Income Investors: Market Dips Mean More Money in Your Pocket

Description

Which way the market goes next is anyone's best guess. All I know is that the recent market dip also brought down the share prices of quality dividend stocks. For income investors, this is a gift. They can buy cheaper assets for more income.

Banks and telecoms are mature businesses in Canada, and they operate in an oligopolistic environment, so there's limited competition. Additionally, they have histories of sharing profits with shareholders in the form of dividends. These are regular paycheques that are deposited directly to your bank account!

Stock prices are unpredictable, but dividends from quality companies, such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Telus Corporation** (TSX:T)(NYSE:TU), are more predictable and reliable. Canadian Imperial Bank of Commerce has paid dividends since 1868, and Telus has paid dividends since 1916.

Let's compare the income raise of shares before and after the recent market dip.

Canadian Imperial Bank of Commerce

A few months ago Canadian Imperial Bank of Commerce was trading at $102 for a 4.4% yield. Today at under $89, the fifth-largest Canadian bank by market cap yields 5.2%. Other than the price pullback, the high yield is also a product of a quarterly dividend increase of 2.7%. In fact, the bank increased dividends by 11.7% last year.

If you bought 100 shares for $10,200 when Canadian Imperial Bank of Commerce was $102, you would receive $460 in annual income going forward, assuming its quarterly dividend doesn't change. The more likely scenario is that the dividend will increase this year.

If you used that money to buy 114 shares for $10,146 today, you would receive $524 in annual income going forward. Your income would have essentially increased by $64, or 14%!

Telus Corporation

The market dip also brought Telus's share price down to $37.80 with a yield of almost 4.7%. Just in July Telus was trading at $45 with a 3.7% yield. Since then Telus increased its quarterly dividend by 4.8%. In total, Telus increased the dividend by 10% last year–not bad for a mature company.

If you bought 100 shares for $4,500 when Telus was $45, you would receive $176 in annual income going forward. If you used that money to buy 119 shares for $4,498 today, you would receive $209 in annual income going forward. Your income would have essentially increased by $33, or almost 19%!

In conclusion

There's no way for anyone to know where the market is heading next. There's one thing we know, though. As prices fall, yields go up (assuming dividends are maintained). That is if you buy quality dividend companies on dips, your income increases.

So, there's no need to panic during a market dip. In fact, if you're a true income investor, you should be reviewing your watch list to determine which dividend companies to buy.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TU (TELUS)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:T (TELUS)

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