2 Dividend Stocks to Buy on Tax-Loss Selling Weakness

Description

Near the end of the year is tax-loss selling season, in which investors sell their losing investments in their non-registered accounts to use the capital losses to offset capital gains, thereby reducing the taxes they have to pay for the year.

Notably, you can also carry capital losses to offset capital gains in the preceding three taxation years or carry it forward indefinitely. For example, you might expect much bigger capital gains in the future, such that you want to save the loss to be applied in a later year.

Typically, tax-loss selling would occur on stocks that have done horribly for the year. However, it's important to decipher between real losers and ones that will make a strong comeback in the future.

Pason Systems

It looks like tax-loss selling has already started on **Pason Systems** (TSX:PSI). The stock has slid 27% since mid-September. As a leader in the oil and gas services equipment industry, its stock can't help but feel the pain when there's a drop in drilling activity.

If anything, Pason's financial metrics have held up quite well. Year to date, its revenue is up marginally to $227 million, its adjusted EBITDA fell 4% to $103 million, its funds flow from operations per share declined 8% to $1.04, its free cash flow fell 4% to $66 million, and its earnings per share increased by 3% to $0.51, thanks partly to a lower share count.

Its third-quarter results must have caused the sell-off. As oil and gas producers cut back on spending, Pason's revenue fell 12%, adjusted EBITDA declined 26%, funds flow from operations per share fell 17%, and earnings per share fell 36%.

Despite contracting margins, however, Pason still maintains the highest margin among its peers. Its Q3 adjusted EBITDA margin was 43.7%. Should drilling activities pick up at the rigs, Pason's business performance will improve dramatically.

In the meantime, PSI stock trades at a deep discount and offers a juicy yield of 6% — thanks partly to its increasing its quarterly dividend by 5.6% in September.

Pason has a fabulous track record for having maintained or increased its dividend every year since 2003. Its strong balance sheet and cash flow generation should help keep the dividend safe.

Whitecap Resources

If drilling activities were to pick up at the rigs, it'd mean energy prices have improved, and it'll have a more direct impact on oil and gas producers like **Whitecap Resources** (TSX:WCP) before oil and gas services equipment companies like Pason Systems.

WCP stock is also subject to tax-loss harvesting, as it hasn't done much this year — or so it seems. The stock hasn't really gone anywhere, but it has paid a very generous dividend. In fact, Whitecap increased the monthly dividend by 5.6% back in May.

As of writing, the stock offers a succulent yield of 8.3%. The company finds itself too cheap to ignore! Therefore, it has begun buying back shares at a deep discount to its intrinsic value, and it's cutting back on capital spending to do it. It makes sense when there's congestion at the pipelines. Most analysts agree that the stock is worth close to 60% higher.

Management anticipates an improved payout ratio of 76% and a lower net-debt-to-funds-flow ratio of 1.5 times next year. So, Whitecap's big dividend is secure.

Still, the sentiment around oil and gas stocks is so negative that investors may sell WCP stock to further push the already ridiculously cheap stock even lower.

Investor takeaway

Tax-loss harvesting for this year is valid through December 27. So, be prepared for more downside action in these stocks and other losers.

However, the stocks are so cheap now that bargain hunters should give them a closer look. While you wait for price appreciation, you can collect safe yields of 6-8%!

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2. TSX:WCP (Whitecap Resources Inc.)

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