



## How Declining Yields Lead to Success

### Description

In order to make successful investments in the present, it is important to evaluate the past. What worked, what didn't, and how do we know?

In the past year, the investments that have done very well, assuming you'd bought at the right time, are **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)) and **North West Company Inc.** ([TSX:NWC](#)). Having bought at levels which were much lower than their current prices, the yields for new investors coming into the securities today have also changed. What was a fantastic dividend yield for me has become only a good yield for the next guy.

Looking first at Dream Office Real Estate Investment Trst, an investor who was lucky enough to purchase shares between August and November would have been able to purchase at a price of approximately \$17 per share and receive the annualized dividend of \$1.50, leading to a yield of 8.8%, calculated as 1.5 divided by 17.

In just the past week, shares hit the \$20 mark and very briefly traded above \$20 on Friday morning. What contributors of [staging.www.fool.ca](#) have been writing about the company for almost five months now is finally starting to take hold. Let's remember, tangible book value per share is approaching \$24, and the \$1.50 in dividends is easily sustainable given the cash flows of the company.

For new investors entering the position at a price of \$20 per share, they will receive the same dividend of \$1.50, but the yield on their purchase will be  $1.5 / 20 = 7.5\%$ . It's still a good yield, but it's significantly less attractive than 8.8%.

Looking at shares of North West Company, my yield on cash (YOC), which is measured as the current dividend divided by the purchase price, is just over 5%. Taking the current dividend of \$1.24 and dividing it by 0.05 translates to a buy price of \$24.80: an excellent entry point. For new investors purchasing the stock at a price of \$27.50, their YOC will equate to approximately 4.5%. Although 4.5% is not a bad yield, investing is not only about the dividends; investing is about total returns.

Assuming the shares will be held a total of one year, my dividend received will be 5% in addition to the capital appreciation the market has already returned to me. So far, shares are up almost 11%.

Looking at Dream Office Real Estate Investment Trst, what would have been an 8.8% return in the form of dividends is quickly becoming much more. Since purchasing shares at \$17, the appreciation to \$20 results in a price return in excess of 17%. Adding the two together, the return could exceed 25% for a one-year holding period — not bad for a REIT.

Looking backwards and evaluating past investments, it's clear the positive reinforcement is coming in the form of a declining dividend yield. Barring dividend increases, a rising share price will decrease the yield. Investors like yield, but once the YOC is locked in, there's almost nothing better than a declining yield!

## CATEGORY

1. Dividend Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:NWC (The North West Company Inc.)

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## Date

2025/08/18

## Date Created

2017/01/09

## Author

ryangoldsman

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