



What's Better for Retirees: Investing in Dividend Stocks or Real Estate?

Description

A lot of people who are starting to plan their retirement face this dilemma: between real estate and stocks, which asset class is a better choice for them to invest?

The answer to this question has never been easy. Buying your home where you could live, grow your family, and enjoy the precious moment of your life has great emotional value attached to it.

But this choice becomes complicated when we start building our retirement plans around our homes. The majority of financial planners believe that investing in real estate is not a good retirement strategy.

The reason of their disliking for real estate is that the carrying costs of a real estate asset is huge. Property taxes, maintenance cost, and mortgage payments add up quickly, leaving little free cash for the owner.

Even if you build good equity in your house, you'll have to sell this asset and downgrade during your golden years to free up some cash to meet your daily expenses. If you don't want to own during your retirement age, then you will have to spare extra cash for renting. That route has its own problems.

But [Canada's booming real estate market](#) during the past decade has lured many retirees into this asset class. According to a recent study by Ontario Securities Commission, of the 1,516 people surveyed in Ontario, 37% said they are counting on increases in the value of their home to provide for their retirement.

Is investing in stocks a better approach?

Buying stocks of well-known companies, [earning dividends, and reinvesting](#) the dividends is an alternative approach many advisors recommend.

Many studies have shown that despite all of the crashes, buying stocks of dividend-growth stocks, such as **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)), and reinvesting the dividends has been the best approach to build your nest egg. No other asset class beats this approach if done correctly over a long period of time, they say.

But I think a successful retirement strategy should have a diversified approach, where you have the ability to take advantage of different asset classes.

There is no doubt that investing in stocks is simple and cost effective. But investing in real estate is a great way to take advantage of leverage. Bankers will happily lend you, let's say, 80% of a real estate asset, which you can keep for the next 30 years. You can't imagine this advantage in any other asset class.

Real estate investments also provide a hedge against inflation to protect against a loss in purchasing power of the currency.

The bottom line

If you're debating between the two asset classes, I think the best approach is to diversify. Buy good income-producing real estate and dividend stocks. Your investment horizon should always be long-term, depending upon your retirement planning.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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2. NYSE:TD (The Toronto-Dominion Bank)
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