A Beginner’s Guide to Dividend Investing: 2 Stocks to Begin With

Description

Dividends give you peace of mind that you will get some return, unlike growth stocks, where everything depends on the market. Only companies with strong and stable cash flows can afford to pay regular dividends. And this is the return where history brings confidence to the stock. Here is a quick crash course on dividend investing followed by three stocks to begin investing.

Things you need to know about dividends

A company pays dividends to share its profits from operations with the shareholders. It is at the management’s discretion to decide the amount. This is what makes dividends risky, as the management can cut them or not pay them during difficult times. Many companies, like **RioCan** and **Suncor Energy**, announced dividend cuts last year, as the pandemic significantly reduced their cash flow.

But companies also have to protect their dividend history. Companies pay monthly, quarterly, half-yearly dividends, and sometimes bonus dividends.

The annual dividend yield is calculated to bring it to a common measurable term. The dividend yield is the total dividend per share paid in the last 12 months as a percentage of the current stock price. Hence, when the stock price of a good dividend stock falls, its dividend yield rises. It is like a discount sale, where you get the right to earn the same dividend annually for a lower price.

The stock price falls as investors fear a dividend cut. In the case of Suncor and RioCan, their stock prices fell 63% and 46%, respectively, in March 2020, and the companies slashed dividends by 55% and 33%, respectively, by year end. You can mitigate this risk by investing in Dividend Aristocrats with enough cash to survive a pandemic-like crisis.

Some juicy dividend stocks

When looking for dividends, look for companies that enjoy a price monopoly and whose services you will use, even in the most severe crisis.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) enjoys the benefit of owning North America's largest pipeline infrastructure, which it has built in more than 60 years. The company has diversified its revenue streams beyond oil to include natural gas and wind energy. It collects toll money from utilities for transporting oil and natural gas and pays some of this money as dividends. This robust model has helped it increase its quarterly dividend at a 10% compounded annual growth rate (CAGR) for 26 years.

The pipelines are coming under fire in the United States for environmental reasons. This has slowed new oil pipeline construction. Thankfully, Enbridge earns more than 40% of its revenue from natural gas pipelines. Its diverse revenue streams can help Enbridge to continue paying dividends for years to come. Its dividend-growth rate might slow, but existing pipelines will continue to generate cash until a natural calamity destroys its infrastructure.

A 6.88% dividend yield is too juicy to ignore.

Telus stock

Telus (TSX:T)(NYSE:TU) is Canada's second-largest telecom infrastructure providing wireless, data, IP, voice, television, entertainment, video, and security services to 16 million customer connections. The company has also ventured into digital solutions for healthcare and agriculture. Both sectors are essential and never go out of demand. The need for the internet will only grow as the world goes digital.

Telus is also tapping the 5G potential, investing in the 5G infrastructure. The company earns regular cash flow from subscriptions and pays some of this money to shareholders through dividends. It has a dividend yield of 4.58%. The company has been paying regular quarterly dividends for 21 years and increased them at a CAGR of 11.6% in the last 16 years. Its strong infrastructure base and the essential nature of its business will help it pay regular dividends for decades.

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