



3 Qualities to Look for in Dividend Stocks

Description

[Investing in dividend stocks](#) can be beneficial to all investors. For dividend investors, the answer is obvious. They're able to continue building a source of passive income. By investing enough money into dividend companies, investors will be able to replace their primary source of income. Growth investors can also benefit from holding dividend companies. It's been shown that by holding solid dividend companies, growth investors can lessen the volatility of their portfolio. Here are three qualities to look for when choosing dividend stocks.

Make sure you invest in Dividend Aristocrats

In Canada, companies are given the title of Dividend Aristocrat if they are able to raise dividends for five consecutive years. At the start of this year, there were 98 **TSX**-listed companies that were classified as Dividend Aristocrats. Of that group, only three companies claimed dividend-growth streaks of 30 years or longer. In addition, there are only 20 companies with dividend-growth streaks of 20 years or longer. Of that elite group, my top choice is **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)).

Fortis claims the second-longest active dividend-growth streak at 47 years. The company provides regulated gas and electric utilities to more than 3.4 million customers in Canada, the United States, and the Caribbean. Known as a recession-proof business, Fortis doesn't experience massive slowdowns during periods of economic uncertainty. That allows the company to not only continue operating as normal, but to grow its dividends without interruptions. If you're looking for a dividend company to hold in your portfolio, Fortis should be up for consideration.

Look for companies with a solid moat

It's important for investors to consider the moat of every company they invest in. A moat is essentially a company's competitive advantage over its peers. The Canadian banking industry is an example of where leading companies have a very formidable moat. This is due to the highly regulated nature of the Canadian banking industry. Of that leading group of companies, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) is my top stock. However, investors wouldn't be wrong to choose another company in the

Big Five.

The reason I prefer to invest in the Bank of Nova Scotia is because of its growth potential. The company's exposure to the Pacific Alliance could be a significant catalyst in the coming years. Economists are forecasting that a rapidly growing middle class will help the countries in the Pacific Alliance to grow at a faster rate than North American economies in the future. When considering this growth potential, alongside Bank of Nova Scotia's excellent dividend, the company becomes very attractive.

Try to beat inflation

The third quality that investors should be mindful of when choosing dividend stocks is whether a company is able to grow its dividend faster than inflation. This is particularly important if you're hoping to use dividends as a source of passive income. If your dividends fail to increase at least as fast as inflation, then you'll lose a lot of buying power over time. An example of a company with a great dividend growth rate is **goeasy** ([TSX:GSY](#)).

Over the past seven years, [goeasy's dividend](#) has increased more than 770%! In 2014, goeasy's quarterly dividend was \$0.085 per share. This year, the company's quarterly dividend stands at \$0.66 per share. That represents a CAGR of more than 30%. This outpaces the average rate of inflation by a wide margin. Of course, not every dividend company will be able to increase its distribution at such fast rates. However, do try to look for companies with a 5% dividend growth rate or more.

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