



4% Rule: How Much Passive Income Is Enough To Retire?

Description

There are various rules for investing. One of the most popular is Warren Buffett's "never lose money" rule. The next popular is his second rule – don't forget the "never lose money" rule, which is inspiring advice to prospective investors. But there's another rule that applies specifically for retirees or would-be retirees.

Retirees are advised to implement the 4% rule. When applied diligently, it should be able to raise passive income and accumulate sufficient funds for retirement living. Essentially, 4% refers to the recommended withdrawal rate. As such, your investments should deliver at least 4% from interest or dividends.

Potential choices

Transcontinental Inc. ([TSX:TCL.A](#)) and **Northland Power Inc.** ([TSX:NPI](#)) are not too pricey. Second, the dividend yields are over and above 4.0%. Finally, the payout ratios are within the limits to indicate sustainable income for years.

A major factor to consider is the nature of their respective businesses. Transcontinental Inc. is in the consumer cyclical sector. The company is well-known in the flexible packaging business. Their three segments consisting of packaging, printing, and media serves clients in Canada, the U.S., U.K., Australia, and New Zealand.

Business is booming for the last four years and in the last two years, net income has averaged \$213 million. With an initial investment at the current price of \$14.43, you get the best of both worlds – capital appreciation and high dividends.

In the next 12 months, analysts forecast a potential 114.8% increase in price. Add the dividend yield of 5.85% dividend yield and you have market-beating returns. There will be some volatility along the way, although the current price should hold.

Retirees often invest in the utilities sector and in companies like Northland Power. This \$4.5 billion

independent power producer (IPP) develops, builds, owns and operates clean and green power projects in Canada and Europe. Since the two regions are shifting to electricity from renewable resources, Northland's business will endure.

Northland Power currently pays a dividend of 4.8% although the five-year average annual dividend yield is 5.33%. The income of utility companies is recurring with long-term power purchase agreements for IPPs. Don't expect a significant price spike but the high dividend is the offsetting factor.

Key takeaways on the 4% rule

With the dividend stocks identified, the 4% rule mandates an annual withdrawal of not more than 4% from your portfolio during retirement should afford you to live comfortably in the sunset years.

Still, would-be retirees should be discriminating in choosing the financial instruments or equities. Some investment options that offer high returns are usually higher risk investments. It's important to be conservative during the early part of wealth building.

In order to ensure your financial future, strict adherence to the 4% rule is required. Going beyond the withdrawal limit and eating a portion of the principal will diminish the compounding effect.

Retired individuals weathered the two most recent financial crises by instituting the 4% rule. A little sacrifice on splurges will set the stage for a happy retirement.

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