Attention Retirees: A Steady Dividend Stock to Own in a Low-Rate World

Description

Canadian retirees are searching for reliable income stocks to add to their their TFSA income portfolios.

Rate cuts

A long time ago, people could stick cash into a savings account or GIC and get a decent return. Those days are long gone. The steady decline in interest rates has essentially wiped out that option for most income investors.

The rate cuts in the wake of the Great Recession hit retirees particularly hard. The situation finally looked like it might turn the corner in 2018 when the U.S. Federal Reserve and the Bank of Canada went on a rate-hike roll. At one point, a five-year GIC from the big Canadian banks reached 3.5%.

The trade battle between the U.S. and China then put an end to the rate increases. The U.S. actually cut rates several times before the end of 2019. The Bank of Canada held its ground, but the arrival of the coronavirus pandemic forced Canada’s central bank to slash rates significantly.

Lower government rates and declining bond yields result in a drop in returns offered on investments such as GICs. At the time of writing, an investor would be lucky to get a five-year GIC paying 2% from the largest Canadian financial institutions.

The situation is not expected to change in the near term. In fact, we could be looking at historically low rates for years.

Income stocks

Dividend stocks with reliable payouts give retirees who need to generate above-inflation returns another option for investing their savings. Stocks come with risks, but some tend hold up well during economic downturns and have strong track records of dividend growth.

In an environment of low interest rates, these companies should be solid TFSA picks.

Let’s take a look at one top dividend stock to see why it might be an interesting choice today for income investors.

Telus

Telus (TSX:T)(NYSE:TU) is leading player in the Canadian communications sector. The company has wireless and wireline network infrastructure that provides mobile, internet, and TV services to subscribers across the country. These are essential services during the pandemic lockdowns and tend to be recession resistant. People will cut out most other expenses before giving up their mobile phone, internet connection, or TV subscription.

Telus also has a growing division focused on digital health services. In fact, Telus Health is the leader in Canada when it comes to providing doctors and hospitals with digital solutions. The pandemic could accelerate uptake on the group’s services, and Telus Health has the potential to become a significant contributor to revenue in the coming years.

The company is beyond the peak of a major capital program. This should result in more cash being available for distributions. In addition, the lockdowns might have triggered significant plan upgrades by people who are now working from home and need the added broadband for video conferencing while also streaming movies to keep the kids occupied.

Telus trades at $22.40 per share compared to the 12-month high around $27. The dividend should be very safe and currently provides a 5.2% yield.

The bottom line

Telus is just one high-yield stock that appears attractive right now for a dividend-focused TFSA. The telecom and utility stocks normally do well when interest rates are low and are not expected to rise in the near term.

These investments come with some risk, but the returns currently available make them solid alternatives for an income portfolio.

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aswalker