New Investors: It'd Be Smart to Start With These Dividend Stocks

Description

Welcome to the world of stock investing! The recent growth stock bubble burst, including the meltdown of many high-growth tech stocks, can scare new investors away. While there are growth stocks driven by great businesses, you've got to filter the list carefully. If you're not sure, you don't have to take those risks.

Your hard-earned savings are too precious to lose. Make your first stock investments count. Allow them to compound your wealth in more defensive stocks. The Rule of 72 approximates that if you can get a rate of return of even just 10%, you can double your investment in about seven years.

It'd be smart to start investing in solid dividend stocks that provide stable returns from dividends alone. Stable long-term growth further lead to price appreciation and sometimes dividend growth as well. Here are some reasonably valued and low-risk dividend stocks that provide decent dividend income and are worthy for new investors to investigate.

RBC stock

Royal Bank of Canada (TSX:RY)(NYSE:RY) is a leading Canadian bank that's driven by a diversified business. Here's how it has performed in the long run. In the past 10 years, it increased its earnings per share (EPS) at a compound annual growth rate (CAGR) of about 9.5%. In the period, it increased its dividend per share (DPS) by approximately 7.6% per year. The annualized total returns were about 10.9%, including dividend returns of roughly 2.5% and price appreciation of 8.4%.

At $132 and change per share, RBC stock trades at a reasonable multiple of roughly 11.7 times this year's estimated earnings. At writing, it provides a yield of over 3.8%. Assuming the bank achieves its target EPS growth rate of 7%, then we can approximate estimated long-term returns of 10.8% per year on the fairly valued stock.

It’s not a bad time to pick up some bank stocks that can benefit from a rising interest rate environment. New investors can consider parking their money in the quality bank and expect long term, steady price appreciation and dividend growth.

Just note that any deterioration of the North American economic health can negatively impact the bank’s performance. For example, in the last two recessions, RBC stock corrected +40% and +28%, respectively. Those proved to be excellent long-term buying opportunities for the leading bank that isn’t going away, as it recovered and made new heights after that.

Everyone prefers to get more dividends. Here’s **NorthWest Healthcare Properties REIT** (TSX:NWH.UN), which offers juicy monthly cash distributions.

NorthWest Healthcare Properties REIT

At $12.84 per unit at writing, NorthWest Healthcare Properties REIT offers a yield of 6.2%. The healthcare REIT is globally diversified and enjoys inflation-indexed cash flows, which should help it combat rising interest rates.

At the end of Q1, the REIT’s net asset value (NAV) stood at $14.73 per unit. So, it trades at a discount of about 13% to its NAV. Analysts are even more bullish on the stock with a 12-month target price of $15.31 per unit across eight analysts. This target implies near-term upside potential of about 19%. Combined with the dividend, that’s a near-term total return estimate of roughly 25%.

Notably, Canadian REITs pay out cash distributions that are taxed differently than dividends in non-registered accounts. For example, last year, 46% of NorthWest’s distributions were return of capital, 40% were other income, and 14% were capital gains. The return of capital portion reduces unitholders’ cost basis and is ultimately taxed like capital gains when investors sell. So, it can also be viewed as tax-deferred income. Half of capital gains are counted as taxable income. The other income portion is taxed at your marginal tax rate.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
3. TSX:RY (Royal Bank of Canada)

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