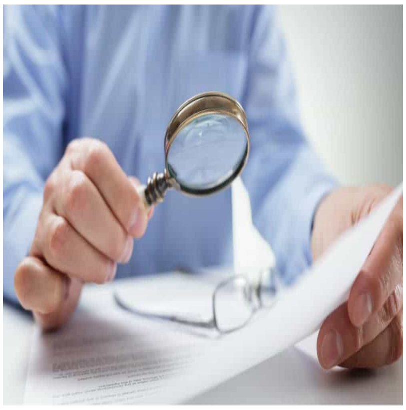

Why Dividend Stocks Don't Always Make the Best Investments

Description

Companies that issue dividends sound great, but there are some real dangers involved that investors shouldn't ignore. The big assumption investors take for granted is that a dividend will continue being paid, but there's no guarantee it will.

While companies that have long histories of paying dividends will be less likely to break their streaks, economic conditions can force the issue. However, one thing dividend stocks often do during difficult times is simply reduce their payouts.

Recently, **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) slashed its payout significantly in the wake of struggling uranium prices, which have made investors bearish on the stock and have impacted the company's financials.

While the company can still claim it's paying a dividend and proudly boasts not missing a payment since it first started trading in 1991, at a rate of 0.5%, it isn't paying investors much. As you can see, having a long history of paying dividends can be misleading, as it doesn't guarantee that the current rate of dividends will continue.

Another good example is **Corus Entertainment Inc.** (TSX:CJR.B), which was previously at a yield of around 10%, and as a result of a steep decline in the share price this year, it was paying closer to 20%. Investors that bought in at the higher yield may have been hoping the dividends payments would continue. While the company can still say it continues to pay a dividend, at a 5% yield, it's a sharp reduction from what it paid earlier.

Without a big yield, there simply hasn't been enough of a reason for investors to buy up the stock, particularly as concerns about cord cutting rise and questions surface about whether investing in television is a good option anymore, especially as the company's growth continues to stall.

Why dividend stocks may be undesirable

Dividend investors that invested for the sole purpose of collecting a dividend will be sorely disappointed when there is not much left after a cut. Growth stocks can offer superior returns for investors over the long term and generally there's a lot of excitement around those types of investments. When a company like Corus cuts its dividend, investors may be left looking for reasons to keep the stock.

That's why investors will want to look for stocks that are more well rounded and that have growth opportunities as well as dividend, so even if the dividend is gone, the stock is still a good investment. The problem is when there is a dividend cut, many investors may rush to sell, and that could send the stock plummeting very fast.

Bottom line

A dividend alone doesn't make a stock a good investment, but it can make it more appealing. Ultimately, investors are buying a piece of a business, and if that business isn't sound or doesn't look like it has a good future, then they probably shouldn't even consider it in the first place, regardless of how much it pays every year.

Dividends are nice-to-have features and should never be the sole reason you invest in a company.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)
3. TSX:CJR.B (Corus Entertainment Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
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Date
2025/08/18
Date Created
2018/07/16
Author
djagielski