Insiders Are Scooping Up Cominar REIT’s 11.5% Yield: Should You?

Description

Cominar REIT (TSX:CUF.UN) hasn’t been kind to its investors when it comes to capital gains as the stock has been in free-fall mode for about five years now. The management team has kept the distribution intact this entire time when most other companies would lower it to more reasonable levels. More recently, insiders have started buying shares of the beaten-up REIT. Does this mean the distribution is safe and a turnaround is on the horizon?

Cominar has an artificially high yield — it’s a falling knife

Many retirees claim that they only care about the income provided from a certain security because they have no intention of selling as long as that monthly paycheque keeps coming in. It’s a common misconception that REITs are safe and don’t experience volatility or huge losses, but this is clearly not the case with Cominar, which lost about half of its value over a five-year span.

REITs are great income plays, but they’re not immune to risk. Not even bonds are immune to risk, but if you’re willing to take on a bit of risk, you can grab a better long-term return for yourself.

Cominar REIT and its whopping 11.5% yield have been a siren song for many income investors looking to give themselves a major raise. The trust appears to have a huge amount of negative momentum, and many would consider this investment a falling knife, but insiders at Cominar, including the CEO, CFO, and directors, have been buying shares at the $14 levels and below.

Insiders are buying. Does that mean the high yield is safe?

The recent insider buying is definitely a promising sign that the distribution will remain intact, but that doesn’t mean you should be backing up the truck just yet. If the trust continues to tumble further into the abyss, we could see a yield north of 12% faster than you’d think.

Although it’s artificially high, I believe the distribution is safe for now, but if the bleeding continues and no fundamental improvements are made over the medium term, a distribution cut may be inevitable.

If you’re a retiree who only cares about the safety of a distribution, then Cominar probably looks very intriguing, but keep in mind, the distribution isn’t sturdy, and you shouldn’t rely on it for retirement income over the long term.

If you are retired, I’d avoid Cominar because the risks are too high, and you could take a long-term hit for a raise in the short term.

If you’re an aggressive income investor or a contrarian investor looking for a turnaround, Cominar appears to be a very intriguing play.

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