Dividend Stocks With 7-8% Yields: Buy This, Not That

Description

Following the devastating coronavirus crash, the yield bar has been raised across many dividend stocks that remain under pressure. While there are an abundance of opportunities out there on the **TSX Index**, before you grab for any fat yields, you must put in the homework to lower your chances of walking right into a value trap.

There are many great on-sale dividend stocks on the TSX. At the same time, there are also ample value traps with swollen dividends that are like siren songs that can lead beginner investors to their demise. If a dividend yield is too high to be sustainable, it probably is unless Mr. Market has made a colossal mistake with his pricing of a certain name.

Many new investors hoping to have their cake (a high yield) and eat it too (outsized capital gains) are dealt with dividend cuts and steep capital losses. So, be picky when it comes to battered high-yielders and ensure the fundamentals are sound before you dare set foot in a name that most others have given up on. It’s good to be a contrarian, but you need reasons to believe that Mr. Market is wrong with his pricing, as well as the time horizon to wait for him to correct his pricing error to the upside.

This piece will look at two high-yielders, one is a buy, and the other is a sell.

Buy: Enbridge — and its 8% yield

I guess you could say that pipeline kingpin **Enbridge** (TSX:ENB)(NYSE:ENB) has a management team that’s too shareholder-friendly for its own good. The company has swum to great lengths to preserve its colossal dividend payout despite the headwinds and regulatory hurdles. Borrowing money and selling assets to finance a dividend is not sustainable over the long term.

But in the case of Enbridge, which has compelling cash-flow-generative projects (the Line 3 Replacement) on the horizon, financial relief could be on the way. In due time, regulatory hurdles will pass and headwinds in the energy scene will fade. Enbridge has enough financial flexibility to keep its dividend intact and may be in a position to hike it further if the company can get things back on theright track.

While there's a tonne of baggage here, Enbridge's shares are undervalued and view the dividend as relatively safe.

Sell: IGM Financial — and its 7% yield

IGM Financial (TSX:IGM) is a company that I've been quite bearish on over the years. The non-bank wealth manager finds itself on the wrong side of a secular trend, and I fail to see how the firm can sustain its dividend payout over the long-term, given flat-lining revenues and earnings.

Fellow Fool contributor Nelson Smith noted that IGM is among "Canada's worst dividend stocks," and I wholeheartedly agree. With low-cost investment options continuing to rise, many investors stand to pull money out of high-fee mutual funds and into run-of-the-mill index funds.

"Even IGM's parent sees the writing on the wall. **Power Corporation** — which is IGM's largest shareholder — has invested in Wealthsimple, which is one of North America's leading low-cost roboadvisors. These roboadvisors use software to make investment decisions, keeping costs down for customers," said Smith.

Unfortunately, more money in investors' pockets means less to secure IGM's dividend. Smith thinks IGM is in a high-dividend trap and advises investors to steer clear of the name. Investors would be wise to take his advice.

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