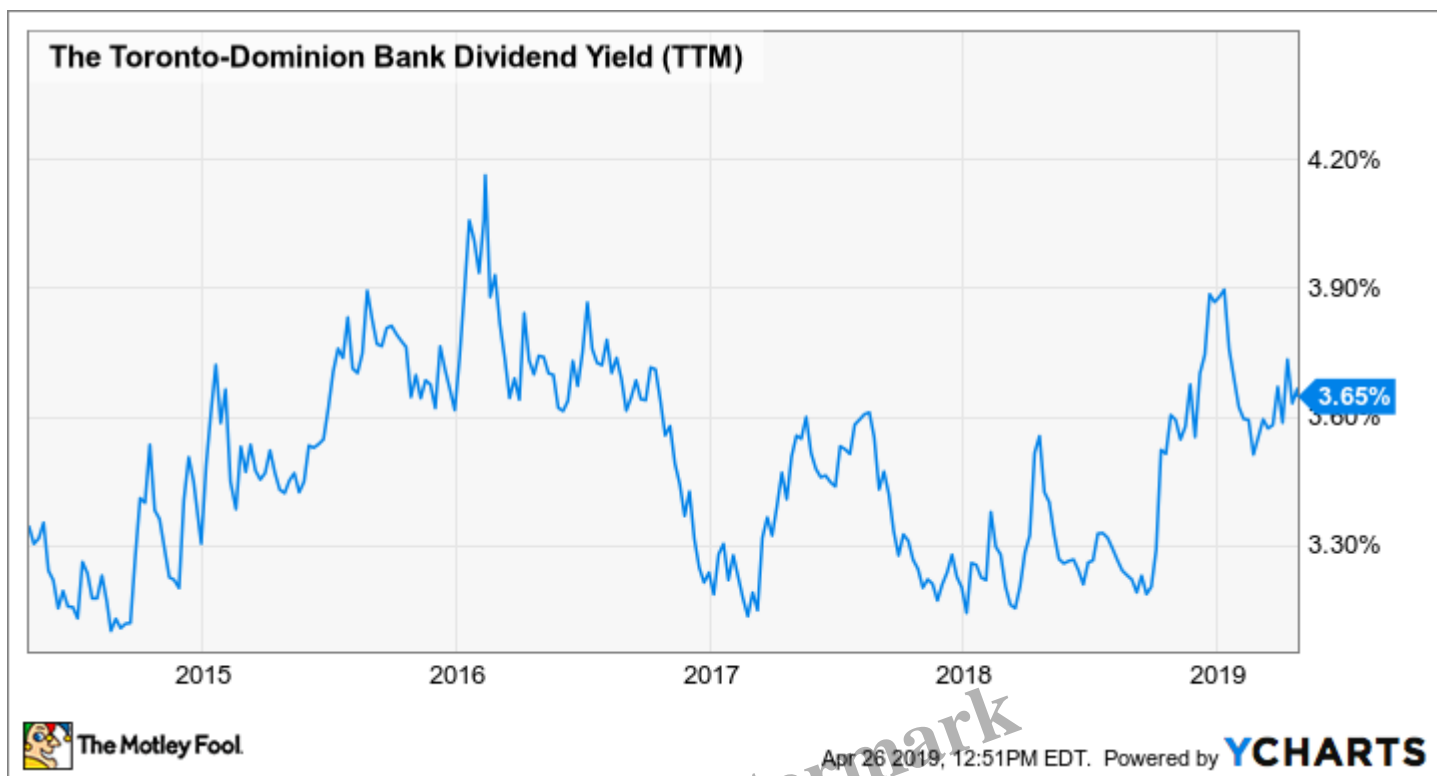
TD data by YCharts. TD's long-term stock price chart.

Thomson Reuters has a mean 12-month target of \$83.20 per share on the stock, which represents there's more than 10% near-term upside potential.

Get a big dividend on the stock from the start

By buying TD stock at a good valuation, you'll get a big dividend on the stock from the start. Currently, the dividend stock offers a yield of about 3.9%.

That's a big payout compared to what the Canadian market offers — 40% more, to be exact! The dividend yield is also at the high end of the company's recent yield history.



TD Dividend Yield (TTM) data by YCharts. TD's five-year dividend yield range.

When will you arrive at a 10% yield on cost?

TD forecasts medium-term earnings-per-share growth of 7-10%. Making a low-ball estimate, assuming it increases its dividend by 7% per year, in 14 years, investors will get a yield on cost of more than 10%.

The most exciting thing is that the 10% will eventually turn into 20% (and higher). In fact, it will achieve a yield on cost of more than 20% (specifically, 21.1%) in another 11 years — shorter than the previous 14 years to get to 10%.

The yield on cost will only increase as TD stock continues to increase its dividend over time.

Foolish summary

To get big dividends of more than 10% forever, build a diversified portfolio of [safe and proven dividend-growth stocks](#) by buying them at good valuations and holding on to them for a long, long time. Your future self will thank your present self. You can start your dividend-growth machine with discounted TD stock today!

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Author

kayng

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