Passive-Income Investors: Should You Buy Big-Dividend Stocks in 2022?

Description

Although interest rates are rising, they're still relatively low compared to the long history of interest rates. Dividend stocks are still the best option for juicy passive income. As Larry Berman explained this week on *BNN*, liquidity is coming out of the market as interest rates are rising. This could trigger a selloff in high-yield dividend stocks initially.

> "Within the energy, pipelines, utilities, infrastructure, and REITs sectors, I continue to hold a neutral weight in my allocations until we see some clear direction of where this market is heading in 2022. This strategy is keeping the dividend yield of the portfolio above 3 per cent while at the same keeping some ammunition for a possible pullback."
> *Jaime Carrasco, portfolio manager at **Canaccord Genuity***

The conclusion above from Jaime Carrasco's market outlook this week sums up well the stocks that could be affected by rising interest rates. Particularly, pipelines, utilities, infrastructure, and REIT stocks tend to provide above-average dividend yields. Inherent in their businesses are also balance sheets with meaningful debt. Higher interest rates imply a greater cost of borrowing. They could transfer that cost to customers, but it will take time.

Consequently, the stocks that are fully valued could experience a greater selloff than others. Therefore, investors should be ultra careful when buying big-dividend stocks. Make sure you check their valuations so that you can lower your risk, maximize your passive income, and improve your total returns.

Here are some examples of big-dividend stocks for illustration.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) stock is a prime example of large passive-income generation from the pipeline space. It's the leading energy infrastructure company in North America with an extensive network of liquids and natural gas pipeline that's complemented by gas storage and renewable power facilities.

It is a Canadian Dividend Aristocrat that has increased its dividend for 26 consecutive years. Currently, it provides a safe and juicy yield of 6.6%. At $52.28 per share, the stock is fairly valued. Therefore, it's a hold for passive income. If you bought ENB stock at attractive valuations previously, you can very well hold it for passive income. It's just not wise to buy new shares at current levels as rate hikes are expected to occur this year.

Fortis stock

Fortis (TSX:FTS)(NYSE:FTS) is another popular dividend stock for passive income. Even retirees trust Fortis stock as a core holding in their retirement funds. The regulated utility makes highly predictable earnings from its operations and investments.

The dividend stock is a Canadian Dividend Aristocrat that has increased its dividend for 48 consecutive years. Its dividend yield of 3.7% is not bad, as it's still 44% greater than the market benchmark's yield. At $58.33 per share, the stock is fairly valued.

So, it's a hold for passive income. If you'd bought Fortis stock at attractive valuations, you can choose to hold it for passive income. However, it's not a good idea to buy new shares right now. Wait for a meaningful pullback of at least 8%.

Investors who are considering these two dividend stocks today should hold cash to wait for a pullback.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:FTS (Fortis Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:FTS (Fortis Inc.)

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