Millennials: This Ridiculously Simple Strategy Could Secure Your Retirement

Description

Many folks spend countless hours worrying about how they'll be able to afford their retirement, even if those years are decades away.

There are a million different savings strategies you can use, ranging from the simple to the ridiculously complex. Some people save as much as possible and use low-risk investments to generate income. Others delay saving until the last possible moment, using a combination of high yields, government programs, and a reverse mortgage to make ends meet.

Personally, I like to keep it simple. Here's the investment strategy I'm using for my own retirement savings — something you might want to use for your own future. It's simple to understand, easy to implement, and has a fantastic long-term record.

Let's take a closer look at this powerful strategy.

Embrace dividend growth

Over the last 10, 20, and even 30 years, one method has consistently outperformed the market in the United States, along with offering much less risk than owning a broad market index fund.

This methodology is ridiculously simple, too. All you need to do to outperform the market is to buy stocks with at least 25 years of consecutive dividend growth.

Naysayers hate this plan, immediately pointing to a simple argument. Such an easy plan shouldn't outperform. There are millions of individual investors looking for an edge, and there's no way something so simple can be so effective.

Others point to former dividend-growth darlings — like American banks before 2008 — as evidence the strategy doesn't work, forgetting the point that a diverse portfolio exists precisely to minimize against such a risk.

The strategy isn't quite so simple here in Canada. We have fewer stocks to choose from, meaning there are just a few that can boast 25+ years of consecutive dividend increases. You can't build a portfolio on just a few names.

Fortunately, there's an easy solution. Canadian stocks with a history of raising their dividends — even if these companies can't boast +25 years of consecutive growth — still outperform over the long term. In fact, from 2001 to 2017, such a portfolio returned more than 10% annually — a clear outperformance compared to the underlying market.

Here are a couple of Canada's best dividend growers to get you started.

Telus

Telus (TSX:T)(NYSE:TU) is one of Canada's largest telecoms — a sector protected from competition by government regulations, foreign ownership restrictions, and geographic challenges.

The company boasts some 14 million wireless, internet, home phone, and cable TV customers, spread all across Canada. Unlike some of its competitors, the company is actually growing its cable TV business. That's an excellent result in this environment.

Another thing I like about Telus is, the company avoids the media sector, choosing instead to expand into areas like alarm systems and technology for the healthcare sector. This helps keep its overall margins high, which is something investors should always want to see.

These factors have translated into some excellent long-term returns — results I think continue into the future. Over the last 20 years, Telus shares have posted a compound annual growth rate of 9.7%. That's enough to turn a $10,000 initial investment into something worth $63,284. And remember, Telus shares yield a robust 4.5% today.

BMO

Another excellent long-term performing sector has been Canada's top banks. These companies maneuvered the financial crisis nicely and resumed dividend growth in 2010-11.

Bank of Montreal (TSX:BMO)(NYSE:BMO) is one of my favourite bank stocks today. The company has solid Canadian operations, including strength in wealth management, credit cards, and insurance. Its U.S. operations are delivering good growth lately, buoyed by a strong economy. And its capital markets division is riding a strong stock market.

Despite these areas of strength, BMO shares are struggling a bit lately, depressed by weak projected growth in the Canadian mortgage market. Some analysts think loan losses will be higher in 2020, which will impact the bottom line. These short-term issues represent a solid entry point.

BMO shares have also delivered excellent total returns over the last 20 years. A $10,000 investment in the stock back in 2000 would be worth $100,598 today (including reinvested dividends) — a compound annual growth rate of 12.2%.

There's no guarantee BMO shares do this well going forward, of course. But the stock has many things going for it, including a long history of dividend growth. If any company can outperform over the long term, I like BMO's chances.

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