Millennials: This Ridiculously Easy Plan Is the Key to Early Retirement

Description

The Financial Independence, Retire Early (FIRE) movement has taken North America by storm, and it's easy to see why. Who doesn't want complete freedom over their time?

It seems like millennials are the ones most affected by the movement. Thousands of folks who just started their careers a few years ago are now in a frantic race against the clock, eager to retire as early as possible.

Most folks looking to retire decades earlier than the usual age of 65 are putting their cash into index funds, riding higher stock markets to a more prosperous future. I prefer a different strategy. Here's why dividend-growth investing is the best method for an early retiree.

Never spend the principal

Kevin O'Leary's mother gave him a piece of advice that has served him well over the years; she told him to only spend the dividends and never touch the principal.

One of the problems with an index investing approach is you must constantly sell down shares to fund your retirement. Most of the time, this isn't an issue, since indexes usually march higher. But it will require selling during a down market at some point. No investor wants to do that.

Various pundits claim there's no difference between dividends and selling an equivalent number of shares. And they're right; effectively they're the exact same thing. But try telling that to someone who has painstakingly amassed a nice investment portfolio and is now forced to withdraw at what they know is the exact wrong moment.

Many index investors are forced to spend the principal because many of the most common ETFs don't offer much in yield. The **S&P 500**, which many Canadians invest in, yields under 2%. The **TSX Composite** has a slightly higher yield, but it still doesn't get close to the magical 4% withdrawal rate that most early retirees strive for.

It’s not that hard to build a dividend-growth portfolio that yields 4% while also protecting your income stream from inflation. Let’s take a closer look at a couple of stocks you might want to own in such a portfolio.

What to choose?

Let’s start with one of my favourite bank stocks: **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

Long dubbed Canada’s international bank, Scotiabank has been busy diversifying outside Canada. It has swallowed up banks in Chile, Mexico, Peru, Ecuador, and Colombia, adding these assets to an already impressive Canadian banking enterprise. These days, approximately a third of earnings come from Latin America.

Latin America is a rapidly expanding economy that features plenty of growth opportunities for decades to come. And since interest rates are higher than here, investors get treated to higher net interest margins — a key profitability metric.

Scotiabank currently pays investors a 4.8% yield, which already meets the 4% withdrawal rule hurdle. But it has also grown the dividend consistently, including giving investors a raise 43 of the last 45 years. Average growth over the last decade has been just a little shy of 6%.

Another rock-solid dividend grower is **Telus** (TSX:T)(NYSE:TU), which has settled into nice position as Canada’s third-largest telecom. Despite being in last place among its larger competitors in the sector, Telus boasts more than nine million wireless customers as well as a plethora of subscribers to its other services including internet, cable TV, and home phone.

One of the things I really like about Telus is that it’s a pure-play telecom. Its competition has waded into the media sector, which has pushed down margins. Telus has stood firm and insisted on focusing its energy on the much better telecom sector. This is good news for investors.

Like Scotiabank’s payout, Telus’s 4.6% dividend immediately ensures an investor will be able to abide by the all-important 4% withdrawal rate. Telus has also provided a long history of dividend increases, increasing the payout by an average of 8% per year over the last decade. Management has also committed to delivering dividend growth between 7% and 10% through 2022.

The bottom line

Stuffing your portfolio with dividend growers will ensure a long and prosperous retirement. Such a strategy protects against inflation and ensures you don’t have to make withdrawals right at the wrong moment. It isn’t foolproof, but if executed properly, it’s got a pretty good chance of working out quite well.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TU (TELUS)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:T (TELUS)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/03
Date Created
2019/09/21
Author
nelsonpsmith