I Wish I'd Held This Dividend Stock

Description

Of all the stocks I have invested in over the years, **Labrador Iron Ore Royalty** (TSX:LIF) is one of the most painful to remember. This is one I held for years before committing the cardinal mistake of selling when the news is the gloomiest, just the time that I should have been buying.

From 2013 to 2016, I held shares of this company. When I first heard of it, LIF was trading for around $30 a share, about the same as where the stock trades today. It seemed like such a good stable, company, one that merely receives royalties from the iron ore produced on its land by the Iron Ore Corporation of Canada (IOC). IOC's ownership consists of a 58.72% ownership by **Rio Tinto**, 26.18% from the **Mitsubishi**, and the remaining 15.1% owned by LIF.

I added to the stock over the couple of years that I held it, continuing to buy shares until I ended up averaging around $12 a share, when I finally sold in the summer of 2016. At the time, after weathering the carnage of the commodity collapse, I felt fortunate to have earned a few dividends and have made a small profit off this company. Looking back, after watching the stock go up more than 100% from the $12 range, I feel a tinge of regret.

For one thing, LIF has a very interesting dividend policy that would have paid off very well if I had continued to hold it. The stock has held its dividend at $0.25 a share paid on a quarterly basis for years now and has not raised it. At my $12 average share price, that would have been an approximately 8% dividend on cost. Even if you buy the shares today, the dividend sits at a reasonable 3.15%.

An interesting fact about the dividend, though, is that the company has a history of paying out special dividends on occasions. While dividend increases to the regular payout have not generally occurred, the special payouts have been quite significant. Last year, for example, LIF paid a special dividend of $0.30 a share in September and of $0.35 a share in December. These added up to total dividends of $0.55 and $0.60 a share, respectively.

These are massive increases to the dividend in those periods and have the added benefit of being paid out only during periods of healthy profitability. They are unpredictable, to be certain, but since they are special dividends, they will not be cut during times of duress.

Although it seems ridiculous in hindsight, the reasons I sold back in 2016 still should be a caution for investors today. The royalty company comes from only one source, IOC, and is from only one commodity, iron ore. This is not a diversified company, so investors should be careful not to make this a large position.

While I am still not very thrilled with commodity companies as long-term wealth builders, there can be a place for them in your portfolio. But the most important message to take away from my experience is the fact that buying stocks with a contrarian mindset can be very profitable. It can be risky, and not every stock will work out, but the returns from buying a selection of commodity stocks at a low point can mean the occasional winner, like LIF, can more than make up for losses on others.

The important fact to remember, though, is not to go all out on any individual position. Have a diversified portfolio but take a few swings at companies with solid balance sheets like LIF and hold them for large profit potential. Would I buy LIF today? Probably not, since it has had such a run. But I will definitely be looking at it when commodities start to fall once again.

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