2 Boring Dividend Stocks That Turned $5,000 Into $100,000!

Description

Investors often focus on hot stocks that get heavy media attention, but savvy savers know that owning less exciting companies that are top dividends stocks can be a successful strategy for building retirement wealth.

Power of compounding

Everyone who has ever tried to build a snowman knows how a small snowball can become a huge boulder. Each roll picks up new snow, making the ball larger and therefore able to add even more snow, and so on until the thing becomes so big you can't even move it.

The same principle can be applied to investing in dividend stocks and using the distributions to buy new shares. Reinvested dividends make the initial investment larger and the new shares create even more dividends to acquire additional stock. The process starts out at a snail's pace but can build a substantial wealth fund over time.

This is particularly true when the company raises the dividend every year, supported by rising profits, and the market rewards the higher earnings with a growing share price.

Let's take a look at two stocks that have made buy-and-hold investors rich.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) started out as a small local electricity provider in Eastern Canada. Over time, the company made strategic acquisitions and invested in new projects across Canada, the United States, and the Caribbean. Today, Fortis owns $56 billion in assets that include power production, electricity transmission, and natural gas distribution businesses.

The company derives nearly all of its revenue from rate-regulated businesses. This means the cash flow is generally reliable and predictable. That's a good foundation for stable dividend payments that can grow with rising profits. Fortis raised the dividend in each of the past 47 years and intends to boost the payout by an average of 6% per year through 2025.

A $2,500 investment in Fortis 25 years ago would be worth about $50,000 today with the dividends reinvested.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) paid its first dividend in 1829. Since then, the bank has given investors a share of the profits every year. That's nearly two centuries of steady dividend payouts!

Bank of Montreal sits in the shadows of its larger Canadian banking peers and investors often skip the stock in favour of the bigger players. That might be a mistake. Bank of Montreal has a balanced revenue stream across personal banking, commercial banking, wealth management, and capital markets activities. The large presence in the United States gives investors good exposure to the American economy. Bank of Montreal also has a smaller relative exposure to the Canadian housing market than some of the other Canadian banks.

The stock picked up a nice tailwind this year but still looks attractive for a buy-and-hold dividend portfolio.

A $2,500 investment in Bank of Montreal 25 years ago would also be worth about $50,000 today with the dividends reinvested.

The bottom line on boring dividend stocks

Fortis and Bank of Montreal might not be fan favourites on your popular TV program or social media forum, but the returns deserve rock-star status.

While there's no guarantee these companies will deliver the same results in the next 25 years, the strategy of buying top dividend stocks and using the distributions to acquire new shares is a proven one for building retirement wealth.

CATEGORY

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