



How to Invest in the Best Dividend-Paying Stocks

Description

Don't mind the high volatility that we're experiencing in the current bear market. Focus on the dividend income you can receive from the best dividend-paying stocks.

How do you identify the best dividend-paying stocks? Here are several of their characteristics.

The best dividend-paying stocks have a track record of dividend growth

Canadian Dividend Aristocrats are stocks that have increased their dividends every year for at least five years. However, they could have maintained the same dividend for two consecutive years within a five-year period.

In general, the longer the dividend-growth track record, the more certain investors will feel about the dividend stock. For example, utility stocks took three of the top five Canadian Dividend Aristocrat spots.

The stocks of **Canadian Utilities** and **Fortis** have increased their dividends for 48 and 46 consecutive years, respectively! This means that their dividends rose through business cycles, even during [market downturns](#), like the one we're experiencing now!

Additionally, utilities tend to pay out decent dividend yields. Therefore, you should definitely hold some quality utility stocks as a part of your portfolio of The best dividend-paying stocks.

You'll probably get better growth that leads to price appreciation, while earning nice dividend yields, from renewable and clean energy stocks such as **Algonquin**, **Northland Power**, and **Brookfield Renewable**.

The best dividend-paying stocks have growth components

There are some real estate investment trusts (REITs) that offer whopping yields. For example,

diversified REIT **H&R REIT** offers a yield of more than 16% after the bear market evaporated 60% of its market value. However, the stock doesn't tend to increase its dividend. So, I wouldn't consider it as one of the best dividend-paying stocks. (However, that doesn't mean it can't deliver hefty returns at its current super-cheap levels.)

Canadian REITs are mostly income investments with large debts on their balance sheets. There are only a rare number that offer real growth.

Typically, you want dividend stocks that have a growth component in their business models. Consistent small growth can have a snowball effect with years of [compounded growth](#).

The best dividend-paying stocks have high yields

At writing, the Canadian market offers a yield of 3.42%. A high-yield stock would have a yield of at least 5.13% (or 1.5 times 3.42%).

Dividends are a key component of total returns (the other component being growth of earnings that will translate to price appreciation and potentially dividend growth over time).

Therefore, you'd want to be compensated with high dividend income for the risk you're taking by investing in stocks.

Examples of the best dividend-paying stocks

Here are some examples of the best dividend-paying stocks. They offer a high initial yield, a track record of dividend growth, and growth.

BCE stock yields close to 6%, has increased its dividend every year since 2009, and has raised its dividend by about 5% per year in the last few years.

You can find similar characteristics in the stocks of **Bank of Nova Scotia** and **Brookfield Infrastructure**.

The Foolish bottom line

As you may have noticed, there's a caveat in this strategy. It would eliminate the consideration of wonderful businesses that have low yields but offer higher growth potential. It'll also ignore high-yield value stocks like H&R REIT.

However, buying the best dividend-paying stocks with high dividend yields, dividend growth, and growth components is a good strategy. You can use their juicy dividend yields to invest in higher-growth but lower-yield stocks, for example. Simultaneously, their growth components will add defensiveness to your overall portfolio.

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