# Avoid Any Stock Yielding More Than 5%! Here's Why

## Description

If you're retired, nearing retirement, or otherwise looking for some regular investment income, Canada offers some pretty compelling options. As of this writing, eight stocks in the **S&P/TSX 60** yield more than 5%. But these stocks aren't just risky. They're simply not worth holding. There are three big reasons why.



**1. Risky companies**

First of all, it's important to remember why we like dividends in the first place. They allow us to sit back, collect our regular income, and not worry about the stock market's ups and downs. But six out of these eight high yielders are energy companies. So all of a sudden, your dividend investment has turned into a bet on oil prices.

The other two options aren't any safer. One of them is troubled coal power generator **TransAlta Corporation** (TSX: TA)(NYSE: TAC), whose stock has fallen by 50% over the past three years, and whose dividend was cut by 38% earlier this year.

The other is diversified miner **Teck Resources Inc.** (TSX: TCK.B)(NYSE: TCK), whose shares have fallen by 75% since 2011. And the news could easily get worse – Teck's fortunes are very dependent on the Chinese economy. If the country goes through even harder times, then Teck's share price – as well as its dividend – could decrease significantly.

**2. Always enough demand for these companies**

Despite these issues, plenty of investors seem willing to hold the shares, for a couple of reasons.

First of all, some investors have already lost a lot of money, and just want to "see what happens." In other words, they don't want to sell at a loss (doing so is very difficult psychologically). Secondly, dividend investing is very popular, and big yields are not easy to find. So there are always investors willing to take a chance for some extra income.

As a result, there's always plenty of demand for these high-yielding stocks. And that means they're unlikely to trade at a true bargain.

**3. Dividend cuts still catch everyone off-guard**

If you still don't believe me, just look at what happened when some of these companies cut their dividend.

Last week, **Canadian Oil Sands Ltd.** (TSX: COS) cut its dividend by 42%. Such a move was inevitable in the face of growing debt, inconsistent operations, and plunging oil prices. Yet the stock still fell by more than 16% the next day.

Or look at what happened yesterday, when struggling asset manager **AGF Management Ltd.** (TSX: AGF.B) cut its dividend by 70%. The move was certainly the right one, and will give the company much-needed flexibility. But the shares still fell by 15% in response.

And remember when TransAlta cut its dividend earlier this year? The company should feel lucky its shares fell only 7.4%.

In each of these cases, there was a large number of shareholders just hoping that the dividend wouldn't be cut. And no matter how much the company was struggling, they just wanted to "see what happens." Don't make that same mistake today with the TSX 60's highest yielding companies.



**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:AGF.B (AGF Management Limited)
4. TSX:TA (TransAlta Corporation)
5. TSX:TECK.B (Teck Resources Limited)

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bensinclair