TFSA Investors: Is a 6% Dividend Too Risky for Your Portfolio?

Description

Choosing which stocks to put inside of a TFSA is an important decision for investors to make. One of the more important questions is how big of a yield you should consider.

Too high of a payout could make a dividend stock too risky and increase the odds that it might get cut. However, a low dividend yield could simply make the stock undesirable altogether.

I often see dividend stocks that pay around 5% as being very reasonable, with a good balance between risk and return. It's not even uncommon for bank stocks to pay those types of yields.

If bank stocks are offering those kinds of payouts, then other stocks are likely paying investors even more than that. If that's the case, it begs the question:

Can investors safely rely on dividend yields of 6% or more?

The temptation would certainly be to say "no," as that's a fairly high yield and could prove to be difficult for a stock to continue paying that much over the long term.

While I generally wouldn't expect a company to pay that high of a yield, there is an exception, which is when a stock has fallen in value.

Take a stock like **Enbridge Inc** (TSX:ENB)(NYSE:ENB) as an example. The company has strong fundamentals and it's achieved good results over the years despite operating in a very challenging industry.

Nonetheless, over the past two years, its share price has fallen by around 10%. Meanwhile, the company has continued raising its dividend.

The end result is a dividend yield that now pays a whopping 6.5% annually. If the stock were trading around the $50 mark, which is where more or less where I'd expect it should be, the dividend would be yielding 5.9%.

While that's still close to 6%, it's a fair bit lower and easier to justify for risk-conscious investors.

This is where even though Enbridge's dividend may look to be high at first glance, once we factor in the decline and the fact that it's likely undervalued, it becomes a bit easier to see how it could still be a relatively safe dividend.

After all, the company has still been able to produce strong results, and if we ever see a real recovery in the oil & gas industry, Enbridge's prospects will only become stronger.

Bottom line

In many cases, a dividend of 6% or more can be too risky. However, for a company that's not generating profits, even a 3% yield could be too risky. There's no blanket answer that says because of one factor or another, that the dividend is unsafe.

The reality is that investors need to consider many different factors and variables, as it's not as simple as looking at a payout ratio calculation to assess whether a dividend is likely to continue or not.

And in Enbridge's case, its current dividend could make the stock a steal of a deal for investors.

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Date

2025/08/27
Date Created
2019/08/14
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