Top Canadian DRIP Stocks of 2023

Description

Investing in DRIP stocks can be an efficient way for Canadian investors to harness compound growth. But they're not for everyone. Below we'll break down DRIP stocks and help you decide if they fit your investment philosophy.

What is a DRIP stock?

A DRIP (dividend reinvestment plan) stock is a dividend stock that uses an investor's cash dividend to buy additional shares in the company.

Many DRIP programs reinvest dividend payouts automatically—which fits well into a "set it and forget it" investment philosophy—and they usually come with no additional fees or commission charges.

How do DRIP stocks work?

A DRIP stock reinvests dividend payments back into the company's common stock. Instead of getting cash deposited into your investment account, you'll get additional shares of the same stock.

For example, let's say you buy 100 shares in Company A, which pays a $2 quarterly dividend per share. For the first quarter, you'll receive $200 in dividend payments. Since you signed up for the dividend reinvestment plan, you'll reinvest this $200 in Company A stock. If the stock trades at $50 at the time of purchase, you'll automatically buy 4 shares, leaving you with 104 shares by the end of the first quarter.

You can enroll in DRIP stocks through your online brokerage, or you can enroll directly through companies that offer DRIP programs.

Top DRIP stocks in Canada

Many large-cap companies in Canada offer their own dividend reinvestment plans. The advantage of these programs is that you can often get additional common shares at a discount.

Below are three of Canada's top DRIP stocks.

DRIP Stocks	Description
Bank of Nova Scotia (TSX:BNS)	The third largest bank in Canada
Bank of Montreal (TSX:BMO)	One of the largest banks in Canada
Emera Incorporated (TSX:EMA)	Energy and service company with operations throughout North American and the Caribbean

Bank of Nova Scotia

The Bank of Nova Scotia (BNS) is Canada's largest bank. This massive financial institution has paid dividends since 1833, and for 43 of the last 45 years, BNS has increased its dividend payout.

BNS has an accessible DRIP program. To enroll, you only need to have $100 invested in BNS stock. Scotiabank also offers a 2% discount on common stock when purchased under its DRIP program, and you can reinvest up to $20,000.

Bank of Montreal

The Bank of Montreal (BMO) is one of Canada's "Big Five" financial institutions. They're also the eighth largest bank in North America and, as such, pay a hefty dividend on their stock.

BMO offers a dividend reinvestment plan that reinvests dividends into the company's common stock. Currently their DRIP offers shareholders a 2% discount on common stock repurchased under the plan, and you can reinvest up to $40,000. Like other DRIP companies, you won't pay any fees or commissions to purchase stock in this way.

Emera Incorporated

Emera Incorporated is a multinational energy company with headquarters in Halifax. The company has had a long track record of strong execution. The EMA dividend has increased 15 years in a row.

Emera's DRIP program offers one of the largest stock discounts of any in Canada, 5%. That said, you can only reinvest a maximum of $5,000 per quarter, which comes out to $20,000 per year. Emera also allows you to buy fractional shares, with no service or brokerage fees charged to you.

How to buy DRIP stocks

There are two main ways to buy DRIP stocks: through your brokerage or through the company itself.

Buying a DRIP through your brokerage

Many online brokers allow you to enroll in DRIP programs directly through them. Some brokerages even offer specialty DRIP programs that allow you to reinvest dividends in companies that do not offer a formal DRIP themselves.

Enrolling through the company itself

Several companies will give you the option of buying DRIP stocks directly from them (or through a third-party institution called a transfer agent). This could help you bypass any brokerage fees or administrative charges for having an account.

Pros of DRIP stocks

- **Dollar-cost averaging:** DRIP stocks allow you to reinvest periodically, otherwise known as dollar-cost averaging. This ensures you're always investing money, no matter what's happening in the larger market.
- **No fees:** Most companies charge zero fees to invest dividend payouts. This can be cost effective when compared to traditional brokers, which charge a small fee to conduct trades.

Cons of DRIP stocks

- **Not all companies offer DRIPs.** Not only is selection limited to a few companies in Canada, but it's not always easy to know which companies offer DRIPs and which don't. Most bank and large-cap stocks offer DRIPs, but tech stocks, growth, and mid to small cap most likely will not.
- **Some companies require a minimum number of shares to enroll in a DRIP.** This could be a significant barrier to entry for new investors who don't have a lot to invest with.
- **You might be able to buy higher performing stocks with a low-fee broker.** DRIP stocks used to be smart when brokers charged high fees to conduct trades. These days, however, investors in Canada can trade with low-fee brokers. If you want to diversify your holdings (or buy more profitable stocks), you may want to use dividend payouts to choose your own stocks, rather than reinvesting in the same one.

Are DRIP stocks right for you?

DRIP stocks are easy to setup, commission-free, and help you reinvest money you might have otherwise spent. These stocks are perfect for investors with long time horizons who want to let their dividend stocks grow substantially with little or no maintenance.

But DRIP stocks aren't right for everyone. You might not want to reinvest your dividends if you:

- **Need money to cover expenses now.** The extra dividend payouts could be passive income that helps you pay your bills, save for retirement, or build up an emergency fund.

- **Want to choose your own stocks.** A DRIP stock gives you more stock from the same company. For investors who want to buy stocks from numerous market sectors and industries, you may want to use your dividend payouts to buy stock from other companies.
- **Want more control over asset allocation.** Buying more shares of the same stock could cause your portfolio to become off-balance. If you don't want one company to become too heavily weighted, you may want to control where you invest your dividends.

TICKERS GLOBAL

1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:EMA (Emera Incorporated)

PP NOTIFY USER

1. cleona
2. metienne
3. tmfbwelch

Date
2025/08/21
Date Created
2022/11/01
Author
sporrello