Top Dividend Stocks to Grow Your Retirement Income Fast

Description

Investing for retirement needs a careful approach in which you have to balance your risk and reward very carefully because you're investing to build your nest egg.

You don't want to take an approach that's too risky, but at the same time, you want decent returns that are good enough to support your lifestyle in your golden years. There are many ways to build your retirement portfolio, but I highly recommend focusing on top dividend stocks to get a regular income boost.

By investing in companies that regularly grow their dividends, you can slowly build your nest egg and protect your investments from the impact of inflation.

Dividend stocks beat the market

Stocks that consistently hike their dividends returned an average of 10.1% annually between 1974 and 2014, according to a Manullife Asset Management Study. These returns were much better when compared to non-dividend payers, which produced 2.6% returns each year for their investors, according to the same study.

Once you have decided to invest in dividend stocks, the next challenge is to pick the right names that don't disappoint you in the future. My simple suggestion to overcome this challenge is to buy those dividend stocks that provide essential services to us, without which we can't imagine a normal life.

Let's consider banks and power and gas utilities. No matter what's happening in the economy, business environment or our personal lives, we can't consider a day without electricity, heating, or banking services.

These companies invest billions of dollars to build infrastructure that makes it possible to provide these services uninterrupted. But once they have made the initial investment to build the scale they require, they become great cash machines.

Two top dividend stocks

Let's consider banks for the sake of this argument. Canadian top banks distribute between 40-50% of their net income in dividends each year. What makes this possible is their huge branch network and millions of loyal customers.

Among the group of top Canadian banks, you can pick a couple of stocks and hold them in your retirement portfolio for a long time. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is a great dividend growth stock. The bank is forecast to grow its dividend between 7% and 10% each year. History tells us that you can count on TD Bank for a regular income stream.

During the past two decades, TD has been able to deliver an 11% compound annual dividend growth rate, which is one of the best among top Canadian companies. This strength came from TD's dominant position in the local market and its explosive growth in the U.S.

Investing in companies that provide basic energy infrastructure is another successful income-generating strategy for retirees. These companies build pipelines, provide gas and electricity to your homes and offices and generate stable cash flows without too much volatility.

Emera Inc. (TSX:EMA), for example, is one of North America's top 20 regulated utility stocks. Emera generates 85% of its consolidated earnings from its regulated business — a feature that provides stability to its cash flows. With a dividend yield of 5.43% and five-year dividend growth of 9.4%, this stock is an attractive long-term bet for investors.

The bottom line

Investing for retirement requires a careful approach that involves building a diversified portfolio, including some top quality dividend stocks. Buying and holding these stocks is a proven way to boost your retirement income.

CATEGORY

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