Dividend Stocks: Should You Hold These 2 At-Risk Names?

Description

What dividend investors need right now are stocks that can help them sleep at night. Asset managers and financial advisers tend to guide low-risk investors towards the same kinds of names — names that offer dividend growth with decent starting yields. Blue-chip businesses in tried-and-tested sectors with dependable track records and predictable outlooks. But what if the events of the past year have skewed those outlooks?

BMO (TSX:BMO)(NYSE:BMO) and **Enbridge** (TSX:ENB)(NYSE:ENB) are two of the top TSX stocks to buy for a dividend portfolio. Together, these market leaders offer access to a pair of major sectors. But both names are at risk from some pretty serious headwinds. The fact that these headwinds may be going undetected by long-term dividend investors could make them even more dangerous over the next couple of years. Let's take a look at what the risks are.

Banking stocks could face a tough year ahead

BMO has lost 27% in the last 12 months. It would be hard not to look at that kind of performance during any other year as a sign of catastrophe. So, why are some pundits still peddling this Big Five name? In fairness, Canada's biggest moneylenders are likely to be protected by a federal safety net. And yes, there's also the fact that a good wodge of national household debt is, of course, owed to the banks.

But dividends from banks are not sacrosanct. For instance, last month the European Systemic Risk Board (ESRB) put E.U. banking dividends in the cross-hairs. And there are a few potential headwinds facing the Big Five that aren't getting a lot of air time, such as their dangerous exposure to the tanking oil industry. There's also the potential for a certain amount of that household debt to turn toxic if the pandemic goes on for too long.

Oil stocks are at risk of further weakening

Speaking of oil, midstreamer Enbridge's rich yield of 7.85% continues to woo income investors seeking the highest returns. But Enbridge has its own share price sob story, down 12.7% year-on-year. It's certainly not the worst performance among troubled TSX oil stocks. See, for instance, **Canadian Natural Resources**, which has shed 29.5% year on year. But a 12% dip is bad enough. That's not "easy sleeping" material.

Indeed, while some pundits are still bullish on yield-chasing, it could be argued that a rich yield in the current market is a red flag. Investors need to dig into the ratios and decide how sustainable that plump dividend yield really is. A high dividend yield can also be a sign of an oversold stock. Income-focused shareholders should therefore be wary that their target name isn't just another falling knife.

Investors with low-risk thresholds may instead wish to look at strong names with a compelling story. Consider **Brookfield Infrastructure Partners**, for instance. One of the strongest names in the Brookfield stable, this strongly diversified play comes with a tasty 4.78% yield. Resilience in share prices is also reassuring here. A loss of less than 1% in 12 months is suggestive a dividend stock that really will help investors sleep better at night.

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