New Investors: Start Investing in 2 Dividend Stocks With Peace of Mind

Description

Economists are seeing an increasing probability of a recession occurring in the United States. Since Canada and the U.S. have close ties, should a recession occur in the U.S., it's likely that Canada will experience one, too. The fact is that history does repeat itself and economic contractions always come sometime after economic expansion. So, we know it will occur. It's just a matter of when and the severity. The situation is similar in the stock market. After substantial gains in the stock market, eventually, a market downturn will always occur. It's a matter of when and the severity.

A market downturn is already in play. At writing, the stock markets in Canada and the U.S. have broken under the 50-week simple moving average. New investors need not be concerned, though, if they buy dividend stocks that can give them peace of mind. The following dividend stocks can be long-term investments that pay you decent (growing) dividend income for holding the stocks.

CIBC stock for a 4.6% dividend

Big Canadian bank stocks serve as core holdings for many dividend portfolios for good reason. They provide safe dividends and stable earnings growth, which result in stable dividend growth in the long run. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) stock is a good example.

CIBC stock just had a two-for-one stock split this month. To new investors, the bank stock price cut in half may seem like a bargain, but in fact, it has the same economic value as before the split, because its outstanding common shares also doubled. At the end of the day, investors should look at the valuation of the stock to determine if it's a good buy now. At $69 and change per share at writing, the stable bank stock trades at about 9.1 times this year's earnings, which suggests it trades at a discount of about 11% from its long-term normal valuation.

Assuming CIBC's long-term earnings-per-share (EPS) growth rate is 5%, it can be approximated that its long-term rate of return will be about 9.6%, including its 4.6% dividend yield. Valuation expansion can add returns of roughly 2% per year assuming a five-year investment horizon.

Another interesting dividend stock that's also in the financial services sector is **goeasy** (TSX:GSY).

Buy this dividend stock for higher growth potential

New investors can consider goeasy stock to complement their bank stock holding(s). goeasy is a leading Canadian consumer lender that has historically delivered higher growth than the banks. For example, from 2007 to 2021, CIBC stock increased its EPS and dividend per share (DPS) by 64% and 88%, respectively, doubling long-term stockholders' money in the period. In comparison, goeasy stock increased its EPS and DPS by 807% and 843%, respectively, and grew investors' money nine-fold in the period!

goeasy stock yields about 3.2% at $113 and change per share at writing. The dividend is smaller than CIBC's but it still provides pretty good income. Importantly, the company has the potential to grow its EPS and DPS at a rate of north of 10%. Valuation expansion can add returns of about 3% per year assuming a five-year investment horizon. This means the long-term annualized return in goeasy stock could be more or less around 16% versus CIBC's 11%.

The Foolish investor takeaway

New investors can look more closely at these two dividend stocks and consider buying them with an investment horizon of at least three to five years. Think along the lines of getting passive, growing dividend income while expecting the stock prices to appreciate in the long run.

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:GSY (goeasy Ltd.)

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