Dividend Aristocrat vs. Dividend ETF: Which Offers Better Income Safety?

Description

When it comes to buy-and-forget investments, exchange-traded funds, or ETFs, tend to stand out from the crowd. Most retail investors that wish to keep their investment *expenses* to a minimum prefer ETFs over mutual funds. These funds come with minimal fees and offer much better capital-preservation potential than individual stocks might.

But what if your aim is to start a passive income, and you are just as concerned about the safety and sustainability of your dividend-based income as you are about the return potential/yield? The most obvious first choice might be Dividend Aristocrats, but dividend ETFs are a powerful option to consider as well.

A "former" Dividend Aristocrat

Dividend Aristocrats are companies that have grown their payouts for at least five consecutive years, and while the past doesn't always predict the future, it *is* the best data set we have, nevertheless. And most Dividend Aristocrats tend to maintain their dividend streaks, because breaking that streak might result in the potential loss of investor trust.

One example would be **Suncor** (TSX:SU)(NYSE:SU), the oil sands giant of North America, which had to slash its payout in 2020 when it became too financially unsustainable. It was a shock to investors when the beloved Dividend Aristocrat broke its 18-year dividend-growth streak. But the company started making amends as soon as the energy sector as a whole started recovering.

The company has restored its payouts quite close to the former number, and the result is an impressive 4.7% yield. And if the company restarts its dividend-growth practice, the payouts will only increase over time.

A dividend ETF

BMO Covered Call Utilities ETF (TSX:ZWU) is a low- to medium-risk ETF that offers monthly payouts, has a market capitalization of about $1.4 billion, and offers monthly dividends with an annualized distribution yield of 7.7%. And while capital appreciation is simply the cherry on top with this dividend-oriented ETF, if you had invested $10,000 in the fund about 10 years ago, your capital would have grown to over $16,000 by now.

Since 2012, the ETF's monthly payouts have hovered between $0.073 per share and $0.09 per share, but they have mostly remained around $0.078 and $0.08 per share. So, even though the payout is not exactly rock solid, the variation is minimal enough that you can rely upon the dividends for a reasonably secure income.

About one-third of the assets within the ETF are Canadian, while the remaining are from the United States. Its top holdings include industry giants like **BCE**, **Fortis**, and **Enbridge**, and this comprehensive diversification within the ETF makes the income even more secure.

Foolish takeaway

The ETF is currently offering a much better return potential, even if you take the 0.71% management expense ratio into account. It's better diversified and significantly safer than most individual Aristocrats. However, its diversification prevents fluctuations, which means that your chances of locking in excellent yields are much lower than what they are with Aristocrats.

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Author
adamothman