



## Passive Income 101: How to Spot a Future Dividend Aristocrat

### Description

Dividend yields are [inversely proportional](#) to the stock price of a given security. When a stock appreciates, the dividend yield goes down and vice versa.

While contrarian investors have ample opportunity to lock in a [higher-than-average yield](#) at depressed valuations with dipped dividend stocks, it's not as simple as just pulling the trigger on the results of a screener that filters names based on yield and prices nearing 52-week lows.

I believe that the average investor is forgetting the key element to long-term success when going against the grain with high-yielders, not just the dividend safety, but also for the ability to sustain above-average dividend growth over the long term.

As a long-term investor, you're going to be holding onto shares of dividend payers, potentially over the course of decades. And with such a long-term time horizon comes the need to value longer-term metrics over the short-term ones that are covered by most folks in the media.

Of course, the price you'll pay and the ability to overcome difficulties that led to a stock's decline are still of utmost importance. After spotting undervalued names, it can pay real dividends to think of a stock's dividend as a growing perpetuity.

The more predictable and sizeable the growth of the payout, the wealthier you'll become over time.

While forming a long-term dividend growth forecast that spans decades may seem like an impossible task given the potential for unforeseen events and exogenous factors, it is possible with Dividend Aristocrats that have proven track records — and future dividend aristocrats that could be newcomers to the exclusive club at some point down the road.

Consider **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)), an alternative energy kingpin that keeps raising the bar, both on its dividend and in terms of capital appreciation.

Fellow Fool contributor David Jagielski seems to think that Algonquin is “one of the best investments you can make on the TSX.” Given the perfect mix of capital appreciation, growth, and dividend growth,

it's not hard to see why.

Jagielski also pointed out that Algonquin has been driving profitability through operating margin improvements. As the company continues reaping the rewards from its project pipeline, the upward trajectory of cash flows and the dividend appears more predictable than your average dividend stock.

At the time of writing, Algonquin sports a 4.5% dividend yield, which looks ripe for further growth as management continues pursuing opportunities in the red-hot renewable energy space.

Looking at the longer-term chart, and it's clear that any small dips have proven to be incredible buying opportunities.

The company can't be held down for too long, so the next time Algonquin corrects, long-term income investors should be ready to back up the truck on the highly-predictable income play that could realistically become Canada's next prominent Dividend Aristocrat.

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## CATEGORY

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3. Investing

## TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

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