The Smartest Dividend Stocks to Buy With $400 Right Now

Description

When the market drops, some of the best long-term investments go along for the ride. This includes some of the smartest dividend stocks on the market, which rarely, if ever, trade at a discount.

The current market pullback represents the perfect opportunity to shop for those stocks, and here are some options to consider for your portfolio.

Banking on history, recovery, and solid reinvestments

Canada's big banks are nearly always a great long-term option to buy. And **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is *the* bank that investors should turn to if they're looking for the smartest dividend stocks. What makes Scotiabank a great investment right now? That comes down to three key points.

First, Scotiabank is well-diversified and setup for growth. Unlike its peers, Scotiabank has branched out heavily into the four Latin American nations that comprise the Pacific Alliance. This has resulted in Scotiabank's international segment taking off and posting a slew of promising results.

The strategy has also helped provide some diversification outside of Canadian and U.S. markets. However, this play carries some risk associated with the region, which helped to weigh down the stock this year.

Secondly, we have rising interest rates. Interest rates have shot up rapidly this year in a move to tame the highest inflation in four decades. Higher interest rates are a good thing for banks, which charge interest on their loans, mortgages, and credit cards. In short, expect net interest margins to increase.

Keep in mind that while interest rates may bolster a bank's profit, it's also driving down the overall market. So far in 2022, the market has dipped over 12%, while Bank of Nova Scotia has dropped over 27%.

That stock price dip has resulted in Scotiabank's dividend yield swelling to an incredible 6.44%. For investors looking to start off with a $400 investment, this translates into just shy of $25 in dividends that can be reinvested.

One final point to keep in mind is that Canada's big banks have historically fared much better than their U.S.-based peers during slowdowns. In fact, during the Great Recession, Canadian banks avoided painful taxpayer-funded bailouts and remained well-capitalized.

Invest in a toll booth business and generate passive income

Another one of the smartest dividend stocks to consider for your portfolio is **Enbridge** (TSX:ENB)(NYSE:ENB). The energy infrastructure behemoth is best known for its massive pipeline network.

And for good reason. That pipeline network generates the bulk of Enbridge's revenue, hauling an insane amount of crude and natural gas. To put that amount into context, here's an impressive stat.

Enbridge transports nearly one-third of all North American-produced crude, and one-fifth of the natural gas needs of the U.S.

That factor alone makes Enbridge a solid defensive pick for any portfolio, but that's not even the best part. Enbridge charges for use of its extensive pipeline network, rather than pricing based on the commodity.

This means that volatile oil pricing has no direct bearing on the revenue that Enbridge will generate. It's like setting up a toll booth and generating a passive revenue stream.

Additionally, Enbridge has a growing renewable energy business comprising over 45 facilities located across Europe, the U.S., and Canada. Those facilities include mostly solar, wind, and hydro elements with a net generating capacity of over 2,100 MW.

Enbridge's well-diversified business and proximity to the booming oil sector has helped offset market weakness. In fact, as of the time of this writing, Enbridge still trades in the black for 2022- something that few stocks can attest to.

Turning to income, Enbridge offers investors a juicy quarterly dividend. The yield works out to an impressive 6.72%. This means that investors starting off with a $400 investment today will earn just over $24 from their initial 7-share purchase.

As with Scotiabank, reinvesting that initial investment, and following up with subsequent investments can lead to significant income bumps in the future.

Buy your smartest dividend stocks

Finding the right mix of investments takes time, and no stock is without risk. Fortunately, in the case of Enbridge and Scotiabank, those risks are minimal, but the long-term potential is huge.

In my opinion, one or both should be part of every well-diversified portfolio.

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Date
2025/07/17
Date Created
2022/10/21
Author
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