



Passive-Income Investors: 3 Qualities of Dividend Stocks That Work

Description

It's awesome to get real passive income! You need to watch out, though. There are lists out there that claim to show many ways to earn passive income, but most require active work. If you're not careful, you could be creating more jobs for yourself. Of course, if you enjoy doing whatever it is that earns you semi-passive income, it could work well for you.

Even earning passive income from [dividend stocks](#) requires some work at least initially to identify suitable stocks. Below, I discuss dividend stocks with three qualities that should work wonderfully in creating passive income for you.

Dividend stocks that provide safe dividends

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is an easy-to-understand dividend stock that provides safe dividends. First, it's a regulated utility that earns predictable earnings. Second, it maintains a sustainable payout ratio. Its 2021 payout was 79%.

Dividend stocks aren't equal! Dividend stocks that have underlying businesses with more volatile earnings, such as cyclical stocks, would require a lower payout ratio for a bigger margin of safety to protect the dividend. Therefore, it's a useful exercise to compare payout ratios of dividend stocks in the same industry to get an idea of sustainable payout ratios for stocks in that industry.

Ideally, investors should get *growing* dividends

Unless you need more passive income now, it's usually better to own dividend stocks that are growing their dividends. While it can be enticing to get a 6% yield from a real estate investment trust (REIT) that doesn't increase its dividend, it would be a better long-term investment to buy a dividend-growth stock like **TC Energy** that has a slightly lower yield of about 5.4%. TC Energy just raised its dividend by 3.4%. In the long run, its dividend increases will at least keep pace with inflation and help your passive-income stream maintain its purchasing power. This advantage is not present in a high-yield stock that keeps its cash distribution stagnant.

[Fortis stock](#) has 48 consecutive years of dividend growth. This streak is expected to continue into the foreseeable future. This is why many passive-income investors continue to hold their Fortis shares that they have purchased long ago! These smart investors are now sitting on big yields on costs and earning passive income they can rely on.

Your dividend stocks should allow you to sleep well at night

As an example, some retirees do not trust **Manulife** ([TSX:MFC](#))([NYSE:MFC](#)) as much as Fortis for passive income. However, Manulife's recent results have proven that it is more than capable to maintain a safe dividend. Its payout ratio has a decent margin of safety to keep its dividend safe, even during the pandemic in 2020, despite its earnings dropping by about 7% that year, pushing its payout ratio up to about 41% as a result.

Manulife's five-year dividend-growth rate is 9.6%. Over the next few years, its earnings growth should drive more healthy dividend increases.

At the end of the day, you need to be able to sleep well at night for the dividend stocks you hold. It doesn't matter that someone else thinks another dividend stock is better if you can't sleep by holding it.

Here's one more tip. Aim to buy dividend stocks on sale to get more passive income for every dollar you invest!

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:FTS (Fortis Inc.)
4. TSX:MFC (Manulife Financial Corporation)

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