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These 7 dividend stocks may provide income as inflation erodes purchasing power, says a fund manager who has performed better than 96% of his competitors this year

James Faris

- **Mike Morey, who runs the Integrity Dividend Harvest Fund, is thriving this year.**
- **Income investing has come back into style as inflation surges and recession risk rises.**
- **Here are seven dividend stocks that may hold up well in an economic downturn.**

As the cost of living rises at the fastest pace in over 40 years, investors have increasingly turned to dividend-paying stocks in their search for income.

That has helped funds like the Integrity Dividend Harvest Fund (IDIVX) come back into favor after years of being beaten by growth stocks. In fact, the income-focused fund run by portfolio managers Mike Morey, Shannon Radke, Joshua Larson, and Trey Welstad, has topped 96% of competitors this year, according to Morningstar.

But what's even more impressive is that the Integrity Dividend Harvest Fund is currently Kiplinger's second-ranked large-cap fund, based on its 9.1% total return in the past year, as of June 30. For reference, the S&P 500 was down 12.4% in the same 12-month span. In addition, the mutual fund has a 3.1% dividend yield that's nearly double that of the S&P 500's 1.6% yield.

In a recent interview with Insider, Morey, who's also the chief investment officer for Integrity Viking Funds, spoke about his fund's strategy and some of his favorite stocks. The investment chief said that the key to his fund's drastic outperformance in the past year is its tight focus on quality stocks that provide high, reliable dividend payments in any market environment.

"Our fund generates significant alpha during market pullbacks, and this is evident on every single pullback that we have had since the inception of the fund," Morey told Insider. "So where we are on the market cycle really doesn't affect our process of owning these quality companies with rich histories of dividend payments."

How to succeed at income investing

There are three simple goals that Morey and his fellow portfolio managers try to hit, he said: maximize current income, maximize income growth, and minimize risk.

Achieving that trifecta is a challenge. As fellow top dividend fund manager Daniel Peris recently noted, many stocks don't offer attractive dividends — if they have one at all — and those that do tend to have lower growth rates, since continuing to increase an already lofty dividend gets more difficult over time. Also, firms with high dividends aren't necessarily the most financially stable.

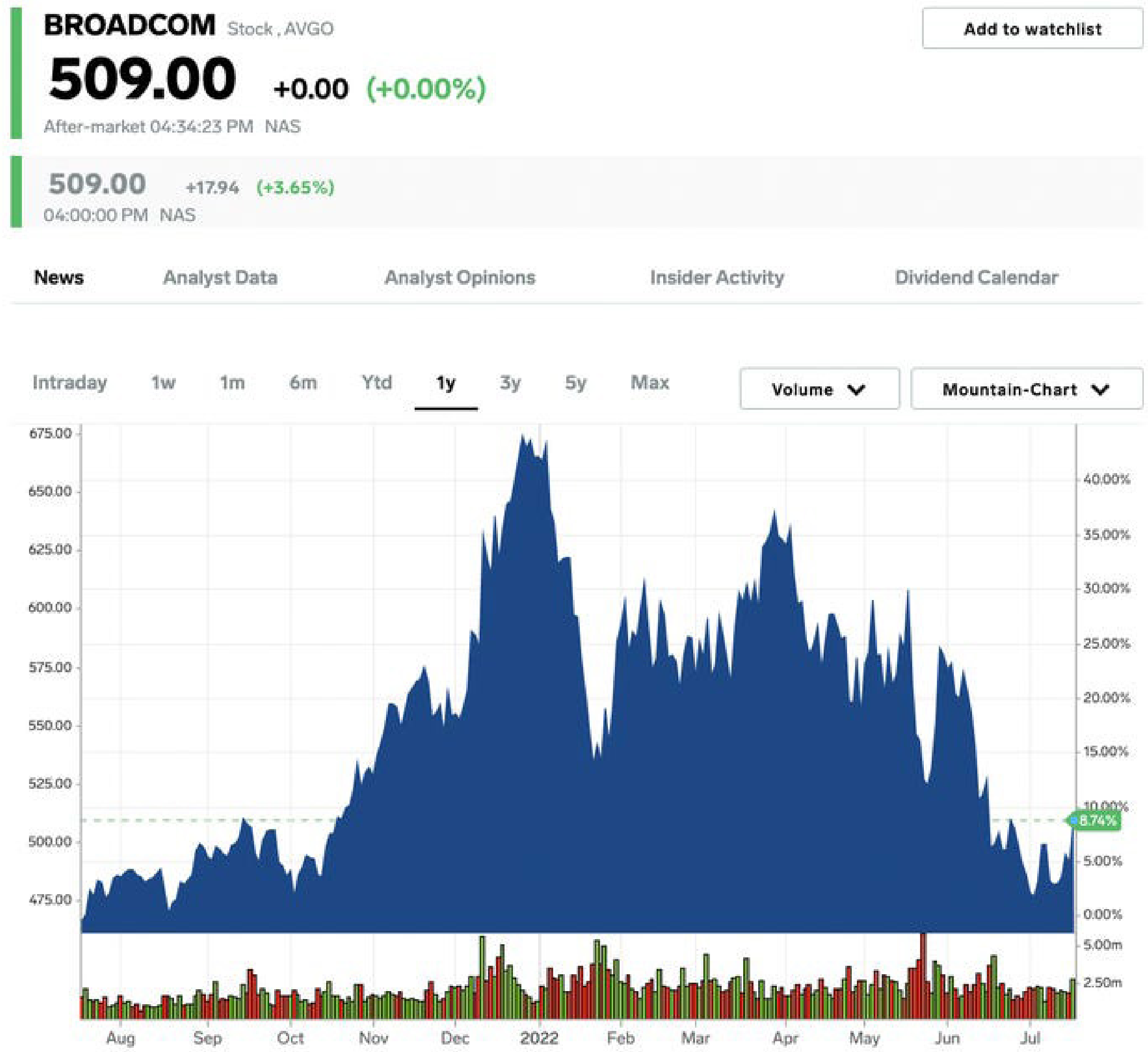
When aiming to check those three boxes, Morey said he looks for a company with a **high current dividend yield**, a **long track record of boosting its dividend**, a **high free cash flow level**, a **low beta**, and a **stable market capitalization**. Sticking tightly to this process has allowed the Integrity Dividend Harvest Fund to boost its own dividend yield each year since its inception in 2012, the portfolio manager said.

Morey's fund is fairly diversified across sectors, the portfolio manager said, though there are a few groups that he said have an especially large weighting: **consumer staples**, **utilities**, **healthcare**, **technology**, **energy**, and **financials**. The former three are defensive in nature while the latter three are more cyclical, which helps Morey's fund succeed in any market environment. That's especially relevant if the US is heading for a recession, as many pundits have predicted.

7 top dividend stocks

Of the 53 stocks in Morey's fund, seven names stand out, in the portfolio manager's view. Below is the case that Morey made for each firm, along with its ticker and market capitalization.

1. Broadcom



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Ticker: AVGO

Market cap: $205.5B

Thesis: "They've grown their dividend by over 35% compound annual growth rate over the trailing five years and is currently yielding 3.4%."

"You're taking on a little bit more risk by investing in a name that's more tech-oriented, but the recent acquisition of VMware further diversified the company's software division where over 50% of their revenues are now going to be coming from recurring software sales."

"So this is a subscription business model, and this is going to provide stability of both free cash flows and enhance the dividend profile of the company. So we're very comfortable with a name like that. It gives us a little exposure to tech, and it also gives us a much better profile."

"One question I get a lot: 'How does Broadcom get into the portfolio when it doesn't have a long track record of raising its dividends?' And I'll always highlight that it was a growth company that's become more of a value-oriented company."

"It decided to begin paying a dividend 11 years ago, and it's raised its dividend ever since. And as I mentioned, a 35% compound annual growth rate over five years is quite impressive."

"Another thing we like about Broadcom is it has over 20,000 patents, or nearly 20,000 patents. And they've been really focused on R&D to improve its already-wide moat."

2. Exxon Mobil

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Ticker: XOM

Market cap: $371.9B

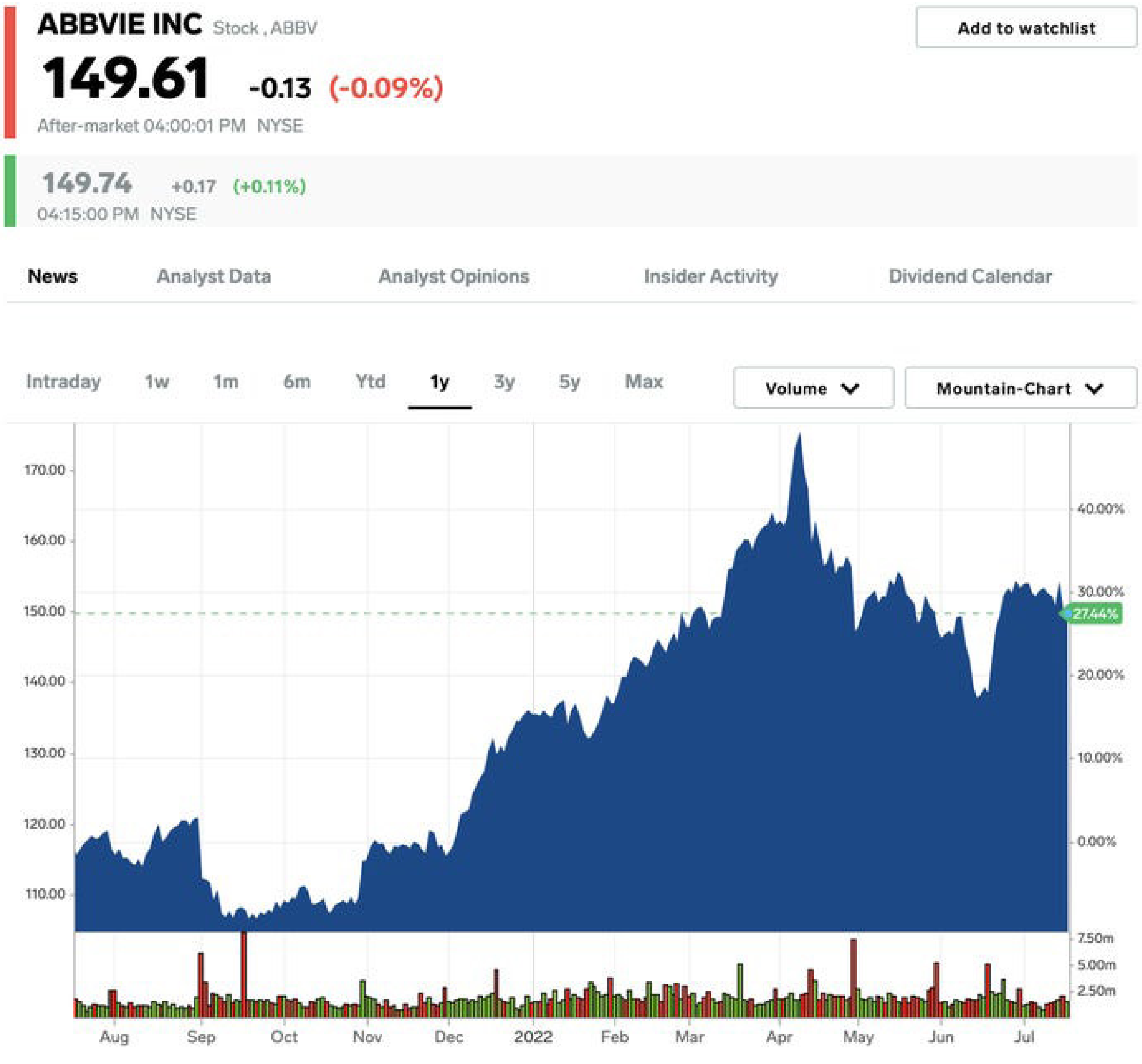
Thesis: "If we do go into a recession, I think there's definitively downside for the energy sector. But if you take a three- to five-year picture or viewpoint of the sector, we definitely think there's a lot of continued upside."

"The obvious winner would be Exxon Mobil. How they fit our process is pretty clear: they have 39 consecutive years of raising their dividend."

"What we really like about Exxon is there are two points that are going to lead to significant production growth for them, which is not something you're seeing from a lot of energy companies. As you know, a lot of companies have reduced their capital expenditure programs to become more balanced and minimize growth and become more focused on returning cash to shareholders.

"They're the most diversified energy company in the world with revenues coming from upstream, midstream, downstream, as well as their chemical division. So that provides stable cash flows, and it's a contributing factor to Exxon's long dividend track record."

3. AbbVie



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Ticker: ABBV

Market cap: $264.6B

Thesis: “Our number one holding is AbbVie, so we’re looking at that name. They have raised their dividend for 52 consecutive years. They pay a 3.5% yield.”

“The big concern that investors have on AbbVie is their biosimilar competition coming up on Humira, which will be starting in 2023. So what AbbVie has done is they’ve significantly diversified their pipeline, and that’s largely driven by their acquisition into Allergan and also new products in their own pipeline. So two of those products that are driving growth for them now and are projected to make up for all the lost biosimilar competition from Humira are Skyrizi and Rinvoq. They’re kind of their key drugs there.”

“The company’s dividend is extremely safe, despite it being above-average. And it’s expected to have a payout ratio — currently it’s under 50% and is likely going to be maintained below 50%.”

4. Coca-Cola

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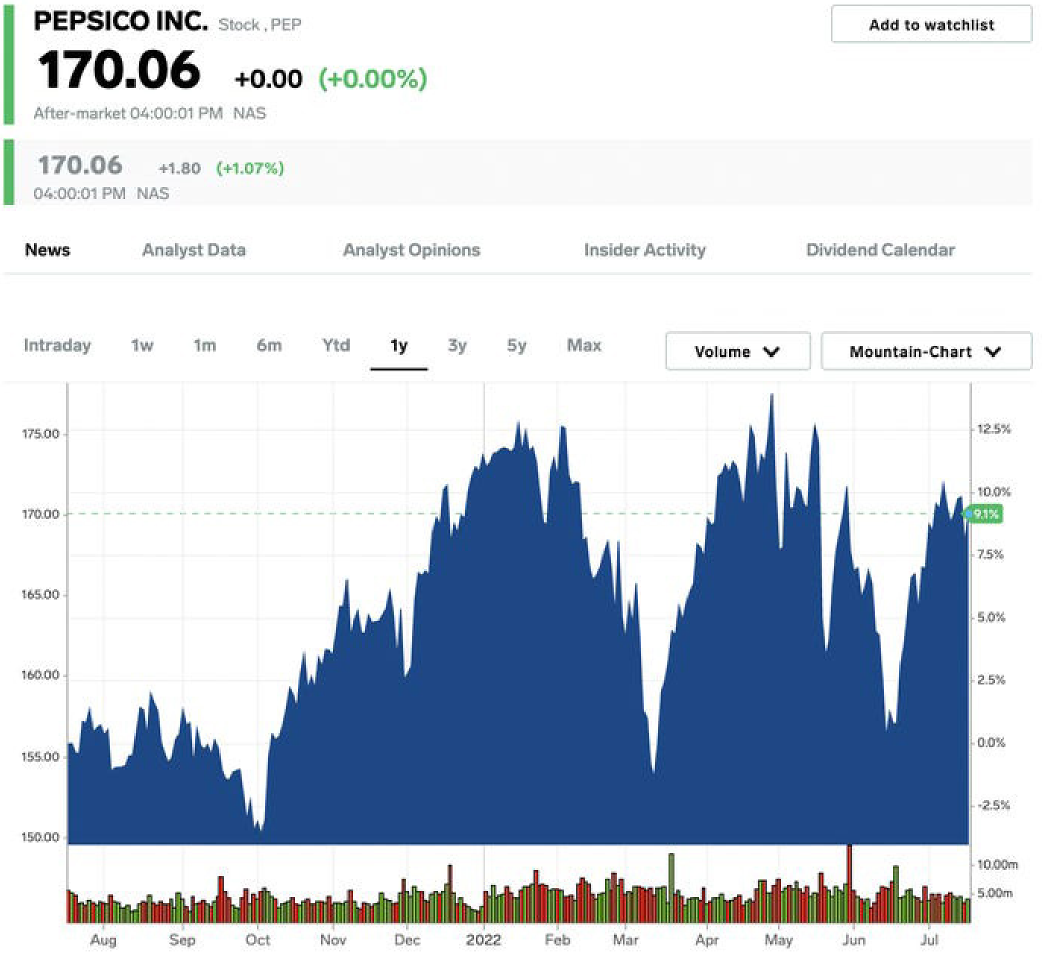
Ticker: KO

Market cap: $271.1B

Thesis: "Looking at Coca-Cola, they've got a 59-year consecutive track record of raising their dividend. One of the most recognized companies in the world, they have two distinct competitive advantages: their strong brand and their global sales."

"And a reason why I'd own a name like this, you just get consistent growth — albeit lower than what a lot of people would want — but it also gives you a lot of stability. And then look at how Coca-Cola performed over the great recession. It grew its earnings per share by 36% between 2007 and 2010. It just shows the durability and the strength of Coca-Cola's business model."

5. PepsiCo



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Ticker: PEP

Market cap: $234.7B

Thesis: "Pepsi's kind of the same story. They just recently raised their dividend by 7% earlier this year, which would mark their company's 50th consecutive year of raising its dividend, which makes it now a dividend king."

"They have strong growth within their snacks, and they've been making a bigger shift towards healthier foods and beverages. And that's due to the more healthy-conscious consumers and the trend toward that division."

"They have 23 individual brands that eclipsed $1 billion in revenue. That really shows you that diversification of Pepsi. And — very similar to Coca-Cola — during the great recession, Pepsi's earnings only dropped 3.9% in 2008, and it followed it up by 17% growth of their earnings in 2009. So very, very sticky brands and just almost call it a 'recession-proof' stock."

6. Kimberly Clark

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Ticker: KMB

Market cap: $44.6B

Thesis: "Kimberly Clark or Procter & Gamble are two more good examples, very similar to Coke and Pepsi where they're very recession proof."

"And in this inflationary time, we look at these names, and we've just got to guide their ability to pass on that inflation. And we're seeing it in both companies. And they're selling everyday necessities that people need, regardless of whether we're in a recession or not."

"And their long histories of raising dividends make them fit in the fund extremely well. They're growing their free cash flow enough to not only cover but to consistently raise their dividend payments."

7. Procter & Gamble

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Ticker: PG

Market cap: $345.6B

Thesis: Morey’s thesis for Procter & Gamble is the same as his thesis for Kimberly Clark.