Retirees: 2 Solid Income Picks for 2016

Description

The stock market has not been kind to many income investors this year, and retirees are the ones who can least afford to be hit by dividend cuts.

The energy meltdown is responsible for most of the pain, but other industries have also been hit. Metal producers, utilities, and the country's top plane maker are all on the list of names that have slashed or abandoned their payouts to preserve balance sheets.

Here's why I think income investors should consider **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) as we head into 2016.

Royal Bank

Royal Bank has been paying investors a dividend since 1870. The company has weathered every major financial crisis in the past century and is now one of the top financial institutions on the planet.

Some market observers are concerned that the energy crisis and an overvalued housing market are putting Canadian banks at risk.

Royal bank is exposed to both sectors, but the company is more than capable of riding out some tough times.

About 60% of the bank's residential mortgage portfolio is uninsured, and the loan-to-value ratio on that component is 55%. This means the market would have to fall significantly in a short period of time before the bank experiences any material losses. Most analysts expect a gradual pullback in house prices.

As for energy exposure, only 1.6% of the total loan book is connected to wholesale loans in the oil and gas sector.

Royal Bank pays a dividend of $0.79 per share that yields 4.2%.

Canadian National Railway

Canadian National Railway is one of those stocks you can simply buy and forget about for decades. The company has a strong history of revenue and earnings growth, and the good times just keep chugging along.

The great thing about Canadian National Railway is its diverse revenue base. The company is literally the backbone of the economy in the U.S. and Canada, and weakness in one sector tends to be balanced out by strength in others. For example, the rout in oil prices has hurt energy-related shipments, but the resulting drop in the Canadian dollar is boosting demand for the transportation of forestry and automotive products.

Canadian National Railway pays a quarterly dividend of $0.3125 per share that yields 1.6%. Investors shouldn’t be put off by the low yield as the distribution increases tend to be substantial. The company raised the dividend by 25% earlier this year and is planning to boost its payout ratio in the future.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:RY (Royal Bank of Canada)

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