NVESTOR CLINIC

Three dividend growth stocks to hold forever

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One of the biggest investing myths is that you have to put in a lot of work to achieve great results. Without exhaustive research and a knack for savvy trading, you’ll never build lasting wealth and achieve financial independence, or so many investors believe.

Nonsense.

To become a successful investor, you don’t need to study technical analysis charts or jump on the latest investing trends. All you have to do is identify solid, established companies – ones with growing sales, earnings and dividends – and hold them through thick and thin.

Many investors know that the buy-and-hold approach makes sense, in theory. Yet they can’t resist the urge to make changes to their portfolios. When a stock rises, they sell to lock in their profit. When a stock tanks, they take their lumps and move on to the next shiny object. The underlying assumption is that they must trade to win at investing. This notion is reinforced by financial websites and ads for discount brokers that feature the latest whiz-bang trading tools.

But if you own great companies, the best approach is to do nothing. Stock prices always bounce around in the short run, but over the long run excellent businesses will reward you with capital appreciation and rising dividends.

Don’t take my word for it. As Warren Buffett wrote in one of his letters to Berkshire Hathaway shareholders: “When we own portions of outstanding businesses with outstanding managements, our favourite holding period is forever.”

With that in mind, here are three companies that investors can buy and hold, if not forever, then at least for many years – perhaps decades – to come. (Disclosure: I own all three stocks personally and in my [model Yield Hog Dividend Growth Portfolio](https://www.theglobeandmail.com/investing/investment-ideas/article-john-heinzls-model-dividend-growth-portfolio-as-of-aug-31-2022/).)

[FTS-T](https://www.theglobeandmail.com/investing/markets/stocks/FTS-T/) -0.68%decrease

* Price: $56.85
* Yield: 3.8 per cent

You’d be hard pressed to find a more reliable dividend stock than Fortis. Thanks to growing earnings from its regulated gas and electric utilities in Canada, the United States and the Caribbean, the company has raised its dividend for 48 consecutive years. And it expects to continue hiking its payout by 6 per cent annually through 2025. As the world transitions to greener energy, decarbonization is becoming a key source of growth for Fortis. By expanding wind and solar generation, retiring coal-fired plants and building transmission lines to connect more renewable energy to the grid, the company is targeting a 75-per-cent reduction in greenhouse gas emissions by 2035. Driven by these and other investments to upgrade its regulated transmission and distribution operations, Fortis expects to increase its rate base – the value of assets on which a utility is permitted to earn a regulated rate of return – by 6 per cent annually through 2026. This will support continued dividend growth while keeping the company’s payout ratio, estimated at about 77 per cent this year, at a comfortable level.

[BIP-UN-T](https://www.theglobeandmail.com/investing/markets/stocks/BIP-UN-T/) -3.37%decrease

* Price: $53.78
* Yield: 3.6 per cent

If I could own just one stock, Brookfield Infrastructure Partners LP would be high on the list. Why? Because BIP provides diversified exposure to major components of the global economy – including utilities, railways, toll roads, pipelines, data centres, ports and communications towers – with a single purchase. These are long-life assets with high barriers to entry. What’s more, many of BIP’s contracts benefit from rate increases tied to inflation. BIP is constantly putting capital to work as attractive opportunities arise, helping to drive strong returns even in challenging economic times. “In our view, the pandemic demonstrated the resiliency of the underlying businesses,” Devin Dodge, an analyst with BMO Capital Markets, said in a recent note. He expects BIP’s annual growth in funds from operations per unit will exceed 10 per cent “for at least the next couple of years,” which should support annual distribution increases in the high-single digits. Tip: If you’re investing in a non-registered account, consider holding Brookfield Infrastructure Corp. (BIPC) shares instead, as they give you the benefit of the dividend tax credit.

[TD-T](https://www.theglobeandmail.com/investing/markets/stocks/TD-T/) -2.80%decrease

* Price: $87.93
* Yield: 4.1 per cent

No list of Canadian-listed dividend growth stocks would be complete without one of the Big Five banks. And, right now, they’re all on sale, having seen their share prices tumble amid speculation that a recession may be around the corner. Yes, bank stocks get hurt when the economy slows. Yes, they have been known to stop increasing their dividends – sometimes for years – when times get tough. No, these are not reasons to avoid them. Long-term returns are what matter, and the banks have excelled in that regard. Over the past 20 years, Toronto-Dominion Bank has led the way with a compound annual total return of about 13 per cent, followed by Royal Bank at about 12 per cent, and Bank of Montreal, Bank of Nova Scotia and Canadian Imperial Bank of Commerce with total returns between 10 and 11 per cent. There’s no telling which bank will win over the next 20 years, but I expect all of them will continue to reward shareholders with growing dividends and a rising share price. Our banks do much more than take deposits and lend money; they have their hands in insurance, investment banking, trading and wealth management, all of which adds up to billions of dollars in profits every year. They are dominant, diversified, resilient businesses that buy-and-hold investors truly can bank on.