Forget Bonds: These 3 Brand-Name Dividend Stocks Offer Superior Income Potential

Description

Even though the stock market has been the greatest long-term creator of wealth for investors, bonds have also earned their seat at the table. Buying a bond usually gives investors a nearly guaranteed rate of return that they can expect over a well-defined time frame. This certainty is what's made U.S. Treasury bonds an especially popular investment over the years.

However, today's Treasury Bonds are a far cry from year's past. Right now, a 10-year note will only net investors an annual yield of about 1.65%, which is actually lower than both the Federal Reserve's target inflation rate of 2%, and the 1.8% actual inflation rate over the trailing 12-month period. In other words, income seekers buying T-bonds would make money on a nominal basis, but they'd be losing money on a realized basis, when taking inflation into account.

The good news is that conservative investors don't have to abandon their quest for income just because Treasury bond yields are near historic lows. Rather, they just have to turn their attention to certain time-tested and brand-name equities, which, in many instances, offer dividend yields that are double, triple, or quadruple that of the 10-year T-bond.

Here are three brand-name dividend stocks for income investors to consider buying instead of low-yielding bonds.

AT&T

The phrase "boring is beautiful" might as well have been invented to describe **AT&T**'s (NYSE: T) business model. As a telecom and content giant, AT&T's high-growth days have long since passed. But that hasn't stopped the dominant telecom provider from raking in the dough over the years, or ensuring that its shareholders enjoy the spoils of its slow but steady growth. Last December, AT&T increased its payout for the 35th consecutive year, making it one of a select few **S&P 500** Dividend Aristocrats. The company is currently paying out a 5.4% yield.

The beauty of AT&T’s business model continues to be its wireless segment. The rollout of 5G networks has meant a step-up in expenses of late. However, these next-generation networks should drive a massive smartphone upgrade cycle, leading to expanded data usage â€“ and data is how AT&T makes a gigantic portion of its profits.

AT&T also has the potential for sizable long-term growth from its content division. While it’s unclear what the future might hold for wholly owned subsidiary DirecTV, AT&T’s purchase of Time Warner brought the CBS, CNN, and TNT networks into the fold. In doing so, AT&T further solidified its advertising pricing power, as well as added more dangling carrots to attract streaming viewers from its peers.

It’s a boring business model, but it’s about as stable as you’ll get for a 5%-plus yield.

Image source: Getty Images.

Chevron

Oil and natural gas are traditionally volatile commodities, which can lead to indigestion for investors of oil and gas drilling stocks. But that’s rarely the case for investors of integrated oil and gas giant **Chevron** (NYSE: CVX), which is currently paying out a healthy 4% yield and, like AT&T, is a Dividend

Aristocrat with a 32-year streak of increasing its payout.

What makes Chevron so different from most oil and gas stocks is that it has its fingers in all aspects of the energy industry. This is a fancy way of saying that its bets are hedged. If oil prices rise, then Chevron sees strong results from its upstream drilling operations. Meanwhile, if oil and gas prices slump, the company is liable to see an increase in activity from its downstream refineries as consumer demand picks up. There's never a true lose-lose scenario on the table for Chevron, which is why it's so stable in the face of a volatile crude and natural gas market.

Furthermore, Chevron's balance sheet is a thing of beauty, all thing considered. Typically, $34.7 billion in long-term debt would be cringeworthy. However, this only works out to a debt-to-equity of 22%, and Chevron generated more than $32 billion in operating cash flow over the trailing 12-month period. In other words, this debt isn't much of a constraint, which is what makes Chevron such an attractive income stock.

Image source: Getty Images.

Philip Morris International

While some folks would consider passing on tobacco giant **Philip Morris International** (NYSE: PM) given the steady decline in adult cigarette smoking rates in select global markets, that'd probably be a bad idea for income investors. Forgoing Philip Morris right now would mean passing up a 6.2% yield. That's almost four times what you'd net from a 10-year T-bond.

There are two major factors that investors are overlooking with this time-tested tobacco business. First, there's the geographic breadth that Philip Morris bring to the table, with operations in more than 180 countries (the U.S. is not one of those countries). Even with Philip Morris facing headwinds in markets like Australia, emerging market and developing economies with burgeoning middle classes are the perfect source of continued tobacco growth for the company. Plus, don't forget that Philip Morris has exceptional product pricing power.

Secondly, Philip Morris has the potential to supplement its long-term sales with smoking alternatives. The company's heated tobacco device known as IQOS saw a 37% global increase in unit shipments during the second quarter, and a 29% increase on a year-to-date basis through six months. Despite what the naysayers may note, there's no smoke here, which is what makes Philip Morris a high-yield income stock to own.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)
2. NYSE:PM (Philip Morris International Inc.)
3. NYSE:T (AT&T)

Category

1. Investing
2. Tech Stocks

Tags

1. Syndicated

Date
2025/08/16
Date Created
2019/10/03
Author
sean-williams