Dividend Investors: Don't Do These 3 Things As the Market Falls

Description

On *The Business News Network*, a viewer called to ask whether he should continue holding his big Canadian bank stocks or sell now and wait to buy back later because they were "falling like a rock."

The guest speaker outlined everything I like about the Big Five Canadian banks. The banks have been in business for over 100 years, they have consistently paid and increased dividends, and they're priced at low valuations.

Actually, the banks aren't the only stocks that have been falling in the past year. **iShares S&P/TSX 60 Index Fund** (TSX:XIU), which is representative of the Canadian stock market, has fallen 21% from its 52-week high. Comparatively, the bank leader, **Royal Bank of Canada** (TSX:RY)(NYSE:RY), has fallen almost 18% from its 52-week high. In a falling market, all stock prices fall, even quality businesses such as Royal Bank.

There are several things investors *shouldn't* do in a falling market.

Don't panic

The viewer who'd called *The Business News Network* sounded like he was panicking. No investor likes to see their investments lose value; however, if you can't bear to see your holdings tick down, you shouldn't be buying stocks. It's inevitable that you'll experience a down market sooner or later, and it sure looks like we're experiencing one now.

Don't sell quality dividend stocks

Usually, when investors panic or get emotional, they will quickly sell their stocks to get rid of the paper losses they're seeing. You don't lose money until you sell your stocks at a loss.

If you're holding quality dividend stocks such as Royal Bank, you should continue holding them. For example, at $67, Royal Bank trades at 10 times its fiscal year 2015 earnings. If anything, investors should be buying Royal Bank and other quality dividend stocks at these attractive valuations.

Royal Bank yields 4.7%. If you sell it now, what will you replace it with that has the same quality and yield?

Don't sit on the sidelines

If you have been building a larger than usual cash position of 15% or more of your portfolio in this falling market, congratulations! You've beaten the market in the past year. Although cash doesn't generate much return in a low-interest rate environment, cash works wonders in a down market.

Cash is useful because it can be used to buy quality dividend stocks on the cheap. However, don't sit on the sidelines for too long. You eventually have to buy something if you want that money to work for you. If you’re worried the market will continue falling, ease in to your positions gradually over time.

As the market falls, quality dividend stocks become more attractive and offer higher yields. Investors should review their investment plans and buy quality dividend stocks at desired yields on the cheap.

Conclusion

If you’re a long-term investor, especially one with a 10-year or longer time horizon, you should welcome this market dip. You can buy quality assets at cheap prices, and they will generate higher returns for you in the future. Quality dividend stocks offer higher yields as their prices go lower.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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2. TSX:RY (Royal Bank of Canada)

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