Thinking of Buying Bonds? Buy These 3 Dividend Stocks Instead

Description

Let's say you're entering retirement and thinking of putting some money in bonds. This seems like a good idea—after all, safety is now a top priority, and bonds can help generate some nice retirement income. That said, there's a problem with this strategy: interest rates are so low that bonds hardly pay any income.

For example, let's take a look at Government of Canada bonds. According to the Bank of Canada, a 10-year Government of Canada bond yields a measly 1.31%. So, if you're looking to invest $10,000, then these bonds will earn you just over $130 per year. That's probably not even enough to cover inflation.

Here's an idea: instead of buying bonds, why not buy some high-quality dividend stocks? Not only do these securities get you more yield, but their dividends could easily grow over time.

Below are three stocks to get you started. If you put $10,000 into these names (in even amounts), your $130 annual income jumps to more than $380. As a bonus, this income will likely grow over time.

1. BCE

BCE Inc. (TSX:BCE)(NYSE:BCE) is likely the highest-yielding stock you can find without taking too much risk. The company operates in a very cozy industry—one that guarantees high free cash flow and nearly all of this money is paid out to shareholders.

Investors have become worried about increasing regulatory costs and this is understandable. Of note is the banishment of three-year contracts. That said, Canadians are consuming ever-increasing amounts of data. This trend, of course, benefits BCE, and is far more powerful than any regulatory headwind. So, investors can feel very confident in their dividend for a long time.

2. TD

At first glance, a bank may seem way too risky for a list like this. But Canadian banks are very reliable, especially **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

What makes TD an especially safe bank? First of all, it has very little exposure to the energy sector. The bank also has a strong presence in the United States, meaning it will benefit from an improving economy and rising interest rates. Most importantly, TD places a big emphasis on risk management and this is firmly ingrained in the company's culture.

There's another reason the dividend is so safe: TD typically pays out just less than half its income to shareholders. So, even if net income takes a dive, the company can still afford its dividend payments.

3. Manulife

Unlike TD, **Manulife Financial Corporation** (TSX:MFC)(NYSE:MFC) struggled to survive during the financial crisis, and it had to halve its dividend at the time. So, dividend investors may choose to stay away from Manulife.

That would be a mistake. Manulife's past struggles have made the company much more risk-averse today, and this shows up in the numbers. The company has better capital ratios than either of its large peers and is very prudent about controlling risks.

Like TD, Manulife pays out relatively little to shareholders. To be more specific, last year the company made $1.80 per share last year, yet the dividend still is only $0.155 per quarter. Once again, there is plenty of room for the dividend to increase. More importantly, the dividend won't be cut, even if net income takes a dive.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:MFC (Manulife Financial Corporation)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BCE (BCE Inc.)
5. TSX:MFC (Manulife Financial Corporation)
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