



Retirees: 3 Dividend Champions to Buy for Your TFSA Income Fund

Description

Looking to power your way to a comfortable retirement? You're not only going to need a reliable high-yielding security. With life expectancies on the uptrend, you're also going to need to be sure you're getting enough dividend growth to protect yourself from the insidious effects of long-term inflation and the risks of contingent expenses, which will inevitably rise in conjunction with your age.

Unforeseen expenses, a lengthening list of items on your monthly bill, and inflation are the bane of a retiree's wealth. Fortunately, there is a solution. And that solution is to consider a security's ability to sustain an acceptable magnitude of dividend growth through the years.

Many retirees think their retirement funds should focus on safety and upfront yield, but by going all-in on low volatility and a higher yield, you're likely sacrificing both capital appreciation and dividend-growth potential. And for a retiree who can realistically expect to live 30 or 40 years after you hang up the skates, a modest consideration for growth, I believe, is crucial.

Now, as an investor who depends on their income stream, it's not a good idea to inject dividendless, up-and-coming mid-caps into your portfolio. Rather, you should have a look at the magnitude of dividend growth over the last decade, recognizing a trend, and weigh the growth against the safety of the dividend and the initial yield you'll receive based on your invested principal.

Yes, it's a lot of homework. But if you're not willing to roll up your sleeves, you may not be getting the consistent pay raises you would have gotten when you were in the workforce.

Without further ado, consider the following three dividend champions that not only have generous upfront yields, but attractive long-term growth profiles and a degree of safety that would be considered suitable for a retiree's portfolio. I've listed them in order of mild, medium, and hot in terms of the dividend yield (and growth) you'll take on at the marginal expense of elevated volatility to be expected.

Fortis ([TSX:FTS](#))([NYSE:FTS](#))

Kicking off the list of dividend champs, we have good old Fortis — the utility that puts most fixed-

income debt securities to absolute shame. While the dividend yield (currently at 3.9%) has hovered around 4%, retired investors would be comforted to know that the dividend is the closest thing to “risk-free” when it comes to equities.

Sure, Fortis’s dividend isn’t technically risk-free, but when you consider the highly regulated, recession-proof nature of operations, it becomes clear that the risk/reward trade-off is incredibly favourable for the marginal amount of risk taken on relative to a risk-free debt instrument.

Fortis is a must-have for any retirement portfolio. It’s a safety net, and it’s got the impressive 5% in dividend growth (plus respectable single-digit annual capital gains over the long term) that’s essentially locked-in once you purchase shares.

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#))

If you want a little more income to sustain your lifestyle earlier on in your retirement, Algonquin may be to your liking. The stock yields 4.9%, and given the generational secular tailwind that renewable energy is slated to receive over the next few decades, investors can expect very generous dividend raises to go with respectable capital gains over the long haul.

The main reason I like Algonquin over the other renewable utilities is due to the robust water assets that the company has in its portfolio. When it comes to reliability, it’s tough to do better than a water utility. Recession or no recession, clean water is the most precious (and scarce) commodity out there.

Do you want water, a high-yield, and sustainable growth (pun intended)? Algonquin is your one-stop shop.

Enbridge ([TSX:ENB](#))([NYSE:ENB](#))

Sticking with the theme of energy firms, we have Enbridge, the highest-yielding (6.3%) firm which also has the most amount of “baggage,” as apparent from the stock’s choppy trajectory over the last four years.

While Enbridge undoubtedly has a less certain near- and medium-term outlook than Fortis or Algonquin, I believe the risk/reward trade-off is attractive for retirees who are able to stomach the additional risk, which could come with a much higher prize. More importantly, despite the tough times endured by Enbridge, management continues to fulfill its dividend promise to investors.

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