How to Build Your Retirement Income With Market-Beating Dividend Stocks

Description

Building your retirement income portfolio by buying quality dividend stocks has become very important in an environment when returns from other avenues have been so little over the past decade.

Investing in stocks is certainly riskier when compared to government bonds and GICs. But by just relying on these safe-haven assets, you won't be able to build retirement income that is sufficient to meet your financial needs during your golden years.

Even after three consecutive interest rate increases by the Bank of Canada, the return on the benchmark 10-year Canadian bond is about 2.1%. And you will be lucky to get a GIC rate of more than 3%.

In this low-rate environment, investing in low-risk, high-quality dividend stocks that have a history of providing market-beating returns is the best approach to build your income portfolio. This strategy, however, requires patience, long-term planning, and staying away from risky segments of the market.

To make your saving journey easy, I have divided solid dividend-paying companies into three categories. You should try to deepen your understanding of these sectors and make knowledge-based investing decisions.

Banks

Canadian banks are a great source of steady and growing income for retirees. In Canada, they operate in an oligopoly where "top five" banks dominate the market with a little threat from new entrants. In this very favorable operating environment, they generate a lot of free cash flows and distribute between 40% and 50% of their income in dividend payouts each year.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) are my two favourite picks from this space. Both lenders have a very strong and growing presence overseas, which is fueling earning growth and helping these lenders grow their payouts annually.

Energy infrastructure

Energy infrastructure providers and utility companies provide another avenue for retirees to invest and earn stable income. Most of these companies operate in a regulated environment where their returns are fixed. Once they have made initial investments to build pipeline systems to transport energy products, they distribute most of their earnings in dividends.

In this area, North America's largest pipeline operators, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP), are the two top picks to earn growing dividend income. Enbridge, for example, has more than 60 years of paying dividends.

Telecom operators

Just like utilities, telecom operators also run very stable operations with an aim to distribute majority of their cash flows among shareholders. Canada has a very protective telecom market where the top four players control about 80% of the broadband and video market and more than 90% of the wireless market.

Among them, **Telus Corporation** (TSX:T)(NYSE:TU) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) offer an attractive opportunity to earn dividend income and benefit from these companies' growth potential. Telus, for example, is aiming to increase its dividend with an annualized rate of 7-10% a year through 2019.

The bottom line

These companies run solid businesses with a potential of providing growing returns to their investors. But to make returns that beat the market, it's equally important that you remain invested once you have picked your stocks and other income-producing assets.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
4. NYSE:TD (The Toronto-Dominion Bank)
5. NYSE:TRP (Tc Energy)
6. NYSE:TU (TELUS)

7. TSX:BCE (BCE Inc.)
8. TSX:BNS (Bank Of Nova Scotia)
9. TSX:ENB (Enbridge Inc.)
10. TSX:T (TELUS)
11. TSX:TD (The Toronto-Dominion Bank)
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