The Best Canadian Stocks: Don’t Undervalue the Power of Dividends

Description

While dividend investing looks a boring strategy at first, it is undoubtedly one of the safest and most rewarding strategies out there. Dividends play a major role in driving total returns over the long term. Most of the time, dividends contribute way higher in total returns than stock appreciation in the long term.

Top dividend stocks in Canada

For example, top energy midstream giant **Enbridge** (TSX:ENB)(NYSE:ENB) stock returned 500% in the last two decades. But with dividends reinvested, its total returns surge to a notable 1,200% in the same period.

The power of compounding does even bigger wonders when dividends are reinvested. More shares are bought when dividends are reinvested, which then gains more dividends, and the cycle continues.

Top utility stock **Fortis** (TSX:FTS)(NYSE:FTS) has appreciated 610% since 2000. However, with dividends reinvested, Fortis has returned 1,390%. That’s way higher than the **TSX Index** and the **S&P 500**.

Dividends are generally paid by mature and profitable companies. Companies that increase dividends regularly play a big role in boosting shareholders’ total returns and also in beating inflation.

Top Canadian pipeline giant Enbridge has increased its dividends by almost 10% compounded annually in the last 20 years, notably beating inflation. Enbridge stock currently yields 8%, significantly higher than TSX stocks at large.

At the same time, Fortis yields 3.6%. The utility has managed to raise its dividends by 12% in the last two decades.

Benefits of dividend investing

Investors should note that chasing very high-yield stocks could be risky as well. Many times, the yield turns higher by a steep fall in its stock price, and not because of an increase in dividends. That's why a focus should be on the long-term profitability of a company and its reasonable dividend growth.

Both Fortis and Enbridge are high-quality, profitable businesses. Irrespective of market or economic conditions, these Canadian gems have paid consistently growing dividends for the last few decades. After all, only a company that is highly confident about its future profits will share them with its shareholders.

According to the **Royal Bank of Canada's** analysis, a $10,000 investment in the **S&P/TSX Composite Index** in 1976 would have generated $168,691 by December 2019, excluding dividends. However, if you had reinvested dividends, the amount would have been much larger at $604,604.

Dividend stocks normally exhibit lower volatility than broader markets. As markets turn volatile, investors turn to dividend-paying stocks to safeguard their portfolios. That's why dividend stocks outperform in uncertain markets.

The legendary investor Warren Buffett is a huge follower of the dividend investing strategy. Not banking on any super chart or quaint indicator, his disciplined investing approach has created a massive wealth over the years. **Berkshire Hathaway's** position in **Coca Cola** alone generates a dividend of more than $1.7 million per day. Since 1995, the same investment has generated more than $7 billion only in dividends.

The Foolish takeaway

If you are a long-term investor, consider allocating at least some portion of your portfolio to dividend-paying stocks. They might not generate stupendous returns in a year or two like a flashy growth stock, but the stability they provide for the long term will be unparalleled.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:ENB (Enbridge Inc.)
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