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Kim Inglis, BCom

Look for yield in dividend stocks

Be paid to wait out the near-term volatility

Innumerable market forecasters, from economists to analysts to advisors, are making countless predictions for 2009 but unfortunately there is no consensus. Opinions range from a long-term bear market to the polar opposite of a huge near-term rally. But investors have already experienced an economic environment marked by chaos and fear so they don't need even more confusion.

So the question arises: how does an investor determine the best course of action for 2009? As with any investment decision, I think it's wise to examine history along with current facts in a calm, rational manner. How you think and decide in the near-term has a very direct bearing on your financial health in the long-term.

Consider that the TSX/S&P Composite Index experienced the bulk of its losses in the last quarter of 2008. More specifically, it lost approximately 32% of its value September through December. Therefore it is reasonable to conclude that fourth quarter earnings will not fare well and the markets will be quite bumpy over the near-term as investors struggle to take in the negative news.

A look into the money markets offers additional insight. The Investment Company Institute in the US recently reported that investors now own more money market mutual funds than equity mutual funds. Money market mutual funds accounted for a staggering US$3.895 trillion as of the week ending January 7th - an increase of US$258 billion from November 12th, 2008.

However, even five year US treasury bills currently yield only 1.72%. Factoring inflation into the picture, these funds are actually losing money. Most people don't like to see their savings shrink so I think we can safely draw another conclusion - the likelihood is low that the $3.895 trillion will remain dormant over the long-term.

It's more likely that, when investors inevitably get tired of a losing yield, they'll start to re-invest in the markets. When those trillions of dollars are deployed, and all the government stimulus packages become part of the equation, it's only a matter of time before markets recover.

And what does history tell us? In the two largest recessions since World War II (1974 and 1982) unprecedented amounts of cash accumulated on the sidelines just prior to bear market recoveries that saw six month advances of 31% and 36% respectively.

However, problems arise when trying to figure out the exact timing of a rebound and when to re-invest. Recoveries tend to be bumpy, making it difficult to recognize when the recovery has actually begun. Many investors will wait until they can 'see the recovery' but it may be too late to benefit. I think it's wise to take a logical approach.

One approach would be to look for investments that offer attractive yields so that you can be paid to wait out some of the near-term volatility. A quick glance at the current dividend yield of the TSX/S&P Composite Index tells us that it is paying a fairly nice yield of about 3.9%. Given how badly beaten up the markets

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were in 2008, you can find high quality, dividend-paying investments at good prices.

You might consider some of the more traditionally defensive names that have traded down. **Johnson & Johnson** (NYSE) and **Enbridge** (TSX) come to mind. In my opinion, both are solid companies with well-established names and good balance sheet numbers.

My view is also that most of the Canadian financials offer decent dividend yields. They have some of the most consistent track records of dividend payment, and our top Canadian banks are some of the most profitable in the world. However, as the financial sector may experience more volatility, it would be wise to consider dollar-cost averaging.

If you're still concerned about individual stock purchases, another way is to purchase an exchange-traded fund. There are a multitude of ETFs in Canada and the US that track various dividend-producing investments. You can opt for one that offers exposure to a sector whose components offer solid dividends, or you can pick up an ETF that simply tracks your index of choice. There are countless options.

Although you may continue to be wary of the markets, the fact is they will return to profitability over the long-term. Your ability to profit, however, depends on the steps you take in the near-term. Choose wisely and act appropriately.

Kim Inglis is an Investment Advisor. The views in this column are solely those of the author. [*www.kiminglis.ca*](http://www.kiminglis.ca)