Buy Stock in the Big 6 Banks to Retire Early

Description

Many new investors mistakenly believe that the high-dividend bank stocks carry more risk than many lower-yielding assets. This assessment isn't necessarily accurate; in fact, there are good arguments in favour of bank stocks as safer, high-return investments.

For one, the banking sector generally never misses dividend payments to shareholders. Bank stocks are also well protected in the political arena, a crucial driver of strong growth for stocks trading on the Toronto Stock Exchange. Regardless of the economic environment, these stocks will fare better than many other industries, like consumer discretionary stocks.

Any downward momentum in the price of bank shares is likely to be temporary, meaning that your initial investment is secure. When considering stock market purchases, Canadian investors want to find stocks with relatively stable or positive price appreciation.

There's a difference between buying the dip and purchasing a stock that has shed 50% of its value in 52 weeks. Losers can quickly become winners, but these investments can be harder to identify. Instead, everyday Canadian investors should stick to reliable stocks with over a 100-year history like the Big Six bank stocks.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is one of the oldest and most prominent banking stocks on the TSX. Since 1833, Bank of Nova Scotia has never missed a dividend payment to investors. At the bank's current share price of $75.03, the last announced quarterly dividend of $0.90 per share amounts to a yield of 4.8% annually, nearly a 1% premium above the 3.95% prime interest rate in Canada.

Equally as important, during the stock's 36-year history on the Toronto Stock Exchange, the value of this top bank stock's shares has only appreciated.

Granted, the stock price suffered from a brief one-year decline in value during the financial crisis between the fall of 2008 and 2009. Nonetheless, bear market sellers ended up wildly disappointed when the stock bounced back. Overall, the price on Bank of Nova Scotia's stock has soared 1,100% since 1995 — an average annual interest rate of 44% over the last 25 years.

The lesson everyone should have learned is to avoid getting caught up in irrational pessimism, as it only opens the door for less risk-averse investors to claim your losses as profit. Instead, if you want to retire one day or even early, it is wise to take a long-term view of your investments to avoid seller's remorse.

Foolish takeaway

Saving for retirement is easier than you may believe. Far too many Canadians are not taking full advantage of their Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs). Even worse, retirees are wasting too much of their hard-earned income on fees to have someone else manage their retirement portfolio.

Buy into dependable stocks like Bank of Nova Scotia with a reliable dividend and price history, and you will save yourself a lot of stress over the long term. You don't need a recent college graduate with an overpriced diploma who doesn't even know you to choose your stock investments for you.

Canadian retirees and those who aspire to one day retire (preferably early), should add Bank of Nova Scotia to their TFSA and RRSP.

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