



Caution: Know the Kind of Stock You Hold

Description

Income investing requires an entirely different mindset from capital gains investing. **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) pays no dividend but shot up 40% in three days. That's four times the average market returns of 10% per year! However, know that Baytex has actually fallen over 93% from its 2014 high of \$47. Other stocks pay dividends that are more predictable than stock prices.

It's difficult to switch the mindset from going for capital gains to going for income. To make matters more complicated, there are investments that could provide both capital gains and income. Investors should know what to expect from each investment *before* investing.

Capital gains investing

I would categorize Baytex as a speculative investment. Amid falling oil prices, Baytex had no choice but to cut and eventually eliminate its dividend. However, if oil prices rise to higher levels, it could be a 10-bagger. Buying Baytex at under \$3 today is like gambling. You could win big, but you could also lose it all.

Income investing

Income investing is more predictable and reliable than investing for quick, monstrous stock appreciation. Baytex did pay a dividend before, so investors should keep in mind what kind of earnings a company earns.

Baytex's earnings and cash flows are dependent on commodity prices, so its dividend should not be trusted wholeheartedly, just like other energy and mining companies that pay dividends.

The types of companies that I have in mind for income investing are ones that earn stable earnings. The best Canadian utilities are among the top dividend-growth companies in Canada. They include **Fortis Inc.** ([TSX:FTS](#)) and **Canadian Utilities Limited** ([TSX:CU](#)), which have increased dividends every year for four decades!

At \$38.50, Fortis yields 3.9%, and it last increased its dividend in November by 10.3%. At \$33.30,

Canadian Utilities yields 3.9%, and it just increased its dividend by 10.2%.

Conclusion

Depending on your risk tolerance, investment style, and investment horizon, you might sprinkle your diversified portfolio with some speculative investments (perhaps 5% or less) that could win big but could also lose it all.

On the other end of the safety spectrum, you could have core blue-chip stocks such as Fortis and Canadian Utilities as long-term investments. Based on their exceptional dividend-growth history, their dividends are likely to continue to grow at a pace faster than inflation, which will help you maintain your purchasing power.

By knowing what kind of investment your stock is, you'll be more prepared. Know whether it's speculative or an income investment for the long term, and you'll know what to expect.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:FTS (Fortis Inc.)

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