Dividend Traps: These 8% Dividend Stocks Are Riskier Than They Look

Description

Not all dividends are created equal. The dividend yield listed on any stock is a representation of *past distributions* and the *current stock price.* It gives you no indication of whether the dividend is sustainable or even likely to be paid at the current rate after you buy.

That means the dividend yield on some stocks is deceptively high. Here are some 8% dividend stocks that investors should steer clear of.

Risky dividends

Atrium Mortgage Investment Corp. (TSX:AI) is a good example of a stock that may not be able to sustain its dividends. The company provides creative financing solutions to the commercial real estate and development market. Put simply, it lends money to developers and institutional investors.

Rapidly rising interest rates may have changed the game for this firm. Several developers are struggling to sell their units, which has compelled them to suspend operations. Meanwhile, investors are likely to see a dip in their fortunes as real estate valuations slide. Put simply, Atrium's portfolio of mortgages could see some downside in the months ahead.

The stock offers an 8% dividend yield while the payout ratio is 89%. Any dip in earnings would jeopadize the payout.

First National Financial Corp. (TSX:FN) is in a similar position. The stock offers a 7% dividend yield at the current market price. It operates one of the largest mortgage broker distribution networks in the country.

The stock is down 20% year to date, and some industry veterans believe the price could go lower. On Twitter, Ron Butler of Butler Mortgage said First National was "one of the best run companies in the pure mortgage space by far. Brilliant management, very conservatively run. But stuck in a sectoral decline."

That sectoral decline could push the stock price lower and erase some of the gains from the dividend yield.

Better yield

Fortunately, some high yield stocks are in a better position. These companies are in sectors that are far more resilient to the economic headwinds we're facing right now.

Slate Retail REIT (TSX:SGR.U) is a perfect example. The company owns and operates real estate occupied by major grocery stores across the U.S. These are essential services that are recession-resistant.

According to the company's latest financial report, its portfolio is worth U.S.$2.4 billion (C$.3.2 billion). The occupancy rate is as high as 93% while 63% of its tenants are "essential businesses" that provide groceries, medicines, and other retail necessities.

The stock offers a 7.8% forward yield based on its current market price. I expect the stock price and dividend payouts to move higher next year as inflation remains on the horizon. Investors looking for a robust passive income stock should add this niche opportunity to their watch list for 2023.

Bottom line

Investing in high yield dividend stocks is tricky. Rising interest rates and falling real estate values could impact some dividends. Investors should seek out lower risk opportunities in essential sectors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AI (Atrium Mortgage Investment Corporation)
2. TSX:FN (First National Financial Corporation)
3. TSX:SGR.U (Slate Retail REIT)

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