



## Income Investing: Dividend Cuts Are Accelerating

### Description

Income investing has gained in popularity over the past decade. In this low interest rate environment, guaranteed income products such as bonds or GICs provide little in the way of yield. It is therefore not surprising that investors have turned to dividend stocks to boost their income.

Likewise, in times of volatility dividend investors can usually take solace in their steady income stream. Unfortunately, this time is different, and income investing isn't the safe haven it once was. Corporations across Canada are either cutting or suspending the dividend.

As of writing, just over 40 companies have either cut or suspended the dividend — and the pace is accelerating. It is testing the resolve of even the most seasoned income investors.

### A Canadian Dividend Aristocrat

The most notable Canadian name to suspend the dividend is **CAE Inc** ([TSX:CAE](#))([NYSE:CAE](#)). A [Canadian Dividend Aristocrat](#), CAE owns a 12-year dividend growth streak. This was good enough to place it in the top third of all **TSX**-listed stocks.

Unfortunately, last week the company announced that it was temporarily suspending the dividend, all but guaranteeing the company's dividend growth streak is at an end. Along with the news, the company is also suspending share buybacks and laying off approximately a third of its workforce.

Although it seems like bad news, investors can take comfort in knowing that management is acting in the best interest of the corporation. Similarly, the company is only temporarily suspending the dividend, which means the dividend will likely be reinstated at pre-suspension levels once operations return to normal.

Income investing is not a perfect science, and although many have hard and fast rules around dividend cuts or suspensions, now is not the time to be unloading CAE stock.

CAE remains a high-quality company and investors should take a closer look at the company which is down 43% year to date. Once COVID-19 mitigation efforts subside, CAE is poised to rebound in a big way.

## Income investing pitfalls

Chasing yield. I may sound like a [broken record](#), but chasing yield is never a good income investing strategy. A textbook case of the pitfalls of chasing yield is **Vermillion Energy** ([TSX:VET](#))([NYSE:VET](#)).

Even before COVID-19 hit, Vermillion was yielding double digits. At the time, management remained confident in the dividend, publicly declaring the dividend was safe. Unfortunately, many investors fell for this trap and chasing yield proved to be a mistake.

First off, a high-yield is not good business practice. It limits the company's ability to re-invest back in the company and stunts growth. Second, the fundamentals of oil & gas were deteriorating quite rapidly. The writing was on the wall.

Vermillion was among the first to cut the dividend this year. It did so by 50% in early March. The second cut came in mid-March (90%) and on Wednesday this week, the company outright suspended the dividend. After each cut, bulls came out in support of the new dividend, claiming its sustainability.

Unfortunately, these same bulls were missing the big picture. The demand for oil has been crippled, and the price isn't going to improve any time soon. What about those big production cuts?

A classic case of buy on rumour and sell on news. The cuts aren't nearly enough to offset the drop in demand.

Unlike CAE, however, this is not a company that is likely to return to pre-cut dividend levels anytime soon. The price of oil is likely to remain low for some time and at these prices, Vermillion Energy will struggle with cash flow.

In fact, income investing in the oil & gas sector is a high-risk proposition at the moment. Looking for income? Best to look elsewhere.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

### TICKERS GLOBAL

1. NYSE:CAE (CAE Inc.)
2. NYSE:VET (Vermilion Energy)
3. TSX:CAE (CAE Inc.)
4. TSX:VET (Vermilion Energy Inc.)

## **PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

### **Category**

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

### **Date**

2025/08/15

### **Date Created**

2020/04/16

### **Author**

mlitalien

default watermark

default watermark