Retirees: Could This High-Yield Dividend Stock Be the Safest Long-Term Bet?

Description

Many investors aim to maximize their long-term returns, but many of us forget that the preservation of capital is just as important, especially for investors within a decade of retiring. It's forgivable for younger investors to forget about considering stability and a margin of safety, as they have many decades to make up for losses. But if you're a retiree or have plans to retire soon, then preservation of capital should probably be your number one priority.

Dividend stocks like REITs or utilities offer a huge amount of stability to go with a high yield. Many retirees may be looking to beef up their monthly income by taking on more risk with an artificially high yielder. If you're looking to give yourself a raise like this, then it's really important that you do your homework to avoid potential dividend cuts within the next few years. To do this, you probably want to examine the dividend history and some key metrics for the high-yielding security that you're thinking about investing in.

You need to ask yourself questions like these:

- Have there been dividend cuts within the last decade?
- What's the current payout ratio?
- Is the dividend fully supported by free cash flow? If not, why not?
- Do dividend hikes happen consistently? To what magnitude?

A higher yield is what income investors normally look at, but what about the safety of dividends or distributions in the event of a major recession? What about a depression?

Consider **Hydro One Ltd.** (TSX:H), an electricity transmission and distribution company with a virtual monopoly over Ontario. The company has arguably one of the safest dividends out there because 99% of its revenues are regulated, meaning future cash flow streams are extremely predictable.

Predictability is what you want if you're a safe income investor in or near retirement; however, there's usually a premium involved with businesses that are this predictable. But, at the moment, the premium appears to have faded over concerns that Hydro One won't be able to hike its rates in Ontario anymore thanks to Ontario's Fair Hydro Plan.

After this government regulation was announced, it appeared that growth dried up at Hydro One, and the management team knew this. That's a major reason why the company decided to acquire Avista Corp. in a deal worth $6.7 billion. The management team said that the deal will open doors to future regulated earnings and free cash flow increases, which will support dividend raises many years down the road.

The Avista deal definitely wasn't cheap though, and investors are questioning the value to be had from this deal. Going forward, shares are expected to be volatile, but if you're a long-term income investor, you may want to consider buying shares incrementally on the way down as the yield goes up.

Shares of Hydro One are currently down over 17% from all-time highs at the time of writing, and the yield is at a juicy 4%. Long-term income investors who value dividend stability may want to consider buying shares incrementally on the way down as the stock continues to pick up negative momentum and the yield continues its climb.

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