2 Blue-Chip Dividend Stock Picks for New Investors

Description

Canadian investors have a lot of intriguing value plays to choose from as we head out of one of the rockiest months of the year. Undoubtedly, the calls for a market correction (or even a bear market!) could continue to flow in on any mild signs of weakening momentum. Such calls, as I've noted in many prior pieces, are to be taken with a fine grain of salt.

Not only is it virtually impossible to time a market plunge, but it's also unfair to group all stocks, even those that have already taken a considerable hit to the chin, as being overvalued or overdue for a correction. Not all names have to correct as broader markets take a spill. Of course, they can still follow in the footsteps of the markets lower, as fear and panic overpower all else, including fundamentals and valuation.

At the end of the day, you should be a buyer of securities on your radar that are priced at a discount to a level you think that's fair. Market correction calls should be noted, but they should not be taken as gospel, even if a big-league institution like Morgan Stanley is backing such a call.

Without further ado, consider the following two Canadian stocks that look tempting heading into October:

CP Rail

CP Rail (TSX:CP)(NYSE:CP) won the great **Kansas City Southern** bidding war against CN Rail. But its stock has walked away as a loser, and I think it could continue to do so over the near- to medium-term. The sheer price of the KSU-CP tie-up is going to hurt, and it's going to be tough to look past it to next year's catalysts.

As the stock sags, I think Canadian beginner investors should think about buying shares gradually on the way down. While the KSU deal is a "deal-breaker" for many Canadians who hate questionable acquisitions at a time of broader overvaluation, I still think most, if not all, KSU-CP-related pressure has been factored into the shares. From peak to trough, CP stock plunged around 17%. Although the name has begun climbing back, I'm not so sure it can sustain a rally, given integration risks brought forth by the deal and worries that the economy may go from hot to warm or white-hot to just hot.

In any case, CP is a Dividend Aristocrat with staying power. At 17.5 times earnings, CP is a relative bargain. If it gets cheaper, get ready to buy even more of a name that will take at least three years to prove the KSU deal is a "win" from a value creation perspective.

BCE

BCE (TSX:BCE)(NYSE:BCE) isn't my favourite dividend stock due to its lack of growth versus its peers. Still, it has one of the most bountiful payouts on the **TSX**. The dividend currently yields 5.5% after the stock slipped just north of 4% from its 52-week (and all-time) high. If passive income is what you seek and you don't mind mediocre capital appreciation potential, I think you have to buy the stock after its recent "half correction." The dividend is on rock-solid footing and will likely continue growing at an above-average rate as the company holds its own in a profoundly profitable Canadian triopoly.

Indeed, BCE and the Big Three get durable competitive advantages that their U.S. counterparts don't. There's not as much competition in the north, and for that reason, Canadian telecoms are excellent buys for the long haul.

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