



Why Everyone Under 40 Needs to Learn About Becoming a Dividend Aristocrat

Description

For young investors – yes, even being under 40 is young as far as investing is concerned — starting out on the journey to build lifelong wealth and riches can certainly be exciting.

At the same time, investing one's hard-earned money in the public markets can also bring nervousness, hesitation, and even a little bit of second-guessing.

But for all of those reasons, there may be no better place for someone just starting out to begin their lifelong investing journey than with a diversified portfolio of **TSX**-listed dividend aristocrat stocks.

What is a dividend aristocrat stock?

Stocks of TSX-listed dividend aristocrats have outperformed markets in recent years, and when you consider that what makes a company a dividend aristocrat is a proven history of successive dividend increases, it's not difficult to see why these types of investments have done so well for their owners.

In order to be considered a Canadian dividend aristocrat, a company needs to have demonstrated a reliable history of dividend increases over the past five years of its performance history.

Arguably, these dividend aristocrats have proven to be such valuable investments because when a company's management announces its decision to increase their company's dividend payout, it's usually a clear sign of their collective confidence that the company is expected to be on a current trajectory of sustainable earnings growth.

As reductions to a company's dividend payout, as well as suspensions and outright eliminations of a dividend altogether, tend to be viewed quite negatively by the market, it means that management and the board of directors are more than likely going to be very careful before communicating any expectations of future dividend increases.

Generally speaking, most companies prefer to establish a pattern of regular, intermittent dividend increases rather than one large “hike” all at once.

In doing so, regular dividend increases can go a long way in helping a company start building momentum behind in its share price in the markets — not to mention growing the dividend yield for those investors who had the foresight to make an investment in the company in the early stages.

When a company is successful in pulling off this feat, it stands to make these types of dividend aristocrat investments so attractive, particularly for young people just starting with investing on a long-time horizon of financial planning.

Meanwhile, you’d be hard pressed to find a better example of a [dividend aristocrat stock](#) than one of Canada’s largest banks, **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

TD Bank just increased its quarterly dividend payout by 10% in the first quarter, from \$0.67 to \$0.74.

Currently trading at a price of \$73.84 on the Toronto Stock Exchange at writing, TD’s expected yield for 2019 at this point is now 4.01% per year.

While that’s not as high as [some other Canadian financial institutions](#), some of which are actually TD’s direct competitors, the 4.01% yield is certainly respectable, to say the least, and backed by a strong track record of historical financial performance and the bank’s position as a leader of the Canadian — even some would say North American — financial industry.

As central figure playing the role of lender in our credit-driven society, TD should be expected to continue to keep pace with the overall growth of the market, which should in theory help drive continued dividend increases for many more years ahead.

Foolish bottom line

Investing in the shares of companies that qualify as dividend aristocrats is a strategy that without question holds merit, as investors get a current stream of dividend income that can be reinvested in their portfolio, along with the expectation that income stream should continue to grow over time.

I’m going to continue to try to find the best dividend aristocrat investment opportunities anywhere on the TSX index. It’s a worthwhile approach for many like-minded investors looking to outperform markets over the long term.

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Date

2025/08/26

Date Created

2019/05/22

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