2 Timely Dividend Buys for Your Passive-Income Fund

Description

Buying on dips literally pays major dividends for income investors. Value-conscious dip-buyers typically focus on the near-term bounce-back potential and the larger margin of safety to be realized, but for longer-term thinkers, it's the higher-than-average dividend yield that should be the "main attraction" to battered stocks.

As you're probably aware by now, the yield of stock goes up when the share price goes down. The further the decline, the more swollen the yield. So, if you've got a financially healthy dividend stock that's beaten down over reasons that are temporary in nature, you have the ability to lock in the bigger dividend yield that'll be yours to keep, even as shares move higher and the yield reverts towards mean levels.

Of course, businesses under considerable pressure like those on the wrong side of a secular trend could sport higher-than-normal yields permanently, as shares are unlikely to recover promptly due to the decaying of the original investment thesis, warranting a sweetening of the pot in the form of the bigger yield.

The trick is to stick with high-quality dividend payers that still have their long-term theses intact. That's how investors can score "bonus yield," the additional yield relative to a stock's historical average yield, that can enrich a passive-income portfolio without requiring one to venture into riskier super-high-yielding securities.

Without further ado, consider the following dipped dividend stocks that appear to be timely bets today.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

Now down 12.3% from all-time highs, CIBC is one of the most beaten up of Big Six banks over the past few quarters. With all Canadian banks slated to suffer from a bout of slower earnings growth, CIBC has been ditched to the curb at the quickest rate. Not only because of the bank's inferior characteristics (like its largest exposure to domestic mortgages) relative to its peers, but because CIBC was unfortunate enough to deliver two tough earnings misses in a row after pulling the curtain on the Q1 numbers.

While the two misses were among the worst of the big banks, looking under the hood, the results weren't as dire as CIBC's pullback would suggest. CIBC had a reputation for beating and raising, so, as you'd imagine, two misses following an impressive streak of quarterly beats was a formula for an extensive and likely exaggerated decline.

The bar was quite high prior to Q4 2018, and now for Q2 2019, the bar has been lowered substantially. One could argue it's too low when you consider the fundamental improvements that have been made from a longer-term viewpoint.

At the time of writing, the stock sports a chunky 5.11% dividend yield, which is a whole 0.5% higher than the five-year historical average yield of 4.6%. With shares trading at just 8.9 times next year's expected earnings, contrarians have the opportunity to get 0.5% in bonus yield with a significant margin of safety, as shares look to re-gain their footing in the coming months.

Manulife Financial (TSX:MFC)(NYSE:MFC)

Sticking with the financial theme, Manulife is another bountiful dividend stock that's been clobbered over the past year. Although shares have bounced over 20% from their December lows, investors still have the opportunity to snag a 4.23% dividend yield, implying nearly 1% in bonus yield as the stock normally yields around 3.3%.

With the Muddy Waters short-seller fiasco now in the rear-view mirror after winning in the courtroom, investors now have one less major concern to worry about.

Moving forward, all eyes will be on the company's continued expansion efforts into the Asian market, which will be the main source of growth for the company as the John Hancock business continues to be a drag.

I'm a big fan of Manulife's Asian growth story, but unless you're planning to hold the stock for five years or more, I'd favour CIBC as the timelier dividend bet at this juncture.

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Date
2025/08/24
Date Created
2019/04/08
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