Retirees: Generate Passive Income for an Early Retirement

Description

The current macro environment is volatile. It shows us the importance of having a reserve fund to tide us over uncertain times. With unemployment rates spiraling, it is possible that several Canadians would have deferred retirement plans by a couple of years. But it's important that you build a retirement portfolio to secure your future.

One way is to invest in growth companies with a long-term horizon. Another way is by investing in companies with stable cash flows and predictable dividend payouts.

Dividend-paying stocks are a good bet after the recent sell-off. The stock market correction has made dividend yields attractive at a time when interest rates are near record lows. When you invest in equities, there is short-term volatility. However, it provides investors an opportunity to create massive wealth over the long term.

Currently, the COVID-19 pandemic has wreaked havoc on global stock indexes. Consumer spending has slumped, and businesses are shut due to lockdowns. Lower oil prices have added to this plight, as banking and energy stocks are trading at multi-year lows.

But the dreaded virus is likely to be a near-term headwind. This means the recent sell-off is a good time to invest in top-quality dividend stocks and secure your future. So, how do you decide where to invest?

Defensive stocks are a good bet

When markets are rangebound, it is safe to bet on utility stocks. These companies are defensive in nature and recession-proof. Even in the current scenario, the consumers have deferred non-essential purchases but continue to pay their utility bills.

One of Canada’s top utility companies is **Fortis**. The stock is trading at $50.12, which is 15.5% below its 52-week high. It provides electricity and natural gas to customers in the U.S., Canada, and the Caribbean. The recent pullback has meant Fortis stock has a forward yield of 3.8%.

Canadian Utilities is another domestic giant. Company shares are trading at $30.5, indicating a forward yield of 5.7%. Canadian Utilities owns natural gas pipelines, power plants, and power lines. In 2019, the company sold off a bunch of non-core assets, which has strengthened its balance sheet. This domestic giant has increased dividends for 48 consecutive years — the longest streak for a Canadian company.

Telecom stocks such as **BCE** are also a good defensive bet right now. BCE is Canada’s largest telecom provider. It is a conglomerate with businesses in media operations, TV networks, and advertising, among others.

Its legacy business, which is the wireless and wireline segment, has continued to experience strong demand amid the pandemic, as people are largely staying at home. BCE stock is trading at a price of $54.39, which means its forward yield is a tasty 6.1%.

You need to reinvest dividends to secure your retirement

If you invest $35,000 each in these three companies, you can generate up to $5,460 in annual dividends. While it is tempting to spend these payouts it is important to reinvest dividends and delay withdrawals.

Compounding is called the eighth wonder of the world for a reason. An annual return of 5% might not mean a lot. But over 20 years, you can triple your returns, which will help accelerate your retirement. Further, these stocks will also grow investments via capital gains, which makes them an essential buy for long-term investors.

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