



Dividend Stocks: When Should You Sell?

Description

Are you struggling with when or if you should realize profits as your dividend stocks have risen and provide much more gains than your dividend income?

You're not alone.

It can be tempting to want to realize profits when the profits are worth untold years of dividend income. For instance, my friend recently sold their **CIBC** position that she bought during the pandemic market crash and realized more than six years of dividends in capital gains.

She struggled on whether to sell because she loves receiving dividends but decided to do so as the bank stock was fully valued. The good thing was that the position was in the Tax-Free Savings Account (TFSA) so there was no tax consequence.

Here are some considerations before you decide to take action to sell: the valuation of the dividend stocks, the tax consequences, your portfolio diversification, and whether you already have other (same quality) dividend stock ideas in mind to place your proceeds.

It also helps tremendously to write a paragraph on why you're buying a dividend stock in the first place. You can always refer to it if you're thinking of selling.

Dividend stock valuations

If it's a non-core dividend stock holding you're thinking of selling, you might sell when it's close to fairly valued. If it's a core holding that you know will maintain or increase dividends, you might want to keep them for portfolio diversification purposes for your long-term dividend portfolio. After all, you need to hold shares to collect dividends.

What are the tax consequences?

If shares are in a taxable account, you need to consider the taxes you would pay on your capital gains. What's left in your pocket after taxes is what you get to reinvest in new ideas. Are you ok with the capital gains tax bill? Are you in a high tax bracket? Those are questions you need to consider.

Portfolio diversification

For example, no matter how high your core holding utility stock might go, you might not want to sell because it's a key part of your dividend portfolio construction. If you're tempted, you might take partial profit and trade around the position.

Even though I felt a bit guilty, I took partial profits in my [Brookfield Infrastructure](#) core utility position before and managed to add back to the position again when it traded at lower levels.

Just keep in mind that when you realize profits, you risk not being able to get back in the quality stock, at least not any time soon, because you'll require the market to provide a buying opportunity again.

Do you know where you're investing the proceeds?

If you do decide to sell, make sure you already have other (same quality(?)) dividend stock ideas in mind to place your proceeds. What are the valuations of these new ideas?

In today's high market, it might not be the best idea to jump from an expensive stock to another expensive stock for instance even if it results in greater income generation, as high-yield stocks tend to be slower growers.

What's your original intention for the dividend stock?

When in doubt, go back to your original intention for the dividend stock. Did you buy the stock for income or total returns? Did you mean it as a trade or long-term holding?

Remember that you never have to sell out of a position entirely. There's a middle ground in which you take partial profits which might be the best of both worlds as you'll have the proceeds to invest elsewhere but also have kept your original [dividend stock](#).

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