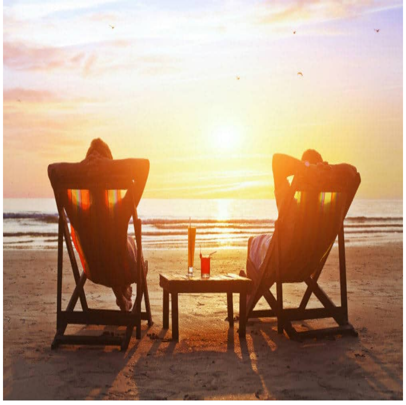

Retirees: Max Out Your Retirement Income by Following These 3 Simple Steps

Description

Increasing your retirement income may seem to be a highly challenging process at the present time. Low interest rates mean that assets such as bonds that had previously offered a reliable and attractive income stream no longer provide a suitable means of funding your retirement.

As such, now could be the right time to focus on dividend stocks. Through buying high-quality businesses that have wide economic moats, as well as dividend growth potential, you could enjoy a greater level of financial freedom in retirement.

Asset allocation

Persevering with assets that offer low levels of income may provide ongoing challenges for income-seeking retirees. Interest rates could rise at a relatively slow pace over the coming years, which may mean that cash savings accounts and bonds fail to offer an attractive income that funds your spending in retirement.

Allocating your capital to dividend stocks could, therefore, be a better idea. The stock market currently offers a range of companies which have yields that are significantly higher than the income returns available on investment-grade bonds or cash savings accounts. Through purchasing a range of companies, you could enjoy a higher level of income which improves your financial position in retirement.

Economic moats

When it comes to deciding which income stocks to buy, focusing on companies that have wide economic moats could be a shrewd move. Economic moats are, of course, highly subjective. But businesses that have a unique product, strong brand loyalty, or a lower cost base than their rivals, for example, may enjoy a more stable operating outlook. In turn, this may mean that their dividend payments are more robust, which provides investors with a sustainable passive income.

Identifying stocks with wide economic moats can be challenging at times. However, focusing on one industry at a time and identifying which companies have been successful over the past five or ten years could be a good place to start. It could improve the reliability of your passive income in the long run.

Dividend growth

Buying stocks that have generous yields is just one part of successful income investing. Another important aspect is aiming to purchase companies that can offer strong dividend growth, since they may generate higher returns in the long run. They may also become increasingly popular among investors, which could lead to higher levels of capital growth – especially since interest rate rises could be relatively slow in the coming years.

Through identifying businesses with low payout ratios, which is calculated by dividing dividends by net profit to obtain a percentage figure, as well as strong profit growth, you may be able to unearth companies which have dividend growth potential. When they also offer a generous yield, this could make them attractive purchases for income-seeking investors who are aiming to improve their financial situation in retirement.

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