Which Canadian Dividend Stocks Are the Best to Earn Retirement Income?

Description

Building a solid income stream for your retirement is always a challenging job. If you're master of your own destiny and investing without a financial advisor, you have to decide between various asset classes, while keeping your risk minimized.

If your investing horizon is long term, let's say next 10 years or more, you should definitely consider Canadian banking stocks. Canada's top lenders run solid businesses with growing cash flows and stable share prices.

One big advantage of investing in Canadian banks is that they operate in an oligopoly, where the regulator has kept the competition limited. Another strength of these institutions is that they have strong presence in the U.S. where they have been growing aggressively.

Let's take the example of Canada's two smaller banks among the top five names — **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

Both lenders have an impressive track record of paying growing dividends, helping retirees earn a decent return on their investments.

Bank of Nova Scotia, Canada's third-largest lender, has paid dividends every year since 1832, while it's hiked its payouts in 43 of the last 45 years. With the payout ratio of about 40%, there is plenty of room for the bank to continue hiking its $3.40-a-share annual dividend.

CIBC has raised dividends for eight consecutive years. CIBC has not missed a quarterly dividend payment since it first started paying a dividend in 1868. That's 150 years of uninterrupted dividend payments.

One concern that an investor should have when he or she picks a dividend stock to earn income during retirement is the company's future growth potential. The reason is that if the future growth pipeline isn't strong, then it will be tough for companies to generate superior cash flows.

Both Bank of Nova Scotia and CIBC are pursuing smart strategies to keep cash coming in. Bank of Nova Scotia's focus is on emerging markets in South America, where the lender is growing organically. This year, Bank of Nova Scotia has concluded deals worth more than $7 billion both in Canada and emerging markets to position itself for future growth.

CIBC is growing in the U.S. where its acquisition of Chicago-based PrivateBancorp last year has started to show up in its growing cash flows. In the third quarter, CIBC reported a 25% jump in its quarterly profit, benefiting from a solid performance from its U.S. business.

Bottom line

Canadian banks are among the best dividend stocks to earn growing retirement income. If you're building a passive-income stream for your golden years, keeping a couple of banking stocks in your portfolio is a good strategy.

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