This Is What Could Happen If You Buy High Dividend Stocks Now

Description



Many Singaporeans are attracted to the idea of dividend investing, especially as a way to generate passive income year-after-year with minimal effort.

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We typically refer to them as dividend investors. Many of them chase after stocks yielding high dividends, especially when the rates are much higher than the interest offered by your bank or fixed deposits.

It is easy to see why. Imagine if you bought 50,000 shares of Rickmers Maritime at $0.205 for a total of $10,250 (excluding brokerage fees). At a dividend yield of 14.3%, you would be getting $1,466 back every year â?? within 7 years of holding the stock, you would have earned back the cost of your investment from just the dividends alone. In other words, you would â??break evenâ?• after the 7th year, as every yearly dividend payout thereafter would be pure profit in your pockets.

APORE Dividend STOCK TRACKER

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Name	Last Price	Change	%	Dividend (SGD)	Dividend Yld
Biz Trust - Port - Hutchison (SGD)	0.770	0.005	0.7%	0.059	7.7%
Biz Trust - Shipping - Rickmers	0.205	0.000	0.0%	0.029	14.3%
Conglom - Sembcorp Industries	3.520	0.000	0.0%	0.170	4.8%
REIT - COM - CapitaCommercial	1.370	-0.015	-1.1%	0.083	6.1%

I have to admit, I NEARLY bought into Rickmers Maritime back then as well (thank goodness I remained rational). Well, guess what?

Rickmers Maritime has since suspended dividends.



Some of you might already be following my friendâ??s High Dividend Stock Tracker here, keeping an eye out for stocks which are yielding high dividends given current prices. While I love this stock tracker, I wanted to caution on the dangers of using this *purely* to make your investment decisions.

Similarly, my friend Kyith, who runs the tracker, does not make his investing decisions based *purely on the dividend yield of the stock,* so neither should you. If youâ??re interested to know more on what goes into his decision-making process, he has plenty of posts evaluating specific stock counters. If you find his posts a little too technical to digest, you can check out my analysis behind Keppel DC REIT here instead.

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Unfortunately, in my recent conversations with some friends and readers, Iâ??ve come to realize that too many Singaporeans are using this criteria to decide on which stock to buy.

For instance, Iâ??ve received a lot of questions regarding oil stocks lately. Given the current oil crisis with plummeting oil prices that show no signs of easing out yet, many are viewing the current situation through rose-tinted glasses, believing that the current market selldown provides a golden opportunity to buy oil stocks for cheap.

It is an open secret that the oil industry is an extremely lucrative one â?? just ask your friends working there about the bonuses they receive! Furthermore, it wasnâ??t that long ago when oil prices were over $100 per barrel.

In Singapore and on the SGX, Keppel Corporation is currently the largest oil company, with Sembcorp Marine as its closest competitor. Just 7 months ago and at the start of the oil crisis, Keppel was trading at $8.13 with its historical dividend yield at 5.9% (based on its annual dividend of $0.48 per share in 2014). This got plenty of investors talking, and I know of people who bought in.

5.9% is high when you compare to The Straits Times Indexâ??s average of 2.8% â?? in other words, the 30 biggest companies listed in Singapore was giving an average of $2.80 for every $100 that you invested, whereas Keppel alone was giving its shareholders more than twice of that. If you invested $10,000 into Keppel then (1,230 shares), you would be looking at potential payouts of $590 every year.

Letâ??s take a look at Keppel today.



If you had invested $10,000 into Keppel in July, based on its attractive dividend yield, your portfolio holdings for Keppel would be worth only $5,904 today. **In other words, you would have lost over $4,000 in the last 6 months.**

Letâ??s imagine if you were to apply the **average down** investing strategy here:

Imaginary SG investor: Wah! Keppel has now become even cheaper! If I buy today, this batch will give me 10% in dividends! The P/E ratio is so low too â?? I can most certainly hold for more than 5 years to see its earnings match up! The market cap at over 9 billion is reassuringâ?¦I think it will be highly unlikely for such a large conglomerate to go bust. Okay, let me put another $10,000 into Keppel!

I may be exaggerating a little for comic effect, but I assure you that this is the same conversation that has happened in the minds of many investors locally â?? including myself.

While the average down strategy is extremely popular and has its merits, there is also a chance that you could be catching a â??falling knifeâ?•. In the example of Keppel, hereâ??s why:

In the news



Oil price: fall to $10 a barrel 'not impossible', admits BP boss

The Week UK - 7 hours ago

Independent analysts predicting the **oil price** could fall to ... of demand in China and North America… prices **would** start on an upward trajectory". ... newly liberated **Iran** and the US are contributing to what ...

Averaging down is a great strategy when the stock eventually rebounds as it magnifies your gains, but many people forget that **if the stock price continues to slip, your losses are similarly magnified**.

The next problem is, **thereâ??s no guarantee that you will be getting your projected dividend yields.**

Going back to Keppel, take a look at their recent results announcement:

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KEPPEL CORPORATION LIMITED

FOURTH QUARTER & FULL YEAR 2015 REPORT CARD

1. 4Q 2015 Net Profit down 44% to S$405 million, compared to 4Q 2014's S$726 million.
2. FY 2015 Net Profit down 19% to S$1,525 million, compared to FY 2014's S$1,885 million.
3. Earnings per Share was 84.0 cents, down 19% from FY 2014's 103.8 cents.
4. Annualised Return on Equity of 14.2%.
5. FY 2015 Economic Value Added decreased to S$648 million from S$1,778 million YoY.
6. Cash outflow of S$694 million.
7. Net gearing was 0.53x.
8. Total cash dividends of 34.0 cents per share for FY 2015.

If you had bought at $4.80 expecting a 10% dividend yield (based on historical payouts), welcome to the reality of 7.08% instead.

As the oil crisis continues, there is little doubt that Keppelâ??s earnings will continue to be hit, translating into a further decline in its stock price, and a high possibility of further reductions in dividend payouts as the company tries to keep itself afloat. When this happens, youâ??ll be looking at **both**

capital loss and dividend reductions.

Hereâ??s a consolidation of some of the more popular perspectives among our local investors right now:

View #1: Woohoo, cheap stocks! Time to go shopping in the stock market!
Danger: Could you end up catching a falling knife?

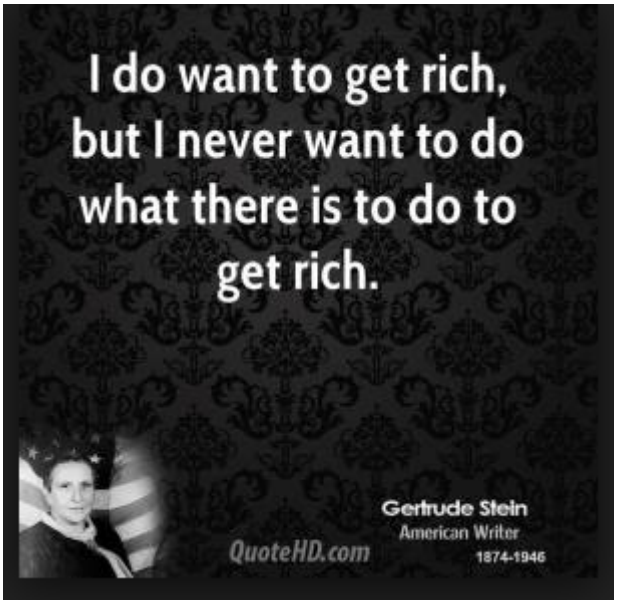
View #2: I canâ??t tell if prices will go up or down, so I will buy in at different points and slowly average down.
Danger: Youâ??ll incur a lot of brokerage fees, depending on how much and how often you buy. Also, you might run out of cash quickly enough. Thereâ??s also a possibility of the company being a falling knife.

View #3: I will buy when the STI goes below 2500 points!
Danger: What happens if it continues to fall even lower? Youâ??ll be risking high capital losses then.

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View #4: Stock markets are scary and free-falling now. I will wait until thereâ??s a rebound before I buy in.
Danger: The rebound might be so sharp and rapid that you completely miss the opportunity to buy cheap.

So what should we do?



My advice:
1. Hold onto cash. Cash is king now.

2. Work hard at your job. You really donâ??t want to lose your job in todayâ??s economic climate.

3. Focus on the companyâ??s fundamentals and make sure you conduct an in-depth

analysis before you buy any counter. Try not to get sidetracked by the dividend yields. *I know Iâ??ve said it repeatedly in previous posts and Iâ??m nagging again, but this point is crucial.*

Best of luck navigating the bear market.

With love,
Budget Babe

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