1 Dividend Stock to Buy, and 1 to Avoid

Description

These days, it seems that there's nothing more popular among investors than a big fat dividend. It's easy to see why. Low interest rates make bonds unattractive, and dividends are a reasonable alternative. Many people are still scarred by the financial crisis, and don't want to count on capital gains. Finally, many investors are entering retirement and are looking for steady income.

In short, dividend investing is supposed to come with stability, peace of mind, and a long-term mindset. Yet in Canada there are many companies that offer a big dividend, but are not so secure. These are the types of companies you should avoid.

With that in mind, below we take a look at two companies with dividend yields just under 4%. One is a stock to consider, the other is a stock to avoid.

The good: Fortis

Fortis (TSX: FTS) is Canada's largest investor-owned distribution utility, and also one of the country's most stable companies. This should come as no surprise — after all, even when the economy is doing poorly, we still need to keep the lights on.

It also has an excellent track record. In fact, the company has raised its dividend every year for over 40 years. However, recently the stock has lagged the index, partly due to rising interest rates making the dividend less attractive.

This is exactly the kind of stock that dividend investors should be looking for: a safe, reliable payout that you can count on for many years.

The bad: Teck Resources

Teck Resources (TSX: TCK.B)(NYSE: TCK) is Canada's largest base metals miner, with a market capitalization of $14 billion. The company makes about half its profit off of steelmaking coal, a product whose price is almost entirely dependent on China. The world's most populous country is also by far the largest producer of steel, accounting for nearly half of the worldwide total.

In recent years, this has been very bad news for Teck. China's construction boom has slowed, causing a decline in demand for steel, and a decline in the price for Teck's coal. If that isn't bad enough, many observers believe the worst is yet to come.

To make things clear, Teck may yet make a great investment; after all, its stock price is beaten up and may be undervalued. However, it's not an ideal dividend investment, because if you're looking for dividends, that means you should be looking for safety — and this is not the place to find it.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:FTS (Fortis Inc.)
3. TSX:TECK.B (Teck Resources Limited)

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