Revealed: How Dividend-Growth Stocks Can Help You Retire Early

Description

Although there are a few exceptions, most people are the same. There’s no way they want to continue working past 65. Most would rather hang up the proverbial skates at 60 … 55 … or even sooner.

Heck, the financial independence/retire-early movement is all the rage these days, with these folks retiring as early as their 30s.

It’s easy to see why early retirement is such a common goal. Once we factor in things like long commutes, mandatory lunch breaks, and other work-related activities, the workweek can often stretch to 55-60 hours. And many corporate jobs don’t come with a lot of tangible benefits. It’s hard to get motivated about writing reports that will be barely skimmed by a boss that has already made up his mind.

I believe dividend-growth investing is the best way to achieve your early retirement goals. Here’s why it’s so powerful, and I’ll include a couple dividend-growth studs to get you started.

Never spend the principal

Dividend-growth investing is a relatively simple concept. You buy stocks with histories of growing their dividends faster than inflation. You then accumulate enough capital to live off the dividends.

Let’s look at a real-life example. Let’s say you spend $40,000 annually each year, and you expect that to stay relatively level over time. So, all you really need is a portfolio spinning out that much cash plus enough to ensure inflation doesn’t eat away at your income.

If you accumulated $1 million and invested that in a portfolio yielding 4%, you’d immediately hit your retirement goal. As long as the stocks you pick increase their dividends by an average of 5% a year, you’d easily have enough to ward off any inflation concerns. Your income would slowly grow over time.

The beauty of this plan is, it retains the original capital. You don't have to worry about the performance of your underlying stocks. As long as those dividends keep chugging upwards, everything is good.

What stocks to choose

Now that we've established why dividend-growth investing is a solid choice for early retirees, the next question is, which stocks should you choose? Here are a couple of my favourites — stalwarts in my portfolio I plan to own for the next few decades.

Let's start with **Canadian Utilities** (TSX:CU), which is one of Canada's largest electricity and natural gas utilities. The company also has significant power-generation assets and various gas pipelines in Canada and Australia.

These are not sexy businesses that will turn $1 into $10, but they're about as steady as you can get. And you can still get some pretty decent returns from a boring company like Canadian Utilities — including reinvested dividends shares that are up 9.2% annually over the last 15 years. That's enough to turn a $10,000 initial investment into one worth just under $40,000.

The company has also increased its dividend each year for the last 46 years, which is the longest streak among Canadian publicly traded companies. To put that growth into perspective, the stock paid $0.53 per share in annual dividends back in 2004. In 2019, the payout will be $1.69 per share.

Another fantastic dividend-growth name is **Telus** (TSX:T)(NYSE:TU), Canada's third-largest telecom by market cap. Telus boasts close to 14 million customers, with more than nine million coming from the crown jewel of the company: wireless.

The wireless division is growing at a decent clip, generates fantastic margins, and, judging by our collective smartphone addictions, looks secure for decades to come. One added bonus is, Telus doesn't bother owning media assets — unlike its two larger competitors — a business that generally isn't nearly as attractive as providing wireless or wired telecom services.

A $10,000 investment made in Telus 15 years ago is worth some $72,000 today, and Telus's annual dividend has increased from $0.325 per share on an annual basis back in 2004 to $2.10 in 2018.

As you can see, even a boring stock like Telus has been a terrific dividend grower in its recent history, and I see little reason why investors can't expect similar raises over the next decade and a half.

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