Why 2019 Is Shaping Up to Be the Year of Dividend Stocks

Description

2019 has been a great year for the TSX. Although we've seen some minor losses in the spring, the index's gains in the first quarter were solid enough that we're still up 13.5% year to date. In this environment, many different classes of stocks have performed well, from growth stocks to established blue chips. Going forward, however, one class of stocks promises to reward investors the most handsomely long term: dividend stocks.

Not only can dividend stocks benefit from capital gains, but they also offer historically high yields, making them great bets for income-oriented investors. If we see more gains in the second half of the year, then investors who buy dividend stocks now will get growth and income in one convenient package. Not only that, but many top dividend stocks may actually increase their payouts in the years ahead. To see why that's the case, let's take a look at their recent history.

Rising dividends

Over the past five years, the TSX has grown at a sluggish pace, while the actual constituent companies have been raising their dividends steadily. Consider, for example, **Fortis** (TSX:FTS)(NYSE:FTS), which has been raising its dividend for 45 consecutive years. Over the past five years, Fortis has raised its dividend at an annualized rate of 7.3% per year and aims for 6% over the next five. And it's not the only long-term dividend grower on the TSX, as you're about to see.

High yields

Not only are many dividend stocks raising their dividends, but a good few of them already have very high yields. Consider **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) for example. At current prices, its stock yields 3.89%, which is a great yield, even if no more increases come for several years.

But come they will! In February, TD announced a dividend of $0.74 per share — an increase of 10.4% on what it had been paying previously. This follows a period of five years where TD had grown its dividend by about 11% annually. That's a healthy dividend-growth rate for a stock that's already a high yielder.

Strong growth

It’s one thing to say that companies are raising their dividends, but quite another to say that the dividend increases will continue. However, on the TSX today, we have plenty of companies that are growing their earnings enough to support the increases. Although the Canadian economy is growing at a sluggish 0.4% annually, Canadian companies are doing quite well, largely because many of them do business in the hotter U.S. economy. This has created a situation where many Canadian blue chips are growing earnings at 5-10% year over year, even as the broader economy stalls.

To return to TD again: over the past few years, its earnings growth has averaged around 8-10% year over year, with most of the growth coming from its U.S. retail business. That’s a solid growth rate that can easily support the company’s 11% annual dividend increases, indicating that said increases will keep coming well into the future.

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