Secure Your Retirement With These 3 Dividend Growth Machines

Description

Unless your last name is Buffett or Gates, chances are you worry about your retirement, at least a little.

I'm barely in my 30s, and I worry about it. I'm at least 30 years away from throwing off the shackles of working for a living, and every now and again my mind is filled with horrible fears of running out of money during my golden years. What if I become a burden to my children? What if I'm forced to make sacrifices, like forgoing my planned golf membership? Nobody wants to struggle during their golden years.

Which is why I'm investing now, hoping to let compound interest do its thing during the decades until I retire. Everybody knows it's important to get started on that when you're young, since having time to grow your investments is almost as important as making them in the first place.

But what if I told you that securing your retirement could be as easy as just buying three different dividend growth stocks and holding them for 30 years? Obviously, you'll need to have a portfolio larger than just three stocks, but let's take a look at how it might work.

Over the past 10 years, **Rogers Communications** (TSX: RCI.B)(NYSE: RCI) has grown its annual dividend from $0.04 per share to $1.84 per share. Obviously, it's silly to expect the company to maintain that level of growth, but let's assume it can continue growing its distribution by 6% a year. Let's also assume that you split $10,000 per year into the three stocks I'll be looking at, and that the share price stays the same, just for simplicity.

At the end of 30 years, $3333 invested annually into Rogers Communications would be worth nearly $700,000. Almost $240,000 worth of dividends would have been reinvested into more shares, and the current dividend of the investment would be nearly $30,000 per year. That'll help a retiree out.

However, $30,000 per year in 30 years isn't very exciting. It's difficult for a family to make ends meet on that much now, and it'll be exceptionally difficult then, after inflation eats away at the value of that money. So let's look at the other two examples.

Bank of Montreal (TSX: BMO)(NYSE: BMO) is the smallest of Canada's so-called "big five" banks, with a strong retail presence in Canada and a large subsidiary called Harris Bank operating in the U.S. midwest. Outside of the crisis of 2008-2009, the company has a terrific record of raising dividends for investors. Instead of assuming 6% growth, let's be a little more conservative and assume a 5% annual hike.

The stock still does well. After 30 years, the shares would be worth $485,000, and would spin off $18,400 per year in dividends. An investor's yield on cost would be nearly 18%. Those are pretty solid results too.

Finally, let's assume **Suncor** (TSX: SU)(NYSE: SU) is capable of increasing its somewhat meagre dividend of 2.1% by 8% a year. The company currently has a payout ratio of about a third of net earnings, so it can easily afford to pay more.

After three decades, shares would be worth $620,000, and the dividend stream would pay an investor $13,000 per year. Since we're starting at a lower yield, an investor's yield on cost would be a little less than the others, but it still comes in at a respectable 12.6%.

Let's summarize. If an investor took $10,000 per year and divided it between Rogers Communications, Bank of Montreal, and Suncor, and assumed 6%, 5%, and 8% dividend growth rates, respectively, just how much would they end up with? The numbers below have been rounded for simplicity.

- The investment in Rogers Communications would be worth $668,000 and pay $29,400 each year.
- The investment in Bank of Montreal would be worth $485,000 and pay $18,500 per year.
- The investment in Suncor would be worth $621,000 and pay $13,000 per year.
- The total portfolio would be worth $1.77 million and pay $61,000 per year

Even better is that these figures assume the price of the shares didn't increase at all. Plus, investors would be ensured of an annual raise, since there's no reason to believe these companies wouldn't continue to raise dividends. It's worked in the past, and there's no reason to believe why it won't work in the future. All investors need to do is invest in Canada's finest, and reap the rewards.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:BMO (Bank Of Montreal)
5. TSX:RCI.B (Rogers Communications Inc.)
6. TSX:SU (Suncor Energy Inc.)

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