Secure Your Retirement by Following This Important Investing Rule

Description

The whole point of investing — at least, for most people — is to accumulate enough assets to sustain themselves during their golden years. It's no coincidence that the average person retires as soon as they're financially able to do so.

After that, the rest is just details.

While there are many paths to get to a comfortable retirement, I'm convinced the best path is dividend growth investing. Let's take a closer look at what exactly makes this method so effective.

Built-in hedges

A properly constructed dividend growth portfolio will ensure the recipient gets a raise each year as the underlying companies hike their dividend annually. There's no guarantee these stocks will increase their distributions, of course, but overall, the portfolio should grow its income. A strong portfolio can easily weather a few underperformers.

This meshes really well with a retiree's desire to ensure that they don't run out of income. Inflation is relentlessly marching upwards, eroding the purchasing power of a dollar. A fantastic way to guard against that is to stuff your portfolio full of companies that hike their dividends faster than inflation.

A massive tax advantage

Yes, it's possible for an average middle-class couple to make $100,000 per year in tax-free dividends, depending on which province they live in.

You likely won't reduce your tax bill in retirement to zero — thanks to cashing in RRSPs and collecting a pension from the government — but it still doesn't erase the preferred tax treatment of dividends. In every single tax bracket, you end up with more cash on an after-tax basis from dividends versus employment income.

Own Canada's best companies

I've noticed something interesting during my years of investing. Canada's best companies usually end up following a dividend-growth path, paying out the rewards of steady growth to their owners. All we need to do as investors is identify this trend and we too can own the cream of the crop.

Take **Bank of Montreal** (TSX:BMO)(NYSE:BMO), for instance, which has grown into one of North America's largest banks by assets. Canada's oldest bank cemented its status as one of the top retail banks in Canada decades ago, and has since expanded into the United States with its purchase of Harris Bank in Chicago. It's now a behemoth on *both* sides of the border.

One of the main reasons why I purchased Bank of Montreal shares is the company's hard push into the retail ETF market. BMO has dozens of exchange-traded funds that its advisors can use to construct a low-cost portfolio for clients. It's obvious the investment industry is going in that direction, so I'm happy to be getting in on this trend while it's still relatively early.

BMO also offers investors solid growth potential in its core retail banking division, buoyed by investments in technology. The company is increasingly leaning on tech solutions to upsell customers into credit or investment products.

Finally, we have the company's delightful dividend, which is currently $1 per share each quarter, which works out to 3.9% yield. BMO has raised its annual payout since 2012 after taking a pause during the aftermath of the 2008 to 2009 Great Recession.

Another high-quality stock I plan to own for a very long time is **Genworth MI Canada Inc.** (TSX:MIC), which provides mortgage default insurance for Canadian mortgage borrowers.

Default insurance is a fantastic deal for both Genworth and the underlying lender being protected. The bank gets to issue a loan that is fully protected from default by a third party and the borrower pays for the privilege. Genworth, meanwhile, gets to collect a 2-4% fee on the value of the loan — depending on the loan-to-value ratio — while historical default rates are well under 0.5%. Oh, and it gets to invest that capital in the meantime.

Genworth is an insanely profitable business that consistently generates net margins in excess of 50%. I want to own a piece of any business that's that attractive.

The company has raised its annual dividend each year it has been a publicly traded company dating back to 2009. The current payout is $0.51 per share each quarter, which works out to a 5% yield. The payout ratio is comfortably under 50% of earnings, too.

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