



3 Top Stocks for Passive Income

Description

Passive income is the term given to a source of income that is collected while requiring no, or minimal, labour. There are many different ways investors can build a source of passive income. For example, rental properties and limited partnerships. However, the simplest way an investor can build a source of passive income is by [investing in dividend stocks](#). In this article, I discuss three top stocks that investors should consider buying if they want to start collecting passive income.

Start with an industry popular among Canadians

Many Canadians hold one of the Big Five banks in their portfolio. One of the main reasons Canadians tend to gravitate toward those companies is because of their familiarity with the banks. It makes sense to put money into companies you use on a regular basis. In addition, the Canadian banking industry is highly regulated. This makes it difficult for new competitors to enter the industry and surpass the leaders. Of the Big Five, my favourite stock is **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Bank of Nova Scotia is a Canadian Dividend Aristocrat after having increased its dividend in the previous 10 years. Investors should note that the Bank of Nova Scotia didn't increase its dividend in 2021. This means that the company will lose its Dividend Aristocrat status after 2022 if the company fails to increase its dividend over the next year. The company currently offers an attractive dividend yield of 4.59%. The Bank of Nova Scotia also maintains a payout ratio of about 50%. This means that it has sufficient room to increase its distribution in the future, once uncertainty surrounding the pandemic is less significant.

This company is one of the best dividend-paying stocks

There are only two stocks on the **TSX** that have been able to increase their dividend distributions for more than four consecutive decades. Of those companies, **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) remains a standout, in my opinion. What draws me to this company is its geographical diversification. Fortis provides regulated gas and electrical utilities to more than 3.4 million customers across Canada, the United States, and the Caribbean.

As you may have guessed, Fortis is another Canadian Dividend Aristocrat. Its dividend growth streak is currently 47-years long. Despite having increased its dividend for nearly five decades, the company maintained a payout ratio of about 50% in 2020. That suggests that Fortis's management team has been able to intelligently allocate capital over the years. Its forward dividend yield of 3.84% should also entice investors to start a position in the company.

This company just keeps growing

Telus ([TSX:T](#))([NYSE:TU](#)) is one of the largest companies in Canada. Its network coverage area is the largest among the Canadian telecommunication companies (although it shares that network with BCE). Telus also provides many other services including television services, home security, and healthcare. The company's dedication to moving to industries that are poised to grow (i.e., telehealth) suggests that it could continue to be successful for years to come.

Another Canadian Dividend Aristocrat, Telus has managed to increase its dividend for the past 17 years. Like the aforementioned stocks, Telus offers a very attractive yield (4.58%). However, investors should note that the company's payout ratio is higher than ideal. Currently, Telus aims to maintain a payout ratio of about 65% to 75%.

CATEGORY

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2. Investing

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1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:FTS (Fortis Inc.)
3. NYSE:TU (TELUS)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:FTS (Fortis Inc.)
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Date

2025/07/04

Date Created

2021/10/13

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