Dividend Investors: 2 High-Yield TSX Dogs That You May Want to Buy Today

Description

You may have heard of the Dogs of the Dow. It's the investment strategy where investors pick the biggest laggards with the largest yields in a given year. It's a simple strategy, but does it work? It doesn't work as well as users of the strategy may have hoped. The philosophy is to take the biggest losers of the Dow with the assumption that the companies are temporarily out of favour and will probably enjoy a rebound going forward.

Since they're a part of the Dow Jones Industrial Average, the assumption is that even the worst stocks are still "good enough." The strategy is definitely flawed, but with some tinkering, it may make sense to use the technique as a stock screener — just for fun!

Dogs of the TSX: a modified approach

In looking at the TSX Dogs, I made a list at some of the higher-yielding stocks, but instead of looking at the bottom of the barrel, I eliminated the ones that lacked durable competitive advantages. In addition, I also removed the stocks of companies I believed would continue to underperform because of declining fundamentals or major long-term headwinds.

These are the two stocks from the list that stood out to me as potential long-term winners:

- **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) with a ~5% yield
- **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) with a ~4.3% yield

While there were definitely bigger laggards with even higher yields, I wasn't too convinced that they'd be suitable long-term plays given their individual circumstances. The two stocks that I selected had what I believe is a realistic chance of rebounding and outperforming over the next five years.

Here's a more in depth look at each pick.

Canadian Imperial Bank of Commerce

CIBC is arguably Canada's cheapest bank stock, and a major reason for that is Canadians are extremely fearful over the company's exposure to domestic mortgages. There's no question that the housing market is frothy, but CIBC doesn't expect a violent crash in housing, so it's putting its foot to the pedal on mortgage growth.

That's a huge turn-off for many Canadians, but I think the fear and pessimism is way overblown. Is a housing crash possible? Yes, but is it probable? I don't think so. Many pundits believe that housing will cool gradually over time, and if that's the more likely scenario, then CIBC is an absolute steal right now with its 9.5 price-to-earnings multiple.

Collect that 5% yield while you wait for CIBC to continue with its U.S. expansion plan. I don't think this dog will be kept down for too long!

Shaw Communications Inc.

I believe Shaw is one of the biggest disruptors in the Canadian market today. The telecom space has been ruled by the Big Three for quite some time now, and thanks to a lack of competition outside the Big Three, wireless rates have been ridiculously expensive! Canadians are paying way too much for wireless, and I believe Shaw's wireless segment in Freedom Mobile could be the answer that many Canadians have been looking for.

Shaw has been aggressively upgrading its wireless infrastructure to better its chances of stealing market share from the Big Three incumbents. What's its secret weapon? Lower rates and a promise of better value for its customers.

I believe Shaw will eventually become a serious thorn in the sides of the Big Three incumbents over the next five years. Although rising interest rates are bad for high-spending telecoms, I think Shaw will offset this headwind by its rapid subscriber growth, which I expect may happen in the coming years.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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