



2 Stocks on the TSX Index That Are Yielding More Than 9%: 1 I'd Buy and 1 I'd Avoid

Description

Stocks offering investors high annual dividend payouts are great.

Not only can those dividend streams help to pay for investors' living expenses — particularly in the case of retirees — but they can also be reinvested in investors' portfolios and put towards future stock purchases.

But the risk in pursuing the shares of companies that pay their owners a high dividend payout is, sometimes there's a catch — namely, that the payout won't be sustainable for the company over the long term.

The yield on the stock of a company, like, for example, **TorStar** ([TSX:TS.B](#)) might be 10.10% right now, but if it can't sustain its current earnings, then the board of directors might have to cut that [payout](#) to a significantly smaller figure.

While investors may think they're paying for a 10.10% yield right now, by next year they could find out that they're now getting 4%. In cases like that, those investors would have probably been better off avoiding the "chase for yield" and looking for the best yield offered by a company that still has decent prospects for growth.

TorStar, which owns and publishes one of Toronto's most popular daily newspapers had faced difficulties, like so many other traditional media outlets, in adapting and competing with the threat of emergent online and digital media. The result has been declines in sales for each of the past three years with that trend more than likely expected to continue this year as well.

Meanwhile, TorStar hasn't posted an annual profit dating back to 2014.

While its cash flows have fared slightly better than its reported GAAP earnings, the company's \$2 million annual dividend is certainly at the risk of being unsustainable.

Meanwhile, there's another company whose shares currently yield an almost-as-good 9.03% annual

dividend, which, in my view, at least, isn't facing nearly the same type of existential threat.

Granted, it's been a tough couple of years for active managers in the investment industry, as funds have precipitously flowed into passively managed pools like low-fee exchange-traded-funds.

Asset managers like **Gluskin Sheff + Associates** (TSX:GS) and [others](#) have found themselves down in the dumps.

Gluskin Sheff stock is down 27% so far this year and down 33% since the beginning of September. That's left GS stock yielding a little more than 9%.

While Gluskin Sheff's 9% dividend still looks reasonably sustainable at a payout ratio of just a little more than 80%, it's the sell-off in the company's stock and the recent trend toward passive investing that actually looks unsustainable, at least in my opinion.

The premise behind passive investing, after all, is the belief in the "efficient market theory" and the assumption that assets are fairly priced all the time.

Well, that assumption is squarely based on the premise that market participants like Gluskin Sheff's portfolio managers are constantly monitoring company valuations and their actions, buying the winners and selling the losers, to ensure that those asset prices are indeed "fairly priced."

By definition, if there were no active managers like Gluskin Sheff that were acting in the market to perform this function, then passive investing as a formidable strategy would simply cease to exist.

All of this goes to say that what goes around usually comes back around again.

The past decade has been largely characterized by a historically low interest rate environment and all but absent volatility in the publicly traded markets.

Should central banks from Canada, the United States, and around the world continue on their current path towards normalizing interest rates, that will likely be accompanied by a return to more normalized volatility in the markets.

That should create more value of active managers like Gluskin Sheff, their clients, and their shareholders.

Fool on.

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