Create Your Own Pension Starting With These 2 Income Stocks

Description

If your employer doesn't offer a pension plan, you don't need to worry. You just need to take action by creating your own. You can do this by investing in stocks with high and reliable distributions that are paid on a monthly basis, so let's take a quick look at two with yields of 5% or more that you could buy today.

H&R Real Estate Investment Trust

H&R Real Estate Investment Trust (TSX:HR.UN) is the largest diversified REIT in Canada. It has ownership interests in 515 retail, industrial, office, and residential properties located across Canada and the United States that total over 46 million square feet of gross leasable area.

H&R currently pays a monthly distribution of $0.115 per unit, representing $1.38 per unit on an annualized basis, and this gives its stock a lavish 6.1% yield today.

It's highly important to confirm the safety of a stock's distribution before investing, especially when selecting stocks for your homemade pension, and you can do this with H&R by checking its cash flow. In its nine-month period ended on September 30, 2016, its funds from operations (FFO) totaled $1.48 per unit, and its distributions totaled just $1.01 per unit, resulting in a conservative 68.2% payout ratio.

On top of offering a very high and very safe yield, H&R is a stealth distribution-growth play. Its 2.2% distribution hike in November, which was effective for its December distribution, led to 2016 marking the first year in which it raised its annual distribution since 2013 and also puts it on pace for 2017 to mark the second consecutive year with an increase.

H&R's distribution-growth potential is very promising beyond 2017 as well. In its third-quarter earnings report, its chief executive officer Thomas Hofstedter stated, "We expect continued growth in our cash flow over the next few years, allowing us to further increase distributions while maintaining our conservative payout ratio."

Exchange Income Corporation

Exchange Income Corporation (TSX:EIF), or EIC for short, is a diversified acquisition-oriented company focused on two sectors: aerospace and aviation services and equipment, and manufacturing. It identifies and invests in profitable, well-established companies that have great management teams, steady cash flows, and that operate in niche markets in order to provide its shareholders with a growing stream of cash dividends.

EIC currently pays a monthly dividend of $0.175 per share, representing $2.10 per share on an annualized basis, which gives its stock a beautiful 5% yield today.

Confirming the safety of EIC's dividend is also very easy; all you have to do is check its cash flow. In its nine-month period ended on September 30, 2016, its free cash flow less maintenance capital expenditures totaled $2.46 per share, and its dividends declared totaled just $1.4775 per share, resulting in a sound 60% payout ratio.

In addition to offering a very high and safe income stream, EIC is one of the market’s best dividend-growth plays. It has raised its dividend in 11 out of the last 12 years, which includes an active streak of six consecutive years of increases, and its two hikes in 2016, including its 4.5% hike in November, have it positioned for 2017 to mark the seventh consecutive year with an increase.

I think investors can continue to rely on EIC for a growing stream of monthly dividends going forward as well. I think its very strong growth of free cash flow less maintenance capital expenditures, including its 7.9% year-over-year increase to $2.46 per share in the first nine months of 2016, and its ongoing acquisition activity that will fuel future growth, including its $17 million acquisition of CarteNav Solutions which closed in the third quarter and its US$10 million acquisition of Team J.A.S. which closed in the fourth quarter, will allow its streak of annual dividend increases to continue through 2020 at the very least.

Is now the time for you to buy these stocks?

I think both H&R REIT and Exchange Income Corporation are perfect investment options for your homemade pension, so take a closer look at each and strongly consider buying shares of at least one of them today.

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1. TSX:EIF (Exchange Income Corporation)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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jsolitro