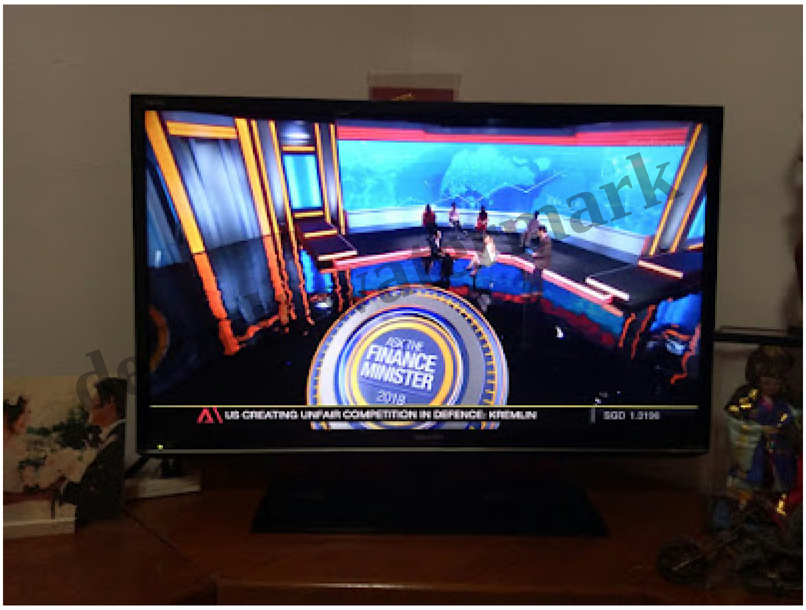
What you must know before investing in dividend stocks

Description

If you were paying close attention to the Budget 2018 speech on Monday, as well as my feature on **Ask the Finance Minister 2018** earlier this week, you would probably have caught onto:

1. The government will be **introducing a financial education curriculum** for polytechnics and universities.
2. Finance Minister Heng Swee Keat emphasized on **the importance of individual financial planning and preparations for the future** if we are to cope with rising costs.



Up-skill and upgrade yourself was the repeated mantra, which has been echoed for multiple years now. And as I concluded, it seems like the only way out for now is to:

- ensure we (and our dependents) are adequately covered by insurance
- upgrade ourselves and get higher-paying jobs
- build an emergency fund
- invest and plan our finances early so we do not get caught off-guard

Now, the first 3 aren't necessarily too difficult as you could always engage the help of a trusted insurance agent, SkillsFuture and budgeting apps like Seedly for those. However, the last part on **investing** usually leaves most people stumped, but there are ways to get better at it.

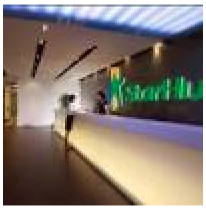
Many people favour **income investing**, where you invest in companies with the financial ability to pay you recurring dividends every quarter or year after year. This contributes **passive income** where you get paid for simply holding onto your investment. The best part is, it doesn't matter whether the share price goes up or down, or if the company doesn't grow as fast as analysts estimate, because you still get paid dividends regardless.

Let’s look at 2 dividend stocks I examined in January 2017 to compare : Sabana REIT vs. Starhub.

	Sabana REIT	**Starhub**
Share price then	$0.35	$2.90
Initial $7000 investment	20,000 shares	2,414 shares
Total dividends received in 2017	$672	$482.80
Share price today	$0.39	$2.51
Investment worth + dividends today	$8,472	$6,542
Net returns inclusive of dividends	**+ 21%**	**– 6.5%**

In Starhub’s case, investors would have been better leaving their money in the bank instead!
Of course, the reality was that I played my cards a little differently. I sold some shares of Sabana when it peaked above $0.50 previously, and I still hold the remaining shares, so my total gains if I were to sell today (inclusive of dividends) would be $9,336 instead, or ***33.3% investment returns in just 14 months.*** *I still have those shares of Sabana REIT today which continue to pay me dividends without me having to lift a finger.*

Back then, some readers asked me (during a readers meet-up) if I thought Starhub was worth investing in, given that its share price had dipped to under $3. Its dividend yield was pretty enticing then at 6.89% ($0.20 / $2.90). However, I said then that I was staying out because I foresaw Starhub cutting its dividends, and was proven right when its management announced a cut a month later.



Why **StarHub** decided to **slash** its **dividends** this year
Singapore Business Review - 7 Feb 2017
Given the challenging telco market in Singapore, **StarHub** decided to introduce a new **dividend** policy for its shareholders, slashing DPS to 16 cents, or 4 cents per quarter this year. According to Maybank Kim Eng, this may be due to the threat coming from TPG's entrance to the telco market. The firm said ...

What made me choose Sabana REIT over Starhub, and how did I know that Starhub was likely to cut their dividends before the news was even out? Did I have insider information?Not at all, but my own analysis and knowledge told me that it was bound to happen. Similarly, before you invest, I would highly recommend that you should know the following:

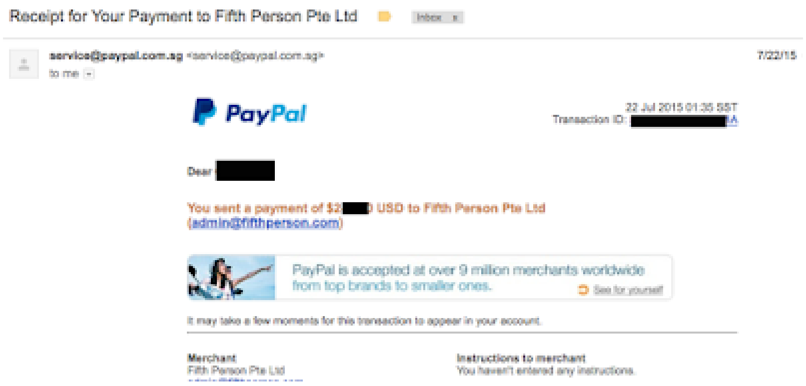
- What information should you look at in a company's annual report?
- What metrics should you use to evaluate dividend stocks?
- What separates a good dividend stock from a poor one?
- How do I know if a company is about to cut or suspend their dividends?
- How do I spot and avoid potentially fraudulent companies?
- What should I look out for when evaluating a REIT?
- Growth drivers that a REIT should have so that you're likely to earn higher dividends over time
- Financial metrics that a REIT must pass before you invest

You'll need knowledge and experience in order to sniff out the lousy stocks from the gems, and that's why I've been emphasizing on the importance of getting educated about investments either through books or courses, or a combination of both. I choose to use both.

Previously, I shared about learning value investing through one of my favourite courses, The Investment Quadrant here. However, I received many emails from readers who were more keen on **investing for passive income and getting paid through regular dividends**, where **Dividend Machines** would therefore be a better course to learn that.

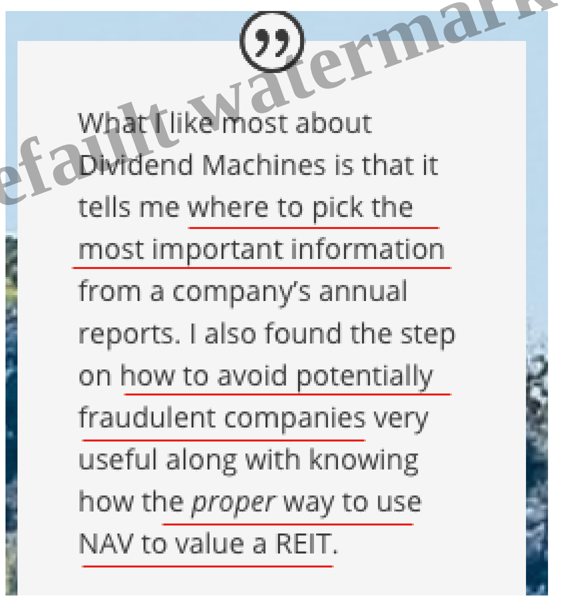
The good news is, **Dividend Machines** is now finally open for registration after a long wait! If you're signing up, I highly recommend that you also attend their class in person to get the most out of your learning.

I had paid for and attended **Dividend Machines** in 2015, and there were stuff taught that you'll be hard-pressed to find in books (I kid you not). In fact, the course was so memorable that I still remember, up till this day, the James Bond music playing while we worked on the last exercise to learn a final formula that I feel is worth paying the entire course fee for alone.



My best investment in 2015 was investing in Dividend Machines, which has paid off handsomely in my investment portfolio ?

The best part is that beyond just a one-time course, I also get all their future updates they make to their course content. Back in 2015, they did not teach anything about Malaysia REITs, but I can learn that for free this year since I'm a lifetime member (you might even see me back in class again this year for a refresher if you're attending!). I've paid for both their courses and have found them to be one of the best investments in my investing journey, which is why I'll highly recommend you to go for this as well.



(Of all the course providers in Singapore (and I've attended plenty), the only ones I've personally recommended and endorse are those taught by The Fifth Person and Dr Wealth, as I feel they offer the best value for money in terms of content and price charged.)

If you're also keen on learning how to invest for passive income, here's a reader promo!

You can sign up for Dividend Machines here and get:

- **Dividend Machines Training (dividend stocks + Singapore REITs + Malaysia REITs)**
- **24/7 unlimited support via the private member's Q&A forum to ask questions**
- **Live workshop held in Singapore**

- **FREE lifetime access to all future course content upgrades**

The best part? They're offering **a 30-day money-back guarantee**, so if you're not satisfied, you can always terminate your access and get your money back.

So are all high-yielding dividend stocks a value buy?

Not always, and if you're not careful, you could end up being burnt like what happened to those who bought this stock previously for its juicy 14% yield. How can we identify the gems from the trash?

You'd better make sure you know, because the company itself / your broker sure isn't going to tell you!

With love,
Budget Babe

~~Sign up here to get $100 off Dividend Machines today!~~
Limited slots available, as usual, on a first-come-first-served basis.
The registration link and discount will close officially on 18 March 2018.

Sign up here to get $50 off Dividend Machines 2019!

P.S. This is NOT a sponsored post. I reached out to The Fifth Person for a reader's promo after receiving requests from readers, and am sharing about a course I personally benefited from since 2015.

Category

1. Investing
2. Stocks