Retirement Income: 1 of the Best Stocks to Buy in May

Description

One of the biggest challenges that many workers of our time are facing is how to build an income stream that could help them survive in retirement. With the COVID-19 pandemic and a recession that could follow, the saving environment has become more uncertain.

First, interest rates are likely to remain at the rock-bottom level for quite some time, as the central bank tries to help businesses and individuals get through this hard economic time.

That means GICs, saving accounts, and government bonds will continue to pay close to nothing on your savings. To make a meaningful contribution to your retirement goals, you have to invest in some of the best dividend stocks that yield more than the risk-free assets.

With this objective in mind, it makes sense for you to pick companies with durable competitive advantages, strong recurring cash flows, and a clear bias to return capital to investors in dividends and share-buyback plans.

Why utility stocks?

Utilities stocks fit nicely into this category. Utilities are considered some of the best defensive stocks, because these companies continue to pay dividends, even when markets take an ugly turn.

Many utilities, such as power and gas companies, pay regularly growing dividends, allowing their investors to earn a bond-like income, even if the share prices don't appreciate much. With low interest rates making bonds themselves less attractive, utility stocks have become more attractive.

Adding the best dividend stocks and then continuing to buy more of them from your dividend income can still produce a powerful savings tool for you. That means you also need to get ready to add some risk to your portfolio, because investing in stocks isn't as safe as buying GICs or putting money in your savings account.

How to manage risk

That being said, there are ways to manage your risk. You can do careful due diligence of the stocks you're buying.

For example, you can find the best stocks that operate in a kind of oligopoly where competition is limited and the regulatory environment is very favourable for their growth, and they have a very established and diversified revenue base.

Similarly, you can also buy some energy infrastructure stocks, which provide electricity, gas, and other energy products to customers. Their rate of return is generally well defined, and the demand of their products is pretty consistent.

Due to this certainty in their cash flows, gas and power utilities and pipeline operators offer a good option to receive growing dividends. In this space, I particularly like **Fortis** (TSX:FTS)(NYSE:FTS).

Between 2006 and 2020, Fortis's annual distribution increased from $0.67 to $1.91 a share — a very impressive track record of rewarding investors. The company has increased its dividend payout for 46 consecutive years — a record few companies can maintain.

Due to this strength, Fortis stock has proved to be one of the best bets in this recent market crash. After dipping initially, Fortis stock has recovered strongly during the past six weeks. Trading at $53.98, it's hardly changed for the year when the benchmark index has fallen 13%. The stock pays $0.4775 quarterly dividend, yielding more than 3%.

Bottom line

Even in this low-rate environment, you can still earn a better return to improve your retirement income. In order to achieve that goal, you need a disciplined investment approach; buy some of the best dividend-paying stocks and hold them for a long time.

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2. Energy Stocks
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hanwar