What Should Dividend Investors Do When Prices Fall?

Description

When stock prices fall, shareholders mostly feel pain and are reluctant to look at the share prices. However, if investors had bought quality companies that are expected to become more valuable over time, there shouldn't be a need to worry. It's easier for shareholders of quality dividend companies to hold on to the shares when prices fall.

When the share prices of these quality companies fall, it's time to buy because these companies will continue to pay dividends and may even increase them. And as a dividend stock's price falls, the yield becomes higher. So logically, shareholders should buy more.

Here's what dividend investors should do when price falls.

Review your watch list and monitor allocations

Review the list of quality dividend companies you'd like to own or buy more of. You can decide based on the quality of the company how much of it you should hold in your portfolio, how many companies of the same industry you already hold, and how much income it generates for your portfolio.

For example, if you determine that **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is high quality, you still probably don't want it to make up, say, 50% of your portfolio. Instead, you might decide that the maximum you'll hold of any company is 5%.

If anything goes wrong with the company or the dividend, your portfolio or income stream will not be wiped out. Likewise, you probably don't want half of your portfolio to be in energy-infrastructure companies, even if they're high quality.

Generally, investors should diversify their portfolio to their comfort level, but at the same time they shouldn't over allocate in any one company or industry based on their current market value or based on the percentage of income they generate for your portfolio.

Set desired yield points

Once you've decided that you want to buy more shares of Enbridge, you can set the desired yield points you wish to buy it at. Historically, Enbridge seldom reaches the yield of 5%.

So you might tell yourself to average in at yields of 4%, 4.5%, and 5%. This way, you buy more shares at lower prices as they play out.

You might ask, "Why not just buy at 5%?" Yes, you could do that, but there's a chance that it'll be a very long time before that happens. If that's the case, it would be a long time before you could buy its shares.

If you're all right with not buying this particular company for a long time, then that's fine. You can set strict yield point; there may be a slim chance that the company will reach that yield, but if it does occur, you'll likely be buying shares on sale.

After all, there are many quality companies to choose from.

Conclusion

When share prices fall, dividend investors should review the list of quality companies they want to buy more of. Then investors should decide which ones to buy based on allocation and set the yield points they want to buy at. By buying low, investors will get higher yields and more income.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:ENB (Enbridge Inc.)
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