Want a Safe Dividend Stock That Pays 9%? Here's How to Get It

Description

If you're looking for a dividend stock that's currently paying even more than 8%, you know you're likely going to be taking on some risk. But there's still a way that you can earn a great yield without dumpster diving for high-risk dividend stocks that are paying impressive yields today that could disappear tomorrow. The answer lies in dividend growth stocks.

While they may not pay you 9% today, if you hold on to them, you could be earning even more on your initial investment. As long as you're willing to invest for the long term, it's a great way to balance safety with a high yield.

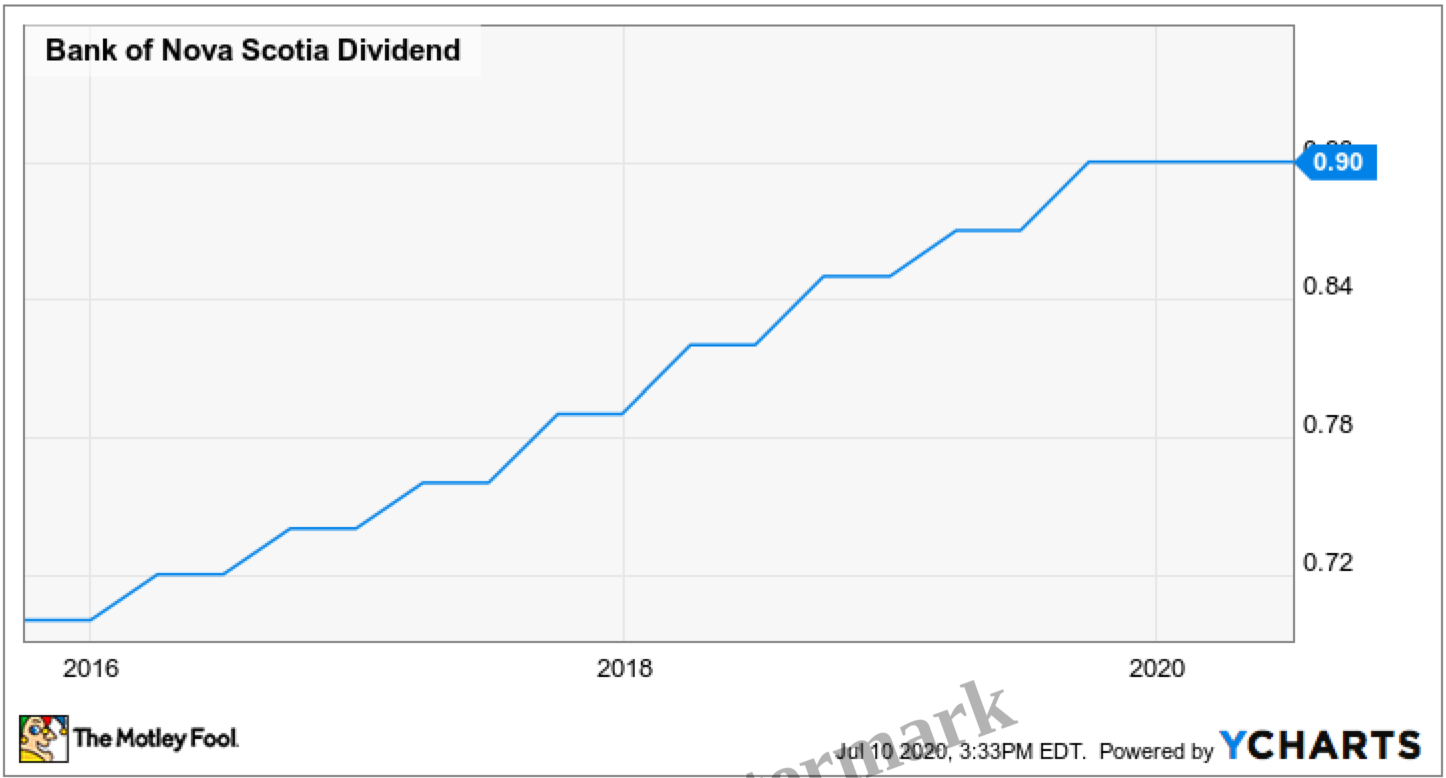
Let's use **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock as an example.

The power of dividend growth

Scotiabank currently pays its shareholders a quarterly dividend of $0.90, or $3.60 per share for the entire year. If you were to purchase the stock at a price of $55, you'd be earning a dividend yield of 6.5%. That's already fairly high for a bank stock to begin with.

Scotiabank is down more than 20% this year because investors are bearish on bank stocks due to the coronavirus pandemic and the recession it's caused. That makes investing in Scotiabank particularly advantageous right now as you can get a better-than-normal yield.

However, that payout is also likely to increase over the years. Here's a look at the stock's dividend payments the last five years:



BNS Dividend data by YCharts

Five years ago, Scotiabank was paying its shareholders $0.68 every quarter. The bank has raised its dividend payments by 32% during that time, averaging a compound annual growth rate of 5.8%. Assuming Scotiabank were to continue increasing its dividend payments by 5.8% every year for the foreseeable future, here's what its dividend payments would look like over the next decade on a $10,000 investment today:

Year	Quarterly Payment	Annual Dividend Payment	% of Original Investment
0	$0.90	$654.55	6.55%
1	$0.95	$692.29	6.92%
2	$1.01	$732.21	7.32%
3	$1.06	$774.43	7.74%
4	$1.13	$819.09	8.19%
5	$1.19	$866.32	8.66%
6	$1.26	$916.27	9.16%
7	$1.33	$969.11	9.69%
8	$1.41	$1,024.99	10.25%
9	$1.49	$1,084.09	10.84%
10	$1.58	$1,146.60	11.47%

As you can see, the percentage you're earning on your original investment would reach more than 9%

in after six years of owning the stock. It would hit 10% after eight years. Even though you haven't increased your investment, you're able to benefit from the bank's growing dividend payments.

It's important to note that these increases are never guaranteed — and neither are the dividend payments themselves. And with COVID-19 still creating lots of uncertainty in the economy, bank stocks could slow down their increases in the near future.

Bottom line

If you want to secure a high dividend yield, you're either going to need to take on significant risk or be patient with a growing dividend. All too often, there's not a lot of room in between those two options. Stocks that pay high dividend payments normally do so because they've fallen sharply in price — usually due to a problem with the business.

Bank stocks are unique this year in that they've hit multi-year lows and are still good buys. That's where investing in a stock like Scotiabank or another Big Five bank today can be a great way to secure a high yield for many years down the road.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/18
Date Created
2020/07/19
Author
djagielski