1 Mistake Investors Should Avoid Making During the Coronavirus Market Crash

Description

The one thing that the market crash has helped is in bringing down share prices. While that may not be good news for investors who were holding shares before the crash occurred, it can be an excellent time to buy and take on new positions. Certainly, there are some good bargains to be had right now. However, there's one thing investors should be wary of, and that's dividend stocks.

Dividend yields are through the roof — and many of them are unsustainable

When share prices fall, dividend yields rise. Under normal, non-pandemic circumstances, buying on the dip can be an excellent way to secure a better-than-normal payout. But the current market crash and coronavirus pandemic complicates that. In retail as well as in oil and gas, there's a lot of uncertainty moving forward.

That's why it's not surprising that we've seen restaurant and oil and gas stocks suspend their dividends recently; concerns surrounding future cash flows are high.

And while it may be tempting to look at a stock with a high dividend yield and think that now is the time to buy, it could be risky to do so. The **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) currently pays close to 7% per year in dividends.

However, with a likely recession on the way and mortgages at high risk, the bank stock isn't as safe as it normally would be. While there's little doubt that it will get through the pandemic, that doesn't mean that its dividend will come out unscathed. Whether a suspension or a cut, CIBC investors shouldn't just assume that the dividend will remain intact.

Investors should look for more than just dividend income

If you're investing in a dividend stock, you always want to account for the possibility that the payout may not be there anymore. One of the biggest mistakes investors can make is to buy a stock because it has a high dividend in the belief that they'll continually rake in cash from the company's payouts.

The danger is that if there's a suspension or cut to the dividend, then you're left with no reason to continue holding the stock.

With CIBC, that's probably not going to be the case. The stock's trading at around eight times its earnings and it's a cheap buy. It's still a solid long-term investment that can more than pay off for investors even if the company halts the dividend.

However, that isn't the case for other dividend stocks; those stocks may not only stop their payouts, but their share prices could also continue to fall.

What should investors do today?

The coronavirus pandemic is far from over and it's likely that there will be more dips to happen in the market — and perhaps a bottom hasn't been reached just yet. There's no reason to rush out and buy a stock today, whether or not it pays a dividend.

Investors should instead take a look at which investments provide the most overall value and buy those stocks. By doing a careful analysis that involves more than just looking at dividend payments, investors will give themselves a great chance to earn some good long-term returns.

And if the stocks happen to pay a dividend, that's great, but that shouldn't be the focus.

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