



Got \$2,000? Buy These 2 Dividend Stocks Now and Hold Them for a Decade

Description

Do you believe in hard work or smart work? If you are not born a millionaire, that doesn't mean you can't become a millionaire. Warren Buffett made his way to billions of dollars by investing in stocks and bonds. He used the power of compounding to convert a few thousand dollars into millions and then billions over time. But in today's fixed-income market where interest rates are near zero, you don't look at bank deposits and treasury yields for compounding interest. Instead, you look at [dividend stocks](#).

The power of dividend compounding

For years, Buffett and many passive investors have explained the power of compounding. Compounding is reinvesting the interest and earning interest on the interest. For instance, if you invest \$1,000 and get 10% interest, you will have \$1,100 at the end of a year. Next year, you will get 10% interest on \$1,100. You will have \$1,210 at the end of the second year. Continuing this calculation, you will have \$2,594 in 10 years.

But gone are the days of 10% interest and quarterly compounding. The next best alternative is dividend compounding. A good dividend stock enjoys stable cash flows and pays regular dividends.

Here are two stocks that have histories of paying regular dividends and even increasing them. Moreover, they have the potential to grow their stock price by 20-50% in 10 years. A \$2,000 investment in dividend compounding can triple your money in 10 years. Here's how.

Enbridge stock

Pipeline infrastructure company **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) has a robust business model, wherein it collects a toll for letting the oil and natural gas pass through its pipelines. It earns 99% of its cash flow from long-term contracts, which secures its dividends. The company keeps building and upgrading new pipelines, thereby creating new cash flow streams. It also increases its toll rate at regular intervals. These actions lead to higher cash flows and more dividends.

Enbridge has been increasing its dividend at a compound annual growth rate (CAGR) of 10% in the last 26 years. In dollar terms, a \$1,000 investment in Enbridge in 2010 would have increased your annual dividend income from \$42.6 to \$140.8 in 2020. This is when you withdraw your dividend instead of reinvesting it. The stock price also surged 140% in these 10 years, resulting in a capital appreciation of \$1,400.

Now, the energy market is shifting to renewables, ending the 100-year dominance of oil. But even Enbridge is moving to renewable energy, and only time will tell how fruitful this transition proves for dividends. Discounting the energy industry transition, Enbridge could increase its dividend per share at a CAGR of 8% by 2030.

If you invest \$1,000 in Enbridge now, you can lock in a 7.33% dividend yield. Taking the compounding interest formula, if you reinvest this dividend amount, you will have \$2,028 by 2030. But if Enbridge increases its dividend at a CAGR of 8% till 2030, you will have \$2,300 by 2030. Moreover, if the stock price increases by 50% (a \$500 capital appreciation), you will have \$2,800 by 2030.

BCE stock

Canada's largest communication infrastructure stock, **BCE** ([TSX:BCE](#))([NYSE:BCE](#)), has been paying regular dividends since 1983. It [increased](#) dividends at a CAGR of 6.4% in the last 10 years on the back of 4G and growing penetration of the internet. During this time, the stock doubled.

BCE is now investing aggressively in the 5G footprint. With the 5G revolution, communication will become even more relevant, as internet penetration will be in multiple devices from mobile to vehicles to drones to smart homes and offices. This will bring more cash flow for BCE, thereby accelerating its dividend growth.

If you invest \$1,000 in BCE now, you can lock in a 6.08% dividend yield. In compounding interest, you will have \$1,804 by 2030. But with a dividend CAGR of 6%, you will have \$1,981 by 2030. If the stock price doubles, you will have \$2,981 by 2030.

In short, your \$2,000 will become \$5,800 in 10 years with the above two dividend stocks.

CATEGORY

1. Dividend Stocks
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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:ENB (Enbridge Inc.)

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