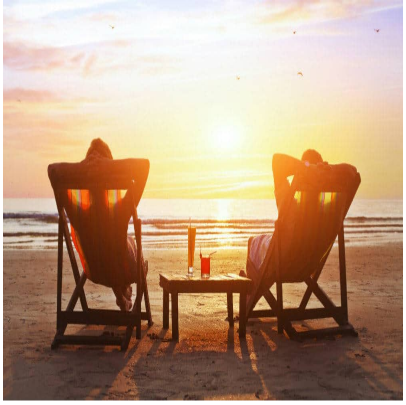

Retirees: 2 High Yield “Bond Proxies” to Buy in This Low-Interest Rate Environment

Description

Many of today’s retirees aren’t as able or willing to take on the higher risks that come with equities. In a ridiculously low-interest-rate environment like the one we’re in right now though, it’s tough to beat the rate of inflation with bonds, let alone grow one’s purchasing power.

As life expectancy rises, retirees are going to need to keep growing their wealth to combat the insidious effects of inflation if they’re to put the fears of running out of money to rest. It’s every retiree’s fear, and few like to talk about it.

Fortunately for those who have been hoarding bonds and other sub-par instruments like annuities, it isn’t too late to move cash into areas that can allow you to outpace inflation without risking your shirt.

Enter bond proxies, low-risk investments with higher yields and capital appreciation potential than fixed-income securities.

Most important, unlike fixed income securities, bond proxies like blue chip defensive stocks offer growing income, not fixed income, which will make a world of difference as you move deeper into your golden years.

Consider **Fortis** (TSX:FTS)(NYSE:FTS) and **Emera** (TSX:EMA), two of my favourite bond proxies that are not only more rewarding than bonds (on an income and total returns front), but are actually less risky for retirees with the discipline not to leave their positions alone after they’ve purchased them.

Both Fortis and Emera are top-tier utilities with regulated operations that allow highly predictable cash flows and fewer surprises — something that retirees will surely appreciate.

Fortis is known for its transmission line assets and its “growthy” U.S. foundation that allows the company to raise its dividend by around 5-6% per year. The stock sports a 3.5% yield, blowing bonds out of the water and also remaining ahead of the expected 2% rate of inflation.

With mid-single-digit dividend hikes expected every year, Fortis is an investment that becomes more valuable and less risky with time, unlike fixed income securities.

Emera is a stellar utility that aims to move deeper into regulated businesses to become more like a Fortis. The company operates across various difference localities, so unfavourable regulatory rulings won't have a severe impact on the stock as it would to the likes of a pipeline company.

Emera sports a 4.2% yield, and like Fortis, the company is also capable of growing its dividend at a mid-single-digit rate every year.

What about downside protection?

As you'd imagine, both Fortis and Emera are subject to choppy market moves. Unlike most higher-beta stocks, however, both stocks will stand to fall far less than the market averages in the event of a recession. If another Financial Crisis were to hit, investors should expect 10-30% in downside, with an abrupt recovery.

If you're able to stomach an average of 20% in peak-to-trough downside without making a rash decision, you can free yourself from abysmal returns from bonds and do far better with my favourite bond proxies in this falling rate environment.

Shares of both companies trade at a slight premium today because the market has recognized that the only way to do well is to steer away from bonds and look to such low-risk defensive dividend stocks for meaningful passive income.

I'd say Fortis trades at a lesser premium relative to the calibre of business you're getting and is my preferred pick of the two.

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