



Yield Alert: Lock In This Succulent Special Dividend by November 29

Description

If dividends are good, then special dividends must be especially good, right?

There are a few reasons why investors might want to take an extra look at companies that are on the cusp of paying a special dividend. These companies might be generating even more cash than expected, which is always good news. A unexpected payout can give an investor the opportunity to immediately take some cash out of a new investment, too. Finally, studies have confirmed companies that pay special dividends outperform the broader market, at least over the short term.

Let's take a closer look at one Canadian company that has planned a special dividend for shareholders for the third year in a row. Not surprisingly, this stock has also crushed the TSX Composite during that time and over the long term as well.

Great long-term results

First National Financial ([TSX:FN](#)) has been quietly beating investor expectations for years now. This has led to some terrific long-term returns.

Let's begin with the company's business model, which is to provide mortgage financing exclusively for folks who work with mortgage brokers. Since the company doesn't have to invest a huge amount of capital into bank branches or front-line employees, it can channel those savings back into cheaper rates for borrowers. The business model is working; the company is the largest mortgage lender in Canada outside of the Big Five banks.

Besides making money in the traditional way mortgage lenders do, First National also works with institutional money managers who want exposure to the mortgage sector. It will act as a go-between for borrowers and institutional investors, taking fees for placing and servicing mortgages while an underlying investor actually owns the loans.

First National's CEO, Stephen Smith, has run the company since its inception back in 1988. Along with co-founder Moray Tawse, he owns a significant chunk of shares. The two men own more than 73% of

all common shares outstanding, which is an exceptional commitment.

Some investors are steering clear of First National, because they're convinced a major housing slump would devastate shares. I won't argue slowdown in the housing market would be beneficial to a large mortgage provider, but I don't think it would be as bad as some folks fear. First National deals with good borrowers with excellent credit. And the vast majority of its loans are insured against default.

Besides, these [housing naysayers](#) have been saying a crash is imminent for years now, and it's been a terrible prediction.

Over the last decade, a \$10,000 investment in First National has grown to \$48,667 assuming all dividends were reinvested. That's a return of more than 17% per year, which is an excellent result.

The special dividend

First National pays an excellent monthly dividend today — a payout that was just increased to \$1.95 per share annually. That represents a raise of a little over 2.5%. The current dividend yield is 4.5% and investors have been treated to a dividend increase in each of the last five years.

That alone makes an excellent dividend. But First National also has made a habit of paying special dividends. This year's edition marks the third year in a row the company has paid the special dividend. 2019's payout is \$0.50 per share.

This means an investor who buys shares before November 29 will lock in a 5.7% yield, which is one of the best payouts on the entire Toronto Stock Exchange.

The bottom line

First National shares have been a [terrific investment](#) over the long term, quietly making patient investors — including the company's two founders — rich. Short of a major housing correction, I don't see much that can stop the company's excellent long-term growth.

The special dividend is just the cherry on top of an excellent investment.

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1. TSX:FN (First National Financial Corporation)

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