This Dividend Portfolio Crushes the Market

Description

Building a solid, diversified dividend portfolio is a goal of many Canadians. As I have written previously, deciding which companies to include into a portfolio can be a difficult task. There are many different aspects of the dividend to consider, including dividend growth streak, payout ratio, and yield.

However, you must also consider aspects of the business unrelated to the dividend that may affect future dividend distributions in the future. Examples would be year-over-year revenue growth, valuation, and whether the company has enough cash on its balance sheet to cover its short- and long-term debts.

I have taken all these factors under consideration and have constructed the definitive dividend portfolio. As this article is being written for The Motley Fool, I have also included two investing principles from Motley Fool co-founder, David Gardner.

First, the portfolio required 20 different companies, where each company would represent 5% of the portfolio. Second, I required companies to have a positive return over the past five years, dividends included, because "winners keep winning."

The final requirement was that each company needed to be listed on the **Toronto Stock Exchange.** At the end of this article, I will feature one company that I haven't written about in a dividend article.

The portfolio

The companies included in the portfolio fell into seven different sectors. I have listed each sector in terms of decreasing weighting in the portfolio and listed the companies in alphabetical order within each sector.

Financials (35%): **Bank of Nova Scotia**, **Brookfield Asset Management**, **Equitable Group**, **goeasy**, **National Bank of Canada**, **Royal Bank of Canada**, **TD Bank**.

Industrials (20%): **Canadian National Railway**, **Canadian Pacific Railway**, **Thomson Reuters Corporation**

, **Waste Connections Inc**

Utilities (20%): **Algonquin Power & Utilities**, **Emera**, **Fortis**, **Northland Power**

Telecommunication services (10%): **BCE Inc**, **Telus**

Technology (5%): **OpenText** (TSX:OTEX)(NASDAQ:OTEX)

Consumer Cyclical (5%): **Boyd Group**

Real Estate Investment Trust (5%): **Canadian Apartment Properties REIT**

This portfolio features 18 Dividend Aristocrats. The two companies that don't make that list either have a good chance of being added to the list next year or have not seen an interruption or cut in the dividend in the past five years.

The average dividend payout ratio of this portfolio is 49.11%, indicating that the companies included still have a lot of room to grow their respective dividend. The average forward dividend yield is 3.35%, which would give you an annual dividend return of $33,500 for a $1 million portfolio.

When including dividends, the average five-year return for these companies is 90%, which means that if you had invested in this portfolio five years ago, you would have nearly doubled your entire initial investment. Seven companies returned over 100% over the past five years and two companies returned over 200%.

Over the past five years, 17 of the companies have successfully increased revenues each year, indicating an increasing demand in products and services provided by these companies. As well, 14 of the companies are currently undervalued.

Finally, six of the companies have sufficient cash to cover their short- and long-term debts. This can be attributed to the capital-intensive utilities sector and a financial sector which provides loans to consumers.

Please note that many companies that are not featured in this portfolio are very popular among Canadian investors. Such notable omissions include **Canadian Natural Resources**, **Canadian Utilities**, **Enbridge**, and **RioCan Real Estate Investment Trust**. **CCL Industries** gets an honourable mention.

Featured company

OpenText is a leading Canadian technology company. Founded by University of Waterloo professors in 1991, the company was spun off from a project which developed technology that indexed the entire Oxford English Dictionary.

One of its first big customers was Yahoo, which employed the company during the internet boom of the 1990s. Now OpenText hosts many customers, notable names include **Coca-Cola** and **Nestle**.

What does OpenText do? The company develops and provides enterprise information management software. Through its platforms, data can be organized much more efficiently, resulting in increased worker productivity.

OpenText also offers applications that use artificial intelligence for text-mining and big data processing, and several different network security solutions.

As companies worldwide continue to use big data more and more, OpenText should see increased demand for its services. This is reflected in the company's increasing revenue, as its annual sales numbers have grown each year for the past decade.

These days, OpenText is known as being a constituent of DOCKS, an informal abbreviation often given to the five top tech companies in Canada, and it has shown no signs of slowing down.

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