Dividend Investing: The Art of Holding

Description

It took me some time to really appreciate the art of holding dividend stocks. It's simply reassuring to be able to depend on solid dividend stocks that pay reliable dividends. Year in, year out — in good times and bad — you can earn passive dividend income, too.

According to *Morningstar Direct*, for 44 years through 2020, the Canadian stock market (as denoted by the **S&P/TSX Composite Total Return Index**) delivered annualized returns of 9.9% — 3.2% were in dividends and 6.7% from price appreciation. That is, dividends contributed to about a third of total returns in the long run.

If you ignore dividends, it's like leaving reliable money to be made on the table.

The best time to buy dividend stocks

Ideally, you want to buy quality dividend stocks when they're attractively valued. These bargain buying opportunities are most prominent during bear markets.

Sometimes, you might catch wind of sector or industry corrections as well. For instance, when the Bank of Canada increased the benchmark interest rate, even though it was only a small bump, there was a sell-off in yieldcos — dividend stocks that pay relatively high dividend yields. There were pullbacks in yieldcos like **TELUS** and **Fortis** (TSX:FTS)(NYSE:FTS), but they were temporary and the dividend stocks quickly recovered from them.

It's normal for these yieldcos to have decent-sized debt levels on their balance sheets. Moreover, they have slow to mid-digit growth rates. Higher interest rates would increase their costs of borrowing, which could make them grow even slower. That's why the stocks initially dipped from the news of higher interest rates.

Today, TELUS and Fortis are trading at all-time highs because interest rates remain low and the dividends that TELUS and Fortis generate continue to grow faster than inflation.

It’s understandable that investors need income, especially when inflation is high and everything is costing more. TELUS’s quarterly dividend is 8.6% higher than it was a year ago, while Fortis’s is 5.9% higher.

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Once you bought solid dividend stocks at good valuations, you can simply sit back and collect passive income. Investors who purchased Fortis stock in 2001 and held their shares until now would be sitting on a yield on cost of about 22%. So, they’ll be earning a return on investment of +22% every year from now on from Fortis’s dividends alone, ignoring what the stock price might do.

Of course, it would be best if you continue adding to solid dividend stocks when they’re attractively valued. Although you’ll be likely averaging up over time and your yield on cost will lower accordingly, you’ll get more income overall. Besides, a stock that’s going up is a good sign in the long run! It means you bought the right investment.

Dividend income can contribute tremendously to retirement life. Some retirees have held stocks like TELUS and Fortis for a long time with a low average cost basis, making it more comfortable to ride through bear markets.

TELUS and Fortis have increased their dividends for a long time. Telus’s dividend-growth streak is about 17 years while Fortis’s track record of dividend hikes is almost half a century! TELUS’s and Fortis’s five-year dividend growth rates are 7.1% and 6.8%, respectively — both comfortably above inflation. If you want to enjoy passive dividend income for years to come, you need to hold on to your solid dividend stocks.

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