Why I’m Getting Rid of Dividend Stocks From My Portfolio

Description

Investing in dividend stocks sounds great, since you’re getting what you expect to be a recurring source of cash flow. The problem is that sometimes it can distract you from the merits of investing in the underlying stock itself. In the case of a poorly performing stock, you may find that the dividend income is simply offsetting some of the stock’s losses.

I’ve noted in the past how growth stocks are superior to dividend stocks, and as long as you’re not risk averse and plan to invest for many years, then it’s probably the right decision to go for growth over dividends.

Investors are often attracted to companies that are expanding and growing rather than in stocks that primarily offer a dividend and not much else. That’s a big reason why I decided to sell two of the dividend stocks I had owned recently: **A and W Revenue Royalties Income Fund** (TSX:AW.UN) and **RioCan Real Estate Investment Trust** (TSX:REI.UN).

While both stocks offered strong dividend yields that pay more than 4%, their lacklustre performances over the past year made me realize that the stocks had many hurdles in the long term for me to want to hold them for much longer.

In the case of RioCan, a problematic retail industry could spell trouble for the company in the years ahead, even if it does go ahead with a new model for what shopping mall could look like, which is a great long-term project, but it won’t do much for today.

REITs that are dependent on retail stores could face some big problems down the road, as we continue to see online stores taking many consumers out of physical brick-and-mortar shops, which could lead to more retailers shutting down and adding to the number of vacancies.

As for A&W, while the stock may not have the same problems that RioCan does, it too has struggled to show much growth, and the stock simply hasn’t been able to get much traction. However, the recent success the company has enjoyed with the Beyond Meat burger suggests that the restaurant chain might get a boost, at least in the short term.

Although that was a temptation to hold on to the stock for another quarter, there are simply better options available for growth that made me decide otherwise.

Bottom line

Dividend stocks often get the connotation of being safe investments to make, which isn't necessarily the case. Dividends can always be cut, and the danger for investors is assuming that the payouts that are there today will continue to be there for the long term.

A dividend should be treated as a nice-to-have feature of a stock, but not the sole reason to hold it. I do still hold a couple of dividend stocks, but that is because I see them as undervalued buys that have a lot of upside and not for any other reason.

Investing is a complicated process and there are many variables that you should always consider before buying a stock, including your individual situation and preferences as well.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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