Why Retirees Should Buy Telus Corporation and its 4% Dividend Instead of Bonds

Description

As so many Canadians near retirement, their financial advisors will undoubtedly tell them to switch some of their stock holdings into bonds. But that's not always a good idea. In fact, many retirees should skip bonds altogether, opting for dividend stocks instead. We provide an illustration below, using **Telus Corporation** (TSX:T)(NYSE:TU) as an example.

A better yield

It's not easy being a bond investor these days, especially after The Bank of Canada lowered its benchmark interest rate twice this year. If you want to buy a 10-year Government of Canada bond (i.e. you aren't willing to accept any risk), then you'll have to settle for a yield of roughly 1.5%.

Meanwhile, Telus's dividend yields a solid 4%. Better yet, this dividend is poised to grow in the coming years as more Canadians opt for better smartphones and richer data plans. Telus has also been stealing market share away from its rivals thanks to its top-notch customer service.

Better yet, Telus's dividend has more than quadrupled in the previous decade. The company certainly has the track record that dividend investors look for.

A long-term play

Retirees don't buy bonds just for their yield. They also buy bonds for their safety.

To illustrate, suppose you have $10,000 to invest, and you absolutely need that money in a year. In this case, buying Telus shares—or any other stock for that matter—would be reckless.

But this isn't the case for many retirees. For example, anyone retiring at the age of 65 can reasonably expect to live another 20 years. And if they have a sizeable nest egg, they should be able to ride out the ups and downs of the stock market.

Granted, everyone's situation is different, and bonds are still very suitable for a lot of retirees. If owning stocks makes you unable to sleep at night, you should own bonds. Or if you’re the type who would panic-sell stocks after they decline in value, you should probably own bonds.

But if you’re looking to generate income from your savings, and have a long-term time horizon, bonds are a terrible way to achieve this objective. And remember, if you own long-term bonds and market interest rates rise, then you can still lose money if you sell early.

Diversification is key

Of course, Telus isn’t the only dividend stock you should hold. There are many Canadian companies that pay reliable dividends, and by holding a basket of them you can keep your risk at a reasonable level. Check out the free report below.

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1. Dividend Stocks
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