TFSA Investors: Avoid These Dividend Stocks!

Description

A dividend stock can be a great way to grow your portfolio's value over the years. There are some great ones out there that you can buy and forget about, but there are also those that you'll want to steer clear of as well. Risky stocks that may have trouble turning a profit or generating positive cash flow should be avoided, as their payouts could be cut or suspended, leaving investors with stocks that no longer pay dividends and that they may longer want to hold in their portfolios.

Stocks to avoid

There are many dividend stocks that are risky right now as a result of the coronavirus pandemic. But there's also an entire industry that investors should avoid, and that's oil and gas.

The outlook in the industry is abysmal and the difference is now it's no longer just Canadian oil and gas stocks that are feeling the pain — many of the industry leaders are worried, too.

Royal Dutch Shell announced it was slashing its dividend payments for the first time in decades. The news comes as the company reported a first-quarter profit that was cut in half from the prior-year period. And the oil and gas giant doesn't expect things to get any better next quarter, either.

Exxon Mobil Corporation also announced that it would be freezing its dividend payments — the first time management has done so in 13 years. Even after the company made spending cuts, it wasn't enough to warrant an increase to the dividend, not during the adversity that the industry is facing today.

Canadian oil and gas stocks are doing even worse

In April, **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) announced that it would be stopping its dividend payments. It's been a recurring theme in the oil and gas industry; in March, **Inter Pipeline** slashed its payouts by 72%. It's a trend that investors shouldn't expect to come to an end anytime soon.

Cenovus and its peers are in survival mode trying to navigate through not just a low price of oil, but a pandemic that's keeping demand for oil low as well. Effectively, the industry's getting hit from both sides — not enough demand and an excess of supply.

Even if the pandemic were wiped out tomorrow and the economy could resume, there would still be an excess supply of oil to chip away at. And Canadian companies also have the disadvantage of operating in a country where there's a lot of animosity toward the industry with lots of opposition to pipelines and anything related to oil and gas. Growth is limited in the industry these days — another reason to just avoid oil and gas stocks completely.

Bottom line

For dividend investors, whether it's Cenovus or any other oil and gas stocks, it doesn't make a difference; investors shouldn't put them in their TFSAs. There's just too much risk in the industry. Not only are stock prices falling, but dividends can't be relied upon either.

Portfolios are incurring losses and missing out on dividend income as well. The TSX is down 14% in 2020. But that starts to look great compared to Cenovus, which has lost more than 60% of its value already this year. And the reality is, that could just be the start.

Things aren't getting better in the industry anytime soon. Investors are better off looking at other industries and investing in safer dividend stocks instead.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

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1. Business Insider
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