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Six dividend stocks with wide moats

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When Daniel Goodman and Effie Wolle are looking for promising stocks, they don't necessarily set out to buy dividend-paying companies.

But more often than not, that's what the co-chief investment officers at GFI Investment Counsel end up purchasing for their clients' portfolios.

Dividend stocks tend to possess many of the qualities GFI looks for in a company: They often have a durable competitive advantage or "moat," they throw off growing amounts of cash and and they enjoy strong pricing power.

Dividend companies also typically stick to what they do best, which minimizes the risk of destroying capital on unproven ventures.

"What you find with good dividend-paying companies is that they tend to be very disciplined with capital allocation," says Mr. Goodman, who is also president and chief executive of GFI, which manages about $380-million on behalf of high net worth clients.

And, of course, dividend-paying companies send investors a chunk of cash every three months, which makes them ideal investments for clients requiring income.

One thing GFI scrupulously avoids are investment "fads."

"Whether it's a few years ago in molybdenum, whether it's dot-coms in 1999-2000 or social media the last few years, we're not looking at a sector because it's being talked about in the media. We're looking for something that has sustainability and something that will be around for decades to come," Mr. Wolle says.

I asked Mr. Goodman and Mr. Wolle to discuss some of their current dividend stock holdings. Some will be familiar; others might surprise you. Remember to do your own due diligence before investing in any security.

Procter & Gamble
Price: $79.58 (U.S.); Yield: 3.2 per cent

Thanks to its stable of global brands, including such heavyweights as Tide, Crest, Pampers, Gillette and Duracell, Procter & Gamble has built strong customer allegiance that gives it formidable pricing power. Even with competition from cheaper private-label competitors, "people are willing to pay that incremental dollar to have those brands," Mr. Wolle says. P&G's dividend growth record speaks volumes: It has raised its payment for 58 consecutive years.

Whistler Blackcomb Holdings
Price: $17.14; Yield: 5.7 per cent

Because Whistler Blackcomb's world-class resort in British Columbia draws well-heeled skiers from around the globe – in addition to plenty of locals – the company has been able to raise prices slightly faster than the rate of inflation without putting a dent in demand. What's more, it's insulated to an extent from unfavourable weather because many visitors pay for their trips well in advance.

As for the juicy dividend, "I believe it is safe given the stability we have seen in their cash flow," Mr. Wolle says.

Canadian National Railway
Price: $67.94; Yield: 1.5 per cent

CN's yield alone won't make you rich, but the dividend has roughly doubled over the past five years and the share price has gone for a nice ride, too. Canadian National and Canadian Pacific have a duopoly on rail traffic in this country – the barriers to entry are far too high to allow a third competitor – and rail will remain a dominant form of transportation for goods "until we find out how to teleport things," Mr. Wolle says.

Automatic Data Processing
Price: $78.22 (U.S.); Yield: 2.5 per cent

Automatic Data Processing provides payroll, human resources and benefits services to businesses large and small. Once it gets its foot in the door, it tends to stay with a company for years. "It's a very sticky business. Companies aren't going to switch providers because of a slight increase in price," Mr. Goodman says.ADP's scale and expertise allow it to serve clients that operate across jurisdictions with different tax codes, giving it an edge over smaller competitors. The dividend has grown by 7.8 per cent annually over the past five years.

Silvercrest Asset Management
Price: $17.50 (U.S.); Yield: 2.7 per cent

Silvercrest is a U.S.-based investment firm that manages about $16-billion in assets, primarily on behalf of wealthy families, endowments and foundations. "When we started to research Silvercrest and recently met with the CEO, one of the things that struck us the most was ... their culture of doing right by clients and charging fairly, and that's what really attracted us to the company," Mr. Goodman says.

Bank of Nova Scotia
Price: $71.01; Yield: 3.6 per cent

GFI singled out Bank of Nova Scotia among Canadian banks because of its low cost structure, and because it's chosen to expand primarily in Latin America and Asia instead of in the fiercely competitive U.S. market, Mr. Wolle says. "While there are risks in being in economies that are younger and still growing, the bank is diversified across several of them and it's a weighting of their income that we're comfortable with," he says. Since the first quarter of 2011, Scotiabank has raised its dividend six times, proving that if you invest in high-quality dividend payers, you might get richer than you think.