Morningstar Highlights Top Dividend-Paying Stocks

By Dave Lindorff Financial Planning
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With the risk of a second downturn in the U.S. economy rising and debt problems continuing to plague Europe, many investors are shunning the equities market altogether. Meanwhile, the rush to safety in fixed-income investments has driven yields down to “incredibly low” levels, according to analysts.

In this scenario, the analysts at Morningstar say dividend-paying stocks offer a good alternative that often -- as is the case now -- significantly outperform the S&P 500 and the bond market.

To help investors and advisors locate companies that can offer the best chance of solid and reliable yield performance, the analysts have selected a group of 10 companies using a screen that only looks at dividend-yielding stocks that are each held by at least five of Morningstar’s group of so-called “Ultimate Stock Pickers.”

Their Top 10 picks, ranked by yield through Sept. 9, include:

-- Vodaphone (VOD), with a yield of 5.4%

-- Eli Lilly (LLY), with a yield of 5.3%

-- GlaxoSmithKlein, with a yield of 5.2%

-- Merck (MRK), with a yield of 4.6%

-- Pfizer (PFE), with a yield of 4.1%

--Conoco Philips, with a yield of 3.8%

-- Sysco (SYY), with a yield of 3.8%

-- Phillip Morris, with a yield of 3.7%

--Intel, with a yield of 3.7%

-- Abbott Labs, with a yield of 3.6%

Brett Horn, associate director of equity research at Morningstar, points out that the list of top dividend-paying stocks has changed dramatically over the past few years, shifting away from financials -- there are none on this year’s list -- to pharmaceutical companies, which now occupy five of the 10 spots on the list.

Financials, Horn notes, were hurt by the financial crisis, and most companies in that sector cut their dividends and, in some cases, even eliminated them in 2008 and 2009. Lately, financial companies have also been underperforming the S&P, which has also made them less attractive as investments.

Pharmaceutical companies, meanwhile, while facing issues like the expiring of patents on key drug products, are strong cash generators and are also relatively independent of the economic cycle.

Nearly all the companies on the list, adds Horn, are “wide-moated,” meaning that they are competitively positioned to survive difficult economic times. They also have strong cash positions that make it likely that they will be able to continue to pay, and even to raise dividends.