Dividend Investors: 2 Must-Do Things in a Falling Market

Description

When the market falls, it's an opportunity to buy more. In the past week, the **S&P 500** has fallen 5.7%, the **Dow Jones Industrial Average** has fallen 5.2%, while the **S&P/TSX Composite Index** has fallen 5.2%. It surely looks like the sky is falling and more pain is coming.

Dividend investors like you have the upper hand because your dividend investments will help to create a cash flow for buying. However, you shouldn't just buy immediately when you see the market falling, and shares are cheaper now than they were last week. Instead, you should first review your watch-list of quality dividend stocks. A watch-list is a dynamic list of stocks that you want to keep track of if you intend to buy shares in them.

1. Review your watch-list of quality dividend stocks

By reviewing your watch-list, you might decide that some companies aren't as high quality as you thought. For example, as the oil price continues its path downward, some companies in the oil patch have cut or even eliminated their dividends, including **Bonavista Energy Corp.,** which has cut its dividend twice since 2012.

You might have also come across quality companies that you want to add to your watch-list. For example, although **Emera Inc.** (TSX:EMA) has *only* increased dividends for eight years, it has had experienced higher growth. (Its dividend-growth streak is not very long compared with **Fortis Inc.** and **Canadian Utilities Limited,** which have a +40-year streak.)

Emera's growth resulted in an annual payout growth of 18.8% in August. The company also hiked its dividend-growth target from 6% per year to 8% per year until 2019.

2. Reset the buy zones of your watch-list

It's not enough to know which companies are on your watch-list. The next step is to determine the buy zones based on price range and/or yield range. The price range would be based on some valuation metrics that could include comparing the price-to-earnings, price-to-book, price-to-sales, or price-to-cash-flow ratios. It's likely that you won't use all of the above, but it's good to compare the current values to the company's historical values to see if it's cheap to buy.

The simpler way to determine buy ranges is to use a target yield range. That is, determine the minimum yield that you are willing to buy a company. Now that the market is falling, the minimum yield of 4.5% from **Bank of Montreal** (TSX:BMO)(NYSE:BMO) may not be enough anymore. It used to be good value when compared with other similar yields that were available. But now you require Bank of Montreal to have a minimum yield of 5%.

Since the bank pays a quarterly dividend of $0.82 per share, a 5% minimum yield would imply a maximum price of $65.60 per share that you would pay. That is only a fall of close to 5% from Friday's closing price of under $69 per share, which is possible.

That is, you might have bought shares of Bank of Montreal with the 4.5% yield. But your next buy would aim for a 5% yield. And the next one after that might aim for a 5.3% yield. In so doing, you're averaging into a position as the price continues to fall. The magical part is, the yield would increase, so you get more income with the same amount invested as before.

In conclusion

As the market falls, it's a good time for Foolish income investors, like you, to review your watch-lists and to determine buy zones based on a price range and/or a yield range. Using a yield range may be more straight forward for some compared with using a price range.

Either way, we'd all like to buy at a lower price to get more value, but it's impossible to predict the market. So, dollar-cost averaging at desired buy zones is a logical way to invest while you receive a growing income from your current dividend investments.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:EMA (Emera Incorporated)

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