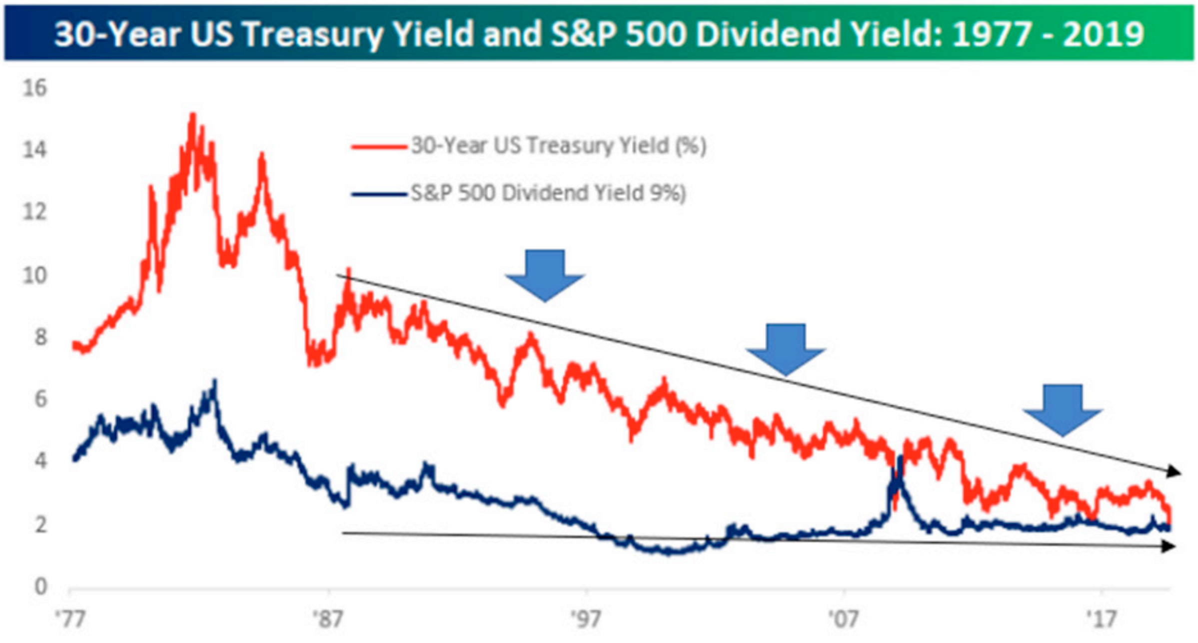
DIVIDENDS: A BIRD IN THE HAND

The old investing adage “a bird in the hand is worth two in the bush” signifies the importance that dividends and return of capital play in a sound investment strategy. In today’s uncertain environment where capital appreciation is not guaranteed, if anything this now becomes more valuable than ever, as investors attempt to minimize unnecessary risk while still maximizing return. Portfolio yield ensures that investors essentially receive a portion of their initial investment back on a regular basis, which can then either be utilized for living expenses or reinvested at a higher rate of return ideally. Many investors normally look to utilize bonds to represent the more stable, income producing aspect of their portfolios. However, with the ongoing COVID-19 pandemic pushing both interest rates to the floor and stock prices lower, for the first time since 1958 we have seen the dividend yield on the S&P 500 rise above the 10-year and 30-Year US Government Bond yields, outside of a few short-lived exceptions. This same relationship has followed suit in Canada when evaluating Canadian government bonds and the S&P/TSX Composite Index. This trend has made dividend paying stocks a relatively more attractive option than bonds on a risk-adjusted basis for many portfolio scenarios, and it signifies a bullish outlook for the long-term forecast on equities as the economy continues to recover. Stocks with a consistent history of paying and/or raising dividends are also perceived by many investors as relatively safer than their non-dividend paying counterparts, which in theory should help reduce price volatility during economic downturns. Companies such as these must maintain stronger balance sheets with healthier and more consistent cash flows from operations in order to facilitate this consistent dividend stream. There are also potentially favourable tax treatments on dividends paid by eligible Canadian companies compared to that of interest income received from bonds.



Source: https://www.bespokepremium.com/think-big-blog/sp-500-yield-tops-the-thirty-year/

At Matco, dividend yields are one of the investment factors we value and screen for when evaluating potential portfolio companies. As of May 31st, the dividend yield on our Global Equity Fund was 3.2% (almost 1.8x the S&P 500), 4.6% on our Canadian Equity Fund (almost 1.4x the S&P/TSX Composite), and 4.6% on our Small Cap Fund (almost 2.2x the TSX SmallCap Index). These yields also flow through to our Balanced Fund on a pro-rated basis as it owns units of our equity funds. We understand that given the current landscape, companies that return capital help mitigate the inherent risk equity markets present, and as a result help to provide our clients with an enhanced return profile that exhibits lower volatility. As asset managers, although forever willing to scour the investment universe for opportunity, we never forget that a bird in the hand is worth two in the bush.

Jordan Beckett, CFA
Analyst

MATCO FINANCIAL INC.

Founded in 2006 to manage and service seven family offices, today Matco offers the benefits of our extensive investment management experience to individual investors, foundations, endowments, condominium corporations, trusts, corporations and not-for-profit organizations.

Our mission is to simplify the investment world for our clients by understanding their needs and providing exceptional investment solutions that preserve and grow capital.

For more information please visit www.matcofinancialinc.com

Our mailing address is:

350, 440 – 2nd Ave SW,
Calgary, Alberta T2P 5E9
Phone: 403.539.5740
Fax: 403.539.5744

www.matcofinancialinc.com