How to Build a Dividend Stock Portfolio That’s Impossible to Fail

Description

Self-directed investors can carefully select dividend stocks one by one for their portfolios. You’ll have the freedom to control the income it generates.

Sometimes stocks do cut their dividends, though. **Cineplex**, **Inter Pipeline**, and **H&R REIT** did just that this year. And many more have cut their dividends, as the COVID-19 pandemic hit many parts of the economy hard.

South of the border, **Boeing** and **Disney** have suspended their dividends. And **Wells Fargo** just cut its dividend by 80% this month.

However, if you build your dividend portfolio properly, the overall income should still be intact. Here are a few things to look out for when selecting and buying dividend stocks.

Nature of business

Generally, you want dividend stocks that earn stable profits through economic cycles. This helps protect the dividends. Predictable earnings should lead to predictable dividends and dividend growth. Utility, energy pipeline, and residential REIT companies are good places to look for stable profits.

Cyclical businesses are ones that are affected by economic expansion and contraction. For example, the big Canadian banks are going to report poor earnings for this year.

That said, they’re highly regulated and well capitalized. So, I believe they’re discounted for long-term investment.

The stock selloffs have boosted their dividend yields, providing an opportunity for investors to earn a bigger passive income for the long haul. **Bank of Nova Scotia**, yielding close to 6.4%, offers one of the best dividends in the industry.

Management

How does management navigate the company through adversity and good times? How does it treat shareholders?

Let's take a look at **Brookfield Asset Management** (TSX:BAM.A)(NYSE:BAM) as an example. It's a cyclical stock. The stock got a big hit in the last recession, falling more than 60% from peak to trough. However, since then, the growth stock has been a six-bagger, returning 17% per year.

BAM is much bigger now with about US$519 billion of assets under management and US$264 billion of fee-bearing capital. Therefore, it's as strong as ever and has improved resiliency against downturns. The setback from the pandemic only dragged down the stock by 28% from peak to trough.

At the end of Q1, BAM had US$59 billion of deployable capital. Today's stressful economy is exactly the environment that will allow the alternative asset manager stock to shine over the next five to 10 years. It can selectively invest in quality real assets globally at big discounts.

BAM primarily focuses on growth, aiming for long-term total returns of 12-15%. It only yields 1.4%. However, it has awarded shareholders a growing dividend for eight years straight. That streak is set to extend.

Valuation

Stocks can be very emotional in the short term. So, it's up to you to avoid buying stocks at expensive valuations. Aim to pay fair or better valuations for stocks you're interested in. By paying a lower price for dividend stocks, you'll also get a higher yield.

Dividend safety

Ultimately, you want your dividend portfolio to generate safe dividends. A company that generates stable profits, has great management, and has a sustainable payout ratio should provide a safe dividend.

The Foolish takeaway

By closely analyzing dividend stocks with the four factors in mind, you should be able to build a dividend portfolio that's impossible to fail. That is, your invested capital should grow at a nice pace while paying you satisfying income.

Even when certain stock holdings disappoint at times, as a whole, such a dividend portfolio should be defensive.

Take lower risks and pursue sure returns instead of taking greater risks and aiming for higher returns potential, which might result in losses.

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