



Need Growing Retirement Income? Buy Dividend Stocks

Description

What type of stocks are good for earnings a solid [retirement income stream](#)? This question may have many answers, depending upon your risk appetite and your investment horizon. But history has told us that dividend stocks offer one of the best avenues to build income for your golden years.

Many new investors often ignore the importance of dividends and their contribution to overall wealth creation. In general, dividend-paying companies tend to be higher quality with stronger balance sheets than non-dividend paying companies.

Not only do dividend stocks as a group have less volatility, but they also outperform non-dividend paying stocks over time as well. Over the last 90 or so years, dividends have accounted for more than 40% of the total return equation, according to Morgan Stanley, one of the biggest investment banks.

A study by Factset shows that dividend-paying stocks outperform their non-paying counterparts by a dramatic amount. From 1991 through 2015, non-dividend paying stocks earned just 4.18% return per year, while dividend paying stocks significantly outperformed with a 9.7% average annual return.

Utilities are great for retirement income

Among dividend stocks, some of my favourite picks belong to power and gas utilities and pipeline operators. I like these companies because they have very simple business models that often produce very strong income flows for their investors.

A simple reason for their cash flow stability is that no matter what happens to the economy, we have to pay our bills. And these recurring cash flows are regulated in most jurisdictions where regulators fix their rate of return for the essential services they provide to customers.

These utility stocks are also attractive because they don't experience the kind of wild swings witnessed in growth stocks. Their stocks also recover quickly once they have been through a weak period.

Take the example of a Canadian utility, **Emera Inc.** ([TSX:EMA](#)). Since my [last recommendation](#) for this stock in late August, its shares have risen about 16% after undergoing a weak phase when the Bank of Canada was raising interest rates.

The same thing happened with the North America's largest pipeline operator and a gas utility company, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)). During the past three months, its shares have rebounded, gaining about 10%. Both stocks have annual yields over 5% with a track record of paying consistent dividends.

Bottom line

If you're in the market to build a portfolio for your retirement income, you should consider adding some quality dividend stocks in your portfolio. They're good for long-term investors who don't want to take too much risk and whose investing aim is to earn steady income flow.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:EMA (Emera Incorporated)
3. TSX:ENB (Enbridge Inc.)

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