A Tough Lesson: 3 Stocks That Prove Dividends Aren’t Always Safe

Description

For most of my investing life, I have been focused on dividend-growth companies. These last few months have been humbling on that front. Several companies that I previously thought of as solid dividend-growth prospects are no longer in that category. It is for these reasons that I frequently state that there is no such thing as a completely safe dividend.

The pandemic health crisis proved the point that anything can happen when it comes to investing. Between the oil collapse and the viral outbreak, many stocks with previously secure yields have been hammered with laser precision.

Restaurant stocks

In the past, I’ve made the argument that fast-food restaurants are some of the safest when it comes to recessionary risk. After all, people need to eat, right? Well, it turns out that a viral outbreak that keeps people from going out makes that argument a moot point.

One of my previous payout-growing choices, **A&W Income Fund**, has suspended its payout for the time being. It turns out that when people can’t leave their houses, it becomes difficult to get the cash necessary to pay a distribution. The 5% yield or more is gone, leaving people with a much less valuable piece of dead money that pays next to nothing.

Airline-related industries

I’ve always hated airline carriers as investments. I’ve followed the wisdom of Warren Buffett in avoiding these stocks as investments. I did, however, have a misplaced faith in **CAE**, an airline trainer company.

Looking back, it seems obvious to me that if airlines are hit, those who train the pilots will be impacted as well. Fewer pilots means less training, right? CAE's Q3 2019 results looked amazing, with more than $275 million in free cash flow. The company also boasted a 13% increase in revenue that looked pretty enticing. Unfortunately, when airlines can't afford to pay pilots, let alone train them, revenue for training services tends to go down the tube.

Energy stocks

Where do I start with this one? This sector has been a veritable graveyard of dividends and capital gains. The final nail in the coffin for me, after years of looking at these companies as undervalued entities, was when **Suncor** (TSX:SU)(NYSE:SU) cut its dividend for the first time in decades. I was always expecting the small companies to get rid of their payouts, but this was one that I thought might be able to hang in there.

After all, the company went through rough times in the recent past. Its dividend survived the oil collapse of 2015 and even continued to grow until this year. Suncor is a diversified player in the space, has a number of businesses, and operates in various regions. Nevertheless, its dividend was cut in half.

The bottom line

This is a lesson for all would-be income investors. Dividends are not invincible. There are always risks with buying stocks for yield. The current unusual situation should drive home the importance of owning a variety of businesses operating in different industries. You must have a strategy in place, so you can decide what to do when dividend stocks cut their payouts. Personally, I almost always sell stocks that cut their payouts.

With investing, we make our choices to try to invest in companies that appear to have growth prospects, solid businesses, and dividend history that can last through difficult periods. Each of the investments above seemed to meet the criteria, and they all failed miserably as dividend investments. As value investments, they might still be worth holding, but they are no longer steady dividend payers.

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