# Dividend Stock Investors: How to Respond to a Market Crash

## Description

Dividend stock investors rely on their investments to generate consistent and reliable income streams. Some use the cash to buy more stock. Others use it to supplement their incomes.

When markets fall, dividend stock investors hope that these income streams continue without interruption. Many stocks have proven resilient over the years. **Enbridge**, for example, grew its dividend during the financial crisis of 2008 and the oil collapse of 2014.



But not all income stocks stand the test of time. All too often, dividends are slashed or eliminated entirely just as investors need the cash most.

The recent market meltdown has sent many dividend stock investors into disarray. They worry that their income streams will disappear. They also want to be prepared to strike should a once-in-a-lifetime dividend opportunity present itself.

Want to protect your dividend portfolio *and* capitalize on newfound opportunities? Here's what to do.

## Dividend stock investors must prepare

The best time to prepare for the market rout was a few weeks ago. The second-best time is *now*.

The biggest thing to do is review your holdings for a direct impact from the coronavirus pandemic. Tourism, travel, and hospitality will obviously be hit hard. Restaurant, entertainment, and leisure businesses will also be punished. The stock prices have plummeted, but most dividend cuts are still on their way.

If you're watching your dividend yield rise rapidly based on *last* quarter's payout, don't get complacent. Few companies that are directly hit will be able to service a dividend in the quarters to come. It may start with a sizable cut, but outright eliminations are on the table sooner or later. These stocks may ultimately turn into contrarian bets, but they won't be income stocks for a year or more.

Once you've eliminated companies that will be directly impacted, it's time to turn to the rest of your portfolio. The most important metric to pay attention to is debt. This is a figure that few dividend stock investors follow during a bull market.

Similar to the financial crisis of 2008, liquidity is about the fall off a cliff. Small businesses will be particularly burned, but even large corporations are feeling the crunch. **Exxon Mobil**, long considered a blue-chip stock, recently had its credit rating downgraded. Other multi-billion firms are fully withdrawing their credit lines before it's too late.

New credit will increasingly be hard to come by. Even if new debt is available, the financing costs will be much higher, despite governments slashing interest rates. If a stock's debt levels exceed its market cap, or if its quarterly interest expense already constitutes a large chunk of earnings, don't count on the dividend being alive for long.

## Build your list now

In a bear market, even high-quality stocks go on sale. The time to build your buy list is now. Dividend stock investors that do this will be most prepared to capitalize. Find companies that you'd like to own a decade from now. Focus on stocks with limited debt and low cash-intensity businesses. This will ensure they survive and can take advantage of their struggling competition.

Just as importantly, build your sell list *today*. Weak stocks only grow weaker as the economy crumbles. Shrinking liquidity can turn an average dividend stock into a torpedo for your portfolio. Determine which investments to sell and act quickly. Then build your buy list and be prepared to act.



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rvanzo