Here's How Much You'd Be Earning in Dividends if You'd Invested in TD Bank (TSX:TD) 5 Years Ago

Description

Dividend stocks are a great way for investors to build their portfolios and accumulate cash flow. There are many good ones to choose from on the TSX, and while investors may be drawn to those with higher yields today, I'll show you how much more you could be making with a stock that has a lower dividend but that increases it over the years.

A good stock to use for this example is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). The bank stock routinely raises its dividends, and with a yield of around 4%, it's a very good yield today. And with strong, consistent profits, TD provides investors with a very strong dividend that should remain safe for the foreseeable future.

Although there's never any guarantee when it comes to dividend payments, TD offers one of the safer payouts on the TSX today.

Dividend growth has been significant over the years

Today, shareholders of TD are earning $0.74 for every share that they own and are paid every quarter. Five years ago, the stock was paying just $0.47 every quarter.

If we assume that we had invested $10,000 in TD and bought shares at a price of $54 five years ago, we would have owned a little more than 185 shares. Back then, the quarterly payments would have generated more than $87 in dividends. On an annual basis, the total dividend income per share would have been a little more than $348 for a yield of 3.48%.

This is about the yield we'd normally expect from TD in a given year. The reason it's closer to 4% today is that TD and other bank stocks haven't been performing that well over the past year. When a dividend has been going up and the share price hasn't been increasing, the yield ends up rising as a result, which is what has happened with TD's stock.

While a yield of more than 3% is still a very good source of income for investors, it gets even more powerful as we keep on holding shares of TD. If we continued holding those 185 shares until today, when the stock is paying $0.74 every quarter, that means we'd be earning $137 every quarter and $548 annually. That means that we'd be earning 5.48% in dividends from our initial investment of $10,000.

In just five years, payments have increased by 57%, and that would have had a significant impact on the amount of dividend income that investors would be earning today. And the longer you hold shares that are increasing their dividends, the more you'll be making over time.

Bottom line

If you're looking at dividend stocks to add to your portfolio, it's important to look beyond just yield because a stock that pays a modest payout today could be much stronger years from now if it is a good bet to increase its dividend payments. And stocks that are a bit smaller in yield that are paying less than 5% could be a lot safer than high-yielding stocks that may not be sustainable over the long term.

In addition to yield, investors should always consider the safety of the dividend as well as at what rate it's likely to grow at (if at all). TD is a great example of a stock that performs well across all those different variables.

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