



## This Cruise Control Retirement Plan Creates a Rapidly Growing Income Stream for Life

### Description

For older investors who are heading into retirement, swapping out riskier growth stocks for safer investments like bonds or high yielding defensive stocks is a widely accepted strategy. Crashes happen, and this strategy eliminates uncertainty as to when an investor will be able to retire in comfort.

Several rules of thumb can determine whether an investor is on track to retire by a specific date.

You've probably heard of the 4% rule whereby an investor should only expect live off annual income that's 4% of their net worth (or invested principal). This implies that a portfolio would have a 4% yield on average, which is on the conservative side for an income investors when you consider there are a ton of solid plays with yields that are north of 5%. Another popular rule of thumb that's followed by aging investors is owning your age's percentage in bonds with the remainder of your principal in stocks.

I believe both of these rules are outdated, especially the latter rule that's based on your age. While it's a good idea to cut out risk when you're about to enter your golden years, it's an absurd idea to place 30% of your wealth in bonds when you're still a young investor of just 30 years old.

Moreover, the 4% rule isn't the best rule for ensuring frequent raises to your income stream, as many stocks that offer high upfront yields fail to deliver the same magnitude of dividend growth versus higher-growth names. With most high-yield plays, your income stream isn't positioned for meaningful growth, which means you could be waiting a long time to get a meaningful raise to your annual income after you're retired.

Amid a rising interest rate environment, higher upfront dividend yields are deemed as less attractive as we've witnessed in the recent sell-off of high-payout names in the REITs, telecom and utility sectors. And if you're a REIT investor, you'd be hard-pressed to obtain any meaningful distribution growth in your golden years.

Fortunately, there's a better strategy that can offer you a high upfront yield to go with above-average dividend and stock price appreciation. But there's a catch. You've have to implement the strategy well

in advance of your expected retirement date, at least 15 years before your planned exit from the workforce.

The strategy, as you may have guessed, is dividend-growth investing, but in order for the strategy to work for your retirement needs, you'll need ample time to grow your dividend to a level that's able to support your lifestyle.

If you're in your forties, you can buy a [diversified portfolio](#) of dividend aristocrats like [Canadian National Railway Company](#) ([TSX:CNR](#))([NYSE:CNI](#)) and holding them for two or more decades until your overall income stream grows to a level such that it's able to support you and/or your dependents.

Once you finally reach your sixties, your portfolio's average dividend would have swelled to a level such that the yield based on your invested principal would dwarf the upfront yields of almost any security out there. And the best part is that your income payouts are practically guaranteed to increase, on average, by 10-15% every year, and they'll be paid out even in the depths of a recession.

So, you're essentially getting a fat raise every single year and will stand to see your income stream double every five to seven years, on average!

Further, your capital gains would have piled up throughout the decades, giving you the option of doubling or tripling your income stream instantly by rotating into stocks with higher upfront yields.

Of course, you'd be sacrificing the magnitude of future dividend growth, but should an emergency call for a drastic increase in quarterly income, you'll have the peace of mind knowing that you can cash out future dividend growth any time you like.

This strategy is a relatively conservative way to cruise to a wealthy retirement, but it requires an absurd amount of patience that very few investors are capable of exhibiting these days.

Stay hungry. Stay Foolish.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

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**Author**

joefrenette

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