When Things Go as Planned

Description

Several months ago, shares of **North West Company Inc.** (TSX:NWC) sat somewhere between $24 and $26. Additionally, the dividend yield, at the lower levels, represented a yield around the 5% mark.

The good news for investors is, sometimes things go as planned. Investors choosing to purchase shares at the $25 mark received the 5% yield and have also benefited from capital appreciation that has followed the security over the past several months.

Shares of this grocer, which operates stores in remote parts of Canada and Alaska, have risen to a price in excess of $31, and investors are now able to obtain a yield of barely 4% on new investments.

Although investors have experienced fantastic news, this news translates to bad news for potential investors. Those who chose not to take the plunge missed the 25% increase in value and the dividends that have been paid over the past several months. The bad news for those not holding the stock is that buying now might not be the best idea.

Currently, North West Company pays a quarterly dividend of $0.31 per share. The dividend has not been increased in some time; instead, the company has used all free cash to fund an acquisition which will allow for higher future growth and better economies of scale. At current levels, the hope is, obviously, for a dividend increase in the coming quarters.

Since the investing process is never an easy one, when an investment works out, it is important to be happy with the result and be happy for others. While some will wonder if they should attempt to jump on a moving train, the reality is, once another investor brags about a great investment, the time to invest has, in almost all cases, passed.

The question astute investors need to ask themselves is, “How do I find the next great opportunity?”

When looking at companies with consistent dividend yields, investors have the option of looking at the dividend yields and payout ratios at any time to establish if an investment is worth making.

A number of Canadian companies offer dividend yields that have been higher in recent memory, signalling a current high stock price. While investors mostly understand the difference between high and low yields, the importance of the dividend-payout ratio should never be underappreciated.

In the case of North West Company, the dividend-payout ratio was close to 80% for the past fiscal year and almost 84% for the year before. With a traditionally high payout ratio, the company may just be putting itself in position for continued growth with a new acquisition to reach better economies of scale.

While getting paid is nice, getting a raise is even better. With this name, investors may have the opportunity for a pay raise at a later time.

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