2 of the Safest Dividend Stocks on Earth Right Now

Description

Which stock would you prefer: a risky stock with a high potential return or a safe stock?

If you answered, “highest return,” consider this:

A stock that rises one million percent can always go to $0, but a stock that has a margin of safety cannot. According to Ben Graham, the “father of value investing,” a margin of safety is the percentage by which a stock’s price is lower than its intrinsic value. Intrinsic value means the value of future cash flows and equity (i.e., assets minus liabilities).

If a company’s stock trades for less than what the company owns, it is considered safe. Such a stock may or may not deliver a great return, but it’s probably not going to $0.

With that in mind, here are two of the safest stocks in the world, going by their illustrious historical track records.

Coca-Cola

Coca-Cola Company (NYSE:KO) was founded in 1892 to sell Coca-Cola soft drinks. Since then, it has branched out into energy drinks, bottled water, and other such product categories. Coca Cola stock yields 2.8%, and it has raised its dividend every year since at least 1990. This makes KO a true Dividend Aristocrat — a stock with a 25-year dividend-growth streak.

What makes Coca-Cola a great company?

It comes down to two things: branding and relationships.

Coca-Cola has one of the most recognizable brands in the world. The bright red colour, the curvy bottle, the uplifting advertising messaging — these and other factors combine to make Coca-Cola an unmistakable company.

Relationships are another key to Coca-Cola's business success. KO has exclusive agreements to supply the sodas for many restaurant chains, such as **McDonald's.** Some of the companies that Coca-Cola has partnered with are truly massive, which results in a lot of money being passed on to KO itself.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is even older than Coca-Cola, having been founded in 1858. Like Coca-Cola, it has a ridiculously long dividend track record (over 100 years). RY has paid dividends for even longer than KO has, but it hasn't necessarily always raised them. For example, in 2020, RY was prohibited by the Federal Government from raising its dividend.

What makes RY such a reliable long-term bet?

Much of it has to do with the nature of Canada's financial services sector. Canada's banking sector is heavily regulated by the government, and banks generally aren't allowed to engage in behaviours that will compromise their survival. For example, Canada strictly regulates which companies are allowed to become chartered banks, whereas in the U.S., it's pretty easy to start a bank-like lending company. Because of all these regulations, the Canadian financial services system is not very competitive, leaving plenty of pie for the big players.

The second thing that Royal Bank has going for it is international diversification. Although Canada's banking sector is very safe, it also tends to grow slowly, due to all the regulations. Because of that, Royal Bank has branched out into global banking, with a U.S. investment bank and a wealth management company in the Caribbean. These segments help bring in extra revenue for RY and shield it from potential issues in its Canadian domestic operations.

CATEGORY

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:RY (Royal Bank of Canada)

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