Need Retirement Income as Rates Rise? 3 Beaten-Up "Safe" Stocks to Scoop Up Today

Description

It's a harsh environment for today's conservative income investors. Rock-bottom interest rates are in the rear-view mirror, and interest rate hikes are expected to come at a rapid rate over the next few years. Unfortunately, the environment for high-income-paying market darlings is not going to be as favourable as it once was. REITs, telecoms, and utilities are the go-to sectors for many retirees, and often, there are few low-volatility alternatives that can offer such a high magnitude of steady income.

For an older investor, it can often feel like you're between a rock and a hard place. If you're really worried about your total return (capital gains + dividends) in a rising-rate environment, you might be thinking of supplementing your income portfolio with more volatile, "riskier" dividend stocks, like **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), but you know you'd be taking on a bit more risk, and if you're retired, you need to really ask yourself if you'd be comfortable elevating your risk profile at such a late stage in your investment career.

Some retirees may have no problem adding a higher-volatility dividend stock alongside their conservative income portfolios to beef up their long-term total returns. But others may value lower volatility versus total returns, and that's completely fine. Everybody's different.

There's no need to discard your REITs, telecoms, and utilities just because rates are rising. In fact, such a move isn't even necessary if all you care about is the monthly income you'll receive. If you are looking to get the next leg-up in an unfavourable environment, you may wish to save up a bit of extra cash on the side, so you can take advantage of buy-the-dip opportunities that may present themselves over the next few years. REITs, telecoms, and utilities are low volatility, sure, but that doesn't mean +10% drops won't happen. Just have a look at how utility stocks have fared of late. **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Canadian Utilities Ltd.** (TSX:CU) are two "low-volatility," conservative income stocks that are down up to 20% from their peaks!

If you've selected fine blue-chip stocks for your portfolio, you need not worry about the stability of your income stream; you just may be a bit rattled by more volatile moves in the price of a security. And if such rare dips occur, you may want to use the extra cash that you've put on the sidelines to up your stake in your favourite REITs, telecoms, or utilities.

In a rising-rate environment, there’s bound to be larger price fluctuations, and a lot of the time such moves are unwarranted, presenting an opportunity to “lock in” a higher yield in some of the most stable income payers out there. This strategy won’t elevate your risk profile if you’re not comfortable with investing in higher-risk dividend stocks, and it’ll allow you to get most out of what seems like a bad situation.

Bottom line

Many retirees may not be sure what to do in a rapidly rising rate environment. That’s understandable, and there’s zero shame in not knowing what to do when you’re entering rougher waters.

We’ve grown accustomed to rock-bottom interest rates and above-average returns from rate-sensitive, high-income-paying securities, and for many, there’s no real answer of what to do when the walls begin to close in you. You need to really understand yourself as an investor and figure out a plan to deal with what’s ahead. That way, you won’t need to worry, and you’ll probably come out on top versus the average conservative income investor in the same position.

Whether you’re inclined to stick with “safer” plays like Fortis and Canadian Utilities or you’re open to buying a “riskier” Enbridge with its juicy 6.62% yield, you need to come up with a plan for how you’re going to deal with higher interest rates. You could even choose to do nothing, as you continue to collect your monthly income, which is also fine, as long as you’re comfortable with adjusting your expectations and being content with a modest total return moving forward.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:CU (Canadian Utilities Limited)
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