Income Investors: Forget the 4% Rule! Here's a 8.4% Yielder You'll Want to Own for Life!

Description

The 4% rule, a rule of thumb that encourages income-oriented investors to keep their portfolio's average yield at around 4%, is so outdated! If you need income now for whatever reason, you shouldn't shy away from securities that possess yields well above the 4% mark. Why?

First, the 4% rule doesn't account for what type of market environment we're in. It's a rule of thumb and an overly simplistic one at that. Consider the rising interest rate environment we're in right now. A 4% dividend yield isn't worth as much as it was when interest rates were hovering around the floor a few years ago.

Higher interest rates make today's dividends less valuable, and over the past year, we've seen high-yielding securities, in aggregate, fall in price as their yields surged up by a proportional magnitude. As a result, many dividend stocks have yields that are well above their five-year historical average yields, and if you stuck with the 4% rule, you'd need to ditch your prior 4%-yielder, rake in a loss, and go on the hunt for a security with a lower yield, which may have appreciated relative to the pack and thus may be overvalued in comparison.

Simply put, in a rising rate environment, the yield bar has been raised.

Second, the 4% rule is only good for lazy income investors who don't want to put in the homework. It keeps them safe and prevents them from chasing down an artificially high-yielder with a high double-digit dividend yield that's likely unsustainable, but may come with severe capital losses, making such artificially high-yielders a value trap that'll deliver a one-two punch to the gut of retirees who really can't afford to lose money.

Third, by sticking with the 4% yield, you're unfairly shunning reliable high-yielders like **Inovalis REIT** (TSX:INO.UN), a security with a colossal 8.32% distribution yield at the time of writing. Now, if you bought into the 4% rule of thumb, you're probably thinking that Inovalis is some sort of falling knife with an unreliable distribution that's likely to be cut.

This just isn't the case, as shares are just down 6.5% from all-time highs, and the payout ratio is more than covered with the trust's FFO, leaving potential wiggle room from another raise at some point over the next few years.

Inovalis is a small REIT consisting of over 14 office properties scattered across France and Germany, a majority of which are located in high-traffic urban locations. The REIT has a 91.8% occupancy rate, which isn't outstanding by any means. Although it appears the office REIT may be at risk of rising vacancies due to the rise of people working from home, a handful of Inovalis' properties are 100% occupied, with one large property in Saint-Ouen with its 72% occupancy rate skewing the overall occupancy rate to the downside.

Foolish takeaway

Inovalis is a stable REIT with a fat yield and promising growth prospects relative to its bigger brothers in the REIT scene that possess much smaller yields. If you stuck with the 4% rule, you would have passed by this incredible income play that could be the best +8% yielder on the entire TSX. If you're looking to beef up your monthly income, you may want to consider initiating a position today while the broader markets have taken a hit.

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