2 Dividend-Growth Stocks Perfect to Boost Your Retirement Income

Description

Studies have shown that the companies that raise their dividends regularly generally beat the market over the long run.

Dividend-paying stocks produced ~15-fold better returns than non-dividend-paying companies between 1972 and 2014, according to a research by **Goldman Sachs's** wealth management division. If your investment objective is to grow your retirement income slowly, then you should own companies that not only pay dividends, but that also consistently raise them; in other words, invest in dividend-growth stocks.

In Canada, banks are great dividend-growth stocks. The country's top lending institutions operate in an oligopoly, where each large player has a significant market share that's big enough to produce consistent returns for their shareholders.

That stability helps Canadian banks distribute much of their profits in dividends each year. Canada's top five lenders, on average, pay between 40% and 50% of their income in dividends each year.

Top Canadian banks

Royal Bank of Canada (TSX:RY)(NYSE:RY), the nation's largest bank with more than $1.2 trillion in total assets, is a low-risk investment for retirees to earn stable and growing dividend income. RBC has paid distributions to shareholders every year since 1870. In its first-quarter earnings, RBC surpassed analysts' expectations for profitability and delivered another dividend hike to investors, taking its annual payout $3.79 a share.

One distinctive feature that helps Canadian banks grow their earnings is their exposure to the U.S., which is the world's largest economy. City National Bank, for example, contributed $114 million in profit during the first-quarter — an increase of 97% from the same quarter a year earlier.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the smallest among the top five lenders, but with a much better income prospects.

Last year, CIBC bought Chicago-based PrivateBancorp for $5 billion, the largest takeover in CIBC's 150-year history, putting this lender on strong footing in the world's largest economy.

This acquisition helped CIBC to report better-than-expected results in the first quarter, helping the lender to boost its quarterly payment to common shareholders by $0.03 to $1.33 per share.

Trading at $115.02 and with an annual dividend yield of 4.64%, CIBC stock offers the highest yield among the top lenders with a lowest payout ratio. CIBC has not missed a regular dividend since its first dividend payment in 1868.

The bottom line

Canadian banks offer an avenue to boost your retirement income with regular bumps in payouts. There are other sectors you should explore to diversify your portfolio. Power and gas utilities, telecom operators, and real estate investment trusts are the top income generators.

CATEGORY

1. Bank Stocks
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2. NYSE:RY (Royal Bank of Canada)
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Date
2025/09/11
Date Created
2018/05/13
Author
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