Should You Take Profits as Markets Are Near All-Time Highs?

Description

The Canadian and the U.S. stocks markets are trading near their all-time highs. Additionally, we're in the eighth year of a bull market, and it may be getting tired.

Every decade or so, the market tends to experience a major crash. So, it may seem logical to sell your stocks and wait for a market-wide crash, or at least a pullback of 10-20% before getting in.

However, every stock is different, and behind each one is a unique business that's ever changing. If you'd held **Altagas Ltd.** (TSX:ALA) right before the last recession at the end of 2007, it would only have delivered annualized returns of about 1.5% if it weren't for its above-average yield. Thanks to Altagas's dividend, it delivered annualized returns of 6.5%, which nearly matched the **S&P 500's** annualized returns of 6.6%.

If Altagas is performing roughly the same as the market, should investors look elsewhere for higher returns? The answer depends on why an investor bought the shares in the first place. Altagas offers a yield of nearly 6.8%, which is not easy to be replaced. So, it makes sense to hold the stock for income.

The company has also become more diversified. Altagas earns roughly half of its normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) from each Canada and the United States.

Moreover, its EBITDA generation is diversified across three business segments: natural gas processing and transportation (about 24% of 2017 normalized EBITDA), clean and renewable power generation (40%), and regulated gas distribution utilities (36%).

dividends
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Altagas is working to close the **WGL Holdings** acquisition by mid-2018, which will further strengthen its regulated gas distribution utility segment.

If acquired successfully, WGL, along with Altagas's other projects, will help support annual dividend growth of 8-10% through 2021.

If so, this would make its shares quite attractive today, as it could mean a yield on cost of at least 9.2% by 2021.

What about taking profit in your winners?

It can be a big mistake to take profits in your winners. During the ups and downs of the market and through recessions, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) has outperformed the market.

Since the end of 2007, an investment in Enbridge has delivered annualized returns of 13.4%, which more than doubled the returns of the S&P 500 in that period.

If you tried to time the market and sell the stock when it was perceived to be fully valued, you would have missed some nice price appreciation and dividend growth. In the last 10 years, Enbridge has increased its dividend per share by nearly four-fold and its share price by 188%! Simultaneously, the energy infrastructure company has grown its operating cash flow, scale, and diversity, making it a more solid company to own than ever before.

The recent merger with Spectra Energy will help support an annual dividend growth of 10-12% from 2018 to 2024 with a payout ratio of 50-60% of available cash flow from operations. This implies that a yield on cost of at least 8.8% by 2024 is achievable with an investment today.

Investor takeaway

Should you take profits from your stocks as markets are near all-time highs? There’s no simple answer. Sometimes it makes sense to take partial profits in a fully valued stock and diversify into other good businesses that are better valued.

If in doubt, you should revisit your purpose of buying a stock — is it a short-term trade or a long-term investment in a good business? In the case of Altagas and Enbridge, I think they’re more likely to continue paying nice growing dividends over time. So, it would be a silly move to sell now when their share prices and dividends are expected to be higher five to 10 years from now.

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