FOMO Investing: Is it Too Late to Buy These 2 Stocks?

Description

High dividend value stocks are back in focus, and fear of missing out (FOMO) is hitting everyone. The window is closing fast to buy these income stocks since the dark times ended, and investors are coming back with a vengeance. Artificially low interest rates are having the desired effect on the stock market. People are searching for yield with impunity once again.

Stocks that previously had yields in excess of 10% are now coming down to more reasonable levels — and nowhere is this more apparent than in the oil sector. A month or two ago, we were worrying that the entire oil sector was going out of business. Now, just as quickly, we are wondering whether there is time to get back in. Should you buy stocks as they are rising, or should you stay away and wait for them to pull back?

It's still a good time to buy

As much as oil stocks have risen considerably, it is still a good time to buy. Pipeline stocks exemplify this fact. Solid companies like **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) still have yields well in excess of 6%.

At the current level, you are not getting the screaming bargain you could have gotten a few months ago, but you are still getting a good deal on excellent companies.

Oil prices have gone up considerably, for one thing. Just think, West Texas Intermediate and Brent spot oil prices were both under $20 not too long ago. A resurgence in demand, reduced market-driven production, and OPEC cuts have pushed those prices towards $40.

At these prices, many companies will make money on their production. Western Canadian junior oil producers, for example, barely felt the oil price decline in some cases due to their hedges on their production.

The increase in oil prices could give them the chance to re-hedge their positions, effectively smoothing much of the volatility out of their income. Pipelines will benefit from this strategy by continuing to receive income on transmission contracts.

Dividends

One big worry facing pipelines was a potential dividend cut from decimated oil prices and the resulting fallout. At the moment, this does not appear to be an issue, however. In fact, Enbridge announced that it will increase the toll on its Mainline system by 3.9%, effective in July. The increased income will be a support to the dividend.

Pembina, for its part, reaffirmed its monthly dividend of $0.21 a share earlier in June, giving no indication that the dividend is in any sort of danger. The company increased its dividend by $0.01 a share in January, so it has some breathing room before the next rate hike comes around.

The Kinder Morgan Canada purchase added to its pipeline network and will continue to be an accretive acquisition going forward.

Both companies are likely to maintain their dividends going forward. Enbridge has a lot to offer with its regulated utility business to stabilize cash flows. Pembina is focused solely on oil, but has a strong balance sheet to weather the storm.

The bottom line

The best time to buy these stocks was when everything was collapsing. Getting a dividend in excess of 10% on these giants was a great move if you were able to do so. During the downturn, these stocks were trading below book value making them attractive buys. Of course, that's easier said than done in hindsight.

These stocks do, however, remain solid buys today. They still have attractive dividends and the potential for further growth. Both of these stocks have excellent businesses that will continue to be in demand going forward. They are also still trading far below their highs.

If you are an income investor with a long time horizon, you will do well to buy these stocks at the current level.

CATEGORY

1. Dividend Stocks
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2. NYSE:PBA (Pembina Pipeline Corporation)
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Date
2025/08/25
Date Created
2020/06/08
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