2 Top Dividend Stocks to Buy in October

Description

The last 12 months have been volatile for stocks. The **S&P 500** plummeted during the fourth quarter of 2018, falling about 20%. Then the index sharply rebounded in the first few months of 2019. Since then, the market has pulled back more than 5% twice. But, overall, it's up nearly 1% over the last 12 months.

All this volatility may be drawing some extra attention to dividend stocks. High-quality dividend stocks have the benefit of providing investors with stable quarterly payouts no matter how volatile their shares are.

Two dividend stocks worth buying in October are **Texas Instruments** (NASDAQ: TXN) and **Walt Disney** (NYSE: DIS). Both stocks offer investors high-quality businesses and fast-growing dividends.

Texas Instruments

Semiconductor company Texas Instruments is a top-notch dividend stock. The company has increased its dividend for 16 years straight and has averaged around 20% dividend growth over the past five years. Indeed, the company gave its dividend a nice 17% dividend increase just a few weeks ago.

Texas Instruments' capital allocation strategy is to return virtually all of its free cash flow, or cash from operations less capital expenditures, to shareholders. Of course, much of its capital return program is devoted to share repurchases. But nearly half of trailing-12-month free cash flow goes to dividends as well, highlighting how the company prioritizes dividend payouts for shareholders

With the company paying out about half of its free cash flow in dividends, and considering that its trailing-12-month free cash flow was equal to 39% of its revenue during this time frame, it's likely not surprising to hear that the company has a meaty dividend yield of 2.8%.

Of course, investors will have to pay up a premium price for such a great dividend stock. Texas Instruments trades at a price-to-earnings ratio of 24. But given the company's strong financials and the fact that it is the market leader in analog and embedded chips, its valuation is well deserved.

Walt Disney

Unlike Texas Instruments, Walt Disney has a very small dividend yield. Its annual dividend payments amount to just 1.4% of its total stock price. But when this unimpressive yield is considered next to some of the stock's other impressive characteristics, it's easy to forgive this shortfall.

First, there's Disney's conservative valuation. The stock trades at just 17 times earnings — not bad for one of the most powerful media companies in the world; not only does Disney own ESPN, but the company also boasts studios by Pixar, Marvel, Star Wars, and its namesake Disney brand. Then, there's also the company's thriving theme park and resort business.

Second, Disney is currently paying out just 23% of its earnings in dividends. This compares to Texas Instruments' payout ratio of 54%. Disney's low payout ratio speaks to the sustainability of its dividend and the significant room there is for further dividend increases.

Finally, Disney has demonstrated strong dividend growth, with its dividend rising by an average of about 9% annually over the past five years. While dividend growth has slowed slightly more recently, Disney's 5% increase late last year was still notable.

Both of these companies are leaders in their respective industries and possess compelling dividend prospects, making them solid long-term bets for dividend investors.

CATEGORY

1. Investing
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1. Syndicated

TICKERS GLOBAL

1. NASDAQ:TXN (Texas Instruments Incorporated)
2. NYSE:DIS (The Walt Disney Company)

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