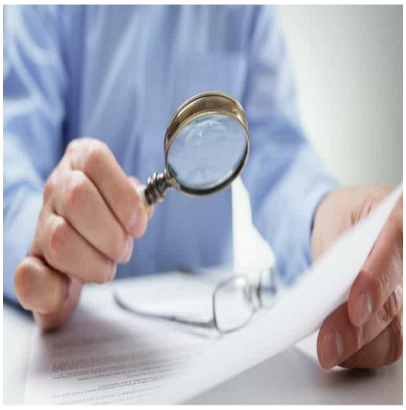

The 1 Statistic Every Investor Should Be Watching Right Now

Description

Passive-income stocks seem to be the theme of the year in 2022. That comes from two years of solid growth that, frankly, it seems investors aren't prepared to part with. But changing over to dividend stocks doesn't mean you're letting go of risk.

The problem with passive-income stocks

The thing with passive-income stocks that give you high yields is that they can dish out dividends but lose income in the meantime. While this might be good for now, it could mean that these companies need to tighten their purse strings in the near future should a recession happen.

Take **Suncor Energy** (TSX:SU)(NYSE:SU) for example. Suncor stock used to be a prime passive-income stock. Then the pandemic hit, and the company sliced its dividend in half. This came after several years of poor performance in the oil and gas sector. So, while dividends look great, they can all go away.

Instead of eying up passive income through dividend yields, eye stability through this other statistic.

Debt to equity

The debt-to-equity (D/E) ratio is a great way to find out if a company will remain stable during a recession. It's used to look at a company's financial leverage, dividing a companies total debt by its shareholder equity. This will help you understand how much of the company is funded by debt, and whether outstanding equity could cover those outstanding debts in a downturn.

Clearly, investors want to find a company with a low D/E ratio. Ideally, you want something under one. This means for every $1 of equity, it would cover $1 of debt. Then the reverse is true. If you find higher D/E ratios, this suggests a stock is higher risk.

And this can be the case for companies and industries you would think are low risk! In the case of

Suncor stock, it has a D/E of 1.17. That could mean should a crash come, they're due to sink fast.

Something to consider

While the D/E ratio isn't a be all, end all, it's a great tool in your arsenal during a market correction. You want companies that can cover costs should a fall happen. The D/E ratio tells you that, straight up. And while it doesn't mean that every stock *will* fall, it can tell you how much these companies are willing to take on when it comes to risk.

Suncor stock isn't actually that bad, but a lot of this may have to do with the stock cutting its dividend to keep cash on hand. That's a good thing. Compare that to tech stocks that have a far higher D/E ratio, like **Lightspeed Commerce** at six or **Shopify** at 11.84.

Bottom line, make sure to do your homework. Understand that those passive-income stocks could suddenly need that income should a recession happen. And that would mean all the work you did and all that investment would suddenly and shockingly go away.

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Author
alegatewolfe