3 Reasons to Buy Dividend-Paying Stocks

Description

Dividend stocks are popular with investors for many reasons. Whether it’s their stable cash flows, their growth potential, or some combination of the two, dividend investors have many reasons for loving dividend stocks.

But did you that the advantages of dividend stocks go far beyond their regular cash payouts?

Not only do dividends help you generate cash flow during bear markets, they also signal a lot of things about a company’s financial picture.

In this article, I will explore three reasons to buy dividend-paying stocks, including one reason you may have never heard of before.

Reason #1: Dividends are taxed less than interest

When you think about the pros and cons of dividend stocks, there are two other asset categories you need to compare them to:

1. Non-dividend stocks
2. Bonds

Non-dividend stocks are stocks that pay no dividends, bonds are fixed-income instruments that pay interest.

Compared to bonds, dividend stocks have huge tax advantages. When you collect interest, you pay your entire marginal tax rate on the interest collected. When you collect dividends, you have a large tax credit taken off the actual amount of tax payable. In some cases, the dividend tax credit results in you getting a refund! Between dividend income and interest income, there’s no question: the former lets you keep more of what you earn.

Reason #2: Long-lasting dividends signal financial health

A second reason to invest in dividend stocks is because *long-lasting* dividends can signal financial health. Any company can declare a dividend in year one and borrow money to pay it; it takes a real business to pay a dividend for 100 years straight.

That's exactly what **Royal Bank of Canada** (TSX:RY) has done. Royal Bank has been in business for 150 years, it has paid dividends for at least 100 years. In its history, it has been through the Great Depression, World War I, and World War II. It kept paying dividends through all of those catastrophic events. That fact alone doesn't make Royal Bank a great business today. But it's evidence enough to tell you that the company is not some sort of fly-by-night operation that just materialized out of thin air.

In general, screening for dividend longevity is a great way to up the "quality" factor in your short list of stocks to consider. Royal Bank of Canada is a perfect case in point.

Reason #3: Dividends let you generate cash flow while keeping your voting rights

Third and finally, if you're a large shareholder, you might prize your voting rights, which can sometimes let you influence a company's policy. With non-dividend stocks, you have no way to cash out except to sell shares and lose some of those rights. With dividend stocks, you get cash flows on a regular basis while keeping your ownership stake intact. So, you make money while continuing to enjoy your shareholder rights.

For small-time investors, this isn't the biggest consideration, but you never know how much money you'll end up with at the end of your investing journey. So, perhaps this point is worth keeping in mind.

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