Would You Take a Chance on This 12.2% Yielder?

Description

For retirees or income investors who depend on the dividend or distribution payments, it's a continuous hunt for a higher-yielding security without too much additional risk. After all, retirees can't afford to take on huge amounts of risk, but is it really possible to give yourself a gigantic raise?

Many investors have their own rules of thumb when it comes to investing in high-yielding securities. Some investors choose to ignore securities that have yields north of 6%, because odds are, they're artificially high yields, and a dividend cut could be on the horizon. Such a rule of thumb may protect investors from dividend cuts and capital losses, but is it actually possible to get an extremely high-yield security that won't cut its dividend somewhere down the road?

Chasing extremely high-yielding stocks is a dangerous game. You could get hurt because the probability of a dividend cut is really high, and, normally, securities with yields north of 8% aren't sustainable over the course of the long term. If you choose to invest in a security yielding over 8%, then you're making a bet on a business that has undergone recent struggles. You're betting that the company will rebound and that it will grow its cash flow to maintain its ridiculously high payout, which usually comes with a large amount of stock price appreciation.

If you're a retiree, you should probably avoid such high-yielding stocks, because they're simply too risky. A younger contrarian income investor who can afford to take risks may want to roll the dice with an extreme high yielder, but the odds are usually grim.

Cominar REIT (TSX:CUF.UN) offers one of the highest yields out there at 12.2%. That's really high, and the reason it's this high is because shares of the REIT have continued to plummet over the years. As share prices drop, yields increase if the dividend or distribution is kept intact.

Cominar's management team is shareholder friendly, but it's probably too shareholder friendly for its own good. Shares of CUF.UN have been falling since 2012 and the yield has kept climbing. I believe it's probably in the best interest of the company to slash the dividend and use the cash on initiatives to bring the REIT out of its funk.

DBRS Limited, a credit-rating agency, recently downgraded Cominar's senior unsecured debentures credit ratings from BBB to BB. This means that the debentures made the move from investment grade to non-investment grade, which is bad news for shareholders of this high-yielding security.

Bottom line

CUF.UN is experiencing a huge amount of negative momentum, and the yield just keeps getting higher. A few months later we may see the yield climb to 15%, but before you get excited, you'll suffer huge capital losses, which will make the high yield seem insignificant, especially when you consider the probability of a dividend cut increases with each drop in the share price.

The management team looks like it'll do everything it can before it slashes its distribution. If the business doesn't eventually make fundamental improvements, there may be no other option than to cut the distribution down.

Not all extreme high yielders are as dangerous, though. If you're looking for an extremely high yielder, there are better options out there, like **Corus Entertainment Inc.** (TSX:CJR.B) and its 8.11% yield, which is much safer than Cominar's 12.2% distribution, which continues to climb.

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