Discover the Extras in the Ordinary
By Cory O'Krainetz, B.Sc. | Equity Analyst

I remember the first time I took my son on a roller coaster. It was at LEGOLAND, and he was just four years old. We stood and watched while people on the ride hollered and cheered. From a distance, it looked like fun.

My son begged me to take him on the ride, even though he has never been much of a thrill seeker. I finally caved, and we waited in line for our turn.

As we got closer to the front, I realized it was actually much higher than I initially thought. But it was too late to turn back.

The ride started slowly. We climbed higher and higher in our little Lego cart, and my heart sank, because I knew what was coming next.

The horror on my son's face when we went down the first big drop was well captured in this snapshot taken by LEGOLAND.

He hasn't asked to go on a roller coaster since.

You can probably guess where I'm going with this. The roller coaster analogy is easy for investors to relate to, especially of late. While ups and downs are inevitable, we want to make sure we stay on track and finish the ride in a better place.

2020 started out innocently enough, with most people looking forward to another banner year in the stock market.

At the time, no one fully appreciated the impact the virus would have on the world. Of course, by March we were in a full-blown global pandemic.

As the gravity of the situation became apparent, governments called for lockdowns, and stock markets around the world crashed.

Cranking Up the Printing Presses

In response, monetary authorities printed money, bought bonds, and successfully drove down interest rates and the cost of borrowing.

This has had serious implications for just about everyone.

It’s great if you have a mortgage.

For example, here in Canada, homeowners can now lock in a five-year fixed rate mortgage at just 1.5%.

The drop in mortgage rates has made it more affordable to buy a home, which has helped drive prices higher in the midst of a crisis.

In much the same way, falling interest rates have put upward pricing pressure on all asset classes, including stocks.

Source: Bloomberg, Odlum Brown Limited

As we happily turned the page on 2020, most stocks had not only recovered their earlier losses, but actually finished the year with a gain.

The technology-heavy NASDAQ was up an impressive 44% for the full year.

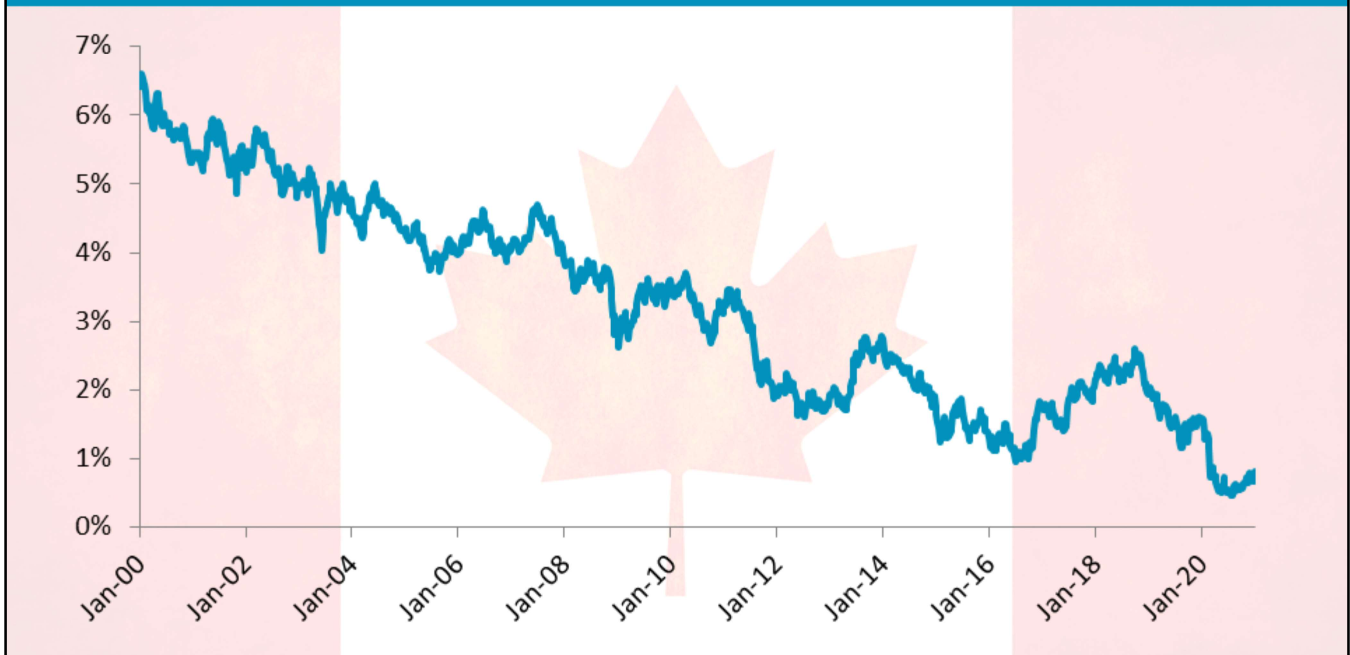
But prices of many high-quality, dividend-paying stocks have barely budged.

Why is that?

We think it’s because investors have been more captivated by exciting, high-growth areas of the market. Stocks like Tesla and Peloton come to mind, or even cryptocurrencies like Bitcoin.

As those stocks have moved higher, investors have piled in for fear of missing out. However, following the crowd and paying up for popular and pricey stocks carries downside risk too.

Meanwhile, dull and boring companies haven’t received much attention and just keep paying their dividends.



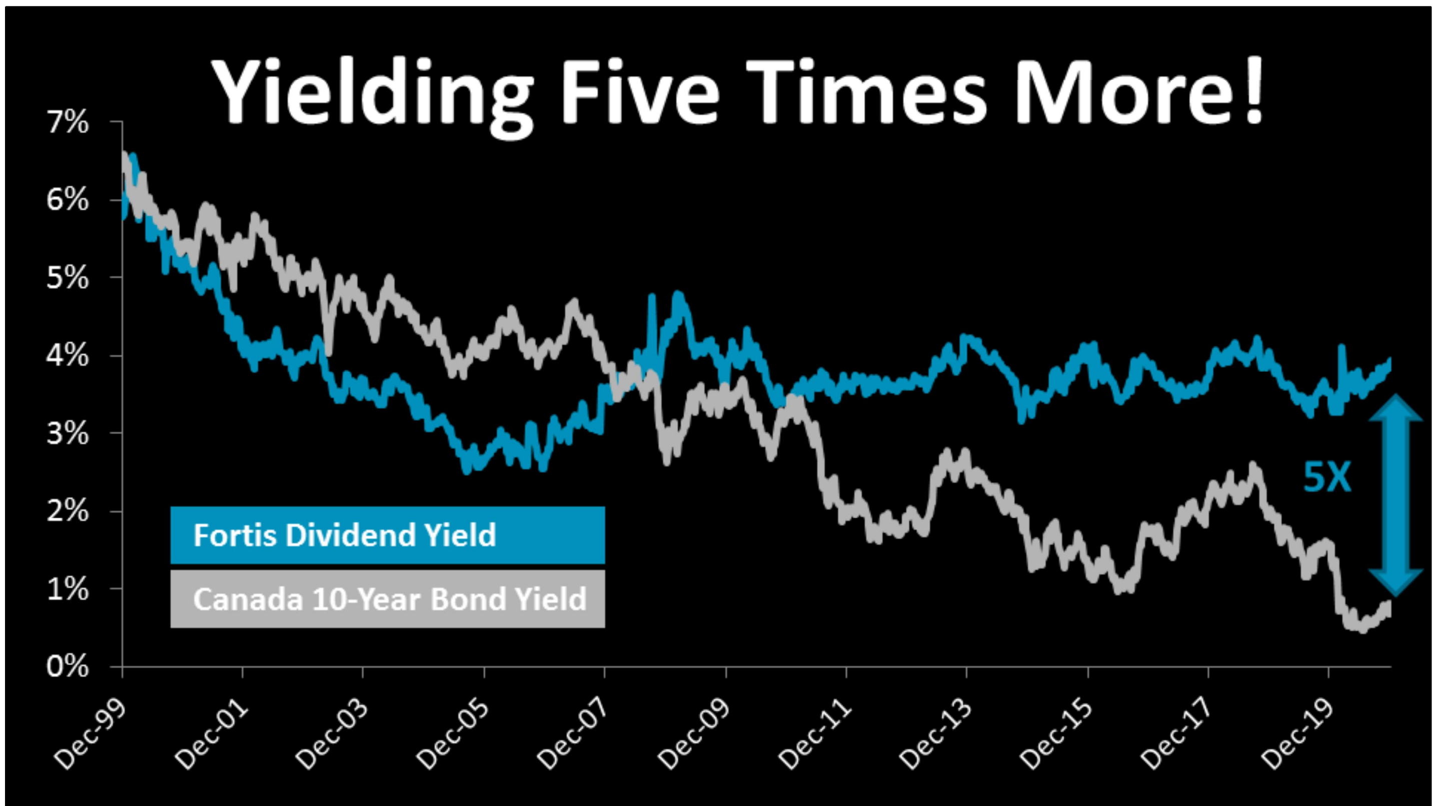
Source: Bloomberg, Odlum Brown Limited

Those steady, dividend-paying stocks are often viewed as bond proxies for income-seeking investors.

The Government of Canada 10-year bond yield is now just 0.8%, compared to over 6% in the early 2000s.

So an investor buying bonds today must accept much less income, which makes those big dividend-paying stocks even more compelling.

Also, in Canada they are eligible for the dividend tax credit. Bond coupons are not. That's a big advantage for taxable investors.



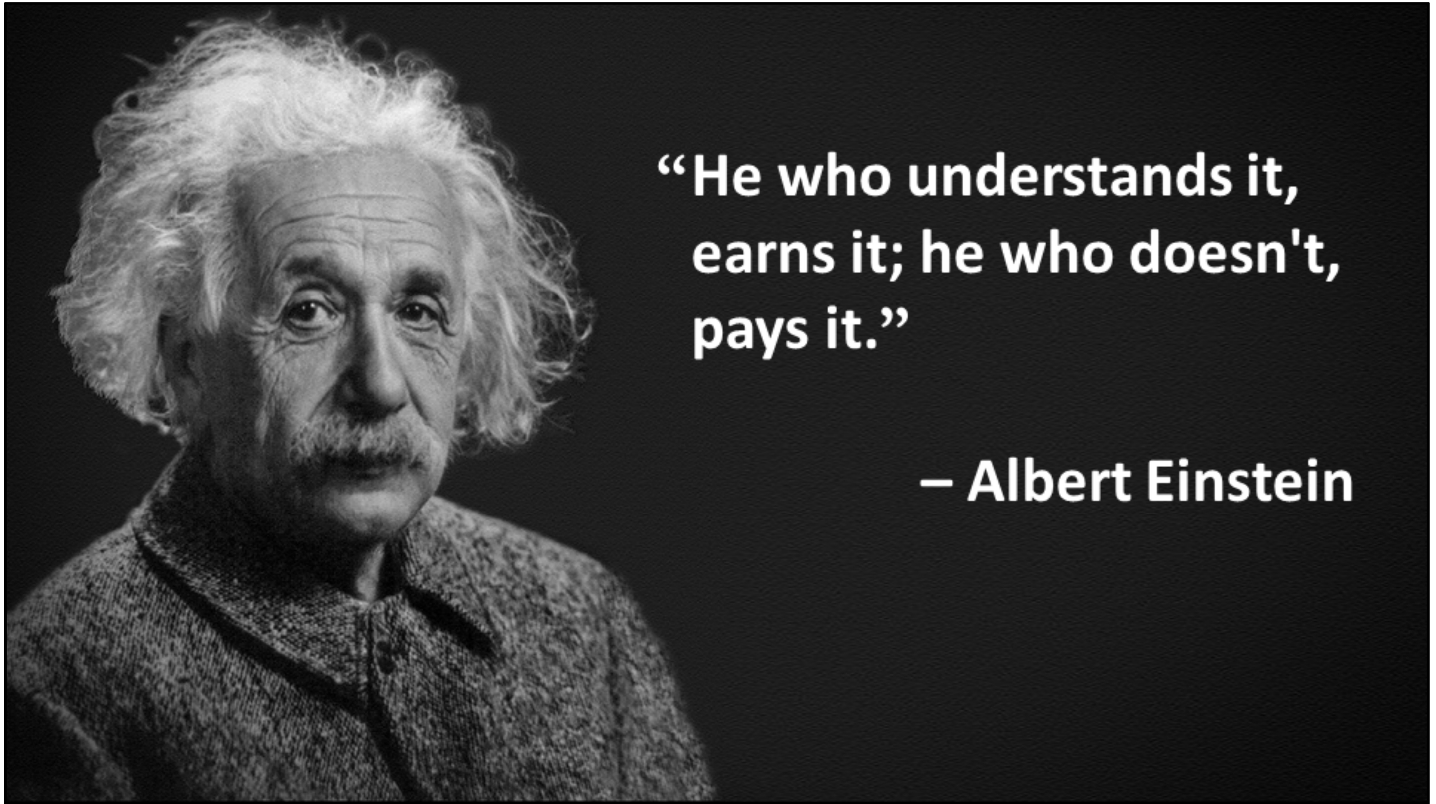
Source: Bloomberg, Odlum Brown Limited

Consider one of our long-time stock recommendations, Fortis. It currently offers a 4% dividend yield. That is five times what you get from a government bond.

And unlike bonds that pay the same coupon every year until maturity, Fortis will likely grow its dividend.

The company has one of the longest track records of dividend increases in the country: 47 years, to be exact.

This is important because it allows investors to compound their wealth faster.



Albert Einstein once referred to compound interest as the eighth wonder of the world. He suggested that those who understand it, earn it, and those who don't, pay it.

Einstein would probably be a dividend investor, if he were alive today.

Allow me to explain, with some help from Fortis.

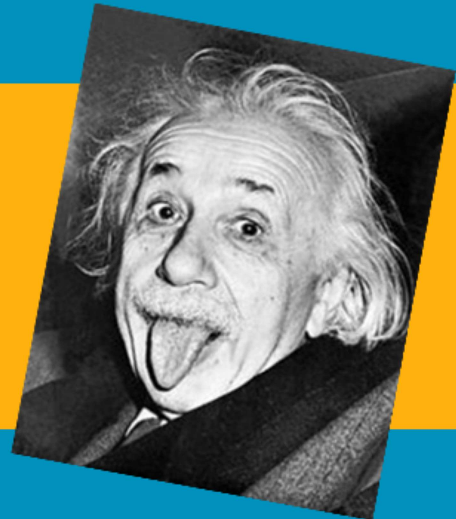
Let’s turn back the clock 20 years. Fortis had a dividend yield of 5%, which was nice, but not uncommon at the time.

If you bought $100,000 worth of stock in early 2001, simply held it and reinvested the dividends, you would have almost $1.3 million in your account today.

More than half of that amount would have accrued from dividends.

Einstein

would be proud.



Yes, Einstein would be proud of those results.

While that was clearly an excellent time to buy the stock, we believe the opportunity isn't much different today.

We see a bright future for the company.

Fortis is a major owner of electrical transmission lines and other utilities in North America, and we think they will be a prime beneficiary as we transition to a greener world.

This is because renewable power sources, such as wind and solar, are often on large tracts of land in rural locations.

Ultimately, that electricity will need to be connected to the end user in more populated residential areas.

In addition, the sun only shines during the day and when it’s not too cloudy. Windmills also require help from Mother Nature.

Expanding the power grid and blending in those intermittent new sources of electricity is no small task. We believe Fortis, with its massive network of transmission lines and extensive residential connections, will be a big part of the solution.

What is really exciting for the industry, though, is the potential for a surge in electricity demand. In recent years, power usage hasn't changed much, as the growth in electrical products has been offset by improved efficiency.

This has kept the proverbial pie from growing and made it difficult to justify necessary upgrades to the grid. But that is all changing as we electrify the world.

My son is now nine, and he recently informed me that his first car is going to be a Tesla! Apparently, gas cars are too slow and don't look cool. So I told him he had better start saving and consider buying an EV made by GM instead.

Electric vehicles are certainly becoming more prevalent and will require power everywhere they go.

Our cars, homes and cities are also becoming more connected and automated. This requires readily available power at all times of the day.

So as the demand for electricity grows, and we work to connect renewable power, it could be a big win for shareholders, customers and the environment too.

But Fortis isn't the only opportunity we see to add dividends and a little peace of mind to your portfolio.

Canadian telecoms have wonderful dividend yields, and the businesses are growing too.

If you buy an equal mix of the big three – TELUS, BCE and Rogers – you would enjoy a 4.8% yield, and those dividends should increase over time.

Due to COVID-19, Canadians are spending more time on home Wi-Fi networks, streaming more shows and connecting on platforms like Zoom.

These trends were already firmly in place and have only been accelerated due to the pandemic. A fast home internet connection is no longer a luxury: it's a basic necessity. And there are really only a handful of service providers that can offer ultra-fast internet speeds.

TELUS, Rogers and BCE have continuously invested in fibre optic networks that make what was once unthinkable an everyday convenience.

We can enjoy virtual reality gaming, connect with friends online and communicate remotely with our homes.

When we leave our homes, we need an equally fast wireless connection. Our phones have become an integral part of our lives, and we are likely to become even more dependent once the pandemic is over.

The world is changing fast, and we will need an even faster internet connection to keep up.

So we think the lion’s share of profits in the industry will continue to go to the providers with the best networks.

And those connections are about to get even better.

The rollout of near-instantaneous 5G networks could be a game changer, and they will be offered exclusively by the big three. This is likely to further entrench their competitive advantages.

We simply can’t live without them.

So if Fortis is going to power a greener and more connected world, our favourite telecoms will almost certainly be the gatekeepers.

Those sound like businesses we want to own.

While these boring stocks may not be making headlines, they may prove to be very rewarding for your portfolio. At the very least, they should help keep you off that wild roller coaster ride, just in case it takes an unexpected turn.

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