Passive Income Investors: Buy This, Not That!

Description

Passive income investors have a lot of options on the **TSX**, with some shares still dragging their feet following the 2020 stock market crash. We're in a stock picker's market right now and while the yield bar has been raised across some of the harder-hit COVID-19 stock out there, not all of them are worth picking up.

Remember, just because a stock looks cheap (or its yield is high) doesn't mean it's undervalued. This piece will have a look at one battered stock that passive income investors should look to buy and one that may be better to avoid as we head move farther into what's shaping up to be a big recovery year.

A winning telecom that'll keep on winning

Telus (TSX:T)(NYSE:TU) has held its own remarkably well during the worst of this pandemic. The company doesn't have a legacy media division weighing it down and it looks to be winning the Canadian telecom "battle of the west" against its top rival **Shaw Communications** thus far.

The telecom scene has seen a considerable amount of COVID-19 headwinds, yet Telus' management has done a top-notch job of managing through them. As a result, Telus stock has been far quicker to recover than its Big Three peers in the space and is just one big day away from hitting all-time highs.

Today, shares of Telus are looking quite pricey versus its peers, but they're pricier for a reason. Telus is likely to continue building upon its wire line lead amid intensifying competitive pressures. With a much-anticipated carve out of Telus International on the horizon, I'd urge passive income investors to consider scooping up shares of Telus now before any evidence suggests considerable value creation from the move.

The stock sports a 4.7%-yielding dividend that I view as a cherry on top of an already attractive sundae.

Headwinds could weigh on total returns for passive income investors

Shares of **IGM Financial** (TSX:IGM) having been bouncing back in recent months after falling off a cliff back in February and March. The non-bank wealth manager has done a great job of trimming expenses and keeping operating margins fairly strong with its new pricing structures for high net worth clients. That said, the company finds itself on the wrong side of a secular trend, as young investors look to self-guided investing and low-fee passive investment products.

Moreover, Canada’s big banks are better-equipped to take share away from the non-bank wealth managers over the coming years. The big banks have been investing a considerable amount in marketing campaigns amid the pandemic and the convenience of having your wealth managed by a bank, I believe, puts IGM at a disadvantage over the next decade, as it looks to build upon its AUM (assets under management).

Shares of IGM look cheap at 1.8 times book value and 12.0 times trailing earnings. The 6.4%-yielding dividend looks more than safe, but given the headwinds, I’d argue that the risk of capital losses vastly exceeding the dividend yield are high. As such, I’d rather stick with a name like **Royal Bank of Canada** if you’re a passive-income investor who’s keen on gaining exposure to the promising Canadian wealth management scene.

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joefrenette