DSR 2025

TOP DIVIDEND STOCKS

BEST IDEAS FOR THREE SECTORS

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A LITTLE ABOUT ME

First, congratulations on acting and taking care of your investment portfolio! I'm a passionate investor looking forward to connecting with other passionate investors.

My name is Mike Heroux and I'm the author of The Dividend Guy Blog, The Dividend Monk, and Moose Markets (yes, I thrive on staying busy!) along with being the co-owner and portfolio manager at Dividend Stocks Rock (DSR). I have an unusual sense of humor for a "nerdy finance guy". Before you decide if you trust me or not, let's get to the "boring & serious" stuff first.

I earned my bachelor's degree with a double major in finance and marketing, I completed a CFP (Certified Financial Planner) certification along with an MBA in financial services. I worked in the financial industry for over a decade including 5 years as a financial planner and another 5 as a private banker managing accounts for high net worth (read $1M+) clients.

Besides being a passionate investor, I'm also happily married with three amazing children, and I live in the beautiful province of Quebec, Canada. Since I'm French Canadian, and French is my native language, I have most of my writings in English edited to minimize any grammar or spelling errors. I started my online venture to capitalize on my education and professional background by educating people about investing. A most fortunate by product of this professional endeavor is that I can work from home which allows me to be able to spend more time with my family.

In 2016, I decided to leave everything behind and go for a 1-year RV trip across North America and Central America (we made it all the way down to Costa Rica). Upon my return in 2017, I quit my job as a private banker and invested all my energy in my online business. I would rather pursue my dream of helping people invest through my sites. Since then, I have been a full-time online entrepreneur.

You can read more about my investing journey here.

2024: IF YOU WAIT YOU LOSE

2022 was a bad year on the stock markets: Canadian stocks were down 6% and U.S. stocks were down 18% (not to mention the Nasdaq at -32%!). Interest rates were going up quickly, and I was even caught with two dividend cuts in my portfolio (Sylogist at the end of the year and Algonquin shortly thereafter in 2023).

Many investors thought it was smart to go back into short-term cash and GICs paying generous yields.

"Let's wait until the storm passes by".

2023 started the year with more fear as inflation was not tamed yet. However, against all odds, the 2022 market correction was just a breeze and everything was back to "growth mode" by mid 2023.

Everything? Not really.

If you had selected low-yield, high-dividend growth stocks, you smiled your way through 2023.

It was a tough year if you had a bunch of high-yielding companies with large debt on their balance sheets.

While the market ended in positive territory (Canadian up by 12%, US up by 26%), it was pretty much just their recovery from 2022. Interest rates were still high and hiding with GICs and short-term cash sounded like a plan. After all, consumers' wallets were closing down, and there was no more room for discretionary spending. Plus, the US election was coming up in 2024.

"Let's wait until the storm passes by".

Fast forward to today as the year will close in a month from now, both markets are up by more than 20%. In 2024, a monkey would have made money… as long as the monkey was not sitting on the sideline.

Ironically, I would agree that a storm may likely hit the markets soon. After all, consumers don't have more money to spend, Canada's economy is slowing down (the U.S. GDP is surprisingly resilient!), and a tariff war is brewing.

"Let's wait until the storm passes by".

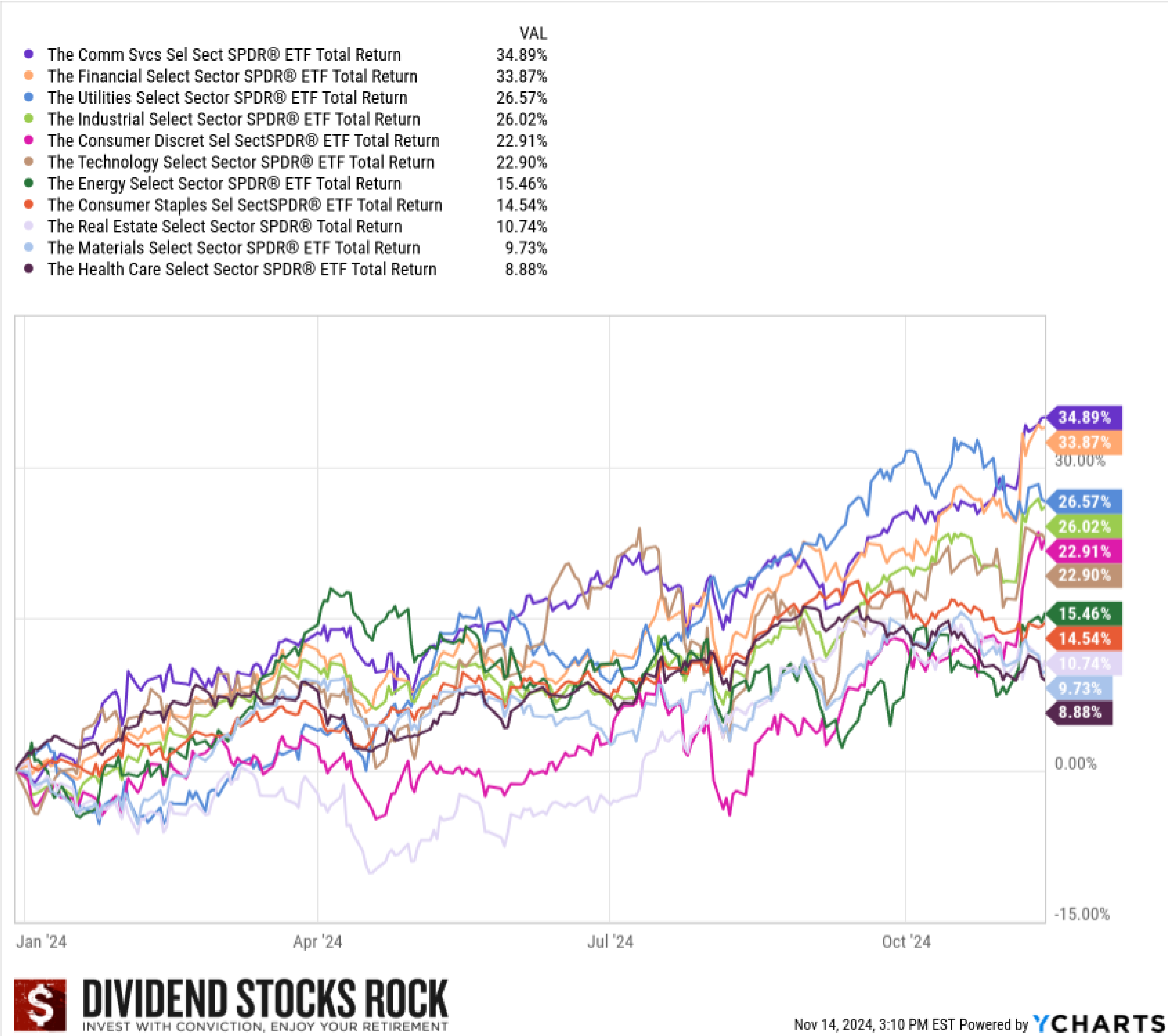
Are you serious?

If there is one thing I learned through 21 years of being fully invested in stocks, it is that no matter what you think or **what doesn't make sense, if you have a portfolio of quality companies, you will always be good.**

It's that simple: you wait, you lose.

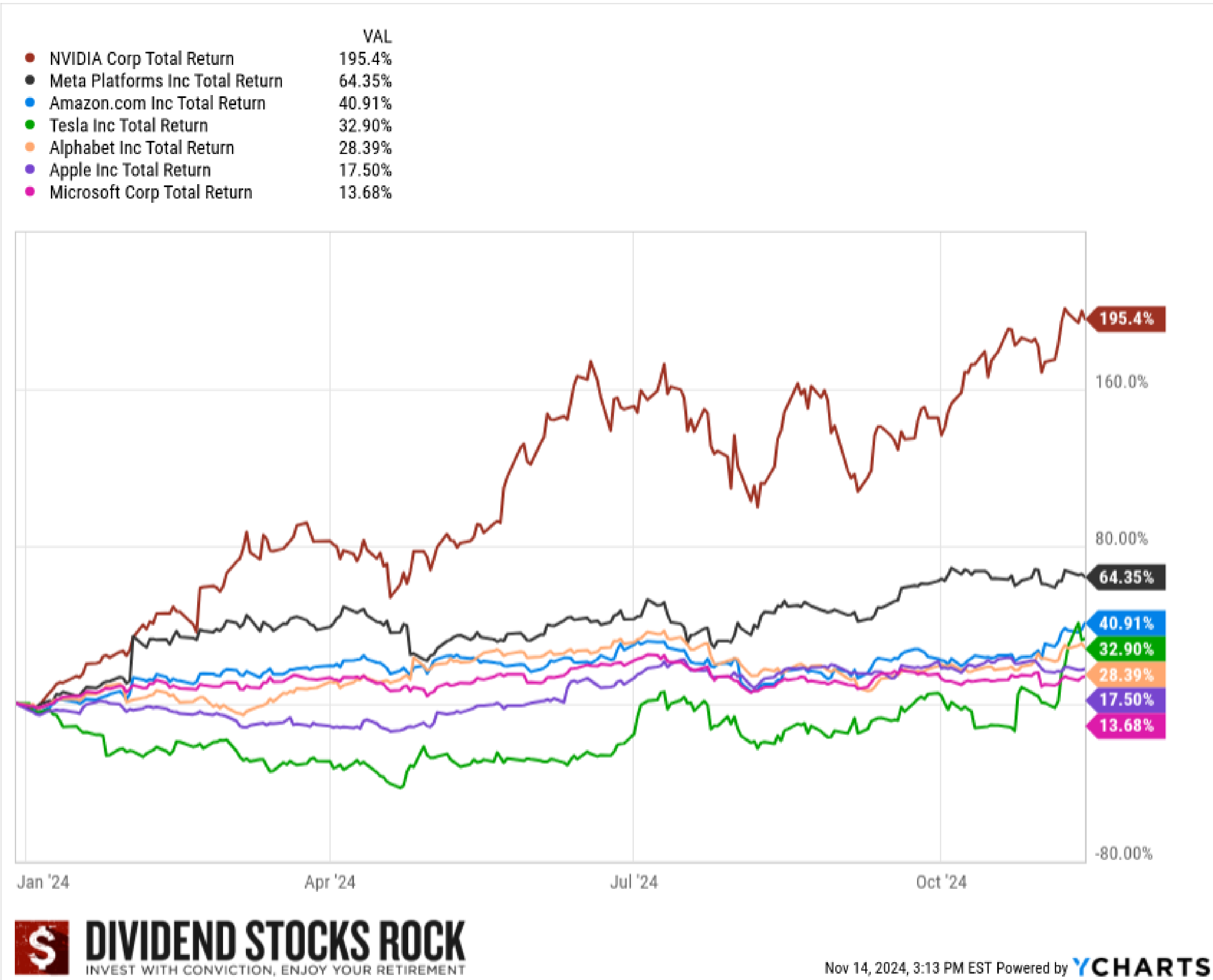
I didn't forecast this, but 2024 was an amazing year on the markets. Let's dive in and see what happened!

Tech stocks aren’t in the driver's seat?



I must admit, I’m surprised to see the technology sector in the middle of the mix and not on top of the list for the U.S. market. I expected this sector to take the lead, but Communication Services (including Meta and Alphabet changing the whole picture) and financials are the drivers in the U.S.

The appetite for more power (hello artificial intelligence!) has driven utilities through the roof.

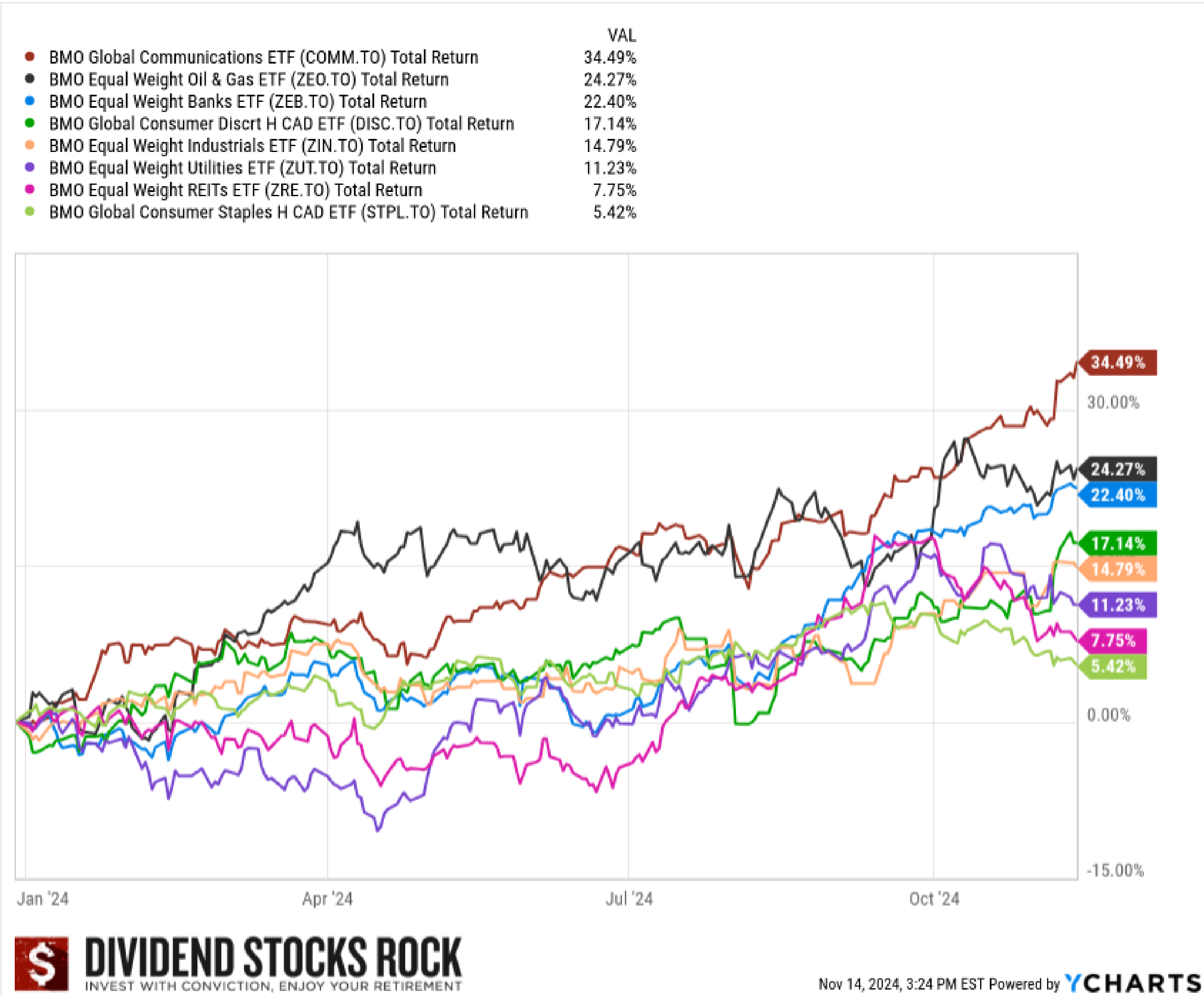


What about the Magnificent 7? Well NVIDIA definitely put on a magical show and Meta made an amazing come back. For the rest, it's been a solid performance, but we will all be disappointed by Apple and Microsoft, the only two real dividend growers here with their "weak" performance of +17.50% and +13.68%. Imagine a world where double-digit performances are disappointing.

There is an overall wind of optimism around the market. That is dangerous. When the tide goes up, no one knows who is swimming naked.

It's probably time to be cautious and ensure companies in your portfolio show solid financial metrics.

The Canadian oil is king!



On the Canadian side, the oil & gas sector is back with a strong year. Many pipelines (Enbridge, TC Energy and Pembina) are up by more than 30%. I didn't see that coming, that's for sure! I like TC Energy's spin-off to concentrate on natural gas and nuclear, while South Bow will operate the oil pipelines.

After being laughed at, Canadian banks are back this year (led by CIBC at +46%!). National Bank and Royal Bank have done well and are up 34%.

Those ETFs on the graph aren't perfect, but they do share a picture of what has been going on in Canada.

That's why covered call ETFs look so great!

One thing that has cranked up in popularity over the past few years are covered call (CC) ETFs. They offer super high yield and their total returns are great.

Have you ever wondered why?

Simple: because the asset the ETF is writing the call on is ON FIRE!

Don't believe me?

Hamilton Canadian Financial Yield Maximizer (HMAX.TO) offers a 14% yield.

So… can you invest in Canadian banks and get a 14% yield? TAKE MY MONEY BABY!

Not so fast…

If you read this newsletter with great attention, you will notice I told you how Canadian Banks did great this year. Well, that's why HMAX.TO is doing well.

Do you know what is doing even better than a 14% covered call ETF?

Investing directly in Canadian banks!

The BMO Equal Weight Banks ETF (ZEB.TO) reported a total return (price appreciation + dividend) of 22.40%.

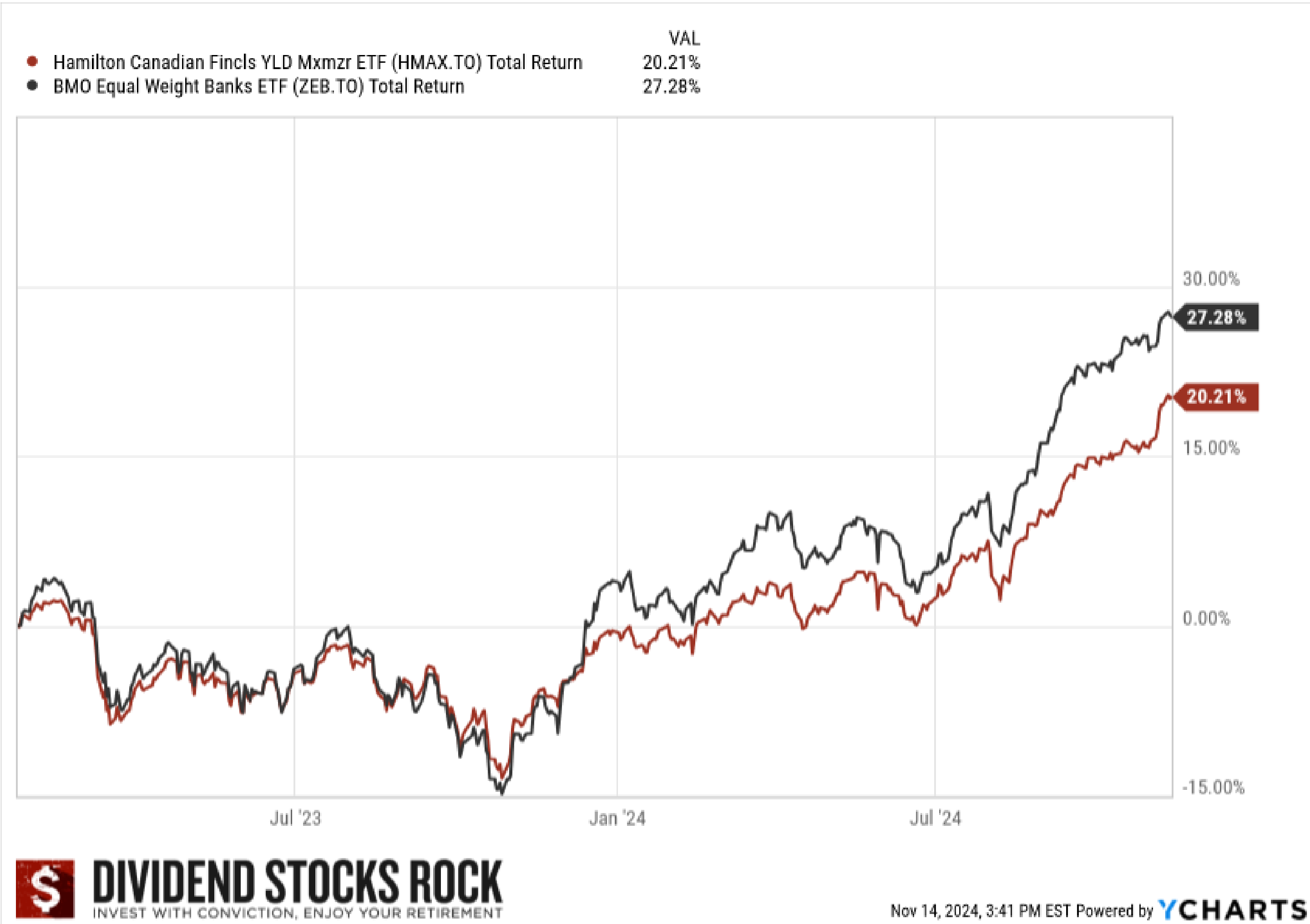
HMAX.TO? 20.73%. It's not a big difference, but it's only for 11 months. Even with a 14% yield, the ETF hasn't been able to push ZEB in a corner.

It gets worse if you add years to the comparison.

On the next page, I compare the Canadian banks covered by ETF vs. simply investing in Canadian banks.

If you wonder why Covered Calls can't win, the answer is also simple: By definition, selling the option to buy your stocks at a define price will limit your gain. If you write an option at $100 and the stock goes up to $115, you only receive $100, and the buyer enjoys the spoils.

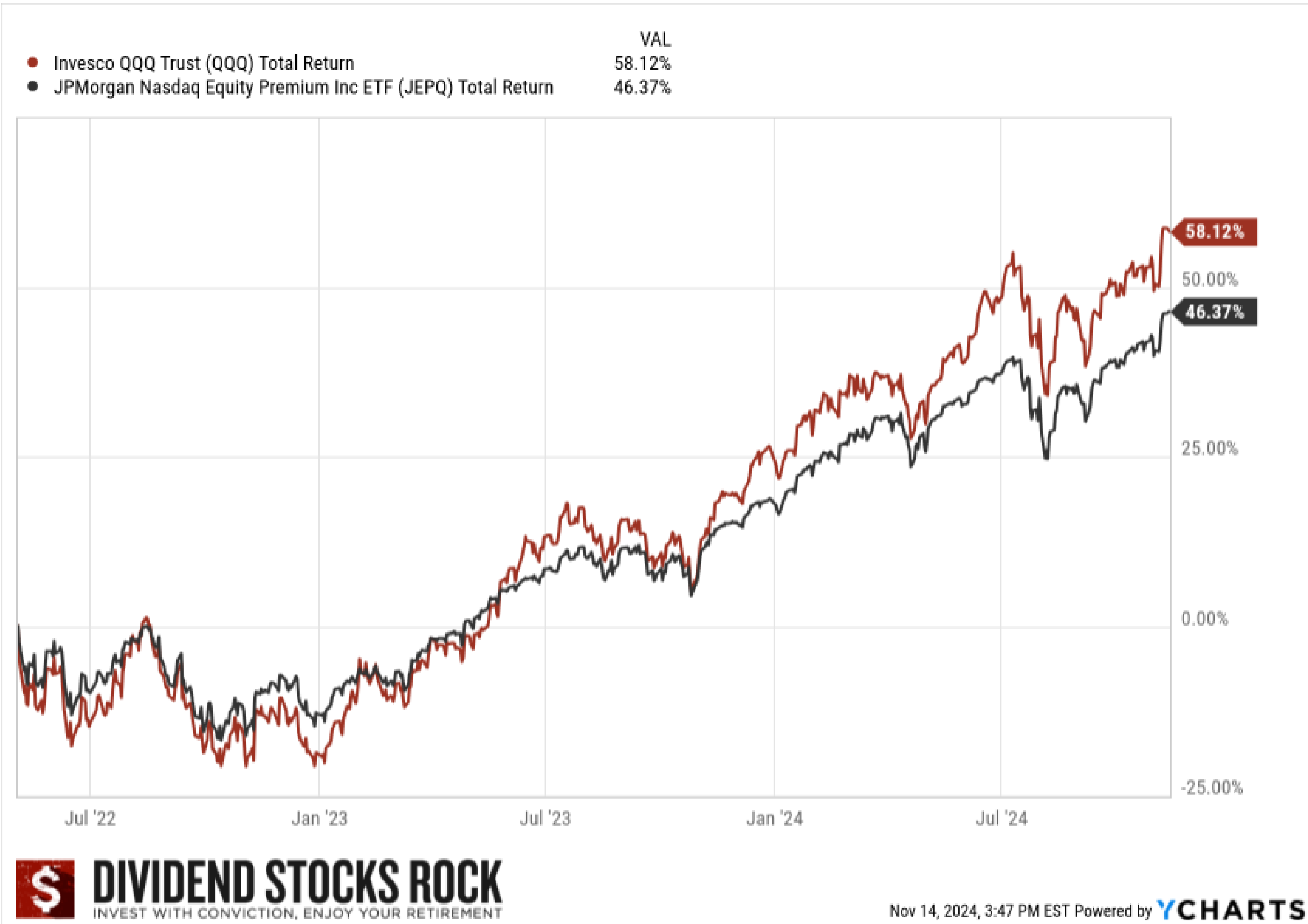
If you plan on investing in stocks on a secular decline, a CC would do better. But do you really want to invest in a losing stock on purpose?



Since I received the question during my latest DSR webinar, I'm also offering the same graph for JPMorgan Nasdaq Equity Premium (JEPQ), paying a super lovely yield of 11% vs. the simple Invesco QQQ which tracks the Nasdaq with a ridiculous yield of 0.57%.

What is it going to be? 11% or 0.57%?

Remember, the only reason why CC are doing well is because the underlying asset is thriving…



Morale of the story: when the market is up, a monkey would make money.

All funds, ETFs, investment products and stocks are looking good right now. Don't be blinded by returns and focus on financial metrics.

Our following sectors review will help you discern which companies are showing good financial metrics!

2024 IDEAS RECAP

While there is still one month for stocks to perform (or not!), I think we will have a pretty good idea of the performance of my 2024 selection. We used iShares sector ETFs for our U.S. benchmarks and BMO sector ETFs for our Canadian benchmarks (when available).

Stock	Return	ETF	Δ	Stock	Return	ETF	Δ
HD	17.62%	4.10%	13.52%	T.TO	-3.35%	25.76%	-29.11%
MCD	-0.11%	4.10%	-4.21%	CTC.A.TO	13.05%	16.58%	-3.53%
COST	41.42%	20.41%	21.01%	DOL.TO	51.15%	5.34%	45.81%
PEP	-4.35%	20.41%	-24.76%	ATD.TO	-0.39%	5.34%	-5.73%
V	18.97%	34.20%	-15.23%	CNQ.TO	12.51%	27.14%	-14.63%
LMAT	83.40%	12.62%	70.78%	NA.TO	39.62%	24.18%	15.44%
PFE	-8.10%	12.62%	-20.72%	BN.TO	49.15%	34.20%	14.95%
UNH	15.41%	12.62%	2.79%	TIH.TO	0.67%	15.11%	-14.44%
ADP	30.30%	37.91%	-7.61%	SJ.TO	-9.54%	11.31%	-20.85%
MSFT	11.09%	38.40%	-27.31%	GRT.UN.TO	0.71%	7.75%	-7.04%
APD	22.22%	11.31%	10.91%	CPX.TO	63.64%	11.82%	51.82%
EQIX	16.42%	-0.18%	16.60%				
AWK	6.86%	-0.18%	7.04%				
Avg	19.32%			Avg	19.75%		
SPY	25.41%			XIU.TO	21.65%		
VIG	18.20%			XDV.TO	21.38%		

Here are my conclusions:

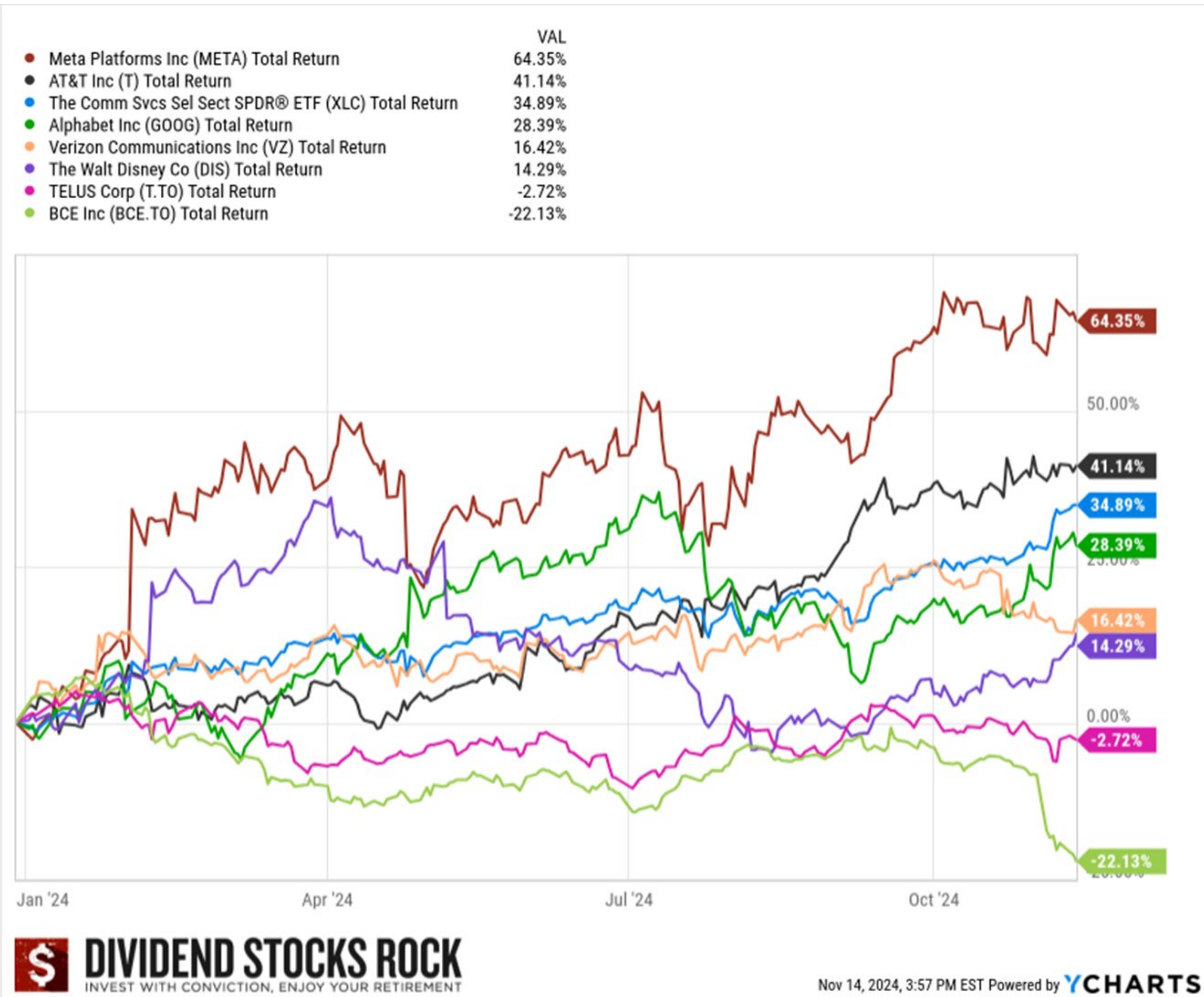
- 11 out of 24 companies did better than their respective sectors.
- 0 companies produced double-digit negative returns (easy to say in a bullish market).
- On average, U.S. stocks outperformed their sector, but underperformed their market benchmarks.
- It shows how the magnificent seven influence the S&P 500!
- On average, Canadian stocks outperformed their sector but underperformed their market benchmarks.
- I had 6 home runs (30%+) in COST, LMAT, ADP, DOL.TO, NA.TO, and BN.TO.

It's always a fun exercise to do but you can see how it's difficult to beat the market when it's strongly driven by one narrative. There are several companies on this list that I'm very happy to own but didn't perform as well as the rest of their sector. Who would have thought that Visa and Microsoft would be "bad picks" at 19% and 11% return?

We are looking forward to sharing more ideas in this issue! As always, please review the company's financial metrics and read the DSR stock card before pulling the trigger (that's another way of saying to do your own due diligence 😉).

COMMUNICATION SERVICES

When we think of communication services, we usually think about famous telecom companies like AT&T, Verizon, BCE, or Telus. However, this sector has now changed and offers a different type of stock. Many technology firms are now part of this sector. The sector is driven by companies like Alphabet (GOOG), Meta (META) and Netflix (NFLX). Therefore, we now have two types of companies in this sector: tech stocks delivering growth and telecoms delivering dividends.



Good news for dividend investors, Meta and Alphabet initiated their first dividend payments in 2024! Finally, we have some interesting companies to look at in this sector!

Many investors ask me if they must invest in communications stocks. You obviously don't have to.

You don't have to invest in any specific sectors if you are not confident in their future. The key is to pick great companies in sectors you like, understand, and have some degree of confidence in their future success.

While Disney and AT&T are coming back from the dead this year, I'd argue it's about time those companies got their act together and generated returns for shareholders.

U.S Pick: Alphabet (GOOG) (Core Holding)

Like Apple and Microsoft's business model, Alphabet generates strong cash flow, fueling multiple projects simultaneously. The door is always open for a breakthrough that could lead to new business opportunities. In the meantime, Alphabet benefits from a resilient and growing source of revenue due to its dominant position in search engines. Most of its revenue comes from advertising generated by Google services.

Google has been so successful that it now faces antitrust challenges (more on this issue in the potential risks section). In other words, Google has created a moat that makes competing with the search engine giant virtually impossible. In the meantime, Google benefits from a strong network effect. The more users are on Google or YouTube, the more Google gets data on users' searches and experiences, and the more it improves the platform, which then attracts even more users.

Canadian Pick: Telus (T.TO / TU) (Core Holding)

About a year ago, Telus was upgraded to a PRO rating of 5. I thought the company would bounce back faster, but it wasn't the case. My long-term view of Telus hasn't changed, though.

While the company reported modest revenue growth throughout the year, its cash flow metrics (cash flow from operations, free cash flow and capital expenditure) have improved significantly. The company is covering their dividend from free cash flow and interest charges are under control.

It took longer than expected, but I believe Telus will get out of this rut and make investors happy. It's only a matter of time.

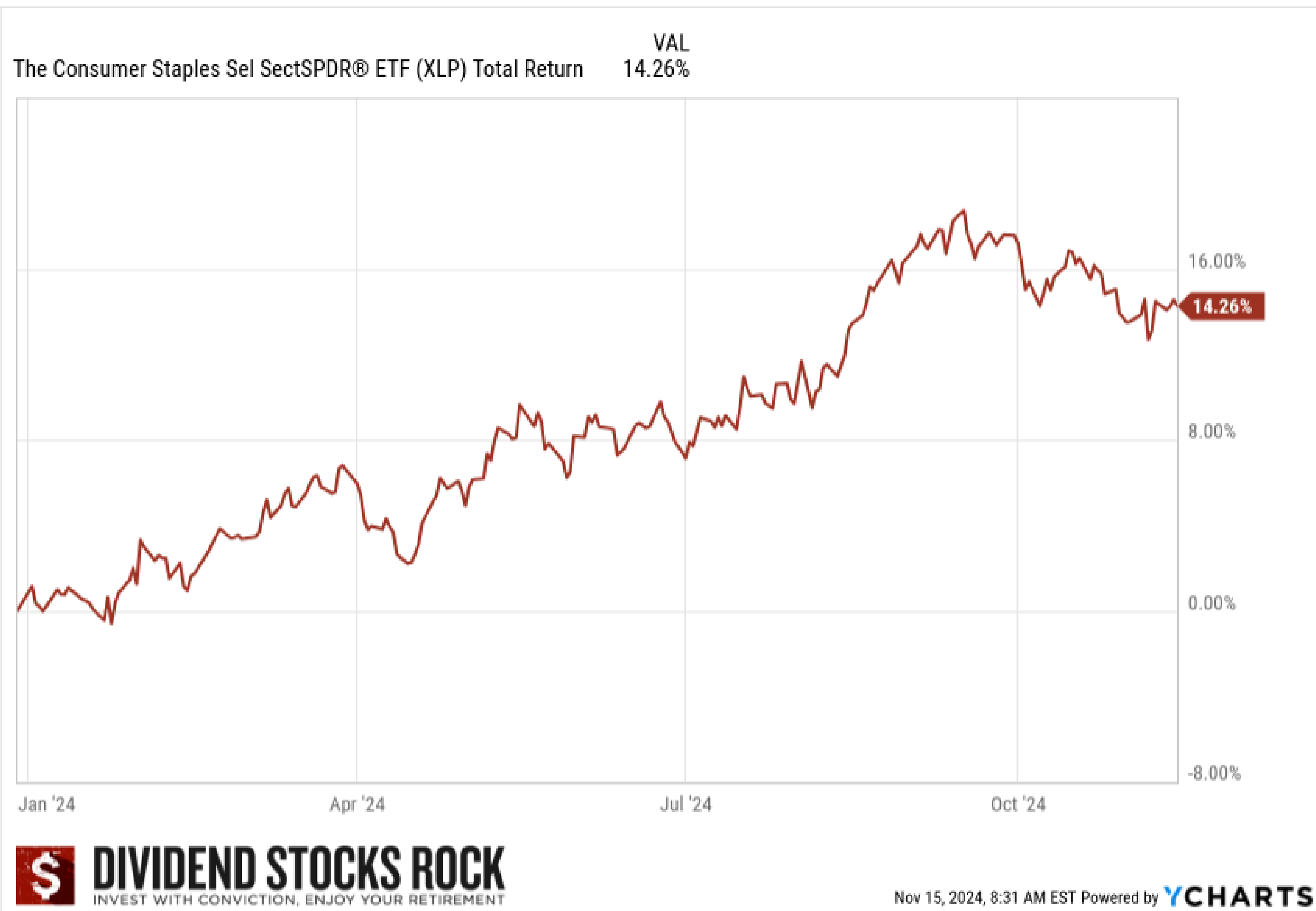
CONSUMER STAPLES

I like to say there is never a good time to buy consumer staples. When the market goes up, those stocks follow, but they usually lag. It makes sense: what's more exciting:

Investing in the next generation of AI chips with NVIDIA or the next jalapenos flavor chips from Pepsi?

When the market goes down, investors rush toward safe and boring stocks, quickly making them comparatively more expensive.

What's the solution? Keep the same weight of this sector in your portfolio and don't worry too much about their performance. Consumer staples will be there for you to stabilize your portfolio and be a reminder that sound business models may not be exciting, but they generate constant cash flow on good and bad days. I particularly enjoy the fact that most of them are heavily exposed to international markets. It makes my life easier as I don't have to look for international stocks to complete my diversification goals.



U.S. Pick: PepsiCo (PEP) (Core Holding)

I couldn't help myself and pick the maker of the best chips there are… Doritos! As mentioned earlier, I don't believe that, suddenly, everybody will do a "pill n chill" instead of a snack and chill going forward. The company faced a lot of negative narrative between the rise of Ozempic and the "cancellation negotiation play" done by Carrefour. Four months after making the media after pulling out all PepsiCo products, Carrefour struck a new deal with the snack & beverage company and we are back to business as usual. In the meantime, sales have been stable in 2024 and the management expects to end the year with low-single digit growth. Nothing to write home about, but it's not the destruction of the snack business due to everybody eating healthy and losing weight. The company is currently offering a higher yield than usual and trades at a lower forward PE ratio than its 5-year average.

Canadian Pick: Alimentation Couche-Tard (ATD.TO) (Core Holding)

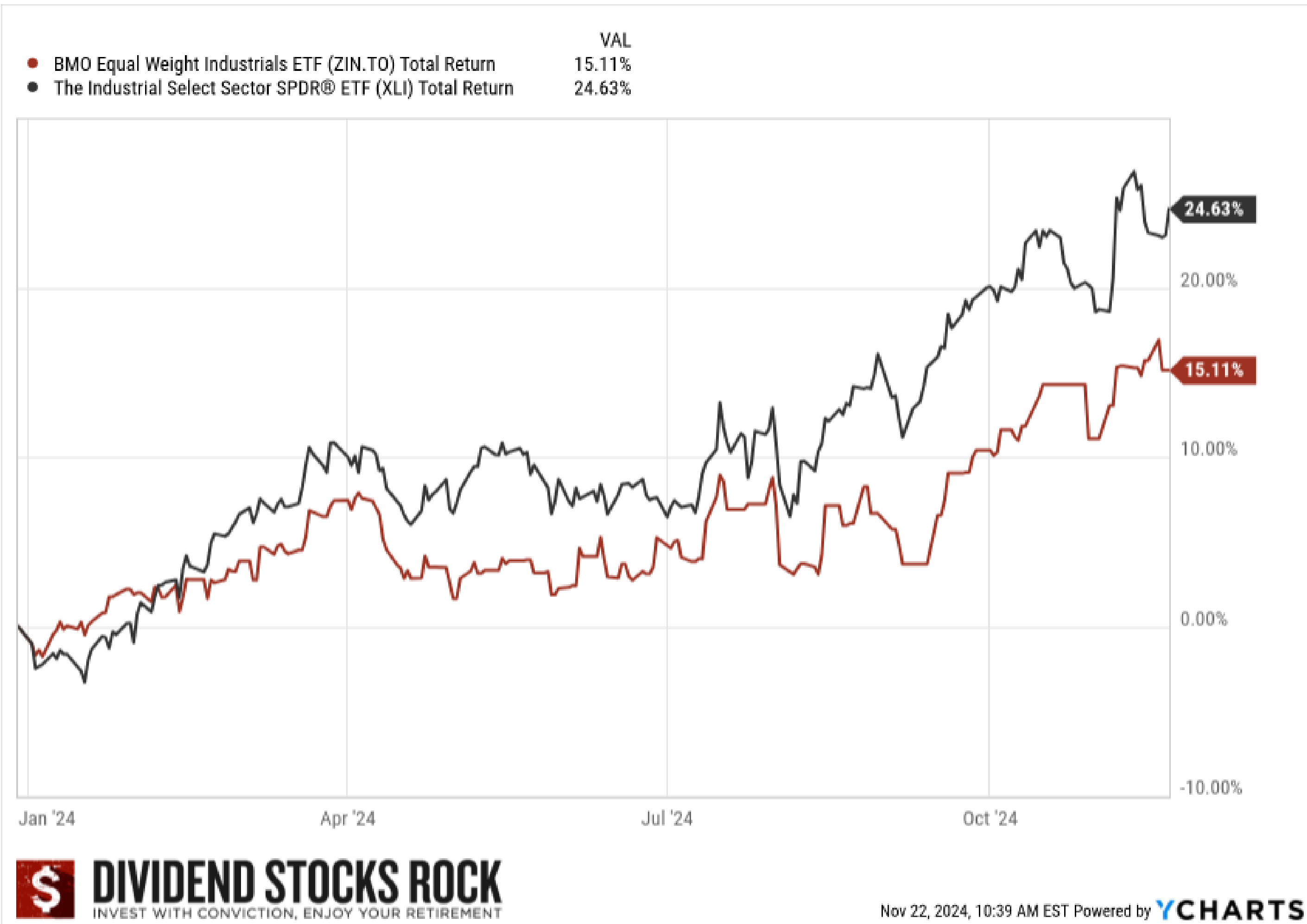
I might never have another choice for Canadian than Couche-Tard. I've looked at grocery stores, but Metro (MRU.TO) and Loblaws (L.TO) don't seem to offer many growth opportunities at this point. Don't get me wrong, they are great companies, but I think ATD will do better.

Things are changing quickly around the 7-Eleven deal. ATD has tried to get to the negotiation table to acquire 7-Eleven for a few months now. The Japanese company is trying all means to stay Japanese. The latest chatter was that the son's founder would buy it back and make it private. The market liked the idea, and the ATD share price rose again. This story isn't over yet one way or another.

For 2025, I see ATD striking another acquisition. After all, it's in its DNA. If it's not 7-Eleven, it will be another chain (maybe Casey's?... it tried to acquire CASY in 2010). ATD must gain more expertise in growing organically through the sale of read-to-eat and fresh produce. This is how they can mitigate the impact of slowing fuel and tobacco sales over the next 10-20 years.

INDUSTRIALS

Industrials are highly cyclical and will usually follow the economy. Many old industrials are "GDP+" types of businesses which means they will normally generate a little bit more than the economic growth of their market (either a country or the world for the bigger guys). The Transportation industry's volume (railroads, trucking, parcel delivery) depends on how much people consume. There are not as many resources or goods to transport if buying volumes are down. We may see this industry being affected by tariffs in 2025.



However, I would discourage you from making a play on a specific industry. Ironically, many military stocks (GD, LMT, RTX, BAH, LHX, NOC) dropped in November after Trump nominated a new Pentagon chief. When Trump won the election in 2016, those same companies thrived in November '16. When I think of industrial stocks, I like to think for decades to avoid short-term economic slowdowns. I can see a trend developing around the need for more energy and engineering firms' growing backlogs. This is a dynamic that could be driving industrial stocks for a while.

U.S Pick: Automatic Data Processing (ADP) (Core Holding)

I'm renewing my pick of ADP this year again as the U.S. economy has been more resilient than I expected. This means the job market should remain strong in 2025. For its fiscal year of 2025, ADP expects revenue to grow 6%-7%, adjusted EBIT margin to expand 60-80 basis points, and adjusted diluted EPS to increase 7%-9%. In other words, we are in for another year with a strong dividend triangle for this security!

Automatic Data Processing is the largest US-based payroll services provider. The company enjoys a sticky business model where most corporations will use ADP services for years. Once your payroll setup is rolling, why would you change it? Tight labor markets have worked in ADP's favor, leading to improved financial performance with a rebound in new bookings. ADP's recent efforts to increase investment in existing platforms and sales capacity should help boost their overall growth.

Canadian Pick: Waste Connection (WCN.TO / WCN) (Core Holding)

If you are looking for a beast in the industrial sector, you should probably look toward the waste management industry. I hesitated between Waste Management (WM) and Waste Connection, but I picked the latter as the dividend triangle was stronger. To be fair, both companies show a robust dividend triangle!

Waste Connections has refined its expertise in acquiring and integrating smaller players in the same industry. Its business model is recession-proof as solid waste is a given regardless of the economic cycle. I also like the fact that WCN offers a recurring service and that it is fully integrated. Management has been adept in integrating their acquired companies. Therefore, the business is not only growing, but also becoming more profitable. The company has the size to enjoy the resulting economies of scale. Its dividend payment is low, but its dividend growth is strong. While the company seems to be trading at a high PE, its forward PE (34.80) is lower than the average of the past 5 years (66).

FINAL THOUGHTS

Please use Top Stocks booklet with caution. I'm making this list and try to put as much context as possible, but you should still do your due diligence and determine if the risk for each holding is a good fit for your portfolio. I do this exercise diligently, but my crystal ball is not always clear!

Invest with More Confidence and Less Stress

If you are like most investors, you constantly struggle with the right time to invest in the right assets. When you have losing investments, you get stuck by paralysis by analysis. This confusion hurt your portfolio and prevent you from enjoying your retirement.

Just look at how Rick solved his investing struggles and reached investing peace:

> *"One thing that I, struggle with is knowing when to let go of a losing investment when it makes sense to do so. DSR provides quarterly updates of each subscriber's portfolio (PRO feature) that provide value and dividend safety ratings for each individual holding. This is a really helpful guide as to whether it is time to consider selling a loser. Another very useful feature is that his report also provides potential replacements with better ratings. This gives me an independent viewpoint of whether my holdings are the best ones to keep going forward.*
>
> *One great part of the DSR service is Mike's inter-activeness with his subscribers. He does this regularly through both newsletters and webinars. His webinars are highly interactive, with subscribers able to make comments and input questions as it goes. Each and every time I have sent a separate email to Mike's service he has personally responded with helpful input. I recommend this service to anyone who is focused on dividend stocks and values a separate analysis of their holdings to help verify their portfolio's value and safety."*

Rick Urquhart, DSR PRO members since September 25th, 2017.

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Mike, Passionate Investor
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