Get Lower Prices for Long-Term Gains in a Down Market

Description

They say “sell in May and go away,” and maybe return in October for the end-of-year rally. That’s what we hear anyway. Well, this year it actually happened.

But if you follow the story, the market has only fallen with increasing drama since last Wednesday. Within a month the market has fallen about 10% in general. The **iShares S&P/TSX 60 Index Fund** fell 7.5%, the **SPDR S&P 500 ETF Trust** fell 8.9%, and the **Dow Jones Industrial Average** fell 9.7%.

I like to see market sell-offs as the market throwing a tantrum. The tricky part is you don’t know when it will stop, but you don’t have to.

Lower prices = higher income

Lower prices imply a higher income or yield. **Canadian REIT** (TSX:REF.UN), a conservatively run, diversified REIT that owns retail, industrial, and office properties can be found at a price 7% lower than it was a month ago.

It fell from over $42 per unit to $39.7 per unit and now yields 4.5%. Its payout ratio is only about 60%. Along with its history of increasing payouts, it’s likely it will continue hiking its distribution. It is a good candidate for an income-oriented portfolio.

Investors looking for income cannot ignore the solid Canadian banks. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) both yield 5% or higher after the market tantrum.

Year-to-date, Canadian Imperial Bank of Commerce has fallen 13.9%, while Bank of Montreal has fallen 19.5%. If you’re extra careful, you might set your limit order at the 5.3% yield to start. That would imply a price of $82.26 for Canadian Imperial of Commerce, and a price of $61.89 for Bank of Montreal.

Lower prices = higher long-term returns

Paying a lower price not only implies a higher yield for dividend stocks, but also higher long-term returns. As a long-term investor, my hope is to build a high-quality, diversified dividend portfolio with the intention of never selling.

Over time, buying on the dip will lead to higher returns. Dividend portfolios are great because they help investors hold on because they pay you income even in a down market. Those dividends are a part of that long-term return as well.

Some investors lose big because they sell at the wrong time. I think selling now is the wrong move because investors who sell at a loss may not know when to enter again. It's a much better strategy to buy quality dividend companies on market dips and hold on to their shares.

In conclusion

Your income from quality companies can only grow, not diminish. Focus on the income and not the stock price volatility, and the long-term returns will take care of themselves. Only focus on the price when you decide at what price you want to buy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BMO (Bank Of Montreal)
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