1st-Time Investors: 3 Evergreen Stocks for All Portfolios

Description

The stock market can be intimidating but not as intimidating as crypto or commodities. While crypto and commodities are for risk takers, the stock market has something for everyone. As a first-time investor, you are exploring your risk profile. You are unsure about your financial goals, expectations, and investment strategies. But you have your $6,000 Tax-Free Savings Account (TFSA) limit and want to start early in investing, as the early bird catches the worm.

Three evergreen stocks for first-time investors

In such a scenario, you can start investing in evergreen stocks that give you better returns than fixed-income securities while keeping your downside risk low. Here are three such evergreen stocks:

- **Canadian Utilities** (TSX:CU)
- **Enbridge** (TSX:ENB)(NYSE:ENB)
- **BCE** (TSX:BCE)(NYSE:BCE)

Evergreen companies are the ones that will be in demand in any economic situation, be it a financial crisis or health crisis. Such companies generally give you better market-beating returns in a crisis than in a growth cycle. This is because they continue to enjoy strong demand, while other companies see a demand crunch. However, no business is without risks.

The above three companies — utilities, telecom, and oil and gas pipelines — depend on infrastructure for cash flows. Bad weather or a natural or manmade calamity can destroy the infrastructure. This can bring a significant blow to their earnings and bring down the stock. Moreover, regulatory or environmental concerns and government policies can disrupt their earnings, negatively impacting the stock price.

But for these contingencies, you can't ignore the stable returns they provide in the form of dividends. Let's look at their returns history and calculate the possible returns you can get in the next decade by investing $2,000 in each of the three stocks today.

Canadian Utilities

Canadian Utilities has a 49-year history of paying incremental dividends to its shareholders and currently has a dividend yield of 4.9%. The company has three major business segments: utilities, energy infrastructure, and retail energy — and all three segments deal with electricity and natural gas.

If you had invested $2,000 in this stock in December 2011, your money would have appreciated to $2,420, underperforming the TSX Composite index that surged almost 80%.

But on the dividends front, you would have earned over $880 in dividend income in 10 years, with a $114 annual dividend in 2021. In the last 10 years, Canadian Utilities has increased dividends at a compounded annual growth rate (CAGR) of 8.1%. After adding dividend income, your $2,000 would be $3,300 today, which is a 65% return.

Enbridge

Enbridge has a 27-year history of paying incremental dividends and currently has a dividend yield of 7.15%. The company has the largest infrastructure of oil and gas pipelines in North America and earns toll money for transmitting oil and natural gas. It is also investing in renewable energy, as the industry shifts to green energy sources.

If you had invested $2,000 in this stock in December 2011, your money would have appreciated to $2,620, but you would have earned $1,220 in dividends. Your aggregate amount would be $3,480 — a 74% return.

BCE

BCE has a 12-year history of paying incremental dividends and currently has a dividend yield of 5.36%. The company has the largest telecom infrastructure in Canada and has accelerated its investment in 5G infrastructure. The company gets regular cash flows from subscription money. The 5G revolution will bring the internet to mission-critical applications and connect more devices to the internet from drones to traffic signals to cars.

BCE increased its dividend at a CAGR of 5.5% in the last 10 years. It reduced its dividend-growth frequency from twice a year to annually in 2013. If you had invested $2,000 in this stock in December 2011, your money would have appreciated to around $3,140. After adding the 10-year aggregate dividend of $1,360, your $2,000 investment would be close to $4,500, which is a 125% return.

Final takeaway

While Canadian Utilities and Enbridge have reduced their dividend-growth rate in the last two years, BCE has maintained it at 5%. I expect the three companies to slow their dividend-growth rate in the coming 10 years. But they are likely to continue paying dividends.

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3. TSX:BCE (BCE Inc.)
4. TSX:CU (Canadian Utilities Limited)
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pujatayal