Why Dividend Stocks Are Making a Comeback in 2021 — and My Top Pick for Canadians

Description

With 2020 now behind us, Canadians can move on to focusing on bigger and better things in 2021.

The global pandemic wreaked havoc on economies across the globe, completely disrupting many people's financial situation. Unemployment levels spiked when the pandemic first hit, but that has begun to slowly decrease and return to pre-COVID-19 levels.

It's worth noting that the Canadian market was extremely resilient throughout 2020. The global pandemic caused a 35% crash early in the year, but the Canadian market regained that entire loss and more throughout the rest of 2020.

The silver linings of 2020

Looking solely at the year to date performance of 2020, it may not seem as if anything significant had happened. But in reality, the severe levels of volatility and high levels of unemployment caused by the pandemic forced many Canadians to re-examine their financial situation.

Savings rates actually saw an increase throughout 2020, as Canadians were reminded of the importance of putting money aside into an emergency fund.

Another silver lining from this pandemic is that it was a perfect opportunity for Canadians to truly test how much volatility and risk they are able to withstand in their portfolio. It's one thing to say you're a non-risk-averse investor that can sit through the steepest of market crashes. It's another thing to actually live through one.

Now that we're in 2021, Canadians should have a better idea of what they'd like their portfolio to look like.

In addition to that, we've been reminded of the importance of having an easily accessible emergency fund. As a rule of thumb, aim to keep three to six months worth of living expenses in your emergency fund.

Investing in dividend stocks

High-flying growth stocks received most of the media attention in 2020. Canadian tech stocks like **Shopify** and **Lightspeed POS** went on incredible bull runs during the market's recovery last year.

The revenue growth of some of those high-flying companies only increased during the pandemic, but so did their valuations.

If you're looking to own a stock with a price-to-sales ratio in the 30+ range, you better be ready to hold through some extremely volatile periods.

Dividend stocks had mixed reviews in 2020. On one side, were saw more than a handful of dividend-paying stocks put a temporary pause on increasing its dividend. Some companies even temporarily cut the entire dividend.

Seeing a dividend cut is typically not a good sign for a company. It's not great for investors either. Shareholders may rely on that dividend as their primary source of income.

On the flip side, the sudden market crash in the spring of 2020 saw many dividend yields shoot up as share prices dropped.

For example, a stock that was trading at $50 a share that has an annual dividend of $1.50 per share owns a yield of 3%. But if that share price drops down to $37.50 and the company keeps its dividend at $1.50 per share, the yield is now valued at 4%.

We saw this situation occur across many Canadian companies last year. The major Canadian banks are a prime example, as each bank saw a massive drop in share price, which led to a jump in its dividend yield.

My top dividend stock right now: Canadian Imperial Bank of Commerce

Speaking of the Canadian banks, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) is my top dividend stock to buy today.

Each of the Big Five banks is a strong dividend stock buy today, but CIBC is my top pick.

CIBC is valued at a market cap of $50 billion, which makes it the smallest of the Big Five banks. It might be the smallest, but it's got plenty of growth potential for investors to get excited about.

Expanding into the U.S is nothing new for the Canadian banks. But for CIBC, that's where the growth potential comes from. If the economy does rebound as expected in 2021, having exposure to the American economy should benefit Canadian investors.

Finally, CIBC's dividend yield. At an annual payout of $5.84 per share, it's good enough for a yield above 5% at today's stock price.

Not only is that one of the higher yields you'll get from the Canadian banks, but it's also one of the most reliable ones too. CIBC has been paying a dividend to its shareholders since 1868.

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